

CITY OF BOYNE CITY
CHARLEVIOX COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED APRIL 30, 2014



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS <hr/>	
Government-wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements	
Governmental Funds	
Balance Sheet	18
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balance	20
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance with Statement of Activities	21
Proprietary Funds	
Statement of Net Position	22
Statement of Revenues, Expenses and Changes in Net Position	23
Statement of Cash Flows	24
Fiduciary Funds	
Statement of Fiduciary Net Position	26
Component Units	
Statement of Net Position	27
Statement of Activities	28
Notes to the Financial Statements	29
REQUIRED SUPPLEMENTARY INFORMATION <hr/>	
Schedule of Funding Progress - MERS	49
Schedule of Funding Progress - OPEB	50
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – General Fund	51
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Major Streets	52
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Local Streets	53
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Ambulance	54
OTHER SUPPLEMENTARY INFORMATION <hr/>	
General Fund	
General Fund Combining Balance Sheet	56
General Fund Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	57
Nonmajor Funds	
Combining Balance Sheet	58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	59
Component Units	
Combining Statement of Net Position / Balance Sheet	60
Combining Statement of Activities / Statement of Revenues, Expenses and Changes in Fund Balance	62

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Commission
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 (the "City") as of and for the year ended April 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 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, 2014, 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, the schedules of funding progress and employer contributions for the pension and other postemployment benefits plans, and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing

standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014, on our consideration of the City of Boyne City, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the typed name of the firm.

Gabridge & Company, PLC
Grand Rapids, Michigan
October 8, 2014

Management's Discussion and Analysis

As management of the City of Boyne City, Michigan (The "City" or "government") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$21,985,442 (net position). Of this amount, \$6,544,086 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$3,873,444, an increase of \$271,321 in comparison with the prior year. Approximately 64% of this amount (\$2,485,027) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,485,027, or approximately 80% of total general fund expenditures and transfers out.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., accrued but unpaid other postemployment benefits and 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 general government, police and fire protection, streets, rubbish collection, health and welfare, community and economic development, and recreation and culture. The business-type activities of the City include water and sewer services.

The government-wide financial statements can be found on pages 16 – 17 of this report.

The government-wide financial statements include not only the City of Boyne City itself (known as the primary government), but also a legally separate Downtown Development Authority, 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 separately from the financial information presented for the primary government itself.

The combining component unit financial statements can be found on pages 27 – 28 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 assessing 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 eight 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 streets, local streets, and ambulance funds, which are considered to be major funds. Data from the fire, Boyne Thunder, marina, and airport funds is presented as a separate column as they are considered nonmajor funds.

The City adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 18 – 21 of this report.

Proprietary Funds. The City maintains two 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 enterprises 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 motor vehicle costs by allocating the cost to the funds that are using the resources. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the City. The internal service fund data is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 22 – 25 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported 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 City reports one type of fiduciary fund, an agency fund.

The *agency fund* reports resources held by the City in a custodial capacity for individuals, private organizations, and other governments.

The fiduciary fund financial statement can be found on page 26 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire 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 29 - 47 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's budgetary comparison schedules and the City's schedules of funding progress and employer contributions for the pension and other postemployment benefits plans.

Required supplementary information can be found on pages 49 - 54 of this report.

This report also presents other supplementary information which includes the nonmajor fund combining and individual statements. The combining statements are presented immediately following the required supplementary information on pensions.

Combining and individual fund statements and schedules can be found on pages 56 - 64 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$21,985,442, at the close of the most recent fiscal year.

City of Boyne City Statement of Net Position as of April 30, 2014 and April 30, 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 4,397,725	\$ 3,887,752	\$ 1,534,390	\$ 1,140,935	\$ 5,932,115	\$ 5,028,687
Due from Other Governmental Units	103,400	143,646	-	-	103,400	143,646
Accounts Receivable	374,940	448,793	419,697	406,310	794,637	855,103
Inventories	20,990	42,574	22,456	6,552	43,446	49,126
Prepaid Items	39,467	30,332	2,857	9,004	42,324	39,336
Note Receivable	-	-	6,235	6,235	6,235	6,235
Total Current Assets	4,936,522	4,553,097	1,985,635	1,569,036	6,922,157	6,122,133
<i>Noncurrent Assets</i>						
Note Receivable	-	-	20,360	26,566	20,360	26,566
Restricted Cash	-	-	660,216	673,975	660,216	673,975
Capital Assets, net	8,164,779	7,829,639	12,921,371	13,453,924	21,086,150	21,283,563
Total Assets	13,101,301	12,382,736	15,587,582	15,723,501	28,688,883	28,106,237
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	119,753	46,783	12,896	11,271	132,649	58,054
Payroll Liabilities	14,266	9,064	2,442	720	16,708	9,784
Customer Deposits	2,655	-	19,903	20,353	22,558	20,353
Accrued Interest	-	577	11,499	13,256	11,499	13,833
Current Portion of Long-term Debt	-	-	495,000	485,000	495,000	485,000
Internal Balances	70,921	86,864	(70,921)	(86,864)	-	-
Total Current Liabilities	207,595	143,288	470,819	443,736	678,414	587,024
<i>Noncurrent Liabilities</i>						
Other Post Employment Benefits	13,332	4,635	-	-	13,332	4,635
Compensated Absences	142,241	124,696	31,363	21,071	173,604	145,767
Long-term Debt	-	-	5,838,091	6,333,091	5,838,091	6,333,091
Total Liabilities	363,168	272,619	6,340,273	6,797,898	6,703,441	7,070,517
NET POSITION						
Net Investment in Capital Assets	8,164,779	7,825,004	6,588,280	6,635,833	14,753,059	14,460,837
Restricted	28,081	77,175	660,216	564,392	688,297	641,567
Unrestricted	4,545,273	4,207,938	1,998,813	1,725,378	6,544,086	5,933,316
Total Net Position	\$ 12,738,133	\$ 12,110,117	\$ 9,247,309	\$ 8,925,603	\$ 21,985,442	\$ 21,035,720

By far, the largest portion of the City's net position (\$14,753,059, or 67%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (\$688,297, or 3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6,544,086 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Cash and cash equivalents increased significantly during the year, from \$5,028,687 as of April 30, 2013 to \$5,932,115 as of April 30, 2014. This is a direct result of the City actively monitoring the expenditure side of its ledger to keep costs down during the year, which yielded an overall increase in net position for the year of \$949,722.

Also, accounts payable changed significantly during the year, from \$58,054 as of April 30, 2013 to \$132,649 as of April 30, 2014. This is primarily a result of the City taking possession of multiple, and larger, capital asset purchases near April 30. This, accordingly, resulted in a temporary increase in accounts payable as the capital assets were not paid until the following fiscal year.

The City's overall net position increased \$949,722 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. Governmental activities increased the City's net position by \$628,016. The total increase was the result of total revenues of \$5,937,784 less total expenses of \$5,309,768.

Property taxes continued to decline for the City due to a diminished tax base. Property tax revenues in the governmental activities were \$2,803,775 for the year ending April 30, 2013 and decreased to \$2,779,574 for the year ending April 30, 2014. The City is hopeful that the state-wide trend of stabilizing tax bases will be reflected in the City's tax base in the upcoming years.

Business-type Activities. Business-type activities increased the City's net position by \$321,706. The total increase was the result of close monitoring of expenses during the year and an overall increase in charges for services of \$158,821 compared to the prior year.

City of Boyne City
Change in Net Position for Fiscal Years Ended April 30, 2014 and April 30, 2013

	Governmental Activities		Business-type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Revenue						
Program Revenues						
Charges for Services	\$ 1,895,817	\$ 1,311,465	\$ 1,575,160	\$ 1,416,339	\$ 3,470,977	\$ 2,727,804
Operating Grants & Contributions	496,062	530,258	-	-	496,062	530,258
Capital Grants & Contributions	157,774	503,440	4,619	-	162,393	503,440
Total Program Revenues	2,549,653	2,345,163	1,579,779	1,416,339	4,129,432	3,761,502
General Revenues						
Property Taxes	2,779,574	2,803,775	-	-	2,779,574	2,803,775
State Revenue Sharing	339,219	288,660	-	-	339,219	288,660
Other Revenue	268,340	574,254	230,911	234,911	499,251	809,165
Interest Income	998	8,272	3,439	-	4,437	8,272
Transfers In (Out)	-	489,935	-	(55,097)	-	434,838
Total General Revenues & Transfers	3,388,131	4,164,896	234,350	179,814	3,622,481	4,344,710
Total Revenues	5,937,784	6,510,059	1,814,129	1,596,153	7,751,913	8,106,212
Expenses						
Legislative	16,149	18,980	-	-	16,149	18,980
General Government	1,109,769	1,150,743	-	-	1,109,769	1,150,743
Public Safety	815,770	659,376	-	-	815,770	659,376
Public Works	1,597,029	1,647,620	-	-	1,597,029	1,647,620
Community & Economic Development	145,842	143,632	-	-	145,842	143,632
Recreation & Culture	795,090	412,007	-	-	795,090	412,007
Health & Welfare	830,119	784,940	-	-	830,119	784,940
Water & Sewer Operations	-	-	1,492,423	1,463,642	1,492,423	1,463,642
Total Expenses	5,309,768	4,817,298	1,492,423	1,463,642	6,802,191	6,280,940
Change in Net Position	628,016	1,692,761	321,706	132,511	949,722	1,825,272
<i>Net Position at the Beginning of Period</i>	<i>12,110,117</i>	<i>10,417,356</i>	<i>8,925,603</i>	<i>8,793,092</i>	<i>21,035,720</i>	<i>19,210,448</i>
Net Position at the End of Period	\$ 12,738,133	\$ 12,110,117	\$ 9,247,309	\$ 8,925,603	\$ 21,985,442	\$ 21,035,720

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Commission.

At April 30, 2014, the City's governmental funds reported combined fund balances of \$3,873,444, an increase of \$271,321 in comparison with the prior year. Approximately 64% of this amount (\$2,485,027) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *assigned*, or *restricted* to indicate that it is 1) not in spendable form (\$43,110 for inventories and prepaid items), or 2) restricted for particular purposes (\$28,081 for major and local streets), or 3)

committed (\$142,241 for compensated absences), or 4) assigned (\$276,189 for various purposes).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,485,027, while total fund balance increased to \$2,934,609. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 80 percent of total general fund expenditures and transfers out, while total fund balance represents approximately 95 percent of that same amount.

