

City of Boyne City, Michigan

BASIC FINANCIAL STATEMENTS

April 30, 2013

CITY OF BOYNE CITY, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR

RONALD GRUNCH

MAYOR PRO TEM

GENE TOWNE

COMMISSIONER

LAURA SANSOM

COMMISSIONER

DEREK GAYLORD

COMMISSIONER

TOM NEIDHAMER

APPOINTED OFFICERS

CITY MANAGER

MICHAEL CAIN

CLERK/TREASURER

CINDY GRICE

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the City of Boyne City, Michigan, as of and for the year ending April 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Boyne City Housing Commission, a component unit of the City of Boyne City, which represents 29 percent, 27 percent, and 49 percent, respectively, of the assets, net position, and revenue of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Boyne City Housing Commission, is based solely on the report of the other auditors. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

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

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

Opinions

In our opinion, based on our report and the report of other auditors, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan, as of April 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 12, page 45, and pages 46 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Boyne City, Michigan's basic financial statements. The combining major and nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements.

The combining major and nonmajor fund financial statements, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining major and nonmajor fund financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2013 on our consideration of the City of Boyne City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the City of Boyne City's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

August 12, 2013

Management's Discussion and Analysis

As City Manager for the City of Boyne City, and head of the City's management team, it is my pleasure to welcome you to this review of our fiscal year ending April 30, 2013. This is the tenth of our annual financial audits that has incorporated the financial reporting changes called for in the GASB 34 standard. The goal of GASB 34 is to give the reviewer of this document a more balanced picture of the City's assets and liabilities. We hope that you will find that to be the case.

As management of the City of Boyne City, we offer readers of the City of Boyne City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City's primary government exceeded its liabilities at the close of the most recent fiscal year by \$21,035,720 (net position). Of this amount, \$5,933,316 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,825,272.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,602,123 an increase of \$541,590 in comparison with the prior year. 63% of the ending fund balances, or \$2,052,058 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,052,058 or 98% of the total general fund expenditures, not including transfers out.
- The City's total debt not including the component units' activities decreased by \$475,000 during the current fiscal year. No significant new debt was issued this year.

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 five components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) other information.

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, 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 the city council, general government, public safety, public works, health and welfare, community development, recreation and culture, and marina. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City (known as the *primary government*), but also three legally separate authorities – the Downtown Development Authority, the Local Development Finance Authority and the Boyne City Housing Commission – for which the City is financially accountable. Financial information for these *component units* is reported in the supplementary information to these financial statements.

The government-wide financial statements can be found on pages 13-14 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund 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 eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major and Local Streets, and Ambulance 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.

In April of each year the City adopts an annual appropriated budget for general and special revenue funds for the coming fiscal year, which begins May 1st. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets for the major funds.

The basic governmental fund financial statements can be found on pages 15-17 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 water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because the service benefits the General, Major and Local Streets, Fire and Water and Sewer Fund functions, the services have been allocated between the governmental and 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 information for the Water and Sewer Fund, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. 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 21 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 24-44 of this report.

Other information. The required supplementary information as well as the combining statements referred to earlier in connection with nonmajor governmental funds and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 45-58 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, net position exceeded liabilities by \$21,035,720 at the close of the most recent fiscal year.

By far the largest portion of the City’s net position reflects its net investment in capital assets (for example land, buildings, vehicles, equipment, and infrastructure (roads, water and sewer mains, etc.)); less any related debt used to acquire those assets that are 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 net 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 cannot themselves be used to liquidate these liabilities.

**City of Boyne City
Condensed Statement of Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current Assets	\$ 4,466,233	\$ 4,058,197	\$ 2,318,397	\$ 2,241,153	\$ 6,784,630	\$ 6,299,350
Noncurrent Assets	7,829,639	6,702,500	13,491,968	13,929,559	21,321,607	20,632,059
Total Assets	\$ 12,295,872	\$ 10,760,697	\$ 15,810,365	\$ 16,170,712	\$ 28,106,237	\$ 26,931,409
Current Liabilities	\$ 56,424	\$ 224,408	\$ 530,600	\$ 538,003	\$ 587,024	\$ 762,411
Noncurrent Liabilities	129,331	118,933	6,354,162	6,839,617	6,483,493	6,958,550
Total Liabilities	185,755	343,341	6,884,762	7,377,620	7,070,517	7,720,961
Net Position						
Net Investment in						
Capital Assets	7,825,004	6,702,500	6,635,833	6,636,468	14,460,837	13,338,968
Restricted	77,175	67,412	564,392	564,240	641,567	631,652
Unrestricted	4,207,938	3,647,444	1,725,378	1,592,384	5,933,316	5,239,828
Total Net Position	\$ 12,110,117	\$ 10,417,356	\$ 8,925,603	\$ 8,793,092	\$ 21,035,720	\$ 19,210,448

A portion of the City’s net position (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (28% or \$5,933,316) may be used to meet the City’s ongoing obligations to citizens and creditors.

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

The City’s net position increased by \$1,825,272 during the current fiscal year. A substantial portion of this increase came from capital assets.

Following is a comparison of the City's changes in net position for the current and prior years:

**City of Boyne City
Condensed Statement of Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program Revenues						
Charges for Services	\$ 1,311,465	\$ 1,064,984	\$ 1,416,339	\$ 1,486,954	\$ 2,727,804	\$ 2,551,938
Operating Grants and Contributions	530,258	398,057	-	-	530,258	398,057
Capital Grants and Contributions	503,440	116,250	-	223,488	503,440	339,738
General Revenues						
Property Taxes	2,803,775	2,875,010	-	-	2,803,775	2,875,010
State Shared Revenues	288,660	277,449	-	-	288,660	277,449
Investment Earnings	8,272	12,671	-	1,002	8,272	13,673
Transfers and Other Revenue	1,064,189	595,047	179,814	365,507	1,244,003	960,554
Total Revenues	6,510,059	5,339,468	1,596,153	2,076,951	8,106,212	7,416,419
Program Expenses						
Legislative	18,980	17,665	-	-	18,980	17,665
General Government	1,150,743	1,219,421	-	-	1,150,743	1,219,421
Public Safety	659,376	808,776	-	-	659,376	808,776
Public Works	1,647,620	1,785,072	-	-	1,647,620	1,785,072
Health and Welfare	784,940	715,324	-	-	784,940	715,324
Recreation and Culture	345,620	264,033	-	-	345,620	264,033
Other Expenses	210,019	171,023	-	-	210,019	171,023
Water and Sewer	-	-	1,463,642	1,426,742	1,463,642	1,426,742
Total Expenses	4,817,298	4,981,314	1,463,642	1,426,742	6,280,940	6,408,056
Changes in Net Position	1,692,761	358,154	132,511	650,209	1,825,272	1,008,363
Net Position - Beginning	10,417,356	10,059,202	8,793,092	8,142,883	19,210,448	18,202,085
Net Position - Ending	<u>\$ 12,110,117</u>	<u>\$ 10,417,356</u>	<u>\$ 8,925,603</u>	<u>\$ 8,793,092</u>	<u>\$ 21,035,720</u>	<u>\$ 19,210,448</u>

Governmental activities: Governmental activities increased the City's net position by \$1,692,761. Key elements of this increase are due to an increase in capital grants and contributions and transfers and other revenues.

Business-type activities: Business-type activities increased the City's net position by \$132,511.

Financial Analysis of the City's Funds

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,602,123 an increase of \$541,590 in comparison with the prior year. \$2,052,058 constitutes *unassigned fund balance*, which is available for use at the City's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, of the total fund balance in the General Fund \$2,052,058 was unassigned. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures, not including transfers to other funds. Unassigned fund balance represents 98% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$137,859 during the current fiscal year.

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 position at the end of the year amounted to \$1,725,378 with net investment in capital assets of \$6,635,833 and restricted net position of \$564,392. The Wastewater and Water Funds had an increase in net position of \$132,511. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights:

The original expenditures budgeted for the fiscal year end 2013 budget was \$3,652,307. The amended expenditures were \$2,212,287. Actual expenditures were \$2,098,779, a positive variance of \$113,508 from the amended budget.

Capital Asset and Debt Administration

Capital Assets. The City's net investment in capital assets for its governmental and business-type activities as of April 30, 2013, amounted to \$21,283,563 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems improvements, machinery and equipment, park facilities and roads. The total net increase in the City's investment in capital assets for the current fiscal year was \$651,504.

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

- Various repairs and maintenance.
- Building and water system.
- Street construction.
- Various equipment purchases.

Additional information on the City’s capital assets can be found Note 4 on pages 34-37 of this report.

**City of Boyne City
Capital Assets (Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 955,470	\$ 937,870	\$ -	\$ -	\$ 955,470	\$ 937,870
Land Improvements	268,804	298,459	-	-	268,804	298,459
Infrastructure	5,210,316	4,048,913	-	-	5,210,316	4,048,913
Buildings and Improvements	587,302	624,709	13,258,174	13,712,059	13,845,476	14,336,768
Equipment	806,622	790,299	195,750	217,500	1,002,372	1,007,799
Furniture and Fixtures	1,125	2,250	-	-	1,125	2,250
Total Net Position	<u>\$ 7,829,639</u>	<u>\$ 6,702,500</u>	<u>\$ 13,453,924</u>	<u>\$ 13,929,559</u>	<u>\$ 21,283,563</u>	<u>\$ 20,632,059</u>

Note Payable Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt payable outstanding of \$6,818,091 which comprises debt backed by the full faith and credit of the City. The City has also pledged its full faith and credit to the Downtown Development and Local Development Finance Authority Component Units bonded debt, note, and loan payable debt agreements of \$142,924.

The City and Component Units total debt decreased by \$551,730 during the current fiscal year, with no new debt issued during the fiscal year.

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of the local unit’s total equalized valuation. The current debt limitation for the City is \$18,070,720, which is significantly greater than the City’s outstanding general obligation debt.

Additional information on the City’s long-term debt can be found in Note 6 on pages 38-40 of this report.

