



THE CITY OF
CHEBOYGAN

CITY OF CHEBOYGAN
CHEBOYGAN COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Cheboygan, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cheboygan, Michigan (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cheboygan Housing Commission which represents 42 percent of the assets, 41 percent of net position, and 69 percent of revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Cheboygan Housing Commission is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, 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.

Emphasis of Matter

As described in Note 15 to the financial statements, during the year ended June 30, 2018, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of implementing this pronouncement, the City's net OPEB liability has been recognized on the government-wide statements and, as discussed in Note 15, the 2018 financial statements have been restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the pension and OPEB schedules, 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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor 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 nonmajor 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 December 31, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.



Gabridge & Company, PLC
Grand Rapids, Michigan
December 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the *City of Cheboygan, 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 June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2018 fiscal year as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year 2018 by \$19,862,518 (net position). Of this, \$19,880,953 was the net investment in capital assets, \$1,191,264 was restricted balance, and the remaining was unrestricted with a deficit balance of \$1,209,699.
- The City continues to set aside funds which cover the future cost of the retiree healthcare benefit and the payment of sick and vacation time accruals at the time of retirement. The balances committed as of June 30, 2018 for retiree healthcare benefit and termination liability were \$28,147 and \$40,392, respectively. During fiscal 2011, the City entered into an agreement to fully pay off all accrued sick and vacation time for its' AFSCME and non-union employees over a period of 1 to 5 years depending on the hours accrued for each employee. This was accomplished during the fiscal year freeing the City from any future liability for these two employee segments.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$2,473,902, an increase of \$126,490 in comparison with the prior year. Approximately 54 percent of this amount, or \$1,335,463, 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 \$1,335,463, or 61 percent of the general fund's annualized expenditures and transfers out.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

Component Units

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

Fund Financial Statements

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental 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.

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 fund, major street fund, and port property fund, which are considered major funds. Data is combined into a single aggregated presentation for the other governmental funds (nonmajor governmental funds). Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its general fund and all special revenue funds as required by state law. Budgetary comparison schedules have been provided for the general fund and the major street fund (as required supplemental information).

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water, and ice pavilion activities. Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions.

The City utilizes internal service funds to account for its equipment and motor pool activities. Because these services primarily benefit the City's 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 sewer and water operations, which are considered to be major funds of the City. Conversely, the nonmajor enterprise fund (ice pavilion) and internal service fund are aggregate presentations in the proprietary fund financial statements.

Fiduciary Funds

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

Notes to the Financial Statements

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

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this discussion and analysis, required pension and OPEB information, and budget and actual presentations. Supplemental information follows the required supplementary information and includes combining and individual fund statements and schedules.

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

Government-wide Financial Analysis

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$19,862,518 at the close of the most recent fiscal year. The following chart illustrates the composition of net position:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
ASSETS						
<i>Current Assets</i>						
Cash and Cash Equivalents	\$ 2,338,147	\$ 2,100,234	\$ 1,042,640	\$ 1,462,042	\$ 3,380,787	\$ 3,562,276
Accounts Receivable	209,650	4,500	502,406	440,575	712,056	445,075
Taxes Receivable	11,817	11,896	-	-	11,817	11,896
Due from Other Governmental Units	215,051	262,868	324,836	-	539,887	262,868
Prepaid Items	43,887	57,822	-	-	43,887	57,822
Inventory	-	-	-	-	-	-
Total Current Assets	2,818,552	2,437,320	1,869,882	1,902,617	4,688,434	4,339,937
<i>Noncurrent Assets</i>						
Restricted Cash	-	6,506	169,165	130,665	169,165	137,171
Restricted Investments	-	157,089	-	-	-	157,089
Capital Assets not being Depreciated	569,660	386,188	569,409	1,099,035	1,139,069	1,485,223
Capital Assets being Depreciated, Net	13,701,530	13,847,084	11,691,139	10,907,776	25,392,669	24,754,860
Total Assets	17,089,742	16,834,187	14,299,595	14,040,093	31,389,337	30,874,280
DEFERRED OUTFLOWS OF RESOURCES						
Pension	122,171	393,253	36,287	116,802	158,458	510,055
Total Deferred Outflows of Resources	122,171	393,253	36,287	116,802	158,458	510,055
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	144,585	32,285	188,750	65,944	333,335	98,229
Accrued Liabilities	51,910	50,508	12,794	5,486	64,704	55,994
Due to Other Governmental Units	-	21,096	44,371	41,543	44,371	62,639
Unearned Revenue	-	-	2,000	2,000	2,000	2,000
Customer Deposits	-	-	31,021	37,440	31,021	37,440
Accrued Interest	43,515	45,686	7,120	7,412	50,635	53,098
Current Portion of Long-term Debt	535,319	480,156	86,000	80,000	621,319	560,156
Total Current Liabilities	775,329	629,731	372,056	239,825	1,147,385	869,556
<i>Noncurrent Liabilities</i>						
Compensated Absences	53,003	91,345	-	-	53,003	91,345
Net OPEB Liability	481,805	506,499	-	-	481,805	506,499
Net Pension Liability	2,848,546	3,136,727	846,067	931,661	3,694,613	4,068,388
Long-term Debt	3,387,549	3,887,880	2,641,919	2,727,919	6,029,468	6,615,799
Total Liabilities	7,546,232	8,252,182	3,860,042	3,899,405	11,406,274	12,151,587
DEFERRED INFLOWS OF RESOURCES						
Pension	215,112	117,922	63,891	35,024	279,003	152,946
Total Deferred Inflows of Resources	215,112	117,922	63,891	35,024	279,003	152,946
NET POSITION						
Net Investment in Capital Assets	10,348,324	9,865,236	9,532,629	9,198,892	19,880,953	19,064,128
<i>Restricted</i>	1,022,099	634,809	169,165	130,665	1,191,264	765,474
<i>Unrestricted</i>	(1,919,854)	(1,642,709)	710,155	892,909	(1,209,699)	(749,800)
Total Net Position	\$ 9,450,569	\$ 8,857,336	\$ 10,411,949	\$ 10,222,466	\$ 19,862,518	\$ 19,079,802

\$19,880,953 of the City's net position reflect its net investment in capital assets (e.g., land, buildings, water, and sewer systems, vehicles, and equipment) less any related debt used to acquire

those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net position restricted for highways and streets, capital projects, perpetual care, and debt service represents \$1,191,264. The remaining deficit balance of unrestricted net position was \$(1,209,699) as of June 30, 2018.

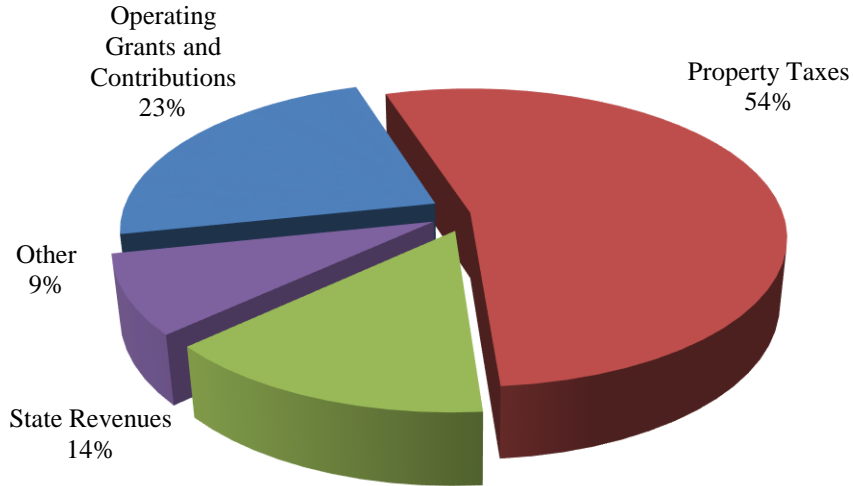
The following table presents a summary of the changes in net position for the years ended June 30, 2018 and June 30, 2017:

	Governmental Activities		Business-type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Revenue						
Program Revenues						
Charges for Services	\$ 59,465	\$ 81,815	\$ 1,445,743	\$ 1,223,120	\$ 1,505,208	\$ 1,304,935
Operating Grants and Contributions	892,668	754,740	-	-	892,668	754,740
Capital Grants and Contributions	259,522	-	580,312	-	839,834	-
Total Program Revenues	1,211,655	836,555	2,026,055	1,223,120	3,237,710	2,059,675
General Revenues						
Property Taxes	2,064,667	2,035,205	-	-	2,064,667	2,035,205
State Revenues	554,038	539,850	-	-	554,038	539,850
Other Revenue	-	61,779	-	1,023,169	-	1,084,948
Interest Income	7,836	6,109	4,569	3,893	12,405	10,002
Total General Revenues	2,626,541	2,642,943	4,569	1,027,062	2,631,110	3,670,005
Total Revenues	3,838,196	3,479,498	2,030,624	2,250,182	5,868,820	5,729,680
Expenses						
Legislative	55,458	36,603	-	-	55,458	36,603
General Government	550,662	529,685	-	-	550,662	529,685
Public Safety	953,267	943,678	-	-	953,267	943,678
Public Works	1,139,527	1,182,172	-	-	1,139,527	1,182,172
Recreation and Culture	369,744	375,872	-	-	369,744	375,872
Sewer	-	-	930,851	945,237	930,851	945,237
Water	-	-	726,858	706,493	726,858	706,493
Ice Pavilion	-	-	183,432	156,878	183,432	156,878
Interest on Long-term Debt	176,305	192,124	-	-	176,305	192,124
Total Expenses	3,244,963	3,260,134	1,841,141	1,808,608	5,086,104	5,068,742
Change in Net Position	593,233	219,364	189,483	441,574	782,716	660,938
<i>Net Position at Beginning of Period</i>	<i>8,857,336</i>	<i>8,637,972</i>	<i>10,222,466</i>	<i>9,780,892</i>	<i>19,079,802</i>	<i>18,418,864</i>
Net Position at End of Period	\$ 9,450,569	\$ 8,857,336	\$ 10,411,949	\$ 10,222,466	\$ 19,862,518	\$ 19,079,802

Governmental Activities. Governmental activities increased the City's net position by \$593,233 for the year ended June 30, 2018 compared to an increase of \$219,364 for the year ended June 30, 2017. Total revenues increased by \$358,698 and total expenses decreased by \$15,171.