The fund balance of the City's general fund increased by \$501,438 during the current fiscal year. The City Commission monitors the expenditures of the general fund closely to ensure that spending does not exceed the City's available resources.

The major streets fund, a major fund, had a \$51,366 decrease in fund balance during the current fiscal year which put the overall fund balance at \$15,946. This decrease in fund balance is due to the increased costs associated with winter maintenance with the near record winter snowfall during the year.

The local streets fund, a major fund, had a \$2,026 increase in fund balance during the current fiscal year which put the overall fund balance at \$12,915. This increase in fund balance is due to a large transfer from the general fund to cover a significant portion of current year expenditures.

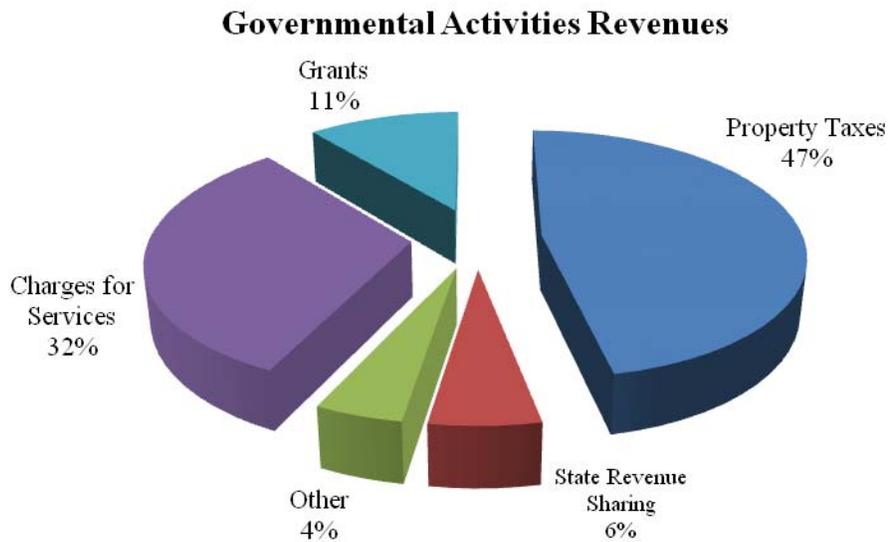
The ambulance fund, a major fund, had a \$29,056 decrease in fund balance during the current fiscal year which put the overall fund balance at \$112,923.

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

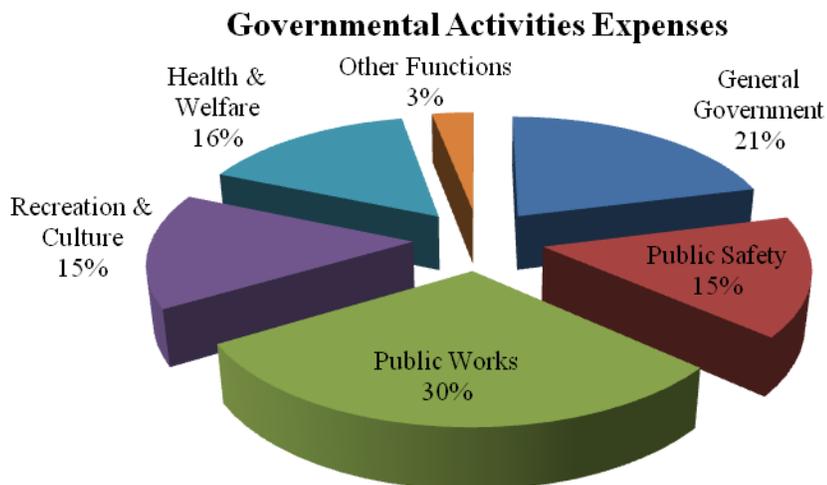
Unrestricted net position at the end of the year was \$370,697 for the water fund and \$1,628,116 for the sewer fund. The decrease in net position was \$360 for the water fund and an increase of \$322,066 for the sewer fund. Charges for service in the water and sewer funds compared to the prior year increased \$52,325 and \$106,496, respectively.

Governmental Activities

The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year end.



The following chart summarizes the expenses for the governmental activities of the City for the most recent fiscal year end.



General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was a need to adjust expenditures in the final budget to \$2,390,562 from the originally budgeted expenditures of \$3,597,112. This is a result of decreased estimated expenditures in capital outlay of \$1,025,500. All other budget amendments during the year were relatively minor.

Final budget compared to actual results. During the current fiscal year the City had no significant expenditures in excess of the appropriated amounts in the general fund.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of April 30, 2014, amounts to \$21,086,150 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, and water and sewer infrastructure. The following summarizes the City's capital assets:

	Governmental Activities	Business-type Activities	Total Primary Government
Land	\$ 955,470	\$ -	\$ 955,470
Construction in Progress	346,675	-	346,675
Land Improvements	249,574	-	249,574
Infrastructure	5,237,887	-	5,237,887
Buildings & Improvements	552,073	-	552,073
Equipment	817,266	191,240	1,008,506
Furniture & Fixtures	5,834	-	5,834
Water System	-	2,648,699	2,648,699
Sewer System	-	10,081,432	10,081,432
	<u>\$ 8,164,779</u>	<u>\$ 12,921,371</u>	<u>\$ 21,086,150</u>

More detailed information about the City's capital assets can be found in note 4.

Long-term Debt

As described in note 6 to the financial statements, the City had \$6,333,091 long-term debt at the end of the fiscal year. The City was in process of issuing a new bond as of year end. The City is well under its legal debt limit as of year-end.

Economic Condition and Outlook

Management continues to believe, based in part on the information presented in this audit, that both the economic condition and outlook for Boyne City remains strong, and will so for the foreseeable future minus some significant negative external factors..

Both the national and state economies seemed to have stabilized with slow, but steady growth. Those effects can be seen in some of the new developments that are taking place in our community. The Family Fare grocery store has undergone a multi-million dollar upgrade and expansion that will serve its shoppers and the community well for years to come. Catt Development has begun the long awaited residential phase of their One Water Street development and maybe even more significantly begun to explore the possibility of undertaking the redevelopment of a major portion of the 200 block of South Lake Street. McDonalds has begun what is basically the rebuilding of their restaurant here in Boyne City. Several of the industries in and around our Business Park are making significant investments in new equipment in their plants to foster current and future operations and residential growth seems to be making steady improvements.

Those private developments are building off a stronger overall economy and the investments in infrastructure the City continues to make. This year alone the City has invested well over one million dollars, much of it grant money, as it continues to improve its roads and other infrastructure and help make Boyne City a continually better place to live, visit and do business.

A major item for the future is that the City is working on detailed plans to replace much of its existing City Hall complex with new facilities which will serve the public better than the existing ones for decades to come. Work on these facilities will consume much of the City's unassigned fund balance which has been saved over the years for this and other similar capital outlays.

On a possibly negative front legislation is being considered in Lansing which could have negative implications on how Tax Increment Financing (TIF) district like those who fund much of the City's activities in both the downtown and business park. We are keeping a watchful eye on this possibility which could occur before the end of the 2014 calendar year.

Contacting the City

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

The City of Boyne City
319 North Lake Street
Boyne City, MI 49712

Or by contacting Cindy Grice, 231.582.6597 or Cgrice@boynecity.com

BASIC FINANCIAL STATEMENTS

**City of Boyne City
Statement of Net Position
April 30, 2014**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 4,397,725	\$ 1,534,390	\$ 5,932,115	\$ 1,234,512
Due from Other Governmental Units	103,400	--	103,400	--
Accounts Receivable	374,940	419,697	794,637	12,311
Inventories	20,990	22,456	43,446	15,621
Prepaid Items	39,467	2,857	42,324	12,154
Note Receivable	--	6,235	6,235	--
Total Current Assets	4,936,522	1,985,635	6,922,157	1,274,598
<i>Noncurrent Assets</i>				
Restricted Cash - Bond Reserve	--	607,466	607,466	--
Restricted Cash - Bond Interest	--	52,750	52,750	--
Note Receivable	--	20,360	20,360	--
Capital Assets not being Depreciated	1,302,145	--	1,302,145	1,087,686
Capital Assets being Depreciated	6,862,634	12,921,371	19,784,005	3,776,874
Total Assets	13,101,301	15,587,582	28,688,883	6,139,158
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	119,753	12,896	132,649	18,185
Payroll Liabilities	14,266	2,442	16,708	60,504
Customer Deposits	2,655	19,903	22,558	24,082
Accrued Interest	--	11,499	11,499	68
Unearned Revenue	--	--	--	1,471
Current Portion of Long-term Debt	--	495,000	495,000	69,386
Internal Balances	70,921	(70,921)	--	--
Total Current Liabilities	207,595	470,819	678,414	173,696
<i>Noncurrent Liabilities</i>				
Other Post Employment Benefits	13,332	--	13,332	--
Long-term Debt	--	5,838,091	5,838,091	75,226
Compensated Absences	142,241	31,363	173,604	6,426
Total Liabilities	363,168	6,340,273	6,703,441	255,348
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	--	--	--	9,700
Total Deferred Inflows of Resources	--	--	--	9,700
NET POSITION				
Net Investment in Capital Assets	8,164,779	6,588,280	14,753,059	4,719,948
<i>Restricted for:</i>				
Streets	28,081	--	28,081	--
Debt Service	--	660,216	660,216	--
Housing Commission	--	--	--	2,583
<i>Unrestricted</i>	4,545,273	1,998,813	6,544,086	1,151,579
Total Net Position	\$ 12,738,133	\$ 9,247,309	\$ 21,985,442	\$ 5,874,110