Economic Factors and Next Year’s Budget Considerations

Boyne City continues to do well in what appears to be a new national normal. For several years now growth across the country and here in Boyne City as well, appears to be slow but steady. While we have not seen a significant major upturn we continue to slowly crawl out of the deep hole we as a nation were in several years ago.

Through the worst of those times and to today the City of Boyne City as reflected in this financial report and elsewhere, remains in excellent shape and continues to become even stronger.

Our nation and the world around us seem to have taken a step back from the edge of the financial cliff they were on. While there still remains the sense that it could again change for the worse in short order it is not the nearly weekly crisis it was at this time last year. This is a good sign for us all.

While last year's presidential election is now history and the leadership of our nation for the next three years appears settled, the environment in Washington remains as antagonistic as ever. There is continued news about financial paralysis in our nation's capital as they continue to talk about sequesters debt ceilings, deficits and the possibility of shutting down government. This seems to be their new norm as well as it seems this same discussion has been going on for years; however, it does have consequences for us.

With each continuing federal financial freeze or budget rollback there are fewer dollars coming back to Boyne City. Over much of the past decade the City has received a significant influx of Community Development Block Grant dollars that has helped pay for infrastructure throughout our community. Not only are other communities ramping up their efforts and becoming more significant competition for available federal grant dollars (often passed thru State grant programs) but there are just fewer grant dollars available for us all to pursue. The end result may be that we either have to pay more for work we want to have done and/or we don't do as many projects.

As part of this slow recovery, auto sales rebounded nicely to the point where they are nearing their previous production peaks. This is due in part to people feeling somewhat more secure about their own positions and the fact that many cars and trucks have been on the road for quite a while and are just wearing out. Replacing a vehicle becomes a requirement instead of an option.

This has been a boom to not only our State's economy, but also to facilities in our own community who produce products for the auto and related industries. The State continues to ring in unexpected surpluses and then try to figure out where those dollars should go.

While the State soars many of the institutions that rely on it for funding struggle. There are more and more school districts and communities that are heading for insolvency, many due to their own shortsighted or misguided actions, but many more because of the continued redirection of funds that once went to them that are now directed to remain in the State's coffers or to be shared with other competing institutions. The topic of the State's phase out of personal property taxes remains on the table and unsettled as we wait for the matter to go to the ballot in November. Once it is completely phased out, the loss of this one tax could cost our community some \$200,000 annually.

The sad results are more and more emergency managers taking the helm of once proud institutions and having to take drastic actions to keep them afloat. In the last year the City of Detroit has finally taken that leap that was long expected. That too may have negative implications for other governments and public institutions in Michigan as they look to float bonds. However, Governor Snyder assures us that investors will look at communities on an individual basis. If that is actually the case, we should be a very low risk if we choose to go down that financing path again.

Boyne City as both an entity and as a community continues to do very well. Most existing businesses continue to do well with many expanding and new ones coming in. People are continuing to invest heavily in Boyne City. Significant new investments have been and are being made in Lexamar, Precision Edge, Classic Instruments, The Parkside, The Grain Train, Boyne County Provisions and the Wine Emporium, the One Water Development, Glens Market and the Dilworth Hotel to name a few.

The City itself continues to invest heavily in infrastructure throughout the community, using grants wherever possible. Last year the City completed the grant assisted rebuilding of South Park Street from Water to Pine Streets and we've just completed rebuilding a segment of Douglas Street as well.

One of the reasons why the City has such a sizeable fund balance is to help address the needs and desires expressed by our community and City Commission. Continued improvements to the City's existing paved road, water, sanitary sewer, storm sewer, sidewalk and park systems and expansion of those systems as well, along with rebuilding the City Hall campus and marina will all require good planning and significant public money. We will continue to build on our good track record of obtaining grants wherever possible but the need for significant local dollars cannot be avoided if these projects are to be undertaken. The projects, and others, would much more than consume our available fund balances. As they say timing is everything and we will have to continue to be wise in when and how we use the resources the public has entrusted to us to best match the needs and resources available.

Taken together, these overall conditions, efforts and results speak well for Boyne City's long term outlook. New jobs, tax base and people only build on the high quality natural environment we enjoy and can use in our efforts to build and maintain a sustainable local community.

We hope you find this audit helpful as you assess Boyne City's condition for yourself. Another tool you may wish to review is our 'dashboard'. Boyne City in complying with the State's revenue sharing mandate in providing a "dashboard" to give interested persons yet another tool to help evaluate the condition of our community. The "dashboard" gives a quick overview of the City's condition by looking at a number of factors, including financial performance. We encourage you to visit www.boynecity.com and follow the link to our home page and our "dashboard" and related information. Please let us know what you think or how we could make it, or this information, more helpful for you.

My heartfelt thanks to the many members of the Boyne community who help make it such a special place. It's a team effort. With the City Commission, staff, businesses, residents, visitors, and countless volunteers continuing to work together for the greater good of our future conditions, financial and otherwise, will continue to remain strong.

Requests for Information

This discussion and analysis is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michael Cain, Boyne City, City Manager, by mail at Boyne City, City Hall, 319 North Lake Street, Boyne City, Michigan 49712; phone at 231.582.0377 or via email at mcain@boynecity.com.

Basic Financial Statements

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 3,887,752	\$ 1,140,935	\$ 5,028,687	\$ 1,020,611
Cash and Equivalents - Restricted	-	673,975	673,975	-
Accounts Receivable	448,793	406,310	855,103	270,446
Internal Loans	(86,864)	86,864	-	-
Due From Governmental Units	143,646	-	143,646	-
Inventory	42,574	6,552	49,126	10,146
Prepaid Expenses	30,332	3,761	34,093	13,433
Bond Issuance Costs	-	5,243	5,243	-
Notes Receivable	-	32,801	32,801	-
Capital Assets (Not Depreciated)	955,470	-	955,470	1,087,686
Capital Assets (Net of Accumulated Depreciation)	6,874,169	13,453,924	20,328,093	4,049,099
TOTAL ASSETS	\$ 12,295,872	\$ 15,810,365	\$ 28,106,237	\$ 6,451,421
LIABILITIES:				
Accounts Payable	\$ 46,783	\$ 11,271	\$ 58,054	\$ 36,793
Accrued Liabilities	9,064	720	9,784	96,359
Accrued Interest Payable	577	13,256	13,833	-
Customer Deposits	-	20,353	20,353	-
Unearned Revenue	-	-	-	884
Notes Payable - Due within one year	-	-	-	79,663
Notes Payable - Due in more than one year	-	-	-	147,909
Bonds Payable - Due within one year	-	485,000	485,000	-
Bonds Payable - Due in more than one year	-	6,333,091	6,333,091	-
OPEB Liability - Due in more than one year	4,635	-	4,635	-
Compensated Absences - Due within more than one year	124,696	21,071	145,767	5,795
TOTAL LIABILITIES	185,755	6,884,762	7,070,517	367,403
NET POSITION:				
Net Investment in Capital Assets	7,825,004	6,635,833	14,460,837	4,909,213
Restricted	77,175	564,392	641,567	22,249
Unrestricted	4,207,938	1,725,378	5,933,316	1,152,556
TOTAL NET POSITION	\$ 12,110,117	\$ 8,925,603	\$ 21,035,720	\$ 6,084,018

City of Boyne City, Michigan

Statement of Activities For the Year Ended April 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 18,980	\$ -	\$ -	\$ -	\$ (18,980)	\$ -	\$ (18,980)	\$ -
General Government	1,150,743	140,013	39,813	-	(970,917)	-	(970,917)	-
Public Safety	659,376	209,108	1,319	-	(448,949)	-	(448,949)	-
Public Works	1,647,620	267,388	394,841	503,440	(481,951)	-	(481,951)	-
Health and Welfare	784,940	570,179	94,285	-	(120,476)	-	(120,476)	-
Recreation and Culture	345,620	124,777	-	-	(220,843)	-	(220,843)	-
Other Expenses	210,019	-	-	-	(210,019)	-	(210,019)	-
Total Governmental Activities	<u>4,817,298</u>	<u>1,311,465</u>	<u>530,258</u>	<u>503,440</u>	<u>(2,472,135)</u>	<u>-</u>	<u>(2,472,135)</u>	<u>-</u>
Business-type activities:								
Sewer	850,272	906,662	-	-	-	56,390	56,390	-
Water	613,370	509,677	-	-	-	(103,693)	(103,693)	-
Total Business-type Activities	<u>1,463,642</u>	<u>1,416,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(47,303)</u>	<u>(47,303)</u>	<u>-</u>
Total Primary Government	<u>\$ 6,280,940</u>	<u>\$ 2,727,804</u>	<u>\$ 530,258</u>	<u>\$ 503,440</u>	<u>(2,472,135)</u>	<u>(47,303)</u>	<u>(2,519,438)</u>	<u>-</u>
Component Units:								
Local Development Finance Authority	\$ 104,762	\$ -	\$ -	\$ -				(104,762)
Downtown Development Authority	525,514	-	37,582	148,322				(339,610)
Boyne City Housing Commission	686,778	252,228	406,238	-				(28,312)
Total Component Units	<u>1,317,054</u>	<u>252,228</u>	<u>443,820</u>	<u>148,322</u>				<u>(472,684)</u>
Total	<u>\$ 7,597,994</u>	<u>\$ 2,980,032</u>	<u>\$ 974,078</u>	<u>\$ 651,762</u>				
General Revenues and Transfers:								
Property Taxes					2,803,775	-	2,803,775	504,727
State Shared Revenue					288,660	-	288,660	-
Investment Earnings (Loss)					8,272	-	8,272	(5,599)
Transfers					489,935	(55,097)	434,838	(434,838)
Other Revenue					574,254	234,911	809,165	(148)
Total General Revenues and Transfers					<u>4,164,896</u>	<u>179,814</u>	<u>4,344,710</u>	<u>64,142</u>
Changes in Net Position					1,692,761	132,511	1,825,272	(408,542)
Net Position - Beginning					10,417,356	8,793,092	19,210,448	6,576,325
Prior Period Adjustment					-	-	-	(83,765)
Net Position - Ending					<u>\$ 12,110,117</u>	<u>\$ 8,925,603</u>	<u>\$ 21,035,720</u>	<u>\$ 6,084,018</u>

See accompanying notes to financial statements.