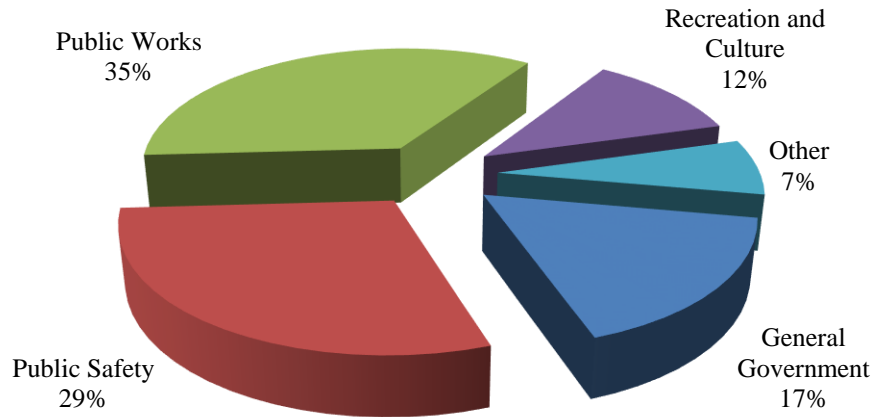
The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end:

Governmental Activities Revenues



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

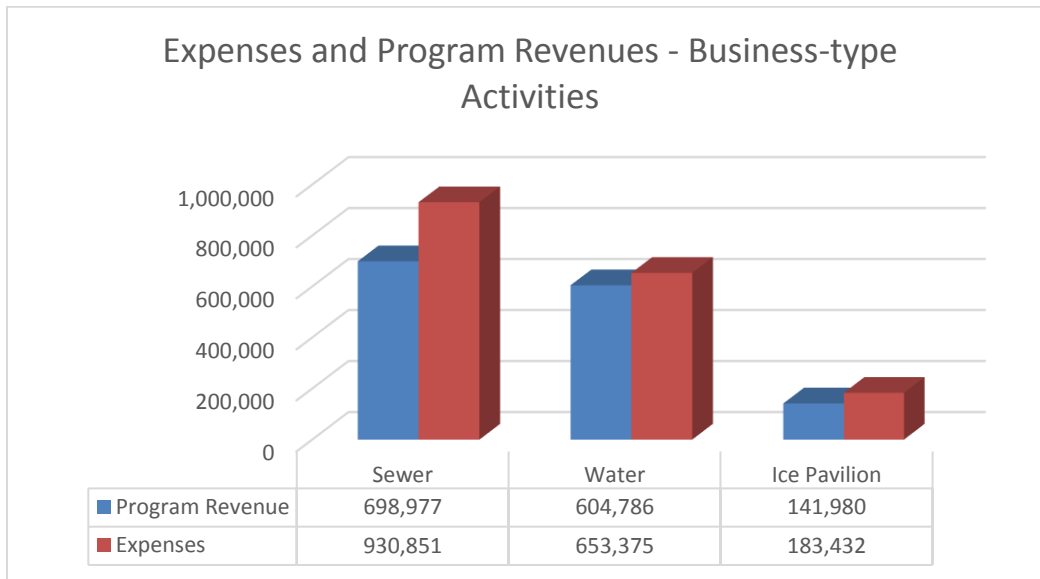
Governmental Activities Expenses



Business-type Activities. Business-type activities increased the City’s net position by \$189,483 for the year ended June 30, 2018 compared to an increase of \$441,574 for the year ended June 30, 2017.

Key components of this change are as follows:

- The ice pavilion fund had a decrease in net position of \$41,452, which was mainly due to the regular operations of the fund.
- The sewer fund had an increase in net position of \$107,331, which was mainly due to insurance proceeds of \$255,476.
- The water fund had an increase in net position of \$123,604, which was mainly due to increased charges for services.



Financial Analysis of the Government’s Funds

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

Governmental Funds

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

At June 30, 2018, the City’s governmental funds reported combined fund balances of \$2,473,902, an increase of \$126,490 in comparison with the prior year. Approximately 54% of this amount, or \$1,335,463, constitutes *unassigned fund balance*, which is available for spending at the government’s discretion. The remainder of the fund balance is either *nonspendable or restricted* to indicate that it is: 1) not in spendable form, (\$43,887 for prepaid items), 2) assigned for the festival square, \$3,914, or 3) restricted for particular purposes, \$1,022,099, or 4) committed for specific purposes, \$68,539.

General Fund - The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,335,463, while total fund balance decreased by \$27,578 to \$1,447,889. 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 61 percent of total general fund expenditures and transfers out, while total fund balance represents approximately 67 percent of that same amount.

Major Streets Fund - The major streets fund had an increase of \$218,514 to its fund balance from the prior year. The total fund balance is \$471,630, all of which is restricted. The primary reason for the increase is due to an increase in state revenue sharing.

General Fund Budgetary Highlights

Original budget compared to final budget. The City amended the amount of transfers in from \$5,000 to \$0 as well as public works from \$368,250 to \$429,000.

Final budget compared to actual results. The City had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2018:

	<u>Amended Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General Fund			
Clerk / Treasurer	\$ 184,400	\$ 186,922	\$ (2,522)
Police Department	789,410	804,919	(15,509)
Public Works - Other	332,000	336,869	(4,869)
Recreation Department	200,600	202,611	(2,011)

Capital Asset and Debt Administration

Capital Assets

The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounted to \$26,531,738 (net of accumulated depreciation). Of this amount, \$14,271,190 was for its governmental activities and \$12,260,548 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Significant capital asset additions during the year include the following:

- 2017 street construction of \$211,779
- CDBG Façade grant of \$209,522
- Construction in process of \$493,543 for capital repairs to the water and sewer systems from an electrical event.

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

Long-term Debt

Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for from a debt service fund, enterprise fund or internal service fund. Debt is classified as long-term if the debt matures in a period greater than one year. The City made principal payments of \$654,808 and issued debt of \$69,631 during the current fiscal year.

Additional information on the City's long-term debt can be found in note 7 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The 2017-2018 budget for the general fund projects stable revenues for the year, \$2,187,800 in total compared to \$2,187,800 in total expenditures and transfers out. This budget closely compares to the 2018 year-end total revenues of \$2,149,139, total expenditures of \$2,137,318, and transfers out of \$39,399.

The 2018-2019 budget leaves the City with no change in fund balance at year-end, showing the City's efforts to match revenues with expenditures. The City of Cheboygan will continue to monitor closely its capital needs, debt service requirements, and upcoming projects as they relate to the budget and projected revenue streams.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

BASIC FINANCIAL STATEMENTS

City of Cheboygan
Statement of Net Position
June 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash and Investments	\$ 2,338,147	\$ 1,042,640	\$ 3,380,787	\$ 689,160
Accounts Receivable	209,650	502,406	712,056	8,643
Taxes Receivable	11,817	--	11,817	--
Due from Other Governmental Units	215,051	324,836	539,887	--
Prepaid Items	43,887	--	43,887	19,352
Total Current Assets	2,818,552	1,869,882	4,688,434	717,155
<i>Noncurrent Assets</i>				
Restricted Cash	--	169,165	169,165	35
Capital Assets not being Depreciated	569,660	569,409	1,139,069	170,559
Capital Assets being Depreciated, Net	13,701,530	11,691,139	25,392,669	495,835
Total Assets	17,089,742	14,299,595	31,389,337	1,383,584
DEFERRED OUTFLOWS OF RESOURCES				
Pension	122,171	36,287	158,458	--
Total Deferred Outflows of Resources	122,171	36,287	158,458	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	144,585	188,750	333,335	19,459
Accrued Liabilities	51,910	12,794	64,704	8,582
Customer Deposits	--	31,021	31,021	9,841
Accrued Interest	43,515	7,120	50,635	--
Current Portion of Long-term Debt	535,319	86,000	621,319	--
Due to Other Governmental Units	--	44,371	44,371	--
Unearned Revenue	--	2,000	2,000	4,349
Total Current Liabilities	775,329	372,056	1,147,385	42,231
<i>Noncurrent Liabilities</i>				
Long-term Debt	3,387,549	2,641,919	6,029,468	--
Compensated Absences	53,003	--	53,003	1,036
Net Pension Liability	2,848,546	846,067	3,694,613	--
Net OPEB Liability	481,805	--	481,805	--
Total Liabilities	7,546,232	3,860,042	11,406,274	43,267
DEFERRED INFLOWS OF RESOURCES				
Pension	215,112	63,891	279,003	--
Total Deferred Inflows of Resources	215,112	63,891	279,003	--
NET POSITION				
Net Investment in Capital Assets	10,348,324	9,532,629	19,880,953	666,394
<i>Restricted for:</i>				
Debt Service	86,674	169,165	255,839	--
Cemetery	167,686	--	167,686	--
Highways and Streets	767,739	--	767,739	--
Housing Assistance	--	--	--	35
<i>Unrestricted</i>	(1,919,854)	710,155	(1,209,699)	673,888
Total Net Position	\$ 9,450,569	\$ 10,411,949	\$ 19,862,518	\$ 1,340,317