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Boyne City
Statement of Activities
For the Year Ended April 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 1,109,769	\$ 210,801	\$ --	\$ --	\$ (898,968)	\$ --	\$ (898,968)	\$ --
Public Safety	815,770	265,892	--	--	(549,878)	--	(549,878)	--
Public Works	1,597,029	397,711	434,428	--	(764,890)	--	(764,890)	--
Health & Welfare	830,119	617,335	56,107	--	(156,677)	--	(156,677)	--
Community & Economic Development	145,842	2,500	--	--	(143,342)	--	(143,342)	--
Recreation & Culture	795,090	401,578	5,527	157,774	(230,211)	--	(230,211)	--
Legislative	16,149	--	--	--	(16,149)	--	(16,149)	--
<i>Total Governmental Activities</i>	<u>5,309,768</u>	<u>1,895,817</u>	<u>496,062</u>	<u>157,774</u>	<u>(2,760,115)</u>	<u>--</u>	<u>(2,760,115)</u>	<u>--</u>
Business-type Activities:								
Sewer	873,262	958,987	--	4,619	--	90,344	90,344	--
Water	619,161	616,173	--	--	--	(2,988)	(2,988)	--
<i>Total Business-type Activities</i>	<u>1,492,423</u>	<u>1,575,160</u>	<u>--</u>	<u>4,619</u>	<u>--</u>	<u>87,356</u>	<u>87,356</u>	<u>--</u>
<i>Total Primary Government</i>	<u>\$ 6,802,191</u>	<u>\$ 3,470,977</u>	<u>\$ 496,062</u>	<u>\$ 162,393</u>	<u>\$ (2,760,115)</u>	<u>\$ 87,356</u>	<u>\$ (2,672,759)</u>	<u>--</u>
Component Units								
Downtown Development Authority	\$ 415,645	\$ 89,705	\$ 11,532	\$ --	--	--	--	(314,408)
Local Development Finance Authority	102,498	--	--	--	--	--	--	(102,498)
Boyne City Housing Commission 9/30/2013	694,599	236,637	350,921	--	--	--	--	(107,041)
<i>Total Component Units</i>	<u>\$ 1,212,742</u>	<u>\$ 326,342</u>	<u>\$ 362,453</u>	<u>\$ --</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(523,947)</u>
General Purpose Revenues and Transfers:								
Revenues								
Property Taxes					2,779,574	--	2,779,574	504,017
Investment Income (Loss)					998	3,439	4,437	(1,582)
State Revenue Sharing					339,219	--	339,219	--
Other					268,340	230,911	499,251	64,086
Transfers					--	--	--	--
<i>Total General Revenues and Transfers</i>					<u>3,388,131</u>	<u>234,350</u>	<u>3,622,481</u>	<u>566,521</u>
<i>Change in Net Position</i>					628,016	321,706	949,722	42,574
<i>Net Position at Beginning of Period</i>					12,110,117	8,925,603	21,035,720	6,084,018
<i>Prior Period Adjustment (See Housing Commission Report)</i>					--	--	--	(252,482)
<i>Net Position at Beginning of Period</i>					12,110,117	8,925,603	21,035,720	5,831,536
<i>Net Position at End of Period</i>					<u>\$ 12,738,133</u>	<u>\$ 9,247,309</u>	<u>\$ 21,985,442</u>	<u>\$ 5,874,110</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Boyne City
Balance Sheet
Governmental Funds
April 30, 2014**

	<u>Special Revenue</u>				<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Ambulance</u>		
ASSETS						
Cash & Cash Equivalents	\$ 2,892,227	\$ 68,524	\$ 3,224	\$ 34,555	\$ 558,184	\$ 3,556,714
Due from Other Governmental Units	49,519	38,778	15,103	--	--	103,400
Accounts Receivable	18,818	--	--	93,237	262,885	374,940
Inventories	--	--	--	--	6,501	6,501
Prepaid Items	31,152	390	390	1,039	3,638	36,609
Due from Other Funds	--	--	--	--	135	135
Total Assets	\$ 2,991,716	\$ 107,692	\$ 18,717	\$ 128,831	\$ 831,343	\$ 4,078,299
LIABILITIES						
Accounts Payable	\$ 45,963	\$ 20,254	\$ 4,101	\$ 15,237	\$ 31,480	\$ 117,035
Payroll Liabilities	11,009	571	1,701	671	157	14,109
Customer Deposits	--	--	--	--	2,655	2,655
Due to Other Funds	135	70,921	--	--	--	71,056
Total Liabilities	57,107	91,746	5,802	15,908	34,292	204,855
FUND BALANCE						
Nonspendable	31,152	390	390	1,039	10,139	43,110
Restricted	--	15,556	12,525	--	--	28,081
Committed	142,241	--	--	--	--	142,241
Assigned	276,189	--	--	111,884	786,912	1,174,985
Unassigned	2,485,027	--	--	--	--	2,485,027
Total Fund Balance	2,934,609	15,946	12,915	112,923	797,051	3,873,444
Total Liabilities and Fund Balance	\$ 2,991,716	\$ 107,692	\$ 18,717	\$ 128,831	\$ 831,343	\$ 4,078,299

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Boyne City
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
April 30, 2014

Total Fund Balance - Governmental Funds	\$ 3,873,444
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.	1,118,369
General government capital assets of \$13,330,783, net of accumulated depreciation of \$5,428,890, are not financial resources, and accordingly are not reported in the funds.	7,901,893
Other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.	(13,332)
Compensated absences are not due in and payable in the current period, and therefore, are not reported in the funds.	(142,241)
Total Net Position - Governmental Funds	\$ <u>12,738,133</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Boyne City
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended April 30, 2014

	<u>Special Revenue</u>				<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Ambulance</u>		
Revenues						
Property Taxes	\$ 2,656,152	\$ 61,711	\$ 61,711	\$ --	\$ --	\$ 2,779,574
Licenses & permits	6,550	--	--	--	--	6,550
State Revenue Sharing	339,219	282,723	151,705	--	157,774	931,421
Local Revenue Sharing	5,527	--	--	56,107	--	61,634
Charges for Services	302,604	--	--	617,335	747,681	1,667,620
Fine & Forfeitures	5,866	--	--	--	--	5,866
Rents	12,697	--	--	--	17,310	30,007
Investment Income (Loss)	219	--	--	--	203	422
Other	260,561	--	--	1,966	--	262,527
Total Revenues	<u>3,589,395</u>	<u>344,434</u>	<u>213,416</u>	<u>675,408</u>	<u>922,968</u>	<u>5,745,621</u>
Expenditures						
Legislative	16,149	--	--	--	--	16,149
General Government	1,063,767	--	--	--	--	1,063,767
Public Safety	552,987	--	--	--	176,529	729,516
Public Works	100,390	546,027	452,836	--	118,230	1,217,483
Health & Welfare	804	--	--	800,550	--	801,354
Community & Economic Development	145,842	--	--	--	--	145,842
Recreation & Culture	236,506	--	--	--	539,945	776,451
Capital Outlay	23,304	29,635	368,814	--	301,985	723,738
Total Expenditures	<u>2,139,749</u>	<u>575,662</u>	<u>821,650</u>	<u>800,550</u>	<u>1,136,689</u>	<u>5,474,300</u>
Excess of Revenues Over (Under) Expenditures	<u>1,449,646</u>	<u>(231,228)</u>	<u>(608,234)</u>	<u>(125,142)</u>	<u>(213,721)</u>	<u>271,321</u>
Other Financing Sources (Uses)						
Transfers In	--	179,862	610,260	96,086	62,000	948,208
Transfers Out	(948,208)	--	--	--	--	(948,208)
Net Other Financing Sources (Uses)	<u>(948,208)</u>	<u>179,862</u>	<u>610,260</u>	<u>96,086</u>	<u>62,000</u>	<u>--</u>
Net Change in Fund Balance	501,438	(51,366)	2,026	(29,056)	(151,721)	271,321
<i>Fund Balance at Beginning of Period</i>	2,433,171	67,312	10,889	141,979	948,772	3,602,123
Fund Balance at End of Period	<u>\$ 2,934,609</u>	<u>\$ 15,946</u>	<u>\$ 12,915</u>	<u>\$ 112,923</u>	<u>\$ 797,051</u>	<u>\$ 3,873,444</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Boyne City
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended April 30, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	271,321
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.		153,050
Governmental fund report capital outlay as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlay expenditures of \$723,738 is in excess of depreciation expense of \$494,428.		229,310
In the Statement of Activities, an expense is recorded for other post-employment benefits (OPEB) to adjust net OPEB obligation to the actuarial determined amount less any contributions to fund the obligation. This is the difference between the prior year and the current year net OPEB obligation.		(8,697)
Changes to accrued interest are not shown in the fund financial statements. The net effect of the current year decrease is to increase net position.		577
Change to compensated absences are not shown in the fund financial statements. The net effect of the current year increase is to decrease net position.		(17,545)
Changes in Net Position - Governmental Funds	\$	<u>628,016</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Boyne City
Statement of Net Position
Proprietary Funds
April 30, 2014**

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer	Water	Total Enterprise Funds	Internal Service - Motor Pool
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 1,278,142	\$ 256,248	\$ 1,534,390	\$ 841,011
Accounts Receivable	282,701	136,996	419,697	--
Inventories	5,255	17,201	22,456	14,489
Prepaid Items	2,078	779	2,857	2,858
Note Receivable	6,235	--	6,235	--
Due from Other Funds	70,921	--	70,921	--
Total Current Assets	1,645,332	411,224	2,056,556	858,358
<i>Noncurrent Assets</i>				
Restricted Cash - Bond Reserve	516,466	91,000	607,466	--
Restricted Cash - Bond Interest	43,115	9,635	52,750	--
Note Receivable	20,360	--	20,360	--
Capital Assets being Depreciated	10,277,487	2,643,884	12,921,371	262,886
Total Assets	12,502,760	3,155,743	15,658,503	1,121,244
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	7,837	5,059	12,896	2,718
Payroll Liabilities	1,043	1,399	2,442	157
Customer Deposits	12,686	7,217	19,903	--
Accrued Interest	9,603	1,896	11,499	--
Current Portion of Long-term Debt	405,000	90,000	495,000	--
Total Current Liabilities	436,169	105,571	541,740	2,875
<i>Noncurrent Liabilities</i>				
Long-term Debt	5,018,091	820,000	5,838,091	--
Compensated Absences	6,407	24,956	31,363	--
Total Liabilities	5,460,667	950,527	6,411,194	2,875
NET POSITION				
Net Investment in Capital Assets	4,854,396	1,733,884	6,588,280	262,886
<i>Restricted for:</i>				
Debt Service	559,581	100,635	660,216	--
<i>Unrestricted</i>	1,628,116	370,697	1,998,813	855,483
Total Net Position	\$ 7,042,093	\$ 2,205,216	\$ 9,247,309	\$ 1,118,369