City of Boyne City, Michigan

Balance Sheet Governmental Funds April 30, 2013

	General	Major Street	Local Street	Ambulance	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 2,289,074	\$ 56,514	\$ -	\$ 37,667	\$ 734,526	\$ 3,117,781
Accounts Receivable	101,840	-	14,577	123,465	208,911	448,793
Inventory	-	-	-	-	4,024	4,024
Prepaid Expenses	19,390	513	513	1,368	4,787	26,571
Due from Governmental Units	42,558	101,088	-	-	-	143,646
TOTAL ASSETS	\$ 2,452,862	\$ 158,115	\$ 15,090	\$ 162,500	\$ 952,248	\$ 3,740,815
LIABILITIES:						
Accounts Payable	\$ 12,673	\$ 3,409	\$ 3,173	\$ 20,033	\$ 3,476	\$ 42,764
Accrued Liabilities	7,018	530	1,028	488	-	9,064
Due to Other Funds	-	86,864	-	-	-	86,864
TOTAL LIABILITIES	19,691	90,803	4,201	20,521	3,476	138,692
FUND BALANCES:						
Nonspendable	19,390	513	513	1,368	8,811	30,595
Restricted	-	66,799	10,376	-	-	77,175
Committed	129,331	-	-	-	-	129,331
Assigned	232,392	-	-	140,611	939,961	1,312,964
Unassigned	2,052,058	-	-	-	-	2,052,058
TOTAL FUND BALANCES	2,433,171	67,312	10,889	141,979	948,772	3,602,123
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,452,862	\$ 158,115	\$ 15,090	\$ 162,500	\$ 952,248	

Reconciliation to amounts reported for governmental activities in the statement of net position:

Capital assets used by governmental activities	7,672,583
Compensated absences	(124,696)
OPEB Liability	(4,635)
Accrued interest expense	(577)
Internal service funds included in governmental activities	965,319
Net position of governmental activities	\$ 12,110,117

City of Boyne City, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended April 30, 2013

	General	Major Street	Local Street	Ambulance	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:						
Taxes	\$ 2,641,961	\$ 80,907	\$ 80,907	\$ -	\$ -	\$ 2,803,775
Federal Sources	-	503,440	-	-	-	503,440
State Revenues	329,792	266,747	128,094	-	-	724,633
Local Revenues	-	-	-	94,285	-	94,285
Charges for Services	177,641	-	114	570,179	563,531	1,311,465
Interest and Rentals	8,272	-	-	-	-	8,272
Other Revenue	410,494	388	-	25,486	41,184	477,552
TOTAL REVENUES	3,568,160	851,482	209,115	689,950	604,715	5,923,422
EXPENDITURES:						
Legislative	18,980	-	-	-	-	18,980
General Government	1,090,443	-	-	-	-	1,090,443
Public Safety	565,000	-	-	-	167,581	732,581
Public Works	66,913	1,614,848	928,047	-	194,735	2,804,543
Health and Welfare	750	-	-	755,425	-	756,175
Recreation and Culture	213,061	-	-	-	112,352	325,413
Other Expenditures	143,632	-	-	-	-	143,632
TOTAL EXPENDITURES	2,098,779	1,614,848	928,047	755,425	474,668	5,871,767
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,469,381	(763,366)	(718,932)	(65,475)	130,047	51,655
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	34,801	763,266	729,821	174,370	154,000	1,856,258
Operating Transfers Out	(1,366,323)	-	-	-	-	(1,366,323)
TOTAL OTHER FINANCING SOURCES (USES)	(1,331,522)	763,266	729,821	174,370	154,000	489,935
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	137,859	(100)	10,889	108,895	284,047	541,590
FUND BALANCES, MAY 1	2,295,312	67,412	-	33,084	664,725	3,060,533
FUND BALANCES, APRIL 30	\$ 2,433,171	\$ 67,312	\$ 10,889	\$ 141,979	\$ 948,772	\$ 3,602,123

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended April 30, 2013**

Net changes in fund balances - total governmental funds	\$ 541,590
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay and loss on disposals of \$1,605,129 was more than depreciation expense of (\$540,363) in the current period.	
	1,064,766
An internal service fund is used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	
	96,702
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 the funds:	
Compensated Absences	(15,151)
OPEB Liability	4,753
Accrued Interest	<u>101</u>
Changes in net position of governmental activities	<u><u>\$ 1,692,761</u></u>

**Statement of Net Position
Proprietary Funds
April 30, 2013**

	Business - type Activities			Governmental
	Enterprise		Total Business- type	Activities
	Funds			Internal
	Sewer	Water	Service- Motor Pool	
ASSETS:				
Current Assets				
Cash and Equivalents - Unrestricted	\$ 1,057,917	\$ 83,018	\$ 1,140,935	\$ 769,971
Due from Other Funds	86,864	-	86,864	-
Accounts Receivable	267,815	138,495	406,310	-
Prepaid Expenses	2,735	1,026	3,761	3,761
Inventory	-	6,552	6,552	38,550
Total Current Assets	1,415,331	229,091	1,644,422	812,282
Cash and Equivalents - Restricted				
Bond Reserve	521,172	100,000	621,172	-
Bond and Interest Redemption	43,220	9,583	52,803	-
Total Cash and Equivalents - Restricted	564,392	109,583	673,975	-
Noncurrent Assets				
Bond Issuance Costs	5,243	-	5,243	-
Notes Receivable	32,801	-	32,801	-
Capital Assets (Net of Accumulated Depreciation)	10,553,416	2,900,508	13,453,924	157,056
Total Noncurrent Assets	10,591,460	2,900,508	13,491,968	157,056
TOTAL ASSETS	\$ 12,571,183	\$ 3,239,182	\$ 15,810,365	\$ 969,338
LIABILITIES:				
Current Liabilities				
Accounts Payable	\$ 6,453	\$ 4,818	\$ 11,271	\$ 4,019
Accrued Liabilities	10,947	3,029	13,976	-
Customer Deposits	12,911	7,442	20,353	-
Bonds Payable	395,000	90,000	485,000	-
Total Current Liabilities	425,311	105,289	530,600	4,019
Noncurrent Liabilities				
Compensated Absences	2,754	18,317	21,071	-
Bonds Payable	5,423,091	910,000	6,333,091	-
Total Noncurrent Liabilities	5,425,845	928,317	6,354,162	-
TOTAL LIABILITIES	5,851,156	1,033,606	6,884,762	4,019
NET POSITION:				
Net Investment in Capital Assets	4,735,325	1,900,508	6,635,833	157,056
Restricted	564,392	-	564,392	-
Unrestricted	1,420,310	305,068	1,725,378	808,263
TOTAL NET POSITION	\$ 6,720,027	\$ 2,205,576	\$ 8,925,603	\$ 965,319

City of Boyne City, Michigan

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds For the Year Ended April 30, 2013

	Business - type Activities			Governmental Activities
	Enterprise Funds		Total Business- type	Internal Service- Motor Pool
	Sewer	Water		
OPERATING REVENUES:				
Charges for Services	\$ 906,662	\$ 509,677	\$ 1,416,339	\$ 277,370
Total Operating Revenues	906,662	509,677	1,416,339	277,370
OPERATING EXPENSES:				
Personal Services	101,958	191,145	293,103	11,650
Contracted Services	48,767	46,174	94,941	69,817
Supplies	35,929	28,308	64,237	55,570
Utilities	153,238	39,554	192,792	16,605
Repair and Maintenance	57,754	23,443	81,197	578
Depreciation Expense	314,457	257,496	571,953	38,366
Total Operating Expenses	712,103	586,120	1,298,223	192,586
OPERATING INCOME (LOSS)	194,559	(76,443)	118,116	84,784
NON-OPERATING REVENUES (EXPENSES):				
Sale of Equipment	-	-	-	3,025
Other Revenue	233,156	1,755	234,911	8,893
Bond Issue Expense	(6,353)	-	(6,353)	-
Interest Expense	(131,816)	(27,250)	(159,066)	-
Total Non-operating Revenues (Expenses)	94,987	(25,495)	69,492	11,918
INCOME (LOSS) BEFORE TRANSFERS				
Operating Transfers Out	(26,467)	(28,630)	(55,097)	-
CHANGES IN NET POSITION	263,079	(130,568)	132,511	96,702
NET POSITION, MAY 1	6,456,948	2,336,144	8,793,092	868,617
NET POSITION, APRIL 30	<u>\$ 6,720,027</u>	<u>\$ 2,205,576</u>	<u>\$ 8,925,603</u>	<u>\$ 965,319</u>