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

**City of Cheboygan
Statement of Activities
For the Year Ended June 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
Primary Government								
Governmental Activities:								
Legislative	\$ 55,458	\$ --	\$ --	\$ --	\$ (55,458)	\$ --	\$ (55,458)	\$ --
General Government	550,662	41,824	34,464	--	(474,374)	--	(474,374)	--
Public Safety	953,267	10,838	19,502	50,000	(872,927)	--	(872,927)	--
Public Works	1,139,527	700	795,499	--	(343,328)	--	(343,328)	--
Recreation and Culture	369,744	6,103	43,203	--	(320,438)	--	(320,438)	--
Community and Economic Development	--	--	--	209,522	209,522	--	209,522	--
Interest on Long-term Debt	176,305	--	--	--	(176,305)	--	(176,305)	--
Total Governmental Activities	3,244,963	59,465	892,668	259,522	(2,033,308)	--	(2,033,308)	--
Business-type Activities:								
Ice Pavilion (Nonmajor)	183,432	141,980	--	--	--	(41,452)	(41,452)	--
Sewer	930,851	698,977	--	336,685	--	104,811	104,811	--
Water	726,858	604,786	--	243,627	--	121,555	121,555	--
Total Business-type Activities	1,841,141	1,445,743	--	580,312	--	184,914	184,914	--
Total Primary Government	\$ 5,086,104	\$ 1,505,208	\$ 892,668	\$ 839,834	\$ (2,033,308)	\$ 184,914	\$ (1,848,394)	--
Component Units								
Brownfield Redevelopment Authority	\$ 17,175	\$ --	\$ --	\$ --	--	--	--	(17,175)
Downtown Development Authority	215,828	--	33,464	--	--	--	--	(182,364)
Housing Commission (FYE 03/31/2018)	589,740	103,480	480,808	--	--	--	--	(5,452)
Total Component Units	\$ 822,743	\$ 103,480	\$ 514,272	\$ --	--	--	--	(204,991)
General Purpose Revenues:								
Property Taxes					2,064,667	--	2,064,667	233,965
Interest Income					7,836	4,569	12,405	589
State Revenues					554,038	--	554,038	--
Other Revenue					--	--	--	6,967
Total General Revenues					2,626,541	4,569	2,631,110	241,521
Change in Net Position					593,233	189,483	782,716	36,530
<i>Net Position at Beginning of Period (Restated, Note 15)</i>					8,857,336	10,222,466	19,079,802	1,303,787
Net Position at End of Period					\$ 9,450,569	\$ 10,411,949	\$ 19,862,518	\$ 1,340,317

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

**City of Cheboygan
Balance Sheet
Governmental Funds
June 30, 2018**

	<u>Special Revenue</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street Fund</u>	<u>Other Governmental Funds</u>	
ASSETS				
Cash and Investments	\$ 1,277,885	\$ 391,602	\$ 525,436	\$ 2,194,923
Accounts Receivable	--	--	209,522	209,522
Taxes Receivable	8,852	--	2,965	11,817
Due from Other Governmental Units	101,864	80,967	32,220	215,051
Prepaid Items	43,887	--	--	43,887
Due from Other Funds	153,346	--	--	153,346
<i>Total Assets</i>	<u>\$ 1,585,834</u>	<u>\$ 472,569</u>	<u>\$ 770,143</u>	<u>\$ 2,828,546</u>
LIABILITIES				
Accounts Payable	\$ 79,418	\$ --	\$ 58,909	\$ 138,327
Accrued Liabilities	49,675	939	540	51,154
Due to Other Funds	--	--	153,346	153,346
<i>Total Liabilities</i>	<u>129,093</u>	<u>939</u>	<u>212,795</u>	<u>342,827</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	8,852	--	2,965	11,817
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>137,945</u>	<u>939</u>	<u>215,760</u>	<u>354,644</u>
FUND BALANCE				
Nonspendable	43,887	--	--	43,887
Restricted	--	471,630	550,469	1,022,099
Committed	68,539	--	--	68,539
Assigned	--	--	3,914	3,914
Unassigned	1,335,463	--	--	1,335,463
<i>Total Fund Balance</i>	<u>1,447,889</u>	<u>471,630</u>	<u>554,383</u>	<u>2,473,902</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 1,585,834</u>	<u>\$ 472,569</u>	<u>\$ 770,143</u>	<u>\$ 2,828,546</u>

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

City of Cheboygan
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018

Total Fund Balance - Governmental Funds	\$	2,473,902
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.		527,087
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, the interest expenditure is reported when due.		(42,955)
General government capital assets of \$24,315,854, net of accumulated depreciation of \$10,679,972, are not financial resources and, accordingly, are not reported in the funds.		13,635,882
Compensated absences are not due in and payable in the current period and, therefore, are not reported in the funds.		(53,003)
Long-term receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.		11,817
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(3,823,845)
Net OPEB liabilities, and the OPEB related deferrals, are not due and payable in the current period and, therefore, are not reported in the funds.		(481,805)
Net pension liabilities, and the pension related deferrals, are not due and payable in the current period and, therefore, are not reported in the funds.		(2,796,511)
Total Net Position - Governmental Funds	\$	<u>9,450,569</u>

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

City of Cheboygan
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

	<u>Special Revenue</u>			
	<u>General</u>	<u>Major Street Fund</u>	<u>Other Governmental Funds</u>	
Revenues				
Property Taxes	\$ 1,491,593	\$ --	\$ 571,519	\$ 2,063,112
Licenses and Permits	4,100	--	--	4,100
State Revenues	608,004	561,812	210,722	1,380,538
Federal Revenues	--	--	209,522	209,522
Local Revenues	--	--	43,203	43,203
Charges for Services	25,214	--	11,500	36,714
Other Revenue	18,401	--	297	18,698
Interest Income	1,827	--	28,927	30,754
Total Revenues	<u>2,149,139</u>	<u>561,812</u>	<u>1,075,690</u>	<u>3,786,641</u>
Expenditures				
Legislative	55,458	--	--	55,458
General Government	478,565	--	33,886	512,451
Public Safety	916,273	--	--	916,273
Public Works	433,533	254,679	153,078	841,290
Recreation and Culture	245,418	--	1,572	246,990
Capital Outlay	8,071	--	443,351	451,422
Debt Service - Principal	--	--	461,155	461,155
Debt Service - Interest	--	--	175,112	175,112
Total Expenditures	<u>2,137,318</u>	<u>254,679</u>	<u>1,268,154</u>	<u>3,660,151</u>
Excess of Revenues Over (Under) Expenditures	<u>11,821</u>	<u>307,133</u>	<u>(192,464)</u>	<u>126,490</u>
Other Financing Sources (Uses)				
Transfers In	--	--	144,606	144,606
Transfers Out	(39,399)	(88,619)	(16,588)	(144,606)
Net Other Financing Sources (Uses)	<u>(39,399)</u>	<u>(88,619)</u>	<u>128,018</u>	<u>--</u>
Net Change in Fund Balance	<u>(27,578)</u>	<u>218,514</u>	<u>(64,446)</u>	<u>126,490</u>
<i>Fund Balance at Beginning of Period</i>	1,475,467	253,116	618,829	2,347,412
Fund Balance at End of Period	<u>\$ 1,447,889</u>	<u>\$ 471,630</u>	<u>\$ 554,383</u>	<u>\$ 2,473,902</u>

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

City of Cheboygan
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	126,490
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.		41,247
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 depreciation expense of \$477,376 is in excess of capital outlay expenditures of \$451,422.		(25,954)
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.		1,848
Change to compensated absences are not shown in the fund financial statements. The net effect of the current year decrease is to increase net position.		38,342
The change in OPEB liability, and the OPEB related deferrals, does not require the use of current resources and, accordingly, is not reported in the governmental funds.		24,694
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the current year change in unavailable revenues within the fund statements.		1,555
Current year long-term debt principal payments on are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements. This represents principal payments on long-term debt of \$461,155.		461,155
The change in net pension liability, and the pension related deferrals, does not require the use of current resources and, accordingly, is not reported in the governmental funds.		(76,144)
Changes in Net Position - Governmental Funds	\$	<u>593,233</u>

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

**City of Cheboygan
Statement of Net Position
Proprietary Funds
June 30, 2018**

	Business-type Activities - Enterprise Funds			Total Enterprise Funds	Governmental Activities Internal Service Funds
	Sewer	Water	Ice Pavilion (Nonmajor)		
ASSETS					
<i>Current Assets</i>					
Cash and Investments	\$ 689,809	\$ 323,252	\$ 29,579	\$ 1,042,640	\$ 143,224
Accounts Receivable	281,700	220,706	--	502,406	128
Due from Other Governmental Units	81,209	243,627	--	324,836	--
Total Current Assets	1,052,718	787,585	29,579	1,869,882	143,352
<i>Noncurrent Assets</i>					
Restricted Cash	--	169,165	--	169,165	--
Capital Assets not being Depreciated	227,622	341,787	--	569,409	--
Capital Assets being Depreciated, Net	5,228,059	6,393,277	69,803	11,691,139	635,308
Total Assets	6,508,399	7,691,814	99,382	14,299,595	778,660
DEFERRED OUTFLOWS OF RESOURCES					
Pension	15,846	15,687	4,754	36,287	6,021
Total Deferred Outflows of Resources	15,846	15,687	4,754	36,287	6,021
LIABILITIES					
<i>Current Liabilities</i>					
Accounts Payable	69,718	118,736	296	188,750	6,258
Accrued Liabilities	10,097	2,302	395	12,794	756
Customer Deposits	11,894	19,127	--	31,021	--
Accrued Interest	--	7,120	--	7,120	560
Current Portion of Long-term Debt	--	86,000	--	86,000	54,770
Due to Other Governmental Units	44,371	--	--	44,371	--
Unearned Revenue	--	--	2,000	2,000	--
Total Current Liabilities	136,080	233,285	2,691	372,056	62,344
<i>Noncurrent Liabilities</i>					
Long-term Debt	--	2,641,919	--	2,641,919	44,253
Net Pension Liability	369,461	365,768	110,838	846,067	140,395
Total Liabilities	505,541	3,240,972	113,529	3,860,042	246,992
DEFERRED INFLOWS OF RESOURCES					
Pension	27,900	27,621	8,370	63,891	10,602
Total Deferred Inflows of Resources	27,900	27,621	8,370	63,891	10,602
NET POSITION					
Net Investment in Capital Assets	5,455,681	4,007,145	69,803	9,532,629	536,285
Restricted for Debt Service	--	169,165	--	169,165	--
<i>Unrestricted</i>	535,123	262,598	(87,566)	710,155	(9,198)
Total Net Position	\$ 5,990,804	\$ 4,438,908	\$ (17,763)	\$ 10,411,949	\$ 527,087