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Boyne City
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended April 30, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer	Water	Total Enterprise Funds	Internal Service - Motor Pool
Operating Revenues				
Charges for Services	\$ 958,987	\$ 616,173	\$ 1,575,160	\$ 361,072
Total Operating Revenues	958,987	616,173	1,575,160	361,072
Operating Expenses				
Contractual Services	51,926	42,640	94,566	66,359
Personal	131,308	180,258	311,566	10,629
Supplies	32,636	3,489	36,125	29,669
Utilities	165,923	62,275	228,198	69,638
Repair & Maintenance	55,748	49,061	104,809	--
Depreciation Expense	307,543	256,625	564,168	38,686
Total Operating Expenses	745,084	594,348	1,339,432	214,981
Operating Income (Loss)	213,903	21,825	235,728	146,091
Non-Operating Revenues (Expenses)				
Investment Income (Loss)	3,439	--	3,439	1,146
Other	228,283	2,628	230,911	5,813
Grants	4,619	--	4,619	--
Interest Expense	(128,178)	(24,813)	(152,991)	--
Net Non-Operating Revenues (Expenses)	108,163	(22,185)	85,978	6,959
Income Before Contributions and Transfers	322,066	(360)	321,706	153,050
Transfers In	--	--	--	--
Transfers Out	--	--	--	--
Change In Net Position	322,066	(360)	321,706	153,050
<i>Net Position at Beginning of Period</i>	6,720,027	2,205,576	8,925,603	965,319
Net Position at End of Period	\$ 7,042,093	\$ 2,205,216	\$ 9,247,309	\$ 1,118,369

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Boyne City
Statement of Cash Flows
Proprietary Funds
For the Year Ended April 30, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer	Water	Total Enterprise Funds	Internal Service - Motor Pool
Cash Flows From Operating Activities				
Cash Received from Customers	\$ 944,101	\$ 617,672	\$ 1,561,773	\$ 361,072
Cash Payments to Employees for Services and Fringe Benefits	(127,256)	(173,166)	(300,422)	(10,472)
Cash Payments to Suppliers for Goods and Services	(310,372)	(168,039)	(478,411)	(142,003)
Total Cash Flows from Operating Activities	506,473	276,467	782,940	208,597
Cash Flows From Non-capital and Related Financing Activities				
Due from (to) Other Funds	15,943	-	15,943	-
Grants & Contributions	4,619	-	4,619	-
Total Cash Flows From Non-capital and Related Financing Activities	20,562	-	20,562	-
Cash Flows From Capital and Related Financing Activities				
Other Revenue	228,283	2,628	230,911	5,813
Interest Expense	(128,178)	(24,813)	(152,991)	-
Principal Payment on Long-term Debt	(395,000)	(90,000)	(485,000)	-
Change in Bond Premium (Discount)	5,243	-	5,243	-
Change in Capital Assets	(31,614)	-	(31,614)	(144,516)
Note Receivable	6,206	-	6,206	-
Total Cash Flows From Capital and Related Financing Activities	(315,060)	(112,185)	(427,245)	(138,703)
Cash Flows From Investing Activities				
Interest on Investments	3,439	-	3,439	1,146
Total Cash Flows from Investing Activities	3,439	-	3,439	1,146
Net Increase (Decrease) in Cash and Equivalents	215,414	164,282	379,696	71,040
<i>Cash and Equivalents - Beginning of Year</i>	<i>1,622,309</i>	<i>192,601</i>	<i>1,814,910</i>	<i>769,971</i>
Cash and Equivalents - End of Year	\$ 1,837,723	\$ 356,883	\$ 2,194,606	\$ 841,011

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Boyne City
Statement of Cash Flows
Proprietary Funds
For the Year Ended April 30, 2014

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
				<u>Activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total Enterprise</u>	<u>Internal Service -</u>
			<u>Funds</u>	<u>Motor Pool</u>
Reconciliation of Operating Income (Loss) to				
Net Cash Provided (Used) by Operating Activities				
Operating Income	\$ 213,903	\$ 21,825	\$ 235,728	\$ 146,091
Adjustments to Reconcile Operating Income to Net Cash				
Provided (Used) by Operating Activities				
Depreciation and Amortization Expense	307,543	256,625	564,168	38,686
Changes in Assets & Liabilities				
Accounts Receivable	(14,886)	1,499	(13,387)	-
Prepays	657	247	904	903
Inventory	(5,255)	(10,649)	(15,904)	24,061
Accounts Payable	1,384	241	1,625	(1,301)
Payroll Liabilities	399	453	852	157
Customer Deposits	(225)	(225)	(450)	-
Accrued Interest	(700)	(188)	(888)	-
Compensated Absences	3,653	6,639	10,292	-
Net Cash Provided by Operating Activities	<u>\$ 506,473</u>	<u>\$ 276,467</u>	<u>\$ 782,940</u>	<u>208,597</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Boyne City
Statement of Fiduciary Net Position
Fiduciary Funds
April 30, 2014

	Agency
	Agency Funds
ASSETS	
Cash & Cash Equivalents	\$ 18,708
<i>Total Assets</i>	18,708
LIABILITIES	
Due to Other Governmental Units	5,797
Customer Deposits	12,911
<i>Total Liabilities</i>	18,708
NET POSITION	
Held in Trust	\$ --

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Boyne City
Combining Statement of Net Position
Component Units
April 30, 2014

	Downtown Development Authority	Local Development Finance Authority	Boyne City Housing Commission 9/30/2013	Total Component Units
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 121,605	\$ 994,480	\$ 118,427	\$ 1,234,512
Accounts Receivable	--	--	12,311	12,311
Inventories	--	--	15,621	15,621
Prepaid Items	--	--	12,154	12,154
Total Current Assets	121,605	994,480	158,513	1,274,598
<i>Noncurrent Assets</i>				
Capital Assets not being Depreciated	--	291,419	796,267	1,087,686
Capital Assets being Depreciated	1,880,742	1,312,374	583,758	3,776,874
Total Assets	2,002,347	2,598,273	1,538,538	6,139,158
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	5,867	--	12,318	18,185
Payroll Liabilities	532	--	59,972	60,504
Customer Deposits	--	--	24,082	24,082
Accrued Interest	--	--	68	68
Unearned Revenue	--	--	1,471	1,471
Current Portion of Long-term Debt	6,235	47,961	15,190	69,386
Total Current Liabilities	12,634	47,961	113,101	173,696
<i>Noncurrent Liabilities</i>				
Long-term Debt	20,360	--	54,866	75,226
Compensated Absences	--	--	6,426	6,426
Total Liabilities	32,994	47,961	174,393	255,348
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	--	--	9,700	9,700
Total Deferred Inflows of Resources	--	--	9,700	9,700
NET POSITION				
Net Investment in Capital Assets	1,854,147	1,555,832	1,309,969	4,719,948
<i>Restricted for:</i>				
Housing Commission	--	--	2,583	2,583
<i>Unrestricted</i>	115,206	994,480	41,893	1,151,579
Total Net Position	\$ 1,969,353	\$ 2,550,312	\$ 1,354,445	\$ 5,874,110

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Boyne City
Combining Statement of Activities
Component Units
For the Year Ended April 30, 2014

	Downtown Development Authority	Local Development Finance Authority	Boyne City Housing Commission 9/30/2013	Total Component Units
Expenses				
Health & Welfare	\$ --	\$ --	\$ 590,245	\$ 590,245
Community & Economic Development	287,591	57,522	--	345,113
Interest Expense	1,095	2,827	--	3,922
Depreciation Expense	126,959	42,149	104,354	273,462
Total Expenses	415,645	102,498	694,599	1,212,742
Program Revenues				
Charges for services	89,705	--	236,637	326,342
Operating Grants and Contributions	11,532	--	350,921	362,453
Capital Grants and Contributions	--	--	--	--
Total Program Revenues	101,237	--	587,558	688,795
Net Program Revenues (Expenses)	(314,408)	(102,498)	(107,041)	(523,947)
General Revenue				
Property Taxes	278,319	225,698	--	504,017
Investment Income (Loss)	2	--	(1,584)	(1,582)
Other	--	--	64,086	64,086
Total General Revenues	278,321	225,698	62,502	566,521
Change in Net Position	(36,087)	123,200	(44,539)	42,574
<i>Net Position at Beginning of Period</i>	2,005,440	2,427,112	1,651,466	6,084,018
<i>Prior Period Adjustment (See Housing Commission Report)</i>	--	--	(252,482)	(252,482)
<i>Net Position at Beginning of Period - Restated</i>	2,005,440	2,427,112	1,398,984	5,831,536
Net Position at End of Period	\$ 1,969,353	\$ 2,550,312	\$ 1,354,445	\$ 5,874,110

The Notes to the Financial Statements are an integral part of these Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

City of Boyne City

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The financial statements of the reporting entity include those of the City of Boyne City (the primary government) and its component units as required by generally accepted accounting principles.

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The component units discussed below are included in the City's reporting entity as discretely presented component units because of the significance of their operational or financial relationships with the City. These component units are reported in a separate column to emphasize that they are legally separate from the City. A combining statement of net position and statement of activities for these discretely presented component units are included as part of the basic financial statements.

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 Commission. The budgets and expenditures of the DDA must be approved by the City Commission. The City also has the ability to significantly influence operations of the DDA. Complete financial statements for this component unit are not prepared.

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 Commission. The budgets and expenditures of the LDFA must be approved by the City Commission. The City also has the ability to significantly influence operations of the LDFA. Complete financial statements for this component unit are not prepared.

The ***Boyne City Housing Commission*** (the "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 Commission. The budgets and expenditures of the Commission must be approved by the City Commission. The City also has the ability to

City of Boyne City

Notes to the Financial Statements

significantly influence operations of the Commission. The Commission has a September 30 year end. The component unit is audited separately from the City and complete financial statements may be obtained from the Housing Commission's administrative office at 829 South Park Street, Boyne City, Michigan 49712. Accordingly, the City has elected to omit substantially all note disclosures related to the Commission in these financial statements.

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. 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.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are

City of Boyne City

Notes to the Financial Statements

collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City of Boyne City reports the following major governmental funds:

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

The ***major streets fund*** accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primary through state sources.

The ***local streets fund*** accounts for the maintenance and improvement activities for streets designated as "local" within the City. Funding is primary through state sources.

The ***ambulance fund*** accounts for the activity of the ambulance services. Funding is primarily from charges for services.

The City reports the following major proprietary funds:

The ***sewer fund*** accounts for the activities of the City's sewage collection system.

The ***water fund*** accounts for the activities of the City's water distribution system.

Additionally, the government reports the following fund types:

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

Internal Service Funds account for the financing of goods or services provided by the City to other departments or funds on a cost reimbursement basis.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of

City of Boyne City

Notes to the Financial Statements

accounting. These funds are used to account for asset that the government holds for others in an agency capacity (such as taxes collected for other governments).

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary and Budgetary Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Commission, by resolution, adopts a budget for the next fiscal year no later than the third week in April of each year.
2. Public hearings are conducted to obtain taxpayer comments.
3. 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.
4. 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 Commission. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
5. The budget and approved appropriations lapse at the end of the fiscal year.
6. 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.