City of Boyne City, Michigan

Statement of Cash Flows Proprietary Fund Types For the Year Ended April 30, 2013

	Business-type Activities			Governmental Activities
	Enterprise Funds		Total Business- type	Internal Service- Motor Pool
	Sewer	Water		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 982,583	\$ 602,261	\$ 1,584,844	\$ 277,564
Payments to Suppliers	(313,982)	(139,713)	(453,695)	(157,498)
Payments to Employees	(103,543)	(190,726)	(294,269)	(11,960)
Internal Activity - Payments/Receipts with Other Funds	15,286	-	15,286	-
Net Cash Provided (Used) by Operating Activities	<u>580,344</u>	<u>271,822</u>	<u>852,166</u>	<u>108,106</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	<u>(26,467)</u>	<u>(28,630)</u>	<u>(55,097)</u>	<u>-</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(26,467)</u>	<u>(28,630)</u>	<u>(55,097)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Other Revenue	233,156	1,755	234,911	8,893
Purchase of Assets	(48,159)	(48,159)	(96,318)	(100,739)
Sale of Assets	-	-	-	3,025
Bond Principal	(385,000)	(90,000)	(475,000)	-
Notes Receivable	5,732	-	5,732	-
Interest Payments	<u>(131,816)</u>	<u>(27,250)</u>	<u>(159,066)</u>	<u>-</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(326,087)</u>	<u>(163,654)</u>	<u>(489,741)</u>	<u>(88,821)</u>
Net Increase (Decrease) in Cash and Equivalents	227,790	79,538	307,328	19,285
Balances - Beginning of the Year	<u>1,394,519</u>	<u>113,063</u>	<u>1,507,582</u>	<u>750,686</u>
Balances - End of the Year	<u>\$ 1,622,309</u>	<u>\$ 192,601</u>	<u>\$ 1,814,910</u>	<u>\$ 769,971</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 194,559	\$ (76,443)	\$ 118,116	\$ 84,784
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	314,457	257,496	571,953	38,366
(Increase) Decrease in Assets:				
Accounts Receivable	75,202	91,876	167,078	194
Inventory	1,352	-	1,352	(1,515)
Prepaid Expenses	(2,735)	(1,026)	(3,761)	(3,761)
Due from Other funds	15,286	-	15,286	-
Increase (Decrease) in Liabilities:				
Accounts Payable	(16,911)	(1,208)	(18,119)	(9,652)
Accrued Liabilities	(273)	(438)	(711)	(310)
Customer Deposits	719	708	1,427	-
Compensated Absences	<u>(1,312)</u>	<u>857</u>	<u>(455)</u>	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 580,344</u>	<u>\$ 271,822</u>	<u>\$ 852,166</u>	<u>\$ 108,106</u>

**Statement of Fiduciary Net Position
Fiduciary Funds
April 30, 2013**

	<u>Agency Funds</u>
ASSETS:	
Cash and Equivalents - Unrestricted	\$ 103,515
Prepaid Expenses	<u>99</u>
 TOTAL ASSETS	 <u><u>\$ 103,614</u></u>
 LIABILITIES:	
Deposits Payable	\$ 12,850
Due to Other Governmental Units	<u>90,764</u>
 TOTAL LIABILITIES	 <u><u>\$ 103,614</u></u>

Component Units

City of Boyne City, Michigan

Statement of Net Position Component Units April 30, 2013

	Local Development Finance Authority	Downtown Development Authority	Boyne City Housing Commission 9/30/2012	Totals
ASSETS:				
Current Assets:				
Cash and Equivalents - Unrestricted	\$ 891,351	\$ 19,259	\$ 110,001	\$ 1,020,611
Accounts Receivable	-	13,318	257,128	270,446
Prepaid Expenses	-	-	13,433	13,433
Inventory	-	-	10,146	10,146
Noncurrent Assets:				
Capital Assets (Not Depreciated)	291,419	-	796,267	1,087,686
Capital Assets (Net of Accumulated Depreciation)	1,354,523	2,007,701	686,875	4,049,099
TOTAL ASSETS	\$ 2,537,293	\$ 2,040,278	\$ 1,873,850	\$ 6,451,421
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 58	\$ 1,693	\$ 35,042	\$ 36,793
Accrued Liabilities	-	344	96,015	96,359
Notes Payable	62,162	5,979	11,522	79,663
Unearned Revenue	-	-	884	884
Noncurrent Liabilities:				
Notes Payable	47,961	26,822	73,126	147,909
Compensated Absences	-	-	5,795	5,795
TOTAL LIABILITIES	110,181	34,838	222,384	367,403
NET POSITION:				
Net Investment in Capital Assets	1,535,819	1,974,900	1,398,494	4,909,213
Restricted	-	-	22,249	22,249
Unrestricted	891,293	30,540	230,723	1,152,556
TOTAL NET POSITION	2,427,112	2,005,440	1,651,466	6,084,018
TOTAL LIABILITIES AND NET POSITION	\$ 2,537,293	\$ 2,040,278	\$ 1,873,850	\$ 6,451,421

**Statement of Activities
Component Units
For the Year Ended April 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Local Development Finance Authority	Downtown Development Authority	Boyne City Housing Commission 9/30/2012	
Local Development Finance Authority:								
Economic Development	\$ 104,762	\$ -	\$ -	\$ -	\$ (104,762)	\$ -	\$ -	\$ (104,762)
Downtown Development Authority:								
Economic Development	525,514	-	37,582	148,322	-	(339,610)	-	(339,610)
Boyne City Housing Commission								
Health and Welfare	686,778	252,228	406,238	-	-	-	(28,312)	(28,312)
Total Component Units	\$ 1,317,054	\$ 252,228	\$ 443,820	\$ 148,322	(104,762)	(339,610)	(28,312)	(472,684)
General Revenues and Transfers:								
Taxes					213,015	291,712	-	504,727
Interest Income (Loss)					-	-	(5,599)	(5,599)
Transfers					(165,386)	(269,452)	-	(434,838)
Other					-	-	(148)	(148)
Total General Revenues and Transfers					47,629	22,260	(5,747)	64,142
Changes in Net Position					(57,133)	(317,350)	(34,059)	(408,542)
Net Position - Beginning					2,484,245	2,406,310	1,685,770	6,576,325
Prior Period Adjustment					-	(83,520)	(245)	(83,765)
Net Position - Ending					\$ 2,427,112	\$ 2,005,440	\$ 1,651,466	\$ 6,084,018

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Reporting Entity**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of *the City of Boyne City* (the “City”) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Units

The Downtown Development Authority (the “DDA”) is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing board of the DDA are appointed by the City Council. The budgets and expenditures of the DDA must be approved by the City Council. The City also has the ability to significantly influence operations of the DDA. A complete financial statement of the DDA can be obtained from the City Treasurer, City of Boyne City 319 North Lake Street, Boyne City, Michigan 49712.

The Local Development Finance Authority (the “LDFA”) is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing board of the LDFA are appointed by the City Council. The budgets and expenditures of the LDFA must be approved by the City Council. The City also has the ability to significantly influence operations of the LDFA. A complete financial statement of the LDFA can be obtained from the City Treasurer, City of Boyne City, 319 North Lake Street, Boyne City, Michigan 49712.

The Boyne City Housing Commission is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing board of the Commission are appointed by the City Council. The budgets and expenditures of the Commission must be approved by the City Council. The City also has the ability to significantly influence operations of the Commission. A complete financial statement of the Commission can be obtained from Boyne City Housing Commission, 829 South Park Street, Boyne City, Michigan 49712.

B. Government-Wide and Fund Financial Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 proprietary funds are reported as separate columns in the fund financial statements.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street purposes.

The *Ambulance Fund* accounts for the activities of the City's ambulance department.

The City reports the following major proprietary funds:

The *Sewer Fund* accounts for the activities of the City's sewage disposal and sewer treatment system.

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

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Agency Funds. These funds account for assets held for others in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash is received.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year-end. Property taxes, state revenue, and interest are considered to be susceptible to accrual. Grant revenues are considered to be available when all eligibility requirements imposed by the grantor have been met.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating 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 City's enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue 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 Fund Balance

Deposits and Investments

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

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

The City Commissioners have designated four banks for the deposit of City funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and certificated of deposit. Investments are stated at fair value.

Receivables and Payables

All receivables are reported at their gross value.

The ambulance fund receivables are shown net of an allowance for uncollectible accounts. It is composed of expected Medicaid and Medicare write-offs and accounts receivable in excess of 120 days, which amounted to \$51,127.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Activities 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 reports 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.”

Inventory

Inventory held by general, enterprise and internal service funds are valued at cost utilizing the first-in, first-out method of accounting. The cost value of such inventories has been treated as an expenditure at the time of purchase.

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.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2012 levy were assessed and equalized at \$180,707,199, representing 50% of estimated current market value. The government’s general operating tax rate for fiscal year 2012 was 15.51 mills.

Property taxes for the DDA and LDFA are derived by capturing the taxes assessed on the increase in taxable value of the property located within the DDA and LFDA City.

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Buildings	20-50 years
Land improvements	10-40 years
Equipment	5-20 years
Vehicles	5-10 years
Public domain infrastructure	20 years
Sewer and water infrastructure	20-50 years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time is accumulated up to a maximum of 720 hours and upon retirement the employee will receive for sick time an amount based on the number of years of service multiplied by 1.5%. Vacation time will be paid in full. The liability for these amounts is included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example as a result of employee resignations or retirements.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Deferred Inflows of Resources***

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has three types of items that qualify for reporting in this category. One is the deferred gain on refunding reported in the government-wide statement of net position. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that were intended to finance future period.

Long-Term Obligations

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

In the fund financial statements, governmental funds 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.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable**: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City. These amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City has committed compensated absences.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned \$217,924 for Other Post Employee Benefits (OPEB) and \$80,000 for vehicle replacement for the Fire Department.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Interfund Transfers

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by City management.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The City Commission, by resolution, adopts a budget for the next fiscal year no later than the third week in April of each year.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The City shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property.
- d. Budgetary control is exercised at the functional level, which is the level at which expenditures may not legally exceed appropriations. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the City Council. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The City does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level.

NOTE 3 - CASH AND EQUIVALENTS

At year end, the City’s cash and equivalents were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents - Unrestricted	\$ 3,887,752	\$ 1,140,935	\$ 5,028,687	\$ 103,515	\$ 1,020,611
Cash and Equivalents – Restricted	-	673,975	673,975	-	-
Total	<u>\$ 3,887,752</u>	<u>\$ 1,814,910</u>	<u>\$ 5,702,662</u>	<u>\$ 103,515</u>	<u>\$ 1,020,611</u>

NOTE 3 - CASH AND EQUIVALENTS (Continued)

Cash is restricted in the amount of \$673,975 for the Bond Reserve Account within the Sewer and Water Funds.