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

City of Cheboygan
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds			Total Enterprise Funds	Governmental Activities Internal Service Funds
	Sewer	Water	Ice Pavilion (Nonmajor)		
Operating Revenues					
Charges for Services	\$ 698,977	\$ 604,786	\$ 141,980	\$ 1,445,743	\$ 322,040
Total Operating Revenues	698,977	604,786	141,980	1,445,743	322,040
Operating Expenses					
Personnel Services	367,272	331,605	69,261	768,138	88,907
Contracted Services	61,427	55,962	30,408	147,797	6,238
Insurance	22,141	7,844	400	30,385	13,550
Equipment Rental	31,200	18,200	1,520	50,920	214
Supplies	79,671	--	27,087	106,758	10,734
Utilities	135,609	54,124	44,402	234,135	65,422
Repair and Maintenance	--	--	--	--	55,693
Depreciation	232,276	183,205	10,354	425,835	86,994
Other	1,255	2,435	--	3,690	--
Total Operating Expenses	930,851	653,375	183,432	1,767,658	327,752
Operating Income (Loss)	(231,874)	(48,589)	(41,452)	(321,915)	(5,712)
Non-Operating Revenues (Expenses)					
Interest Income	2,520	2,049	--	4,569	--
Capital Grant	81,209	243,627	--	324,836	50,000
Interest Expense	--	(73,483)	--	(73,483)	(3,041)
Net Non-Operating Revenues (Expenses)	83,729	172,193	--	255,922	46,959
Income Before Contributions and Transfers	(148,145)	123,604	(41,452)	(65,993)	41,247
Insurance Proceeds	255,476	--	--	255,476	--
Change In Net Position	107,331	123,604	(41,452)	189,483	41,247
<i>Net Position at Beginning of Period</i>	5,883,473	4,315,304	23,689	10,222,466	485,840
Net Position at End of Period	\$ 5,990,804	\$ 4,438,908	\$ (17,763)	\$ 10,411,949	\$ 527,087

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

**City of Cheboygan
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018**

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Nonmajor - Ice Pavilion	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities					
Receipts from Customers	\$ 608,463	\$ 308,633	\$ 141,980	\$ 1,059,076	\$ 322,040
Payments to Suppliers	(291,899)	(59,030)	(103,541)	(454,470)	(155,079)
Payments to Employees	(350,098)	(320,739)	(66,205)	(737,042)	(84,949)
Net Cash Provided (Used) by Operating Activities	(33,534)	(71,136)	(27,766)	(132,436)	82,012
Cash Flows from Noncapital Financing Activities					
Insurance Proceeds	255,476	-	-	255,476	-
Net Cash Provided by Noncapital Financing Activities	255,476	-	-	255,476	-
Cash Flows from Capital and Related Financing Activities					
Net Capital Asset Activity	(392,995)	(286,577)	-	(679,572)	(150,866)
Capital Grant	81,209	243,627	-	324,836	50,000
Installment Purchase Agreement Issued	-	-	-	-	69,631
Interest Payments	-	(73,775)	-	(73,775)	(3,364)
Principal Payments	-	(80,000)	-	(80,000)	(53,644)
Net Cash Used by Investing Activities	(311,786)	(196,725)	-	(508,511)	(88,243)
Cash Flows Provided by Investing Activities					
Interest Received	2,520	2,049	-	4,569	-
Net Cash Provided by Investing Activities	2,520	2,049	-	4,569	-
Net Decrease in Cash and Cash Equivalents	(87,324)	(265,812)	(27,766)	(380,902)	(6,231)
Cash and Cash Equivalents Beginning of Period	777,133	758,229	57,345	1,592,707	149,455
Cash and Cash Equivalents End of Period	\$ 689,809	\$ 492,417	\$ 29,579	\$ 1,211,805	\$ 143,224

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

**City of Cheboygan
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018**

	Business-type Activities - Enterprise Funds				Governmental
	Sewer	Water	Nonmajor - Ice Pavilion	Total Enterprise Funds	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating Income (Loss)	\$ (231,874)	\$ (48,589)	\$ (41,452)	\$ (321,915)	\$ (5,712)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:					
Cash from Operating Activities:					
Depreciation and Amortization	232,276	183,205	10,354	425,835	86,994
Changes in Assets and Liabilities:					
Receivables	(9,305)	(52,526)	-	(61,831)	-
Due from Other Governmental Units	(81,209)	(243,627)	-	(324,836)	-
Accounts Payable	43,895	78,635	276	122,806	(3,228)
Accrued Liabilities	6,787	581	(60)	7,308	11
Customer Deposits	(7,319)	900	-	(6,419)	-
Due to Other Governmental Units	2,828	-	-	2,828	-
Net Pension Liability	10,387	10,285	3,116	23,788	3,947
<i>Net Cash Provided (Used) by Operating Activities</i>	\$ (33,534)	\$ (71,136)	\$ (27,766)	\$ (132,436)	\$ 82,012

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

City of Cheboygan
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2018

	Agency
ASSETS	
Cash and Investments	\$ 15,116
<i>Total Assets</i>	15,116
LIABILITIES	
Due to Other Governmental Units	15,116
<i>Total Liabilities</i>	\$ 15,116

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

City of Cheboygan
Combining Statement of Net Position
Component Units
June 30, 2018

	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission (FYE 03/31/2018)	Total Component Units
ASSETS				
<i>Current Assets</i>				
Cash and Investments	\$ 23,998	\$ 207,812	\$ 457,350	\$ 689,160
Accounts Receivable	--	--	8,643	8,643
Prepaid Items	--	800	18,552	19,352
Total Current Assets	23,998	208,612	484,545	717,155
<i>Noncurrent Assets</i>				
Restricted Cash	--	--	35	35
Capital Assets not being Depreciated	--	150,000	20,559	170,559
Capital Assets being Depreciated, Net	--	417,155	78,680	495,835
Total Assets	23,998	775,767	583,819	1,383,584
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	--	8,687	10,772	19,459
Accrued Liabilities	--	1,031	7,551	8,582
Customer Deposits	--	--	9,841	9,841
Unearned Revenue	--	3,900	449	4,349
Total Current Liabilities	--	13,618	28,613	42,231
<i>Noncurrent Liabilities</i>				
Compensated Absences	--	--	1,036	1,036
Total Liabilities	--	13,618	29,649	43,267
NET POSITION				
Net Investment in Capital Assets	--	567,155	99,239	666,394
<i>Restricted for:</i>				
Housing Assistance	--	--	35	35
<i>Unrestricted</i>	23,998	194,994	454,896	673,888
Total Net Position	\$ 23,998	\$ 762,149	\$ 554,170	\$ 1,340,317

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

City of Cheboygan
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2018

	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission (FYE 03/31/2018)	Total Component Units
Expenses				
Community and Economic Development	\$ 17,175	\$ 215,078	\$ --	\$ 232,253
Housing Commission	--	--	589,740	589,740
Interest Expense	--	750	--	750
Total Expenses	17,175	215,828	589,740	822,743
Program Revenues				
Charges for Services	--	--	103,480	103,480
Operating Grants and Contributions	--	33,464	480,808	514,272
Capital Grants and Contributions	--	--	--	--
Total Program Revenues	--	33,464	584,288	617,752
Net Program Revenues (Expenses)	(17,175)	(182,364)	(5,452)	(204,991)
General Revenue				
Property Taxes	23,998	209,967	--	233,965
Other Revenue	--	--	6,967	6,967
Interest Income	--	--	589	589
Total General Revenues	23,998	209,967	7,556	241,521
Change in Net Position	6,823	27,603	2,104	36,530
<i>Net Position at Beginning of Period</i>	17,175	734,546	552,066	1,303,787
Net Position at End of Period	\$ 23,998	\$ 762,149	\$ 554,170	\$ 1,340,317

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

NOTES TO FINANCIAL STATEMENTS

City of Cheboygan

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

Discretely Presented Component Units

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

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

Cheboygan Housing Commission (the "Commission") – The Commission was formed by the City of Cheboygan under State of Michigan Public Act 18 of 1933. The Commission operates under a Board of Commissioners appointed by the City Mayor. Members of the Commission Board may be removed by the City only for cause. The Commission determines its own budget (subject to federal approval), sets rental rates, and may issue debt under its own name. The City is not responsible for deficits or liabilities of the Commission. However, the Commission makes annual "payments in lieu of taxes" to the City. Therefore, a financial benefit exists for the City, thereby requiring that the Commission be reported as a discretely presented component unit of the City.

City of Cheboygan

Notes to the Financial Statements

The Commission has a March 31 year-end. The component unit is audited separately from the City and complete financial statements may be obtained from the Commission's administrative office. 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 non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these financial statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: 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 revenue are reported instead as general revenue.