City of Boyne City

Notes to the Financial Statements

Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents

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

State statutes and City policy authorize the City to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances of United States banks.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through March, 1997.

Restricted Cash

Restricted cash consists of bond reserve and bond interest to maintain the City's debt requirements in the water and sewer fund.

Receivables and Payables

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

City of Boyne City

Notes to the Financial Statements

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

The ambulance fund receivables are shown net of an allowance for uncollectable accounts. It is composed of expected Medicaid and Medicare write-offs and accounts receivable older than 120 days, which are estimated to be \$51,127.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Inventories

Inventories are stated at the lower of cost or market; cost is determined by the first-in, first-out method. Inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

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

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

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

Description	Life
Buildings	20 - 50 Years
Land Improvements	10 - 40 Years
Equipment	5 - 20 Years
Vehicles	5 - 10 Years
Public Domain Infrastructure	20 Years
Water & Sewer Infrastructure	20 - 50 Years

City of Boyne City

Notes to the Financial Statements

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.

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 are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

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

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to

City of Boyne City

Notes to the Financial Statements

consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Commission is the highest level of decision-making authority for the government that can, by adoption of a resolution or majority vote prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution or majority vote remains in place until a similar action is taken (the adoption of another resolution or majority vote) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Commission, or its designee, is authorized to assign fund balance. The City Commission may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the City Commission.

Property Tax Revenue Recognition

The City property tax is levied on July 1 on the taxable valuation of property located in the City as of the preceding December 31. The billings are due on or before August 31, after which time the bill becomes delinquent and penalties and interest may be assessed by the City; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Charlevoix County.

City of Boyne City

Notes to the Financial Statements

It is the City's policy to recognize revenues in the current year when they are levied and made available for the financing of City operations. The City considers property taxes levied on July 1 to be revenues of the current period.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Subsequent Events

Subsequent events have been evaluated through October 8, 2014, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would have a significant impact on the financial condition of the City.

Note 2 – Excess of Expenditures Over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended April 30, 2014, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative) Final to Actual</u>
General Fund			
Legal & Accounting	\$ 51,000	\$ 53,739	\$ (2,739)
Planning	143,072	145,842	(2,770)
Major Streets			
Construction	42,450	57,473	(15,023)
Winter Maintenance	259,000	295,160	(36,160)
Local Streets			
Winter Maintenance	189,300	217,299	(27,999)

City of Boyne City

Notes to the Financial Statements

Note 3 – Cash and Investments

Following is a reconciliation of deposit balances as of April 30, 2014:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash & Cash Equivalents	\$ 5,932,115	\$ 1,234,512	\$ 7,166,627
Restricted Cash	660,216	-	660,216
Statement of Fiduciary Net Position			
Cash & Cash Equivalents	18,708	-	18,708
Total Deposits and Investments	6,611,039	1,234,512	7,845,551
Less Component Units Separately Audited			
Boyne City Housing Commission	-	(118,427)	(118,427)
Deposits Managed by the City Treasurer	\$ 6,611,039	\$ 1,116,085	\$ 7,727,124
Deposits and Investments			
Cash & Cash Equivalents			\$ 6,217,091
Certificates of Deposit			1,509,733
Investments			-
Cash on hand			300
Total			\$ 7,727,124

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$5,819,539 of the City's bank balance of \$7,866,858 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the City believes it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk.

City of Boyne City

Notes to the Financial Statements

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All certificates of deposits of \$1,509,733 are due within one year.

Note 4 – Capital Assets

Capital asset activity for governmental activities during the year was as follows:

Primary Government	<u>April 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>April 30, 2014</u>
Capital assets not being depreciated				
Land	\$ 955,470	\$ -	\$ -	\$ 955,470
Construction in Progress	-	346,675	-	346,675
Total Capital assets not being depreciated	<u>955,470</u>	<u>346,675</u>	<u>-</u>	<u>1,302,145</u>
Capital assets being depreciated				
Land Improvements	1,422,083	10,784	-	1,432,867
Infrastructure	6,435,300	353,759	-	6,789,059
Buildings & Improvements	1,568,449	-	-	1,568,449
Equipment	2,088,198	6,325	-	2,094,523
Furniture & Fixtures	137,545	6,195	-	143,740
Total capital assets, being depreciated	<u>11,651,575</u>	<u>377,063</u>	<u>-</u>	<u>12,028,638</u>
Less accumulated depreciation				
Land Improvements	1,153,279	30,014	-	1,183,293
Infrastructure	1,224,984	326,188	-	1,551,172
Buildings & Improvements	981,147	35,229	-	1,016,376
Equipment	1,438,632	101,511	-	1,540,143
Furniture & Fixtures	136,420	1,486	-	137,906
Total accumulated depreciation	<u>4,934,462</u>	<u>494,428</u>	<u>-</u>	<u>5,428,890</u>
Internal Service Fund				
Motor Pool Equipment	157,056	105,830	-	262,886
Total capital assets	<u>\$ 7,829,639</u>	<u>\$ 335,140</u>	<u>\$ -</u>	<u>\$ 8,164,779</u>
Internal Service Fund	<u>April 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>April 30, 2014</u>
Capital assets being depreciated				
Equipment	\$ 1,637,560	\$ 149,717	\$ 12,481	\$ 1,774,796
Less accumulated depreciation				
Equipment	1,480,504	38,686	7,280	1,511,910
Total capital assets	<u>\$ 157,056</u>	<u>\$ 111,031</u>	<u>\$ 5,201</u>	<u>\$ 262,886</u>

City of Boyne City

Notes to the Financial Statements

Capital asset activity for business-type activities during the year was as follows:

Business-type Activities	<u>April 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>April 30, 2014</u>
Capital assets being depreciated				
Water System	\$ 7,042,027	\$ -	\$ -	\$ 7,042,027
Sewer System	13,508,651	-	-	13,508,651
Equipment	570,138	31,614	-	601,752
Total capital assets, being depreciated	<u>21,120,816</u>	<u>31,614</u>	<u>-</u>	<u>21,152,430</u>
Less accumulated depreciation				
Water System	4,141,519	251,809	-	4,393,328
Sewer System	3,150,984	276,235	-	3,427,219
Equipment	374,388	36,124	-	410,512
Total accumulated depreciation	<u>7,666,891</u>	<u>564,168</u>	<u>-</u>	<u>8,231,059</u>
Total capital assets	<u>\$ 13,453,925</u>	<u>\$ (532,554)</u>	<u>\$ -</u>	<u>12,921,371</u>

Capital asset activity for the DDA and LDFA (component units) during the year was as follows:

Downtown Development Authority	<u>April 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>April 30, 2014</u>
Capital assets being depreciated				
Infrastructure	\$ 2,837,193	\$ -	\$ -	\$ 2,837,193
Less accumulated depreciation				
Infrastructure	829,492	126,959	-	956,451
Total capital assets	<u>\$ 2,007,701</u>	<u>\$ (126,959)</u>	<u>\$ -</u>	<u>\$ 1,880,742</u>
Local Development Finance Authority	<u>April 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>April 30, 2014</u>
Capital assets not being depreciated				
Land	\$ 291,419	\$ -	\$ -	\$ 291,419
Capital assets being depreciated				
Infrastructure	1,997,920	-	-	1,997,920
Less accumulated depreciation				
Infrastructure	643,397	42,149	-	685,546
Total capital assets	<u>\$ 1,645,942</u>	<u>\$ (42,149)</u>	<u>\$ -</u>	<u>\$ 1,603,793</u>

Additional information about the Boyne City Housing Commission's (a component unit) capital asset activity can be found in its separately issued financial statements.

City of Boyne City

Notes to the Financial Statements

Depreciation expense was charged to governmental functions of the City as follows:

Governmental Activities		
General Government	\$	34,681
Public Safety		85,797
Public Works		326,546
Health & Welfare		28,765
Recreation & Culture		18,639
Depreciation Charged to the Internal Service Fund		38,686
<i>Total Governmental Activities</i>	\$	<u>533,114</u>
Business-type Activities		
Sewer Fund	\$	307,543
Water Fund		256,625
<i>Total Business-type Activities</i>	\$	<u>564,168</u>
Component Units		
Downtown Development Authority	\$	126,959
Local Development Finance Authority		42,149
<i>Total Component Units</i>	\$	<u>169,108</u>

Note 5 – Interfund Balances & Interfund Transfers

As of April 30, 2014, the interfund balances were as follows:

Receivable Fund	Payable Fund	Amount
Sewer	Major Streets	\$ 70,921
Boyne Thunder	General Fund	135

Interfund balances resulted primarily 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.

Transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

City of Boyne City

Notes to the Financial Statements

The following transfers occurred between funds of the City for the current year:

Transfer In	Transfer Out	Amount
Major Street	General	\$ 179,862
Local Street	General	610,260
Ambulance	General	96,086
Fire	General	62,000

Note 6 – Long-term Debt

The following is a summary of long-term debt activity of the City for the year ended April 30, 2014:

Business-type Activities	Balance at April 30, 2013	Additions	Deletions	Balance at April 30, 2014	Due Within One Year
Series 2003, Water supply and sewage disposal system revenue bonds, Maturing serially in 2023 in annual installments ranging from \$70,000 to \$110,000 and bearing interest at 2.50%	\$ 1,000,000	\$ -	\$ 90,000	\$ 910,000	\$ 90,000
Series 2004, Water supply and sewage disposal system revenue bonds, Maturing serially in 2026 in annual installments ranging from \$340,000 to \$510,000 and bearing interest at 2.13%	5,818,091	-	395,000	5,423,091	405,000
Total Business-type Activities Bonds Payable	6,818,091	-	485,000	6,333,091	495,000
Governmental Compensated Absences	124,696	17,545	-	142,241	-
Governmental OPEB Obligation	4,635	8,697	-	13,332	-
Business-type Compensated Absences	21,021	10,342	-	31,363	-
Total Long-term Debt	\$ 6,968,443	\$ 36,584	\$ 485,000	\$ 6,520,027	\$ 495,000

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

City of Boyne City

Notes to the Financial Statements

The following is a summary of long-term debt activity of the City's component units for the year ended April 30, 2014:

<u>Component Units</u>	<u>Balance at April 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2014</u>	<u>Due Within One Year</u>
DDA - 2008 note payable for improvement projects, maturing serially in 2017 in annual amounts of \$7,300 and bearing interest at 4.25%	\$ 32,574	\$ -	\$ 5,979	\$ 26,595	\$ 6,235
LFDA - 2005 general government note payable, maturing serially in 2015 and bearing interest at 0.00%	110,123	-	62,162	47,961	47,961
Housing Commission - Lease purchase agreement, maturing in 2018 and bearing interest at 3.375%	19,867	-	3,298	16,569	3,482
Housing Commission - Lease purchase agreement, maturing in 2018 and bearing interest at 1.625%	64,781	-	11,294	53,487	11,708
Compensated Absences	6,335	91	-	6,426	-
Total Component Units	\$ 233,680	\$ 91	\$ 82,733	\$ 151,038	\$ 69,386

Annual debt service requirements, exclusive of compensated absences and OPEB obligations, to maturity are as follows:

Year Ending April 30	Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 495,000	\$ 137,991	\$ 632,991	\$ 69,386	\$ 2,353	\$ 71,739
2016	505,000	127,134	632,134	22,010	1,774	23,784
2017	515,000	116,047	631,047	22,608	1,176	23,783
2018	530,000	104,747	634,747	30,608	600	31,208
2019	540,000	93,109	633,109	-	-	-
2020-2024	2,770,000	282,028	3,052,028	-	-	-
2025-2026	978,091	30,944	1,009,035	-	-	-
Totals	\$ 6,333,091	\$ 892,001	\$ 7,225,092	\$ 144,612	\$ 5,903	\$ 150,515

Note 7 – Defined Benefit Pension Plan

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

City of Boyne City

Notes to the Financial Statements

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 12.19% to 20.28% 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, 2014, the City's annual pension cost of \$214,402 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, 2013, the date of the last actuarial valuation, was 23 years.