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 5,702,362	\$ 103,515	\$ 1,020,441
Petty Cash and Cash on Hand	<u>300</u>	<u>-</u>	<u>170</u>
Total	<u>\$ 5,702,662</u>	<u>\$ 103,515</u>	<u>\$ 1,020,611</u>

Interest rate risk. The City does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has an investment policy that would further limit its investment choices.

Custodial deposit credit risk. Custodial deposit 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 but the City does have a policy for deposit custodial credit risk. As of year end, \$4,859,365 of the City’s bank balance of \$6,859,365 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Public Act 152, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).

NOTE 3 - CASH AND EQUIVALENTS (Continued)

- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

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

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 937,870	\$ 17,600	\$ -	\$ 955,470
<i>Capital assets being depreciated:</i>				
Land improvements	1,422,083	-	-	1,422,083
Infrastructure	4,952,132	1,483,168	-	6,435,300
Buildings and improvements	1,568,449	-	-	1,568,449
Equipment	3,641,024	170,849	(86,115)	3,725,758
Furniture and fixtures	<u>137,545</u>	<u>-</u>	<u>-</u>	<u>137,545</u>
Subtotal	<u>11,721,233</u>	<u>1,654,017</u>	<u>(86,115)</u>	<u>13,289,135</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(1,123,624)	(29,655)	-	(1,153,279)
Infrastructure	(903,219)	(321,765)	-	(1,224,984)
Buildings and improvements	(943,740)	(37,407)	-	(981,147)
Equipment	(2,850,725)	(150,411)	82,000	(2,919,136)
Furniture and fixtures	(135,295)	(1,125)	-	(136,420)
Subtotal	<u>(5,956,603)</u>	<u>(540,363)</u>	<u>82,000</u>	<u>(6,414,966)</u>
Net capital assets being depreciated	<u>5,764,630</u>	<u>1,113,654</u>	<u>(4,115)</u>	<u>6,874,169</u>
Governmental Activities Capital Assets – Net of Depreciation	<u>\$ 6,702,500</u>	<u>\$ 1,131,254</u>	<u>\$ (4,115)</u>	<u>\$ 7,829,639</u>

Governmental Activities:

General government	\$ 34,930
Public Safety	96,330
Public Works	321,765
Health and Welfare	28,765
Recreation and Culture	20,207
Internal Service	<u>38,366</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 540,363</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Water system plant	\$ 6,993,868	\$ 48,159	\$ -	\$ 7,042,027
Sanitary sewer disposal	13,460,492	48,159	-	13,508,651
Equipment	570,138	-	-	570,138
Subtotal	<u>21,024,498</u>	<u>96,318</u>	<u>-</u>	<u>21,120,816</u>
<i>Less accumulated depreciation for:</i>				
Water system plant	(3,884,023)	(257,496)	-	(4,141,519)
Sanitary sewer disposal	(2,858,278)	(292,707)	-	(3,150,985)
Equipment	(352,638)	(21,750)	-	(374,388)
Subtotal	<u>(7,094,939)</u>	<u>(571,953)</u>	<u>-</u>	<u>(7,666,892)</u>
Net capital assets being depreciated	<u>13,929,559</u>	<u>(475,635)</u>	<u>-</u>	<u>13,453,924</u>
Business-type Activities Capital Assets - Net of Depreciation	<u>\$ 13,929,559</u>	<u>\$ (475,635)</u>	<u>\$ -</u>	<u>\$ 13,453,924</u>

NOTE 4 - CAPITAL ASSETS (Continued)

Business-type Activities

Sewer	\$ 314,457
Water	<u>257,496</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 571,953</u>

Component Units:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Downtown Development Authority				
<i>Capital assets being depreciated:</i>				
Infrastructure	\$ 2,837,193	\$ -	\$ -	\$ 2,837,193
<i>Less accumulated depreciation</i>	<u>(702,532)</u>	<u>(126,960)</u>	<u>-</u>	<u>(829,492)</u>
Net capital assets being depreciated	<u>2,134,661</u>	<u>(126,960)</u>	<u>-</u>	<u>2,007,701</u>
Net Capital Assets	<u>\$ 2,134,661</u>	<u>\$ (126,960)</u>	<u>\$ -</u>	<u>\$ 2,007,701</u>
Local Development Finance Authority				
<i>Capital assets not being depreciated:</i>				
Land	\$ 291,419	\$ -	\$ -	\$ 291,419
<i>Capital assets being depreciated:</i>				
Infrastructure	<u>1,997,920</u>	<u>-</u>	<u>-</u>	<u>1,997,920</u>
<i>Less accumulated depreciation</i>	<u>(601,248)</u>	<u>(42,149)</u>	<u>-</u>	<u>(643,397)</u>
Net capital assets being depreciated	<u>1,396,672</u>	<u>(42,149)</u>	<u>-</u>	<u>1,354,523</u>
Net Capital Assets	<u>\$ 1,688,091</u>	<u>\$ (42,149)</u>	<u>\$ -</u>	<u>\$ 1,645,942</u>
Boyne City Housing Commission				
<i>Capital assets not being depreciated:</i>				
Land	<u>\$ 796,267</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 796,267</u>
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	3,311,940	7,893	-	3,319,833
Furniture, Fixtures, Equipment	<u>207,483</u>	<u>1,050</u>	<u>(17,066)</u>	<u>191,467</u>
Subtotal	<u>3,519,423</u>	<u>8,943</u>	<u>(17,066)</u>	<u>3,511,300</u>
<i>Less accumulated depreciation</i>	<u>(2,727,928)</u>	<u>(113,563)</u>	<u>17,066</u>	<u>(2,824,425)</u>
Net capital assets being depreciated	<u>791,495</u>	<u>(104,620)</u>	<u>-</u>	<u>686,875</u>
Net Capital Assets	<u>\$ 1,587,762</u>	<u>\$ (104,620)</u>	<u>\$ -</u>	<u>\$ 1,483,142</u>

NOTE 4 - CAPITAL ASSETS (Continued)

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

Component Units	
Downtown Development Authority	\$ 126,960
Local Development Finance Authority	42,149
Boyne City Housing Commission	<u>113,563</u>
Total Depreciation Expense - Component Units	<u>\$ 282,672</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds. Interfund transactions resulting in interfund Receivables and Payables are as follows:

DUE FROM OTHER FUNDS		DUE TO OTHER FUNDS
	Major Street	<u>Sewer</u> \$ <u>86,864</u>

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

Interfund Transfers:

TRANSFERS OUT		TRANSFERS IN					
		<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Ambulance</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
	General	\$ 34,801	\$ 273,331	\$ 729,821	\$ 174,370	\$ 154,000	\$ 1,366,323
	Sewer	-	26,467	-	-	-	26,467
	Water	-	28,630	-	-	-	28,630
	Component Units	<u>-</u>	<u>434,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>434,838</u>
	Total	<u>\$ 34,801</u>	<u>\$ 763,266</u>	<u>\$ 729,821</u>	<u>\$ 174,370</u>	<u>\$ 154,000</u>	<u>\$ 1,856,258</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. City contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Component Units:</u>					
Component Unit - DDA					
Notes Payable					
2008 note payable for improvement projects, maturing serially in 2017 in annual amounts of \$7,300 and bearing interest at 4.25%.	\$ 38,533	\$ -	\$ 5,732	\$ 32,801	\$ 5,979
Component Unit – LDFA					
Notes Payable					
2005 general government note payable, maturing serially 2015 in annual amounts of \$64,989 and bearing interest at 0%.	170,306	-	60,183	110,123	62,162
Component Unit – Housing Commission					
Note Payable					
2008 bank loan payable, maturing serially December 2018 and bearing interest at 7.50%.	22,243	-	2,376	19,867	2,568
Component Unit – Housing Commission					
Note Payable					
2008 bank loan payable, maturing serially December 2018 and bearing interest at 5.75%.	<u>73,220</u>	<u>-</u>	<u>8,439</u>	<u>64,781</u>	<u>8,954</u>
Total Component Units	<u>304,302</u>	<u>-</u>	<u>76,730</u>	<u>227,572</u>	<u>79,663</u>

NOTE 6 - LONG-TERM DEBT (Continued)

	Beginning Balance	Increases/ Adjustments	Decreases	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Business-type Activities – Bond Payable					
Series 2003, Water Supply and Sewage Disposal System Revenue Bonds, maturing serially in 2023 in annual amounts ranging from \$70,000 to \$110,000 and bearing interest at 2.50%.	1,090,000	-	90,000	1,000,000	90,000
Business-type Activities – Bond Payable					
Series 2004, Water Supply and Sewage Disposal System Revenue Bonds, maturing serially in 2026 in annual amounts ranging from \$340,000 to \$510,000 and bearing interest at 2.13%.	<u>6,203,091</u>	<u>-</u>	<u>385,000</u>	<u>5,818,091</u>	<u>395,000</u>
Total Business-type Activities – Bond Payable	<u>7,293,091</u>	<u>-</u>	<u>475,000</u>	<u>6,818,091</u>	<u>485,000</u>
Governmental Compensated Absences	109,545	15,151	-	124,696	-
Business-type Compensated Absences	21,526	-	455	21,071	-
Component Units Compensated Absences	<u>7,226</u>	<u>6,827</u>	<u>7,718</u>	<u>6,335</u>	<u>5,795</u>
Total Long-Term Debt	<u>\$ 7,735,690</u>	<u>\$ 21,978</u>	<u>\$ 559,903</u>	<u>\$ 7,197,765</u>	<u>\$ 570,458</u>

Boyne Mountain reimburses the wastewater fund for 43.5% of the Series 2004 Water Supply & Sewage Disposal System Revenue Bonds debt service payments.