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 funds, fiduciary funds, and component unit financial statements. Revenue is 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within

City of Cheboygan

Notes to the Financial Statements

the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period.

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

The ***sewer fund*** accounts for the operation and maintenance of the City's sewage disposal and treatment system.

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

Additionally, the City reports the following fund types:

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

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

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

Permanent funds account for assets that are permanently restricted for the perpetual care of the City's cemetery.

City of Cheboygan

Notes to the Financial Statements

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

The **internal service fund** accounts for the operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

The **agency fund** is custodial in nature and does not present results of operations or have a measurement focus. These funds are used to account for assets that the City holds for others in an agency capacity (such as taxes collected for other governments).

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

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

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

Property Tax Revenue

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

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

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

City of Cheboygan

Notes to the Financial Statements

Assets, Liabilities, Deferred Inflows, Deferred Outflows and Net Position or Equity

Bank Deposits and Investments

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

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

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

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

Receivables and Payables

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

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

Amounts due from other governmental units include amounts due from the State for revenue sharing as well as grantors for specific programs and capital projects. Program grants and capital grants for capital assets are recorded as receivables and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are reported as unearned revenues.

City of Cheboygan

Notes to the Financial Statements

Restricted Assets

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

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

Capital Assets

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets having a useful life in excess of two years and whose costs exceed \$5,000. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are valued at acquisition cost.

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

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

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

	<u>Years</u>
Land Improvements	10 - 40
Buildings and Improvements	15 - 40
Machinery and Equipment	3 - 30
Infrastructure	30
Sewer and Water Systems	7 - 75

City of Cheboygan

Notes to the Financial Statements

Compensated Absences (Vacation and Sick Leave)

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

Long-term Obligations

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

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

Retiree Health Care Costs

The City records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's Retiree Health Care Plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. As of June 30, 2018, the City has recorded a net OPEB Liability. Investments are reported at fair value.

Pensions

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

Deferred Outflows / Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a

City of Cheboygan

Notes to the Financial Statements

consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City has several items that qualify for reporting in these categories and are reported in the government-wide financial statement of net position. These items relate to the City's net pension liability. The net pension liability amounts are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

Additionally, the City has a deferred inflow, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: receivables for revenues that are not considered to be available to liquidate liabilities of the current period and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 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 Assumption

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 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.

City of Cheboygan

Notes to the Financial Statements

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. Nonspendable fund balance would be equal to inventory, prepaid items, and the nonspendable portion of endowments. *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 Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) 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 restricted or committed. The City Council 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.

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 Council.

Interfund Transactions

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions

City of Cheboygan

Notes to the Financial Statements

that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Budgetary Information

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

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

Note 3 - Statutory Compliance

Excess of Expenditures over Appropriations in Budgetary Funds

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the City were adopted on the activity level basis for all governmental funds.

City of Cheboygan

Notes to the Financial Statements

The City had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2018:

	Amended Budget	Actual Expenditures	Variance
General Fund			
Clerk / Treasurer	\$ 184,400	\$ 186,922	\$ (2,522)
Police Department	789,410	804,919	(15,509)
Public Works - Other	332,000	336,869	(4,869)
Recreation Department	200,600	202,611	(2,011)

At June 30, 2018, the City had the following deficit unrestricted net positions:

	Unrestricted Net Position
Governmental Activities	\$ (1,919,854)
Internal Service Fund	
Equipment	(9,198)
Business-type Activities	
Ice Pavilion	(87,566)

Note 4 - Cash and Investments

The captions on the government-wide and fund statements relating to cash and investments are as follows:

	Primary Government	Component Units	Fiduciary Funds	Totals
Cash and Cash Equivalents	\$ 3,380,787	\$ 689,160	\$ 15,116	\$ 4,085,063
Restricted Cash and Equivalents	169,165	-	-	169,165
Total	\$ 3,549,952	\$ 689,160	\$ 15,116	\$ 4,254,228

Deposits and investments consisted of the following at June 30, 2018:

Cash on hand	\$ 1,000
Demand deposits (checking and savings accounts)	4,096,011
Certificates of deposits (due more than 1 year)	157,217
Total	\$ 4,254,228

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be returned. State law does not require and the City does not have a policy for

City of Cheboygan

Notes to the Financial Statements

deposit custodial credit risk. As of year-end, \$3,403,728 of the City's bank balance of \$3,922,248 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. The City does not have any investments for which ratings are required.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 the City's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in "statutory authority" below. The investment policy does not have specific limits in excess of state law on investment credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City's investment policy does not have specific limits in excess of State law on concentration of credit risk. All investments held at year-end are reported above.

Fair Value Measurement. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City directly held certificates of deposit totaling \$157,089 which were included as investments on the financial statements. However, the certificates of deposit were included in the bank deposit section of this footnote disclosure as they were held directly by the City.

Note 5 - Interfund Transactions

For the year ended June 30, 2018, interfund transfers consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental Funds	General Fund	\$ 39,399
Nonmajor Governmental Funds	Major Streets	88,619
Nonmajor Governmental Funds	Nonmajor Governmental Funds	16,588

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

As of June 30, 2018, interfund balances were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 153,346	\$ -
Nonmajor Governmental Funds	-	153,346

Note 6 - Capital Assets

Governmental capital asset activity for the year was as follows:

Governmental Activities	June 30, 2017	Additions	Reductions	June 30, 2018
Capital assets not being depreciated				
Land	\$ 338,088	\$ -	\$ -	\$ 338,088
Construction in Process	48,100	231,572	48,100	231,572
Total capital assets, not being depreciated	386,188	231,572	48,100	569,660
Capital assets being depreciated				
Land Improvements	3,827,589	-	-	3,827,589
Buildings and Improvements	6,275,377	-	-	6,275,377
Machinery and Equipment	3,743,883	158,938	-	3,902,821
Infrastructure	12,901,192	259,879	-	13,161,071
Total capital assets being depreciated	26,748,041	418,817	-	27,166,858
Less accumulated depreciation				
Land Improvements	3,079,566	64,725		3,144,291
Buildings and Improvements	2,892,288	156,230	-	3,048,518
Machinery and Equipment	3,125,305	95,542	-	3,220,847
Infrastructure	3,803,798	247,874	-	4,051,672
Total accumulated depreciation	12,900,957	564,371	-	13,465,328
Net capital assets being depreciated	13,847,084	(145,554)	-	13,701,530
Governmental Activities Capital Assets, Net	\$ 14,233,272	\$ 86,018	\$ 48,100	\$ 14,271,190

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Business-type capital asset activity for the year was as follows:

Business-type Activities	June 30, 2017	Additions	Reductions	June 30, 2018
Capital assets not being depreciated				
Land	\$ 2,250	\$ -	\$ -	\$ 2,250
Construction in Process	1,096,785	493,543	1,023,169	567,159
Total capital assets not being depreciated	<u>1,099,035</u>	<u>493,543</u>	<u>1,023,169</u>	<u>569,409</u>
Capital assets being depreciated				
Buildings and Improvements	2,365,781	-	-	2,365,781
Machinery and Equipment	3,204,238	-	-	3,204,238
Sewer System	7,699,593	919,804	-	8,619,397
Water System	9,433,288	289,394	-	9,722,682
Ice Pavilion	103,534	-	-	103,534
Total capital assets being depreciated	<u>22,806,434</u>	<u>1,209,198</u>	<u>-</u>	<u>24,015,632</u>
Less accumulated depreciation				
Buildings and Improvements	2,278,372	59,917	-	2,338,289
Machinery and Equipment	2,989,412	32,286	-	3,021,698
Sewer System	3,461,295	140,073	-	3,601,368
Water System	3,146,202	183,205	-	3,329,407
Ice Pavilion	23,377	10,354	-	33,731
Total accumulated depreciation	<u>11,898,658</u>	<u>425,835</u>	<u>-</u>	<u>12,324,493</u>
Net capital assets being depreciated	<u>10,907,776</u>	<u>783,363</u>	<u>-</u>	<u>11,691,139</u>
Business-type Activities Capital Assets, Net	<u>\$ 12,006,811</u>	<u>\$ 783,363</u>	<u>\$ -</u>	<u>\$ 12,260,548</u>

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

Governmental Activities

General Government	\$ 47,984
Public Safety	30,502
Public Works	277,170
Recreation and Culture	121,721
Internal Service Funds	86,994
Total Governmental Activities	<u>\$ 564,371</u>

Business-type Activities

Ice Pavilion	\$ 10,354
Water	183,205
Sewer	232,276
Total Business-type Activities	<u>\$ 425,835</u>

City of Cheboygan

Notes to the Financial Statements

Discretely presented component unit

Capital asset activity for the DDA component unit for the year ended June 30, 2018 was as follows:

Downtown Development Authority	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>
Capital assets not being depreciated				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Capital assets being depreciated				
Buildings and improvements	139,974	-	-	139,974
Land Improvements	444,567	-	-	444,567
Total capital assets being depreciated	584,541	-	-	584,541
Less accumulated depreciation				
Buildings and Improvements	28,864	4,010	-	32,874
Land Improvements	116,730	17,782	-	134,512
Total accumulated depreciation	145,594	21,792	-	167,386
Capital Assets, Net	<u>\$ 588,947</u>	<u>\$ (21,792)</u>	<u>\$ -</u>	<u>\$ 567,155</u>

Note 7 - Long-term Debt

Long-term debt descriptions are as follows:

Governmental Activities

1997 Rural Economic Development Bonds, due in annual installments ranging from \$38,000 to \$108,000 through February 2037, interest at 4.5% payable semi-annually

2004 General Obligation Bonds due in annual installments ranging from \$65,000 to \$105,000 through May 2023, interest ranging from 4.15% to 5.15% payable semi-annually

2006 General Obligation Unlimited Tax Refunding Bonds, due in annual installments ranging from \$170,000 to \$265,000 through May 2022, interest ranging from 3.75% to 4.00% payable semi-annually

2007 General Obligation Capital Improvement Bonds, due in annual installments ranging from \$20,000 to \$40,000 through May 2027, in% to 4.13% payable semi-annually

2009 Michigan Transportation Fund Bonds due in annual installments ranging from \$20,000 to \$30,000 through May 2024, interest ranging from 3.50% to 4.50%, payable semi-annually

2017 Michigan Transportation Fund Bonds due in annual installments ranging from \$25,000 to \$30,000 through May 2027, interest ranging charged at 3.00%.