The required schedule of funding progress immediately following the notes to the financial statements presents multi year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Three-year Trend Information			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 187,978	100%	\$ -
2013	\$ 188,348	100%	\$ -
2014	\$ 214,402	100%	\$ -

Note 8 - Other Postemployment Benefits

Plan Description

The City of Boyne City administers a single-employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described in Note 7, the Plan provides health

City of Boyne City

Notes to the Financial Statements

insurance benefits to certain retirees and their beneficiaries, which are advance-funded on a discretionary basis. In accordance with City policy, certain individuals and their beneficiaries receive medical, dental, prescription, and eyeglass coverage for varying periods of timing, depending on bargaining unit and years of service. As of April 30, 2014, the date of the last plan valuation, the Plan covered 34 members (28 active plan members and 6 retirees receiving benefits).

Funding policy

The contribution requirements of Plan members and the City are established and may be amended by the Commission. The required contribution is based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually by the City Commission. For the year ended April 30, 2014, the City contributed \$10,848 to the Plan. Total member contributions were \$15,086.

Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution	\$ 34,422
Interest on Net OPEB Obligation	209
Annual OPEB Cost (Expense)	<u>34,631</u>
Less: Contributions Made	<u>25,934</u>
<i>Increase in OPEB Obligation</i>	8,697
<i>Net OPEB Obligation - Beginning</i>	<u>4,635</u>
<i>Net OPEB Obligation - Ending</i>	<u>\$ 13,332</u>

City of Boyne City

Notes to the Financial Statements

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

	Fiscal Year Ended April 30,		
	2014	2013	2012
Annual OPEB Cost (Expense)	\$ 34,631	\$ 30,159	\$ 30,159
Percentage of OPEB Cost Contributed	75%	116%	99%
Net OPEB Obligation	\$ 13,332	\$ 4,635	\$ 9,388

Funded Status and Funding Progress

As of April 30, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$426,125, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was not available and the ratio of the UAAL to the covered payroll was unknown as well.

The projection of future benefit payments for an ongoing plan involves 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 calculations.

Methods and Assumptions

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

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

City of Boyne City

Notes to the Financial Statements

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

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

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections by the City's management. A flat cost was used in these valuations as the total annual cost has been capped by management.

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

Inflation rate - The expected long-term inflation assumption of 3.3 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

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

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 2.50 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at April 30, 2014, was 27 years.

Note 10 – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The risks of loss arising from general liability, property and casualty, and workers' compensation are managed through purchased commercial insurance.

City of Boyne City

Notes to the Financial Statements

Note 11 – Fund Balances – Governmental Funds

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

	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Ambulance</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:						
Inventories	\$ -	\$ -	\$ -	\$ -	\$ 6,501	\$ 6,501
Prepaid Items	31,152	390	390	1,039	3,638	36,609
Total Nonspendable	<u>31,152</u>	<u>390</u>	<u>390</u>	<u>1,039</u>	<u>10,139</u>	<u>43,110</u>
Restricted for:						
Major & Local Streets	-	15,556	12,525	-	-	28,081
Committed for:						
Compensated Absences	142,241	-	-	-	-	142,241
Assigned for:						
OPEB	247,405	-	-	-	-	247,405
Cemetery	26,504	-	-	-	-	26,504
Fire Protection	-	-	-	-	445,534	445,534
Airport	-	-	-	-	35,819	35,819
Marina	-	-	-	-	197,322	197,322
Boyne Thunder	-	-	-	-	108,237	108,237
Ambulance	-	-	-	111,884	-	111,884
Creative Playground	2,280	-	-	-	-	2,280
Total Assigned	<u>276,189</u>	<u>-</u>	<u>-</u>	<u>111,884</u>	<u>786,912</u>	<u>1,174,985</u>
Unassigned	<u>2,485,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,485,027</u>
Total Fund Balances - Governmental Funds	<u>\$ 2,934,609</u>	<u>\$ 15,946</u>	<u>\$ 12,915</u>	<u>\$ 112,923</u>	<u>\$ 797,051</u>	<u>\$ 3,873,444</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Boyne City
MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2011	\$ 7,191,330	\$ 9,172,263	\$ 1,980,933	78%	\$ 1,065,018	186%
12/31/2012	7,145,534	9,151,964	2,006,430	78%	1,120,911	179%
12/31/2013	7,281,048	9,329,598	2,048,550	78%	1,134,540	181%

Three-year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 187,978	100%	\$ -
2013	\$ 188,348	100%	\$ -
2014	\$ 214,402	100%	\$ -

**City of Boyne City
Other Post Employment Benefits
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
2010	\$ -	\$ 374,894	\$ 374,894	0%	NA	NA
2014	-	426,125	426,125	0%	1,331,242	32%

	Fiscal Year Ended April 30,		
	2014	2013	2012
Annual OPEB Cost (Expense)	\$ 34,631	\$ 30,159	\$ 30,159
Percentage of OPEB Cost Contributed	75%	116%	99%
Net OPEB Obligation	\$ 13,332	\$ 4,635	\$ 9,388

City of Boyne City
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Consolidated General Fund
For the Year Ended April 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
				Final to Actual
Revenues				
Property Taxes	\$ 2,609,216	\$ 2,645,081	\$ 2,656,152	\$ 11,071
Licenses & permits	6,200	6,467	6,550	83
State Revenue	266,306	333,895	339,219	5,324
Local Revenue Sharing	300	5,512	5,527	15
Charges for Services	292,400	298,338	302,604	4,266
Fine & Forfeitures	5,000	5,850	5,866	16
Administrative Services	8,200	11,900	12,697	797
Other	308,909	349,376	260,561	(88,815)
Interest	4,000	4,500	219	(4,281)
Total Revenues	<u>3,500,531</u>	<u>3,660,919</u>	<u>3,589,395</u>	<u>(71,524)</u>
Other Financing Sources				
Transfers In	--	93,795	93,795	--
Total Revenues and Other Financing Sources	<u>3,500,531</u>	<u>3,754,714</u>	<u>3,683,190</u>	<u>(71,524)</u>
Expenditures				
Legislative - Council	19,518	16,219	16,149	70
General Government				
General Administration	553,644	563,975	544,837	19,138
Elections	2,200	2,627	2,627	--
Legal & Accounting	73,500	51,000	53,739	(2,739)
Assessor	70,660	62,875	62,826	49
Building & Grounds	160,736	145,186	143,678	1,508
Housing Commission	230,000	240,000	150,442	89,558
Other General Government	31,800	45,588	32,753	12,835
Cemetery	59,465	51,785	49,479	2,306
Contingency	62,215	64,079	23,386	40,693
Total General Government	<u>1,244,220</u>	<u>1,227,115</u>	<u>1,063,767</u>	<u>163,348</u>
Public Safety - Police	606,166	572,443	552,987	19,456
Public Works				
Sidewalks	108,000	13,500	6,399	7,101
Rubbish Collection	33,200	31,291	31,291	--
Street Lights	70,000	62,000	62,700	(700)
Total Public Works	<u>211,200</u>	<u>106,791</u>	<u>100,390</u>	<u>6,401</u>
Community & Economic Development				
Planning	155,556	143,072	145,842	(2,770)
Recreation & Culture				
Parks & Grounds	269,600	259,464	234,505	24,959
Museum	2,102	2,154	2,001	153
Total Recreation & Culture	<u>271,702</u>	<u>261,618</u>	<u>236,506</u>	<u>25,112</u>
Health & Welfare - Environmental	750	804	804	--
Capital Outlay	1,088,000	62,500	23,304	39,196
Total Expenditures	<u>3,597,112</u>	<u>2,390,562</u>	<u>2,139,749</u>	<u>250,813</u>
Other Financing Uses				
Transfers Out	1,087,765	1,102,529	1,042,003	60,526
Total Expenditures and Other Financing Uses	<u>4,684,877</u>	<u>3,493,091</u>	<u>3,181,752</u>	<u>311,339</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses				
	(1,184,346)	261,623	501,438	239,815
Net Change in Fund Balance	<u>(1,184,346)</u>	<u>261,623</u>	<u>501,438</u>	<u>239,815</u>
<i>Fund Balance at Beginning of Period</i>	2,433,171	2,433,171	2,433,171	--
Fund Balance at End of Period	<u>\$ 1,248,825</u>	<u>\$ 2,694,794</u>	<u>\$ 2,934,609</u>	<u>\$ 239,815</u>