Annual debt service requirements to maturity for the above obligations are as follows:

	Business-type Activities		Component Units	
	<u>Bond Payable</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Fiscal:				
2013	\$ -	\$ -	\$ 11,522	\$ 4,961
2014	485,000	148,634	80,458	8,312
2015	495,000	137,991	87,881	6,772
2016	505,000	127,134	13,927	2,556
2017	515,000	116,047	14,810	1,674
2018	530,000	104,747	18,974	765
2019-2023	2,240,000	300,112	-	-
2024-2026	<u>2,048,091</u>	<u>105,968</u>	<u>-</u>	<u>-</u>
TOTALS	<u>\$ 6,818,091</u>	<u>\$ 1,040,633</u>	<u>\$ 227,572</u>	<u>\$ 25,040</u>

NOTE 6 - LONG-TERM DEBT (Continued)

Accumulated Sick and Vacation Pay

Employees of the City earn sick and vacation time at varying rates based on the following:

Under the terms of the City’s personnel policies, sick leave is accumulated at the rate of one day for each month of service, with a maximum accumulation of 90 days. Employees who have accumulated more than 90 days will not be allowed additional accumulation. All regular employees are credited with 1 ½ percent per year of employment up to 90 days and are paid this 1 ½ percent per year of service upon reaching retirement.

Any employee not using sick leave during the year will be given the following personal days off:

<u>Sick Leave Days Taken</u>	<u>Personal Days Earned</u>
0-3	3
4-6	2
7-12	0

Vacation leave is earned based on the following schedule for all employees:

<u>Years of Service</u>	<u>Vacation Days</u>
1	5
2-5	10

After 5 years of service, 1 vacation day is added for each additional year employed.

Vacation time accrues and is credited to eligible employees on their anniversary date of hire based upon their years of continuous service with the City. Vacation time not used within the employee’s anniversary year it is earned will be lost at the end of that year; unless under a written request for unusual circumstances.

The accumulated sick and vacation pay liability is \$145,767 at April 30, 2013.

NOTE 7 - RISK MANAGEMENT

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

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Plan Description

The City’s defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. 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, 447 N. Canal Road, Lansing, Michigan 48917-9755 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 6.40% to 11.18% of annual covered payroll. City employees are required to contribute 4.7% of all covered wages. 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.

Annual Pension Cost

For the year ended April 30, 2013, the City’s annual pension cost of \$188,348 for MERS was equal to the City’s required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. 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, 2012, the date of the last actuarial valuation, was 24 years.

Three-year Trend Information			
Year Ended April 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 178,879	100%	0
2012	187,978	100%	0
2013	188,348	100%	0

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS

Primary Government

Plan Description. The City administers a single-employer healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees through the City’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the City and employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy. Contribution requirements also are negotiated between the City and employees. The City contributes 27% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2013, the City contributed \$16,777 to the plan. Total member contributions were \$18,135.

Annual OPEB Cost and Net OPEB Obligation. The City’s annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 29,481
Interest on net OPEB obligation	678
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>30,159</u>
Contributions made	<u>34,912</u>
Decrease in net OPEB obligation	(4,753)
Net OPEB obligation – beginning of year	<u>9,388</u>
Net OPEB obligation – end of year	<u>\$ 4,635</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 is as follows:

Note: The City is currently working with their retiree health plan consultants on a new actuarial. For reporting purposes we will use the OPEB obligation ending as of the last actuarial.

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 30,159	99%	\$ 4,635

Funded Status and Funding Progress. As of December 31, 2010, the actuarial accrued liability for benefits was \$374,894, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was unavailable, and the ratio of the unfunded actuarial accrued liability to the covered payroll was unavailable.

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (Continue)

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

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

In the December 31, 2010, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 8.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 4.5% after ten years. Both rates included a percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

NOTE 10 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the year ended April 30, 2013, is as follows:

	<u>Sewer</u>	<u>Water</u>
Nonoperating revenue (expense)	\$ 94,987	\$ (25,495)
Operating income (loss)	194,559	(76,443)
Operating transfers out	(26,467)	(28,630)
Changes in net position	263,079	(130,568)
Operating revenues	906,662	509,677
Operating expenses	712,103	586,120
Depreciation	314,457	257,496
Total assets	12,571,183	3,239,182
Current liabilities	425,311	105,289
Noncurrent Liabilities	5,425,845	928,317
Beginning net position	6,456,948	2,336,144
Ending net position	6,720,027	2,205,576

NOTE 10 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS (Continued)

	<u>Sewer</u>	<u>Water</u>
Cash provided by:		
Operating activities	580,344	271,822
Noncapital financing activities	(26,467)	(28,630)
Capital and related financing activities	(326,087)	(163,654)
Beginning cash	1,394,519	113,063
Ending cash	1,622,309	192,601

NOTE 11 - CHANGE IN PRESENTATION

During 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. There were no significant changes to the financial statements as a result of adopting these Statements. The City has not adopted provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Effects on the financial statements as a result of adopting this standard are limited to financial presentation.

Required Supplementary Information

Pension:

Three year trend information as of December 31 follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Actuarial Value of Assets	\$ 7,037,213	\$ 7,191,330	\$ 7,145,534
Actuarial Accrued Liability	8,653,675	9,172,263	9,151,964
Unfunded AAL	1,616,462	1,980,933	2,006,430
Funded Ratio	81%	78%	78%
Covered Payroll	1,318,808	1,065,018	1,120,911
UAAL as a Percentage of Covered Payroll	123%	186%	179%

Health Plan:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent of Covered Payroll ((b - a) / c)</u>
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Primary Government

2010	\$	-	\$ 374,894	\$ 374,894	0.0%	Not Available	-
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City of Boyne City, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended April 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 2,656,026	\$ 2,651,090	\$ 2,641,961	\$ (9,129)
State Sources	244,068	280,178	329,792	49,614
Charges for Services	152,000	173,762	177,641	3,879
Interest and Rentals	13,900	11,915	8,272	(3,643)
Other Revenue	512,441	434,339	410,494	(23,845)
TOTAL REVENUES	3,578,435	3,551,284	3,568,160	16,876
EXPENDITURES:				
Legislative:				
City Commission	19,518	19,118	18,980	138
General Government:				
General Administration	559,353	537,882	529,796	8,086
Elections	2,900	2,845	2,853	(8)
Legal & Accounting	73,000	43,000	42,369	631
Planning	150,390	136,365	134,049	2,316
Assessor	100,723	62,965	58,461	4,504
Building and Grounds	1,176,646	144,533	135,634	8,899
Housing Commission	255,000	195,000	187,281	7,719
Total General Government	2,318,012	1,122,590	1,090,443	32,147
Public Safety:				
Police Department	639,004	573,609	565,000	8,609
Total Public Safety	639,004	573,609	565,000	8,609
Public Works:				
Rubbish Collection	28,000	27,231	27,231	-
Cemetery	51,017	38,054	36,023	2,031
Sidewalk Construction	108,000	3,662	3,659	3
Total Public Works	187,017	68,947	66,913	2,034
Health and Welfare:				
Environmental	1,000	750	750	-
Total Health and Welfare	1,000	750	750	-
Recreation and Culture:				
Parks and Recreation	286,521	218,359	211,308	7,051
Museum	2,492	1,754	1,753	1
Total Recreation and Culture	289,013	220,113	213,061	7,052
Other Expenditures:				
Other	198,743	169,709	143,632	26,077
Total Other Expenditures	198,743	169,709	143,632	26,077
TOTAL EXPENDITURES	3,652,307	2,174,836	2,098,779	76,057

City of Boyne City, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended April 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER EXPENDITURES	(73,872)	1,376,448	1,469,381	92,933
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	61,526	38,000	34,801	(3,199)
Operating Transfers Out	(1,315,973)	(1,366,323)	(1,366,323)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (1,328,319)</u>	<u>\$ 48,125</u>	137,859	<u>\$ 89,734</u>
FUND BALANCE, MAY 1			<u>2,295,312</u>	
FUND BALANCE, APRIL 30			<u>\$ 2,433,171</u>	

City of Boyne City, Michigan

Required Supplementary Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended April 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 84,500	\$ 80,907	\$ 80,907	\$ -
Federal Sources	503,440	503,440	503,440	-
State Sources	216,500	229,785	266,747	36,962
Other Revenue	-	388	388	-
TOTAL REVENUES	804,440	814,520	851,482	36,962
EXPENDITURES:				
Public Works	1,499,208	1,645,198	1,614,848	30,350
EXCESS OF REVENUES OVER EXPENDITURES	(694,768)	(830,678)	(763,366)	67,312
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	347,447	763,266	763,266	-
TOTAL OTHER FINANCING SOURCES (USES)	347,447	763,266	763,266	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (347,321)	\$ (67,412)	(100)	\$ 67,312
FUND BALANCE, MAY 1			67,412	
FUND BALANCE, APRIL 30			\$ 67,312	

City of Boyne City, Michigan

Required Supplementary Information Budgetary Comparison Schedule Local Street Fund For the Year Ended April 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 84,500	\$ 80,907	\$ 80,907	\$ -
State Sources	91,460	112,785	128,094	15,309
Charges for Services	-	115	114	(1)
TOTAL REVENUES	<u>175,960</u>	<u>193,807</u>	<u>209,115</u>	<u>15,308</u>
EXPENDITURES:				
Public Works	<u>943,460</u>	<u>941,237</u>	<u>928,047</u>	<u>13,190</u>
EXCESS OF REVENUES OVER EXPENDITURES	(767,500)	(747,430)	(718,932)	28,498
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	<u>767,500</u>	<u>747,430</u>	<u>729,821</u>	<u>(17,609)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>767,500</u>	<u>747,430</u>	<u>729,821</u>	<u>(17,609)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	10,889	<u>\$ 10,889</u>
FUND BALANCE, MAY 1			<u>-</u>	
FUND BALANCE, APRIL 30			<u>\$ 10,889</u>	

City of Boyne City, Michigan

Required Supplementary Information
Budgetary Comparison Schedule
Ambulance Fund
For the Year Ended April 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for Services	\$ 480,152	\$ 682,163	\$ 570,179	\$ (111,984)
Local Revenues	80,575	76,427	94,285	17,858
Other Revenue	5,000	47,661	25,486	(22,175)
TOTAL REVENUES	565,727	806,251	689,950	(116,301)
EXPENDITURES:				
Health and Welfare	628,805	815,944	755,425	60,519
EXCESS OF REVENUES OVER EXPENDITURES	(63,078)	(9,693)	(65,475)	(55,782)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	78,500	116,880	174,370	57,490
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 15,422	\$ 107,187	108,895	\$ 1,708
FUND BALANCE, MAY 1			33,084	
FUND BALANCE, APRIL 30			\$ 141,979	