City of Cheboygan

Notes to the Financial Statements

2012 Installment Purchase Agreement - Festival Square, due in annual payments ranging from \$57,124 to \$58,922 through May 2022 including interest charged at 2.84%

2015 Installment Purchase Agreement - Port of Cheboygan Land, due in 60 monthly payments ranging from \$1,166 to \$1,313 through June 2020, interest charged at 3.0%, with a final balloon payment of the balance of principal due July 2020

Internal Service Fund

2006 Act 99 Energy Equipment note payable, due in semi-annual payments ranging from \$48,634 to \$53,474 through March 2016 including interest charged at 3.98%

2011 Street Sweeper Note Payable, due in monthly payments of \$1,574 through June 2021 including interest charged at 4.51%

2017 Street Sweeper Note Payable, due in monthly payments of \$2,916 through 2019 including interest

1997 Ice Resurfacers Note Payable, due in annual payments of \$2,939 through July 2022 including interest charged at 3.75%

Business-type Activities

2007 Water Supply System Revenue Bonds, due in annual installments ranging from \$20,000 to \$40,000 through May 2027, interest at 4.25% to 4.63%, payable semi-annually

2011 Water Supply System Revenue Bonds, due in annual installments ranging from \$10,919 to \$110,000 through June 2049, interest at 2.38% payable semi-annually

City of Cheboygan

Notes to the Financial Statements

Long-term debt activity for the year ended June 30, 2018, was as follows:

Governmental Activities	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018	Due Within One Year
Bonded Debt					
1997 Rural Economic Development Bonds	\$ 1,415,000	\$ -	\$ 45,000	\$ 1,370,000	\$ 47,000
2004 General Obligation Bonds	655,000	-	80,000	575,000	85,000
2006 General Obligation Unlimited Tax Refunding Bonds	1,170,000	-	210,000	960,000	220,000
2007 General Obligation Capital Improvement Bonds	310,000	-	25,000	285,000	25,000
2009 Michigan Transportation Fund Bonds	190,000	-	25,000	165,000	25,000
2017 Michigan Transportation Fund Bonds	280,000	-	26,155	253,845	26,549
Total Bonded Debt	4,020,000	-	411,155	3,608,845	428,549
Installment Purchase Agreements					
2012 Installment Purchase Agreement - Festival Square	265,000	-	50,000	215,000	52,000
2011 Street Sweeper Note Payable	69,860	-	16,566	53,303	17,149
2017 Wacker Mini-Excavator	-	69,631	34,642	34,989	34,989
1997 Ice Resurfacers Note Payable	13,176	-	2,445	10,731	2,632
Total Installment Purchase Agreements	348,036	69,631	103,653	314,023	106,770
Total Bonded Debt and Installment Purchase Agreements	4,368,036	69,631	514,808	3,922,868	535,319
Compensated Absences	91,345	-	38,343	53,002	-
Total Governmental Activities	\$ 4,459,381	\$ 69,631	\$ 553,151	\$ 3,975,870	\$ 535,319
Business-type Activities					
2007 Water Supply System Revenue Bonds	\$ 340,000	\$ -	\$ 25,000	\$ 315,000	\$ 30,000
2011 Water Supply System Revenue Bonds	2,467,919	-	55,000	2,412,919	56,000
Total Business-type Activities	\$ 2,807,919	\$ -	\$ 80,000	\$ 2,727,919	\$ 86,000
Component Unit - DDA					
2009 Downtown Development Authority Tax Increment Bonds	\$ 60,000	\$ -	\$ 60,000	\$ -	\$ -

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2018 are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 535,319	\$ 159,245	\$ 694,564	\$ 86,000	\$ 71,375	\$ 157,375
2020	519,227	139,278	658,505	87,000	68,732	155,732
2021	548,480	118,345	666,825	89,000	66,068	155,068
2022	565,601	96,077	661,678	95,000	63,353	158,353
2023	244,187	78,387	322,574	96,000	60,396	156,396
2024-2028	718,054	260,310	978,364	484,000	254,445	738,445
2029-2033	399,000	152,463	551,463	371,000	195,476	566,476
2034-2038	393,000	53,821	446,821	415,000	149,380	564,380
2039-2043	-	-	-	468,000	97,652	565,652
2044-2048	-	-	-	526,000	39,366	565,366
2049-2053	-	-	-	10,919	260	11,179
Totals	\$ 3,922,868	\$ 1,057,926	\$ 4,980,794	\$ 2,727,919	\$ 1,066,503	\$ 3,794,422

City of Cheboygan

Notes to the Financial Statements

Note 8 - Defined Benefit Pension Plan

Defined Benefit Pension Plan

Benefits Provided

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

Retirement benefits for employees are calculated as follows:

Division	Benefit Multiplier	Benefit Maximum	Final Average Compensation (Years)	Normal Retirement Age	Unreduced Benefit (Age/Years of Service)	Reduced Benefit (Age/Years of Service)	Vesting (Years)
AFCSME #25 - Closed	2.50%	80%	3	60	55/25	50/25 or 55/15	10
Public Safety - Closed	2.50%	80%	3	60	50/25	55/15	10
Non Union - Closed	2.50%	80%	5	60	55/25	50/25 or 55/15	10
Hybrid - AFCSME - Open	1.25%	-	3	60	-	-	6
Hybrid - Non Union - Open	1.25%	-	3	60	-	-	6
Hybrid - Public Safety - Open	1.25%	-	3	60	-	-	6

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Council, generally after negotiations of these terms with the affected unions.

Employees Covered by Benefit Terms

At the December 31, 2017 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	33
Inactive plan members entitled to but not yet receiving benefits	4
Active plan members	27
Total employees covered by MERS	64

City of Cheboygan

Notes to the Financial Statements

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2018, the City had the following contribution rates:

<u>Division</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>
AFCSME #25 - Closed	\$15,385/month	6.00%
Public Safety - Open	\$4,645/month	6.00%
Non Union - Closed	\$6,961/month	6.00%
Hybrid - AFCSME - Open	6.11%	0.00%
Hybrid - Non Union - Open	7.56%	0.00%
Hybrid - Public Safety - Open	4.75%	0.00%

Net Pension Liability

The net pension liability reported at June 30, 2018 was determined using a measure of the total pension liability and the pension net position as of December 31, 2017. The December 31, 2017 total pension liability was determined by an actuarial valuation performed as of that date.

City of Cheboygan

Notes to the Financial Statements

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		Net Pension Liability
	Total Pension Liability	Plan Net Position	
Balance at December 31, 2016	\$ 10,434,677	\$ 6,366,289	\$ 4,068,388
Service cost	137,727	-	137,727
Interest	816,308	-	816,308
Difference in experience	(154,641)	-	(154,641)
Contributions - Employer	-	297,392	(297,392)
Contributions - Employee	-	57,311	(57,311)
Net investment income	-	829,929	(829,929)
Benefit payments, including refunds	(599,386)	(599,386)	-
Administrative expenses	-	(13,154)	13,154
Other changes	(1,691)	-	(1,691)
Net changes	<u>198,317</u>	<u>572,092</u>	<u>(373,775)</u>
Balance at December 31, 2017	<u>\$ 10,632,994</u>	<u>\$ 6,938,381</u>	<u>\$ 3,694,613</u>

Net pension liabilities are generally liquidated by the general fund within the governmental activities.

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

For the year ended June 30, 2018, the City recognized pension expense of \$418,429. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of	Deferred Inflows of
Difference between expected & actual experience	\$ -	\$ 157,772
Excess (deficit) investment returns	-	121,231
Contributions subsequent to the measurement date *	158,458	-
Total	<u>\$ 158,458</u>	<u>\$ 279,003</u>

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date, \$158,458, will be recognized as a reduction in the net pension liability for the year ending June 30, 2019.

City of Cheboygan

Notes to the Financial Statements

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	
June 30	Amount
2019	\$ (69,082)
2020	(37,217)
2021	(106,517)
2022	(66,187)

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: base wage inflation of 3.75% in the long-term

Investment rate of return: 7.75%, net of investment expense, including inflation

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retire mortality tables of a 50% Male and 50% Female blend of disabled retirees. (1994 group annuity tables is 2014)

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study.

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

City of Cheboygan

Notes to the Financial Statements

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.50%	8.65%
Global fixed income	18.50%	3.76%
Real assets	13.50%	9.72%
Diversifying strategies	12.50%	7.50%
	100.0%	

Discount Rate

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent) or one percentage point higher (9.00 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability of the City	\$ 4,758,722	\$ 3,694,613	\$ 2,781,887

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued plan financial statements.

City of Cheboygan

Notes to the Financial Statements

Note 9 - Postemployment Health Care Benefits

Plan Description

The City provides retiree healthcare benefits through the City of Cheboygan's retiree healthcare plan (the "Plan") to eligible employees and their spouses. The benefits are provided under collective bargaining agreements. The plan does not issue a publicly available financial report.