City of Boyne City
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the Year Ended April 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Property Taxes	\$ 83,230	\$ 61,711	\$ 61,711	\$ --
State Revenue	244,246	280,878	282,723	1,845
<i>Total Revenues</i>	<u>327,476</u>	<u>342,589</u>	<u>344,434</u>	<u>1,845</u>
Other Financing Sources				
Transfers In	236,265	236,265	179,862	(56,403)
<i>Total Revenues and Other Financing Sources</i>	<u>563,741</u>	<u>578,854</u>	<u>524,296</u>	<u>(54,558)</u>
Expenditures				
Construction	18,800	42,450	57,473	(15,023)
Routine Maintenance	323,200	164,696	148,811	15,885
Traffic Service	32,000	20,965	7,250	13,715
Winter Maintenance	103,300	259,000	295,160	(36,160)
Administration	86,441	85,343	66,968	18,375
<i>Total Expenditures</i>	<u>563,741</u>	<u>572,454</u>	<u>575,662</u>	<u>(3,208)</u>
Other Financing Uses				
<i>Total Expenditures and Other Financing Uses</i>	<u>563,741</u>	<u>572,454</u>	<u>575,662</u>	<u>(3,208)</u>
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i>	<u>--</u>	<u>6,400</u>	<u>(51,366)</u>	<u>(57,766)</u>
<i>Net Change in Fund Balance</i>	<u>--</u>	<u>6,400</u>	<u>(51,366)</u>	<u>(57,766)</u>
<i>Fund Balance at Beginning of Period</i>	67,312	67,312	67,312	--
<i>Fund Balance at End of Period</i>	<u>\$ 67,312</u>	<u>\$ 73,712</u>	<u>\$ 15,946</u>	<u>\$ (57,766)</u>

City of Boyne City
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Streets
For the Year Ended April 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
Revenues				
Property Taxes	\$ 78,000	\$ 61,711	\$ 61,711	\$ --
State Revenue	94,000	120,000	151,705	31,705
Local Revenue Sharing	--	64,800	--	(64,800)
Total Revenues	172,000	246,511	213,416	(33,095)
Other Financing Sources				
Transfers In	689,500	689,500	610,260	(79,240)
Total Revenues and Other Financing Sources	861,500	936,011	823,676	(112,335)
Expenditures				
Construction	398,863	374,836	371,927	2,909
Routine Maintenance	356,800	221,460	166,788	54,672
Traffic Service	19,525	14,080	5,154	8,926
Winter Maintenance	100,610	189,300	217,299	(27,999)
Administration	59,600	62,575	60,482	2,093
Total Expenditures	935,398	862,251	821,650	40,601
Other Financing Uses				
Total Expenditures and Other Financing Uses	935,398	862,251	821,650	40,601
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(73,898)	73,760	2,026	(71,734)
Net Change in Fund Balance	(73,898)	73,760	2,026	(71,734)
Fund Balance at Beginning of Period	10,889	10,889	10,889	--
Fund Balance at End of Period	\$ (63,009)	\$ 84,649	\$ 12,915	\$ (71,734)

City of Boyne City
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Ambulance
For the Year Ended April 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
Revenues				
Local Revenue Sharing	\$ 76,427	\$ 76,427	\$ 56,107	\$ (20,320)
Charges for Services	619,034	477,140	617,335	140,195
Other Revenue	4,399	79,099	1,966	(77,133)
Total Revenues	699,860	632,666	675,408	42,742
Other Financing Sources				
Transfers In	100,000	100,000	189,881	89,881
Total Revenues and Other Financing Sources	799,860	732,666	865,289	132,623
Expenditures				
Health & Welfare	798,010	834,396	800,550	33,846
Total Expenditures	798,010	834,396	800,550	33,846
Other Financing Uses				
Transfers Out	--	93,795	93,795	--
Total Expenditures and Other Financing Uses	798,010	928,191	894,345	33,846
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	1,850	(195,525)	(29,056)	166,469
Net Change in Fund Balance	1,850	(195,525)	(29,056)	166,469
<i>Fund Balance at Beginning of Period</i>	141,979	141,979	141,979	--
Fund Balance at End of Period	\$ 143,829	\$ (53,546)	\$ 112,923	\$ 166,469

OTHER SUPPLEMENTARY INFORMATION

City of Boyne City
General Fund Combining Balance Sheet
All Funds Treated as General
April 30, 2014

	<u>General</u>	<u>Cemetery</u>	<u>Creative Playground</u>	<u>Rubbish</u>	<u>Total General Funds</u>
ASSETS					
Cash & Cash Equivalents	\$ 2,863,347	\$ 26,600	\$ 2,280	\$ --	\$ 2,892,227
Due from Other Governmental Units	49,519	--	--	--	49,519
Accounts Receivable	18,818	--	--	--	18,818
Prepaid Items	30,892	260	--	--	31,152
<i>Total Assets</i>	<u>\$ 2,962,576</u>	<u>\$ 26,860</u>	<u>\$ 2,280</u>	<u>\$ --</u>	<u>\$ 2,991,716</u>
LIABILITIES					
Accounts Payable	\$ 45,926	\$ 37	\$ --	\$ --	\$ 45,963
Payroll Liabilities	10,950	59	--	--	11,009
Due to Other Funds	135	--	--	--	135
<i>Total Liabilities</i>	<u>57,011</u>	<u>96</u>	<u>--</u>	<u>--</u>	<u>57,107</u>
FUND BALANCE					
Nonspendable	30,892	260	--	--	31,152
Committed	142,241	--	--	--	142,241
Assigned	247,405	26,504	2,280	--	276,189
Unassigned	2,485,027	--	--	--	2,485,027
<i>Total Fund Balance</i>	<u>2,905,565</u>	<u>26,764</u>	<u>2,280</u>	<u>--</u>	<u>2,934,609</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 2,962,576</u>	<u>\$ 26,860</u>	<u>\$ 2,280</u>	<u>\$ --</u>	<u>\$ 2,991,716</u>

City of Boyne City
General Fund Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
All Funds Treated as General
For the Year Ended April 30, 2014

	General	Cemetery	Creative Playground	Rubbish	Total General Funds
Revenues					
Property Taxes	\$ 2,656,152	\$ --	\$ --	\$ --	\$ 2,656,152
Licenses & permits	6,550	--	--	--	6,550
State Revenue Sharing	339,219	--	--	--	339,219
Local Revenue Sharing	5,527	--	--	--	5,527
Charges for Services	287,844	14,760	--	--	302,604
Fine & Forfeitures	5,866	--	--	--	5,866
Rents	12,697	--	--	--	12,697
Investment Income (Loss)	219	--	--	--	219
Other	247,161	--	13,400	--	260,561
Total Revenues	3,561,235	14,760	13,400	--	3,589,395
Expenditures					
Legislative	16,149	--	--	--	16,149
General Government	1,014,288	49,479	--	--	1,063,767
Public Safety	552,987	--	--	--	552,987
Public Works	69,099	--	--	31,291	100,390
Health & Welfare	804	--	--	--	804
Community & Economic Development	145,842	--	--	--	145,842
Recreation & Culture	224,696	--	11,810	--	236,506
Capital Outlay	23,304	--	--	--	23,304
Total Expenditures	2,047,169	49,479	11,810	31,291	2,139,749
Excess of Revenues Over (Under) Expenditures	1,514,066	(34,719)	1,590	(31,291)	1,449,646
Other Financing Sources (Uses)					
Transfers In	--	--	--	--	--
Transfers Out	(1,026,862)	47,363	--	31,291	(948,208)
Net Other Financing Sources (Uses)	(1,026,862)	47,363	--	31,291	(948,208)
Net Change in Fund Balance	487,204	12,644	1,590	--	501,438
<i>Fund Balance at Beginning of Period</i>	2,418,361	14,120	690	--	2,433,171
Fund Balance at End of Period	\$ 2,905,565	\$ 26,764	\$ 2,280	\$ --	\$ 2,934,609

**City of Boyne City
Combining Balance Sheet
Nonmajor Governmental Funds
April 30, 2014**

Special Revenue

	<u>Fire</u>	<u>Boyne Thunder</u>	<u>Marina</u>	<u>Airport</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash & Cash Equivalents	\$ 185,669	\$ 108,314	\$ 228,620	\$ 35,581	\$ 558,184
Accounts Receivable	260,560	--	--	2,325	262,885
Inventories	--	--	--	6,501	6,501
Prepaid Items	2,858	--	260	520	3,638
Due from Other Funds	--	135	--	--	135
<i>Total Assets</i>	<u>\$ 449,087</u>	<u>\$ 108,449</u>	<u>\$ 228,880</u>	<u>\$ 44,927</u>	<u>\$ 831,343</u>
LIABILITIES					
Accounts Payable	\$ 695	\$ 212	\$ 30,041	\$ 532	\$ 31,480
Payroll Liabilities	--	--	157	--	157
Customer Deposits	--	--	1,100	1,555	2,655
<i>Total Liabilities</i>	<u>695</u>	<u>212</u>	<u>31,298</u>	<u>2,087</u>	<u>34,292</u>
FUND BALANCE					
Nonspendable	2,858	--	260	7,021	10,139
Assigned	445,534	108,237	197,322	35,819	786,912
Unassigned	--	--	--	--	--
<i>Total Fund Balance</i>	<u>448,392</u>	<u>108,237</u>	<u>197,582</u>	<u>42,840</u>	<u>797,051</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 449,087</u>	<u>\$ 108,449</u>	<u>\$ 228,880</u>	<u>\$ 44,927</u>	<u>\$ 831,343</u>

City of Boyne City
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended April 30, 2014

	<u>Special Revenue</u>				<u>Total Nonmajor Governmental Funds</u>
	<u>Fire</u>	<u>Boyne Thunder</u>	<u>Marina</u>	<u>Airport</u>	
Revenues					
State Revenue Sharing	\$ --	\$ --	\$ 157,774	\$ --	\$ 157,774
Charges for Services	248,476	251,794	149,784	97,627	747,681
Rents	--	--	--	17,310	17,310
Investment Income (Loss)	3	--	200	--	203
Total Revenues	<u>248,479</u>	<u>251,794</u>	<u>307,758</u>	<u>114,937</u>	<u>922,968</u>
Expenditures					
Public Safety	176,529	--	--	--	176,529
Public Works	--	--	--	118,230	118,230
Recreation & Culture	--	193,681	346,264	--	539,945
Capital Outlay	301,985	--	--	--	301,985
Total Expenditures	<u>478,514</u>	<u>193,681</u>	<u>346,264</u>	<u>118,230</u>	<u>1,136,689</u>
Excess of Revenues Over (Under) Expenditures	<u>(230,035)</u>	<u>58,113</u>	<u>(38,506)</u>	<u>(3,293)</u>	<u>(213,721)</u>
Other Financing Sources (Uses)					
Transfers In	62,000	--	--	--	62,000
Transfers Out	--	--	--	--	--
Net Other Financing Sources (Uses)	<u>62,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>62,000</u>
Net Change in Fund Balance	(168,035)	58,113	(38,506)	(3,293)	(151,721)
<i>Fund Balance at Beginning of Period</i>	616,427	50,124	236,088	46,133	948,772
Fund Balance at End of Period	<u>\$ 448,392</u>	<u>\$ 108,237</u>	<u>\$ 197,582</u>	<u>\$ 42,840</u>	<u>\$ 797,051</u>