Other Information

City of Boyne City, Michigan

Combining Balance Sheet General Funds April 30, 2013

	General	Rubbish Collection	Creative Playground	Cemetery	Totals
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 2,275,221	\$ -	\$ 690	\$ 13,163	\$ 2,289,074
Accounts Receivable	101,060	-	-	780	101,840
Prepaid Expenses	19,048	-	-	342	19,390
Due from Governmental Units	42,558	-	-	-	42,558
TOTAL ASSETS	\$ 2,437,887	\$ -	\$ 690	\$ 14,285	\$ 2,452,862
LIABILITIES:					
Accounts Payable	\$ 12,628	\$ -	\$ -	\$ 45	\$ 12,673
Accrued Liabilities	6,898	-	-	120	7,018
TOTAL LIABILITIES	19,526	-	-	165	19,691
FUND BALANCES:					
Nonspendable	19,048	-	-	342	19,390
Committed	129,331	-	-	-	129,331
Assigned	217,924	-	690	13,778	232,392
Unassigned	2,052,058	-	-	-	2,052,058
TOTAL FUND BALANCES	2,418,361	-	690	14,120	2,433,171
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,437,887	\$ -	\$ 690	\$ 14,285	\$ 2,452,862

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - General Funds
For the Year Ended April 30, 2013**

	General	Rubbish Collection	Creative Playground	Cemetery	Totals
REVENUES:					
Taxes	\$ 2,641,961	\$ -	\$ -	\$ -	\$ 2,641,961
State Sources	329,792	-	-	-	329,792
Charges for Services	145,441	-	-	32,200	177,641
Interest and Rentals	8,272	-	-	-	8,272
Other Revenue	400,646	-	60	9,788	410,494
TOTAL REVENUES	3,526,112	-	60	41,988	3,568,160
EXPENDITURES:					
Legislative	18,980	-	-	-	18,980
General Government	1,090,443	-	-	-	1,090,443
Public Safety	565,000	-	-	-	565,000
Public Works	3,659	27,231	-	36,023	66,913
Health and Welfare	750	-	-	-	750
Recreation and Culture	213,061	-	-	-	213,061
Other Expenditures	143,632	-	-	-	143,632
TOTAL EXPENDITURES	2,035,525	27,231	-	36,023	2,098,779
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,490,587	(27,231)	60	5,965	1,469,381
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	27,231	-	7,570	34,801
Operating Transfers Out	(1,366,323)	-	-	-	(1,366,323)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	124,264	-	60	13,535	137,859
FUND BALANCES, MAY 1	2,294,097	-	630	585	2,295,312
FUND BALANCES, APRIL 30	\$ 2,418,361	\$ -	\$ 690	\$ 14,120	\$ 2,433,171

	Special Revenue Funds				Total
	Boyne Thunder	Fire	Marina	Airport	
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 50,124	\$ 409,594	\$ 235,802	\$ 39,006	\$ 734,526
Accounts Receivable	-	203,680	-	5,231	208,911
Prepaid Expenses	-	3,761	342	684	4,787
Inventory	-	-	1,074	2,950	4,024
TOTAL ASSETS	\$ 50,124	\$ 617,035	\$ 237,218	\$ 47,871	\$ 952,248
LIABILITIES:					
Accounts Payable	-	608	1,130	1,738	3,476
TOTAL LIABILITIES	-	608	1,130	1,738	3,476
FUND BALANCES:					
Nonspendable	-	3,761	1,416	3,634	8,811
Assigned	50,124	612,666	234,672	42,499	939,961
TOTAL FUND BALANCES	50,124	616,427	236,088	46,133	948,772
TOTAL LIABILITIES AND FUND BALANCES	\$ 50,124	\$ 617,035	\$ 237,218	\$ 47,871	\$ 952,248

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended April 30, 2013**

	Special Revenue Funds				Total
	Boyne Thunder	Fire	Marina	Airport	
REVENUES:					
Charges for Services	\$ 124,777	\$ 203,680	\$ 123,385	\$ 111,689	\$ 563,531
Other Revenue	37,699	2,187	1,298	-	41,184
TOTAL REVENUES	162,476	205,867	124,683	111,689	604,715
EXPENDITURES:					
Public Safety	-	167,581	-	-	167,581
Public Works	-	-	89,073	105,662	194,735
Recreation and Culture	112,352	-	-	-	112,352
TOTAL EXPENDITURES	112,352	167,581	89,073	105,662	474,668
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	50,124	38,286	35,610	6,027	130,047
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	154,000	-	-	154,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	50,124	192,286	35,610	6,027	284,047
FUND BALANCES, MAY 1	-	424,141	200,478	40,106	664,725
FUND BALANCES, APRIL 30	\$ 50,124	\$ 616,427	\$ 236,088	\$ 46,133	\$ 948,772

City of Boyne City, Michigan

Combining Balance Sheet Component Units April 30, 2013

	Governmental Activities						Business-type Activities		
	Local Development Finance Authority			Downtown Development Authority			Boyne City Housing Commission 9/30/2012		
	Adjustments	Statement of Net Position	Adjustments	Statement of Net Position	Adjustments	Statement of Net Position	Adjustments	Statement of Net Position	
ASSETS:									
Cash and Equivalents - Unrestricted	\$ 891,351	\$ -	\$ 891,351	\$ 19,259	\$ -	\$ 19,259	\$ 110,001	\$ -	\$ 110,001
Receivables	-	-	-	13,318	-	13,318	257,128	-	257,128
Prepaid Expenses	-	-	-	-	-	-	13,433	-	13,433
Inventory	-	-	-	-	-	-	10,146	-	10,146
Capital Assets (Not Depreciated)	-	291,419	291,419	-	-	-	796,267	-	796,267
Capital Assets (Net of Depreciation)	-	1,354,523	1,354,523	-	2,007,701	2,007,701	686,875	-	686,875
TOTAL ASSETS	\$ 891,351	\$ 1,645,942	\$ 2,537,293	\$ 32,577	\$ 2,007,701	\$ 2,040,278	\$ 1,873,850	\$ -	\$ 1,873,850
LIABILITIES:									
Current Liabilities:									
Accounts Payable	\$ 58	\$ -	\$ 58	\$ 1,693	\$ -	\$ 1,693	\$ 35,042	\$ -	\$ 35,042
Accrued Liabilities	-	-	-	344	-	344	96,015	-	96,015
Note Payable	-	62,162	62,162	-	5,979	5,979	11,522	-	11,522
Unearned Revenues	-	-	-	-	-	-	884	-	884
Noncurrent Liabilities:									
Note Payable	-	47,961	47,961	-	26,822	26,822	73,126	-	73,126
Compensated Absences	-	-	-	-	-	-	5,795	-	5,795
TOTAL LIABILITIES	58	110,123	110,181	2,037	32,801	34,838	222,384	-	222,384
FUND BALANCE:									
Unrestricted	891,293	(891,293)	-	30,540	(30,540)	-	-	-	-
TOTAL LIABILITIES & FUND BALANCES	\$ 891,351	(781,170)	110,181	\$ 32,577	2,261	34,838	222,384	-	222,384
NET POSITION:									
Net Investment in Capital Assets		1,535,819	1,535,819		1,974,900	1,974,900	1,398,494	-	1,398,494
Restricted		-	-		-	-	22,249	-	22,249
Unrestricted		891,293	891,293		30,540	30,540	230,723	-	230,723
TOTAL NET POSITION		\$ 2,427,112	\$ 2,427,112		\$ 2,005,440	\$ 2,005,440	\$ 1,651,466	\$ -	\$ 1,651,466

	<u>Total All Component Units</u>		
	<u>Component Units</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS:			
Cash and Equivalents - Unrestricted	\$ 1,020,611	\$ -	\$ 1,020,611
Receivables	270,446	-	270,446
Prepaid Expenses	13,433	-	13,433
Inventory	10,146	-	10,146
Capital Assets (Not Depreciated)	796,267	291,419	1,087,686
Capital Assets (Net of Depreciation)	<u>686,875</u>	<u>3,362,224</u>	<u>4,049,099</u>
TOTAL ASSETS	<u>\$ 2,797,778</u>	<u>\$ 3,653,643</u>	<u>\$ 6,451,421</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 36,793	\$ -	\$ 36,793
Accrued Liabilities	96,359	-	96,359
Note Payable	11,522	68,141	79,663
Unearned Revenues	884	-	884
Noncurrent Liabilities:			
Note Payable	73,126	74,783	147,909
Compensated Absences	<u>5,795</u>	<u>-</u>	<u>5,795</u>
TOTAL LIABILITIES	<u>224,479</u>	<u>142,924</u>	<u>367,403</u>
FUND BALANCE:			
Unrestricted	<u>921,833</u>	<u>(921,833)</u>	<u>-</u>
TOTAL LIABILITIES & FUND BALANCES	<u>1,146,312</u>	<u>(778,909)</u>	<u>367,403</u>
NET POSITION:			
Net Investment in Capital Assets	1,398,494	3,510,719	4,909,213
Restricted	22,249	-	22,249
Unrestricted	<u>230,723</u>	<u>921,833</u>	<u>1,152,556</u>
TOTAL NET POSITION	<u>\$ 1,651,466</u>	<u>\$ 4,432,552</u>	<u>\$ 6,084,018</u>

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance/Net Position
Component Units
April 30, 2013**