Benefits Provided and Contributions

The Plan was established and is being funded under the authority of the City. The plan's funding policy is that the employer will contribute discretionary amounts if able in subsequent years. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2018):

Inactive plan members or beneficiaries currently receiving benefits	2
Inactive plan members entitled to but not yet receiving benefits	4
Active plan members	<u>7</u>
Total employees covered by the Plan	<u>13</u>

Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018 and a measurement date of June 30, 2018 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Included in investment rate of return
Salary increases	2.00%
Investment rate of return	N/A
Discount rate	3.87%
Mortality	RPH-2016 Total dataset Mortality table fully generational using scale MP-2016

The long-term expected real rate of return on plan assets, as of June 30, 2018, was 5.00 percent.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.87%. Based on those assumptions, the retirement plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members past 2019. For projected benefits

City of Cheboygan

Notes to the Financial Statements

that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. June 30, 2018 is the first year of required compliance with GASB 75. The discount used to develop the beginning of year liability was 3.87% - the bond rate in effect at that time.

Changes in the net OPEB liability during the measurement year were as follows:

Changes in OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	OPEB Liability
Balance at June 30, 2017	\$ 506,499	\$ -	\$ 506,499
Service cost	13,286	-	13,286
Interest	17,952	-	17,952
Contributions	-	55,932	(55,932)
Benefit payments, including refunds	(55,932)	(55,932)	-
<i>Net changes</i>	(24,694)	-	(24,694)
Balance at June 30, 2018	\$ 481,805	\$ -	\$ 481,805

City of Cheboygan

Notes to the Financial Statements

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the employer, calculated using the discount rate of 3.87 percent, as well as what the employer’s net OPEB liability would be using a discount rate that is 1 percentage point lower or higher than the current rate:

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Net OPEB Liability	<u>\$ 508,262</u>	<u>\$ 481,805</u>	<u>\$ 457,594</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate of 3.50 percent, as well as what the employer’s net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate:

	1% Decrease (2.50%)	Healthcare Cost Trend Rate (3.50%)	1% Increase (4.50%)
Net OPEB Liability	<u>\$ 480,353</u>	<u>\$ 481,805</u>	<u>\$ 482,775</u>

Note 10 - Net Investment in Capital Assets

The composition of net investment in capital assets as of June 30, 2018 was as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Capital Assets:			
Capital assets not being depreciated	\$ 569,660	\$ 569,409	\$ 170,559
Capital assets being depreciated, net	13,701,532	11,691,139	495,835
Long-term Debt:			
Due within one year	(535,319)	(86,000)	-
Due in more than one year	(3,387,549)	(2,641,919)	-
Net Investment in Capital Assets	<u>\$ 10,348,324</u>	<u>\$ 9,532,629</u>	<u>\$ 666,394</u>

City of Cheboygan

Notes to the Financial Statements

Note 11 - Fund Balances - Governmental Funds

	<u>General Fund</u>	<u>Major Street</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:				
Prepaid Items	\$ 43,887	\$ -	\$ -	\$ 43,887
Total Nonspendable	<u>43,887</u>	<u>-</u>	<u>-</u>	<u>43,887</u>
Restricted for:				
Highways and Streets	-	471,630	296,109	767,739
Cemetery	-	-	167,686	167,686
Debt Service	-	-	86,674	86,674
Total Restricted	<u>-</u>	<u>471,630</u>	<u>550,469</u>	<u>1,022,099</u>
Committed for:				
Retiree Healthcare	28,147	-	-	28,147
Termination Liability	40,392	-	-	40,392
Total Committed	<u>68,539</u>	<u>-</u>	<u>-</u>	<u>68,539</u>
Assigned for:				
Festival Square	-	-	3,914	3,914
Total Assigned	<u>-</u>	<u>-</u>	<u>3,914</u>	<u>3,914</u>
Unassigned	<u>1,335,463</u>	<u>-</u>	<u>-</u>	<u>1,335,463</u>
Total Fund Balances - Governmental Funds	<u>\$ 1,447,889</u>	<u>\$ 471,630</u>	<u>\$ 554,383</u>	<u>\$ 2,473,902</u>

Note 12 - Risk Management

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

Note 13 - Litigation

In the normal course of its operations, the City has become a party in various legal actions, including property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses related to legal actions have not been included as a liability in the financial statements.

City of Cheboygan

Notes to the Financial Statements

Note 14 - Restricted Cash

Restricted cash in the water fund is required by the United States Department of Agriculture - Rural Development (the "USDA") to be maintained at levels consistent with the City's bond agreements. The Repair, Replacement, & Improvement account may be used for repairs replacement or improvement of the water system. Restricted cash related to USDA bonds consists of the following:

	<u>June 30, 2018</u>		<u>June 30, 2017</u>
	<u>Required Balance</u>	<u>Actual Balance</u>	<u>Actual Balance</u>
<u>Business-type Activities</u>			
<i>Bond Reserve Accounts</i>			
2011 Issue, \$12,200 per year up to \$122,000	\$ 85,400	\$ 85,400	\$ 73,200
<i>Repair, Replacement, & Improvement Account</i>			
2011 Issue, \$26,300 per year until bond reserves reach \$122,000; \$38,500 per year thereafter	184,100	83,765	57,465
	<u>\$ 269,500</u>	<u>\$ 169,165</u>	<u>\$ 130,665</u>

Note 15 - Change in Accounting Principle

During the current year, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the government-wide statements now include an increase in OPEB liability by \$599,188 that corresponded with a decrease in net position of the same amount.

The following table shows the changes described above and includes the adjustments of net position indicated above:

	<u>Governmental Activities</u>
Net Position - June 30, 2017, as previously reported	
As previously reported, including reclassification	\$ 9,456,524
Adoption of GASB Statement No. 75	(599,188)
Net Position - June 30, 2017 - as restated	<u>\$ 8,857,336</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Cheboygan
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Property Taxes	\$ 1,465,200	\$ 1,484,900	\$ 1,491,593	\$ 6,693
Licenses and Permits	4,000	4,000	4,100	100
State Revenues	568,000	602,600	608,004	5,404
Charges for Services	16,000	23,300	25,214	1,914
Interest	2,500	1,800	1,827	27
Other Revenue	61,395	61,395	18,401	(42,994)
Total Revenues	<u>2,117,095</u>	<u>2,177,995</u>	<u>2,149,139</u>	<u>(28,856)</u>
Other Financing Sources				
Transfers In	5,000	--	--	--
Total Revenues and Other Financing Sources	<u>2,122,095</u>	<u>2,177,995</u>	<u>2,149,139</u>	<u>(28,856)</u>
Expenditures				
Legislative				
City Council	36,600	55,700	55,458	242
General Government				
City Manager	76,450	74,950	75,539	(589)
Clerk / Treasurer	201,700	184,400	186,922	(2,522)
Clerk - Elections	10,000	2,800	2,565	235
Assessor	99,350	102,025	101,681	344
Board of Review	4,000	4,000	3,646	354
City Hall and Grounds	98,550	91,550	90,311	1,239
Other	10,000	18,000	17,901	99
Total General Government	<u>500,050</u>	<u>477,725</u>	<u>478,565</u>	<u>(840)</u>
Public Safety				
Police Department	773,460	789,410	804,919	(15,509)
Fire Department	88,950	96,450	95,739	711
Parking	16,250	16,050	15,615	435
Total Public Safety	<u>878,660</u>	<u>901,910</u>	<u>916,273</u>	<u>(14,363)</u>
Public Works				
Public Works - Other	273,250	332,000	336,869	(4,869)
Street Lighting	95,000	97,000	96,664	336
Total Public Works	<u>368,250</u>	<u>429,000</u>	<u>433,533</u>	<u>(4,533)</u>
Recreation and Culture				
Recreation Department	192,400	200,600	202,611	(2,011)
Opera House	21,000	21,000	21,066	(66)
Soccer Field	300	300	220	80
Humane Society	3,000	3,000	3,000	--
Promotion	17,000	18,500	18,521	(21)
Total Recreation and Culture	<u>233,700</u>	<u>243,400</u>	<u>245,418</u>	<u>(2,018)</u>
Capital Outlay	--	8,500	8,071	429
Total Expenditures	<u>2,017,260</u>	<u>2,116,235</u>	<u>2,137,318</u>	<u>(21,083)</u>
Other Financing Uses				
Transfers Out	104,835	39,500	39,399	101
Total Expenditures and Other Financing Uses	<u>2,122,095</u>	<u>2,155,735</u>	<u>2,176,717</u>	<u>(20,982)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	--	22,260	(27,578)	(49,838)
Net Change in Fund Balance	--	22,260	(27,578)	(49,838)
<i>Fund Balance at Beginning of Period</i>	1,475,467	1,475,467	1,475,467	--
Fund Balance at End of Period	<u>\$ 1,475,467</u>	<u>\$ 1,497,727</u>	<u>\$ 1,447,889</u>	<u>\$ (49,838)</u>

City of Cheboygan
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Street Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
State Revenues	\$ 412,000	\$ 535,000	\$ 561,812	\$ 26,812
Total Revenues	<u>412,000</u>	<u>535,000</u>	<u>561,812</u>	<u>26,812</u>
Expenditures				
Public Works				
Routine Maintenance	151,540	139,940	139,407	533
Traffic Services	8,300	8,000	7,816	184
Winter Maintenance	131,700	106,000	103,333	2,667
Trunkline	5,900	4,500	4,123	377
Total Expenditures	<u>297,440</u>	<u>258,440</u>	<u>254,679</u>	<u>3,761</u>
Other Financing Uses				
Transfers Out	87,900	88,650	88,619	31
Total Expenditures and Other Financing Uses	<u>385,340</u>	<u>347,090</u>	<u>343,298</u>	<u>3,792</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Uses				
Net Change in Fund Balance	<u>26,660</u>	<u>187,910</u>	<u>218,514</u>	<u>30,604</u>
Fund Balance at Beginning of Period	253,116	253,116	253,116	--
Fund Balance at End of Period	<u>\$ 279,776</u>	<u>\$ 441,026</u>	<u>\$ 471,630</u>	<u>\$ 30,604</u>