City of Boyne City
Combining Statement of Net Position / Balance Sheet
Component Units
April 30, 2014

	Governmental Activities					
	Downtown Development Authority	Adjustments	Statement of Net Position	Local Development Finance Authority	Adjustments	Statement of Net Position
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 121,605	\$ --	\$ 121,605	\$ 994,480	\$ --	\$ 994,480
Accounts Receivable	--	--	--	--	--	--
Inventories	--	--	--	--	--	--
Prepaid Expenditures	--	--	--	--	--	--
Total Current Assets	121,605	--	121,605	994,480	--	994,480
<i>Noncurrent Assets</i>						
Capital Assets not being Depreciated	--	--	--	--	291,419	291,419
Capital Assets being Depreciated	--	1,880,742	1,880,742	--	1,312,374	1,312,374
Total Assets	121,605	1,880,742	2,002,347	994,480	1,603,793	2,598,273
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	5,867	--	5,867	--	--	--
Payroll Liabilities	532	--	532	--	--	--
Customer Deposits	--	--	--	--	--	--
Accrued Interest	--	--	--	--	--	--
Unearned Revenue	--	--	--	--	--	--
Current Portion of Long-term Debt	--	6,235	6,235	--	47,961	47,961
Total Current Liabilities	6,399	6,235	12,634	--	47,961	47,961
<i>Noncurrent Liabilities</i>						
Long-term Debt	--	20,360	20,360	--	--	--
Compensated Absences	--	--	--	--	--	--
Total Liabilities	6,399	20,360	32,994	--	47,961	47,961
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	--	--	--	--	--	--
Total Deferred Inflows of Resources	--	--	--	--	--	--
NET POSITION / FUND BALANCE						
Net Investment in Capital Assets	--	1,854,147	1,854,147	--	1,555,832	1,555,832
<i>Restricted for:</i>						
Housing Commission	--	--	--	--	--	--
<i>Unrestricted</i>	115,206	--	115,206	994,480	--	994,480
Total Net Position / Fund Balance	\$ 115,206	\$ 1,854,147	\$ 1,969,353	\$ 994,480	\$ 1,555,832	\$ 2,550,312

City of Boyne City
Combining Statement of Net Position / Balance Sheet
Component Units
April 30, 2014

	<u>Business-type Activities</u>					
	Boyne City Housing Commission 9/30/2013	Adjustments	Statement of Net	Total Component Units	Adjustments	Statement of Net Position
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 118,427	\$ --	\$ 118,427	\$ 1,234,512	\$ --	\$ 1,234,512
Accounts Receivable	12,311	--	12,311	12,311	--	12,311
Inventories	15,621	--	15,621	15,621	--	15,621
Prepaid Expenditures	12,154	--	12,154	12,154	--	12,154
Total Current Assets	158,513	--	158,513	1,274,598	--	1,274,598
<i>Noncurrent Assets</i>						
Capital Assets not being Depreciated	796,267	--	796,267	796,267	291,419	1,087,686
Capital Assets being Depreciated	583,758	--	583,758	583,758	3,193,116	3,776,874
Total Assets	1,538,538	--	1,538,538	2,654,623	3,484,535	6,139,158
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	12,318	--	12,318	18,185	--	18,185
Payroll Liabilities	59,972	--	59,972	60,504	--	60,504
Customer Deposits	24,082	--	24,082	24,082	--	24,082
Accrued Interest	68	--	68	68	--	68
Unearned Revenue	1,471	--	1,471	1,471	--	1,471
Current Portion of Long-term Debt	15,190	--	15,190	15,190	54,196	69,386
Total Current Liabilities	113,101	--	113,101	119,500	54,196	173,696
<i>Noncurrent Liabilities</i>						
Long-term Debt	54,866	--	54,866	54,866	20,360	75,226
Compensated Absences	6,426	--	6,426	6,426	--	6,426
Total Liabilities	174,393	--	174,393	180,792	20,360	255,348
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	9,700	--	9,700	9,700	--	9,700
Total Deferred Inflows of Resources	9,700	--	9,700	9,700	--	9,700
NET POSITION / FUND BALANCE						
Net Investment in Capital Assets	1,309,969	--	1,309,969	1,309,969	3,409,979	4,719,948
<i>Restricted for:</i>						
Housing Commission	2,583	--	2,583	2,583	--	2,583
<i>Unrestricted</i>	41,893	--	41,893	1,151,579	--	1,151,579
Total Net Position / Fund Balance	\$ 1,354,445	\$ --	\$ 1,354,445	\$ 2,464,131	\$ 3,409,979	\$ 5,874,110

City of Boyne City
Combining Statement of Activities / Statement of Revenues, Expenses and Changes in Fund Balance
Component Units
For the Year Ended April 30, 2014

	Governmental Activities					
	Downtown Development Authority	Adjustments	Statement of Net Position	Local Development Finance Authority	Adjustments	Statement of Net Position
Expenses						
Health & Welfare	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Community & Economic Development	287,591	--	287,591	57,522	--	57,522
Debt Service - Principal	5,979	(5,979)	--	62,162	(62,162)	--
Debt Service - Interest	1,322	(227)	1,095	2,827	--	2,827
Depreciation Expense	--	126,959	126,959	0	42,149	42,149
Total Expenses	<u>294,892</u>	<u>120,753</u>	<u>415,645</u>	<u>122,511</u>	<u>-20,013</u>	<u>102,498</u>
Program Revenues						
Charges for services	89,705	--	89,705	--	--	--
Operating grants and contributions	11,532	--	11,532	--	--	--
Capital grants and contributions	--	--	--	--	--	--
Total Program Revenues	<u>101,237</u>	<u>--</u>	<u>101,237</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net Program Revenues (Expenses)	<u>(193,655)</u>	<u>(120,753)</u>	<u>(314,408)</u>	<u>(122,511)</u>	<u>20,013</u>	<u>(102,498)</u>
General Revenue						
Property Taxes	278,319	--	278,319	225,698	--	225,698
Investment Income (Loss)	2	--	2	--	--	--
Other	--	--	--	--	--	--
Total General Revenues	<u>278,321</u>	<u>--</u>	<u>278,321</u>	<u>225,698</u>	<u>--</u>	<u>225,698</u>
Change in Net Position / Fund Balnce	84,666	(120,753)	(36,087)	103,187	20,013	123,200
<i>Net Position / Fund Balance at Beginning of Period</i>	30,540	1,974,900	2,005,440	891,293	1,535,819	2,427,112
<i>Prior Period Adjustment (See Housing Commission Report)</i>	--	--	--	--	--	--
<i>Net Position / Fund Balance at Beginning of Period - Restated</i>	30,540	1,974,900	2,005,440	891,293	1,535,819	2,427,112
Net Position / Fund Balance at End of Period	<u>\$ 115,206</u>	<u>\$ 1,854,147</u>	<u>\$ 1,969,353</u>	<u>\$ 994,480</u>	<u>\$ 1,555,832</u>	<u>\$ 2,550,312</u>

City of Boyne City
Combining Statement of Activities / Statement of Revenues, Expenses and Changes in Fund Balance
Component Units
For the Year Ended April 30, 2014

Business-type Activities

	Boyne City Housing Commission 9/30/2013	Adjustments	Statement of Net Position	Total Component Units	Adjustments	Statement of Net Position
Expenses						
Health & Welfare	\$ 590,245	\$ --	\$ 590,245	\$ 590,245	\$ --	\$ 590,245
Community & Economic Development	--	--	--	345,113	--	345,113
Debt Service - Principal	--	--	--	68,141	(68,141)	--
Debt Service - Interest	--	--	--	3,922	--	3,922
Depreciation Expense	104,354	--	104,354	104,354	169,108	273,462
Total Expenses	694,599	--	694,599	1,111,775	100,740	1,212,742
Program Revenues						
Charges for services	236,637	--	236,637	326,342	--	326,342
Operating grants and contributions	350,921	--	350,921	362,453	--	362,453
Capital grants and contributions	--	--	--	--	--	--
Total Program Revenues	587,558	--	587,558	688,795	--	688,795
Net Program Revenues (Expenses)	(107,041)	--	(107,041)	(422,980)	(100,740)	(523,947)
General Revenue						
Property Taxes	--	--	--	504,017	--	504,017
Investment Income (Loss)	(1,584)	--	(1,584)	(1,582)	--	(1,582)
Other	64,086	--	64,086	64,086	--	64,086
Total General Revenues	62,502	--	62,502	566,521	--	566,521
Change in Net Position	(44,539)	--	(44,539)	143,541	(100,740)	42,574
<i>Net Position / Fund Balance at Beginning of Period</i>	1,651,466	--	1,651,466	2,573,299	3,510,719	6,084,018
<i>Prior Period Adjustment (See Housing Commission Report)</i>	(252,482)	--	(252,482)	(252,482)	--	(252,482)
<i>Net Position / Fund Balance at Beginning of Period - Restated</i>	1,398,984	--	1,398,984	2,320,817	3,510,719	5,831,536
Net Position / Fund Balance at End of Period	\$ 1,354,445	\$ --	\$ 1,354,445	\$ 2,464,358	\$ 3,409,979	\$ 5,874,110

October 8, 2014

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan (the "City") for the year ended April 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 8, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year 2014. We noted no transactions entered into by the City 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 estimate(s) affecting the City's financial statements was:

- Management's estimate of the current year capital asset depreciation expense is based on the estimated useful lives of the City's capital assets. We evaluated the key factors and assumptions used to develop the current year capital asset depreciation expense in determining that the depreciation expense, and ending net book value of the underlying assets, are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences and the related pay rates as of April 30, 2014.

- Management’s assumptions used to calculate the actuarial report and the net present value of post employment benefits, including health and pension benefits.

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 each opinion unit’s financial statements taken as a whole.

Disagreements 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 October 8, 2014.

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 City’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 City’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

We applied certain limited procedures to management's discussion and analysis, schedules of funding progress, and the budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the City Commission 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.

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the typed name of the company.

Gabridge & Company, PLC
Grand Rapids, MI

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 Commission
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 discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan (the "City"), as of and for the year ended April 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 8, 2014.

Internal Control over Financial Reporting

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

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.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

Gabridge & Company, PLC
Grand Rapids, Michigan
October 8, 2014