	Governmental Activities						Business-type Activities			
	Local Development Finance Authority	Adjustments	Statement of Activities	Downtown Development Authority	Adjustments	Statement of Activities	Boyne City Housing Commission 9/30/2012	Adjustments	Statement of Activities	
OPERATING REVENUES:										
Property Taxes	\$ 213,015	\$ -	\$ 213,015	\$ 291,712	\$ -	\$ 291,712	\$ -	\$ -	\$ -	
Charges for Services	-	-	-	-	-	-	252,228	-	252,228	
Capital Grants and Contributions	-	-	-	148,322	-	148,322	-	-	-	
Operating Grants and Contributions	-	-	-	37,582	-	37,582	406,238	-	406,238	
TOTAL OPERATING REVENUES	213,015	-	213,015	477,616	-	477,616	658,466	-	658,466	
OPERATING EXPENSES:										
Economic Development	57,807	-	57,807	-	-	-	-	-	-	
Health and Welfare	-	-	-	-	-	-	573,215	-	573,215	
Other	-	-	-	396,986	-	396,986	-	-	-	
Depreciation Expense	-	42,149	42,149	-	126,960	126,960	113,563	-	113,563	
Debt Service										
Principal	60,183	(60,183)	-	5,732	(5,732)	-	-	-	-	
Interest	4,806	-	4,806	1,568	-	1,568	-	-	-	
TOTAL OPERATING EXPENSES	122,796	(18,034)	104,762	404,286	121,228	525,514	686,778	-	686,778	
NON-OPERATING REVENUES (EXPENSES):										
Investment Earnings (Expense)	-	-	-	-	-	-	(5,599)	-	(5,599)	
Gain on sale of assets	-	-	-	-	-	-	500	-	500	
Casualty Loss	-	-	-	-	-	-	(1,150)	-	(1,150)	
Other	-	-	-	-	-	-	502	-	502	
TOTAL NON-OPERATING REVENUES (EXPENSES)	-	-	-	-	-	-	(5,747)	-	(5,747)	
OTHER FINANCING SOURCES (USES):										
Operating Transfers Out	(165,386)	-	(165,386)	(269,452)	-	(269,452)	-	-	-	
Change in Fund Balance/Net Position	(75,167)	75,167	-	(196,122)	196,122	-	-	-	-	
Changes in Net Position	-	(57,133)	(57,133)	-	(317,350)	(317,350)	(34,059)	-	(34,059)	
Fund Balance/Net Position Beginning of Year	966,460	1,517,785	2,484,245	310,182	2,096,128	2,406,310	1,685,770	-	1,685,770	
Prior Period Adjustment	-	-	-	(83,520)	-	(83,520)	(245)	-	(245)	
Fund Balance/Net Position End of Year	\$ 891,293	\$ 1,535,819	\$ 2,427,112	\$ 30,540	\$ 1,974,900	\$ 2,005,440	\$ 1,651,466	\$ -	\$ 1,651,466	

	Total All Component Units		
	Component Units	Adjustments	Statement of Activities
OPERATING REVENUES:			
Property Taxes	\$ 504,727	\$ -	\$ 504,727
Charges for Services	252,228	-	252,228
Capital Grants and Contributions	148,322	-	148,322
Operating Grants and Contributions	443,820	-	443,820
TOTAL OPERATING REVENUES	1,349,097	-	1,349,097
OPERATING EXPENSES:			
Economic Development	57,807	-	57,807
Health and Welfare	573,215	-	573,215
Other	396,986	-	396,986
Depreciation Expense	113,563	169,109	282,672
Debt Service			
Principal	65,915	(65,915)	-
Interest	6,374	-	6,374
TOTAL OPERATING EXPENSES	1,213,860	103,194	1,317,054
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	(5,599)	-	(5,599)
Gain on sale of assets	500	-	500
Casualty Loss	(1,150)	-	(1,150)
Other	502	-	502
TOTAL NON-OPERATING REVENUES (EXPENSES)	(5,747)	-	(5,747)
OTHER FINANCING SOURCES (USES):			
Operating Transfers Out	(434,838)	-	(434,838)
Change in Fund Balance/Net Position	(271,289)	271,289	-
Changes in Net Position	(34,059)	(374,483)	(408,542)
Fund Balance/Net Position Beginning of Year	2,962,412	3,613,913	6,576,325
Prior Period Adjustment	(83,765)	-	(83,765)
Fund Balance/Net Position End of Year	<u>\$ 2,573,299</u>	<u>\$ 3,510,719</u>	<u>\$ 6,084,018</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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**INDEPENDENT AUDITOR'S 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***

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan as of and for the year ended April 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Boyne City, Michigan's basic financial statements and have issued our report thereon dated August 12, 2013. Our report includes a reference to other auditors who audited the financial statements of the Boyne City Housing Commission, as described in or report on the City of Boyne City, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Boyne City, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Boyne City, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Boyne City, Michigan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Boyne City, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-001.

City of Boyne City, Michigan's Response to Findings

The City of Boyne City, Michigan's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Boyne City, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

August 12, 2013



ANDERSON, TACKMAN & COMPANY, PLC
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Boyne City, Michigan's, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Boyne City, Michigan's major federal programs for the year ended April 30, 2013. The City of Boyne City, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of the City of Boyne City, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Boyne City, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Boyne City, Michigan's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Boyne City, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Boyne City, Michigan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Boyne City, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Boyne City, Michigan's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman and Company, PLC
Certified Public Accountants
Kincheloe, Michigan

August 12, 2013

**Schedule of Expenditures of Federal Awards
Year Ended April 30, 2013**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass-through programs from the Michigan Strategic Fund</i>			
Community Development Block Grant			
Boyne City Main Street Façade Enhancement Project	14.228	MSC - 210022 - CDF	\$ 116,845
South Park Street Downtown Infrastructure Project	14.228	MSC - 211014 - DIG	<u>503,440</u>
Total - Michigan Strategic Fund			<u>620,285</u>
Total - U.S. Department of Housing and Urban Development			<u>620,285</u>
U.S. DEPARTMENT OF INTERIOR			
<i>Pass-through program from the Michigan State Housing Development Authority</i>			
Downtown Historic District National Register Nomination	15.904	CG11-411	<u>29,976</u>
Total - U.S. Department of Interior			<u>29,976</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 650,261</u></u>

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Boyne City, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The City has not been assigned a cognizant agency. Therefore, the City is under the general oversight of the U.S. Department of Housing and Urban Development which provided the greatest amount of indirect federal funding to the City during 2013.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement	\$ 503,440
Add: Component Unit Federal Revenues	<u>146,821</u>
Total Federal Expenditures	<u>\$ 650,261</u>

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs

CFDA NUMBERS

Name of Federal Program or Cluster

14.228	Community Development Block Grant
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Compliance and Other Matters

Noncompliance with State Statutes

Delinquent In Distributing Tax Revenues

Finding 2013-001

Condition/Criteria: The disbursement of current tax collections, to the respective agencies was not conducted in a timely manner. The disbursement was not performed within the time limit specified by regulation.

Effect: Current tax collections were not remitted in a timely manner to other taxing units.

Cause of Condition: Unknown.

Recommendation: To ensure timeliness of tax disbursements, disbursements should be made within 10 business days in accordance with Department of Treasury regulations.

Plan Corrective Action: The board has implemented compensating controls to reduce the risks discussed above.

- Contact Person(s) Responsible for Correction:
Cindy Grice, Treasurer

Section III – Federal Award Findings and Questioned Costs

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.



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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan for the year ended April 30, 2013, and have issued our report thereon dated August 12, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, Government Auditing Standards and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information about our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 15, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as describe by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as whole.

In planning and performing our audit, we will consider the City of Boyne City, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Boyne City, Michigan's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about the City of Boyne City, Michigan's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Boyne City, Michigan's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it does not provide a legal determination on the City of Boyne City, Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on July 15, 2012.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Boyne City, Michigan are described in Note 1 to the financial statements. One new accounting policies was adopted regarding the implementation of GASB Statements 63 and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$51,127.
- Management's estimate of the Annual Required Contribution for OPEB Obligations and pension benefits were based on various assumptions regarding life expectancies, inflation, premium increases, and investment rates.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 12, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed for the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

Uniform Chart of Accounts (Prior Year)

Currently there are several balance sheet and income statement accounts that are coded incorrectly per the Uniform Chart of Accounts. It is recommended that the City consult with the Uniform Chart of Accounts for appropriate account numbers for all line items.

Status: In progress.

Health Benefits

The City is still using the actuarial method completed in 2007 to project the future accrued actuarial liability for health benefit obligations. The City should consider updating this actuarial projection of health benefit costs in accordance with guidance contained in GASB Statement Number 45.

Reporting Employer Provided Health Coverage on Form W-2

The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on an employee's Form W-2, Wage and Tax Statement. Many employers are eligible for transition relief for tax year 2013 and beyond, until the IRS issues final guidance for this reporting requirement.

The amount reported does not affect tax liability, as the value of the employer excludible contribution to health coverage continues to be excludible from an employee's income, and it is not taxable. This reporting is for informational purposes only, to show employees the value of their health care benefits so they can be informed consumers. More information about the reporting can be found at Form W-2 Reporting of Employer-Sponsored Health Coverage.

Pension Reporting

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that implement substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements. These requirements include a provision for reporting net pension liabilities on the accrual based statement of net position and measuring investments at fair value as well as additional footnote and required supplementary information disclosures.

The Board and Management should review the procedures for implementation of these new standards effective in fiscal 2014 and assess the impact on the local unit of government's financial reporting.

Trust and Agency Fund

During examination of the Trust and Agency Fund, it was noted that there were stale balances in a few accounts that need to be reconciled. It is recommended that the City review and possibly remove these balances.

Payroll

It was noted during the testing of controls over payroll that two employees were missing Michigan W-4 Forms and deduction authorization forms. We recommend that all of the necessary paperwork be filled out at the beginning and throughout employment and kept in the employee's file.

Receipts

It was noted during the testing of controls over tax receipts that a few tax collections were not remitted within the required ten day period of collection. We recommend that tax receipts be remitted in ten days as required by statute.

Conclusion

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

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

August 12, 2013