City of Cheboygan
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Four Calendar Years

	2017	2016	2015	2014
Total Pension Liability				
Service Cost	\$ 137,727	\$ 138,611	\$ 132,360	\$ 123,709
Interest	816,308	802,258	781,862	758,521
Difference in experience	(154,641)	(164,032)	(130,775)	-
Change in assumptions	-	-	365,719	-
Other Changes	(1,691)	(1,382)	-	-
Benefit Payments, Including Refunds	(599,386)	(599,384)	(602,983)	(604,291)
Net Change in Pension Liability	<u>198,317</u>	<u>176,071</u>	<u>546,183</u>	<u>277,939</u>
<i>Total Pension Liability - Beginning</i>	<u>10,434,677</u>	<u>10,258,606</u>	<u>9,712,423</u>	<u>9,434,484</u>
Total Pension Liability - Ending (a)	<u>\$ 10,632,994</u>	<u>\$ 10,434,677</u>	<u>\$ 10,258,606</u>	<u>\$ 9,712,423</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 297,392	\$ 284,658	\$ 279,239	\$ 271,974
Contributions - Member	57,311	57,506	56,771	58,151
Net Investment Income	829,929	668,301	(92,627)	388,947
Benefit Payments, Including Refunds	(599,386)	(599,384)	(602,983)	(604,291)
Administrative Expenses	(13,154)	(13,200)	(13,667)	(14,243)
Net Change in Plan Fiduciary Net Position	<u>572,092</u>	<u>397,881</u>	<u>(373,267)</u>	<u>100,538</u>
<i>Plan Fiduciary Net Position - Beginning</i>	<u>6,366,289</u>	<u>5,968,408</u>	<u>6,341,675</u>	<u>6,241,137</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 6,938,381</u>	<u>\$ 6,366,289</u>	<u>\$ 5,968,408</u>	<u>\$ 6,341,675</u>
Net Pension Liability - Ending (a) - (b)	\$ 3,694,613	\$ 4,068,388	\$ 4,290,198	\$ 3,370,748
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	65.25%	61.01%	58.18%	65.29%
Covered Payroll	\$ 1,304,056	\$ 1,298,224	\$ 1,201,464	\$ 1,096,281
Net Pension Liability as a Percentage of Covered Payroll	283.32%	313.38%	357.08%	307.47%

* Built prospectively upon implementation on GASB 68

City of Cheboygan
Required Supplementary Information
Schedule of Contributions
Last 10 Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially Determined Contribution	\$ 297,392	\$ 284,658	\$ 279,239	\$ 277,862	\$ 239,258	\$ 210,167	\$ 188,233	\$ 171,676	\$ 179,929	\$ 187,405
Contributions in Relation to the Actuarially Determined Contribution	297,392	284,658	279,239	277,862	239,258	210,167	188,233	171,676	179,929	187,405
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	1,304,056	1,298,224	1,096,281	1,096,281	1,160,846	1,185,676	1,089,961	1,166,505	1,217,616	1,307,260
Contributions as a Percentage of Covered Payroll	23%	23%	25%	21%	18%	17%	15%	15%	14%	13%

Notes

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry Age
Amortization method	Level percentage of pay
Remaining amortization period	21 Years
Asset valuation method	5-year smoothed
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75% net of investment and administrative expense including inflation
Retirement Age	Age-based table of rates that are specific to the type of eligibility condition.
Mortality	50% Male - 50% Female RP-2014 Mortality Table

City of Cheboygan
Required Supplementary Information
Schedule of Changes in Net OPEB Liability and Related Ratios
Last Fiscal Year

	2018
Total OPEB Liability	
Service Cost	\$ 13,286
Interest	17,952
Benefit Payments, Including Refunds	(55,932)
<i>Net Change in total OPEB Liability</i>	(24,694)
<i>Total OPEB Liability - Beginning</i>	506,499
<i>Total OPEB Liability - Ending (a)</i>	\$ 481,805
 Plan Fiduciary Net Position	
Contributions/benefit payments made from general operating funds	\$ 55,932
Benefit Payments, Including Refunds	(55,932)
<i>Net Change in Plan Fiduciary Net Position</i>	-
<i>Plan Fiduciary Net Position - Beginning</i>	-
<i>Plan Fiduciary Net Position - Ending (b)</i>	\$ -
 <i>Net OPEB Liability - Ending (a) - (b)</i>	\$ 481,805
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0.00%
 Covered Employee Payroll	\$ 431,709
 Net OPEB Liability as a Percentage of Covered Employee Payroll	111.60%

* Built prospectively upon implementation of GASB 75

**City of Cheboygan
Required Supplementary Information
Schedule of Contributions - OPEB
Last Fiscal Year**

	2018
Actuarially Determined Contribution	\$ 31,237
Contributions in Relation to the Actuarially Determined Contribution	55,932
Contribution Deficiency (Excess)	\$ (24,695)
 Covered Payroll	 \$ 431,709
 Contributions as a Percentage of Covered Payroll	 13.0%

Notes

Valuation Date: June 30, 2018

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry Age Normal
Amortization method	Average Future Service
Remaining amortization period	N/A
Asset valuation method	N/A
Inflation	3.87%
Salary increases	2.00%
Investment rate of return	5.00%
Retirement Age	55
Mortality	United States Life Tables, 2012
Health Care Cost Trend Rate	3.50%

OTHER SUPPLEMENTARY INFORMATION

**City of Cheboygan
General Fund Combining Balance Sheet
All Funds Treated as General
June 30, 2018**

	<u>Termination Liability Fund</u>	<u>Retiree Health Care Fund</u>	<u>General Fund</u>	<u>Total General Funds</u>
ASSETS				
Cash and Investments	\$ 40,392	\$ 28,147	\$ 1,209,346	\$ 1,277,885
Taxes Receivable	--	--	8,852	8,852
Due from Other Governmental Units	--	--	101,864	101,864
Prepaid Items	--	--	43,887	43,887
Due from Other Funds	--	--	153,346	153,346
<i>Total Assets</i>	<u>\$ 40,392</u>	<u>\$ 28,147</u>	<u>\$ 1,517,295</u>	<u>\$ 1,585,834</u>
LIABILITIES				
Accounts Payable	\$ --	\$ --	\$ 79,418	\$ 79,418
Accrued Liabilities	--	--	49,675	49,675
<i>Total Liabilities</i>	<u>--</u>	<u>--</u>	<u>129,093</u>	<u>129,093</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	--	--	8,852	8,852
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>--</u>	<u>--</u>	<u>137,945</u>	<u>137,945</u>
FUND BALANCE				
Nonspendable	--	--	43,887	43,887
Committed	40,392	28,147	--	68,539
Unassigned	--	--	1,335,463	1,335,463
<i>Total Fund Balance</i>	<u>40,392</u>	<u>28,147</u>	<u>1,379,350</u>	<u>1,447,889</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</i>	<u>\$ 40,392</u>	<u>\$ 28,147</u>	<u>\$ 1,517,295</u>	<u>\$ 1,585,834</u>

City of Cheboygan
General Fund Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
All Funds Treated as General
For the Year Ended June 30, 2018

	<u>Termination Liability Fund</u>	<u>Retiree Health Care Fund</u>	<u>General Fund</u>	<u>Total General Funds</u>
Revenues				
Property Taxes	\$ --	\$ --	\$ 1,491,593	\$ 1,491,593
Licenses and Permits	--	--	4,100	4,100
State Revenues	--	--	608,004	608,004
Charges for Services	--	--	25,214	25,214
Other Revenue	--	--	18,401	18,401
Interest Income	--	--	1,827	1,827
Total Revenues	<u>--</u>	<u>--</u>	<u>2,149,139</u>	<u>2,149,139</u>
Expenditures				
Legislative	--	--	55,458	55,458
General Government	17,901	--	460,664	478,565
Public Safety	--	--	916,273	916,273
Public Works	--	--	433,533	433,533
Recreation and Culture	--	--	245,418	245,418
Capital Outlay	--	--	8,071	8,071
Total Expenditures	<u>17,901</u>	<u>--</u>	<u>2,119,417</u>	<u>2,137,318</u>
Excess of Revenues Over (Under) Expenditures	<u>(17,901)</u>	<u>--</u>	<u>29,722</u>	<u>11,821</u>
Other Financing Sources (Uses)				
Transfers In	5,000	--	(5,000)	--
Transfers Out	--	--	(39,399)	(39,399)
Net Other Financing Sources (Uses)	<u>5,000</u>	<u>--</u>	<u>(44,399)</u>	<u>(39,399)</u>
Net Change in Fund Balance	<u>(12,901)</u>	<u>--</u>	<u>(14,677)</u>	<u>(27,578)</u>
Fund Balance at Beginning of Period	53,293	28,147	1,394,027	1,475,467
Fund Balance at End of Period	<u>\$ 40,392</u>	<u>\$ 28,147</u>	<u>\$ 1,379,350</u>	<u>\$ 1,447,889</u>

City of Cheboygan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue				Debt Service			
	Local Street Fund	Streets, Non-P.A. 51	Cemetery	CDBG Facade Grant	2017 MI Transportation Bond Debt	1997 Rural Economic Development	2006 Refunding Bond Debt	2004 General Obligation Bond
ASSETS								
Cash and Investments	\$ 120,652	\$ 125,574	\$ 1,063	\$ --	\$ --	\$ 31,030	\$ 29,263	\$ 26,381
Accounts Receivable	--	--	--	209,522	--	--	--	--
Taxes Receivable	--	--	--	--	--	695	1,525	745
Due from Other Governmental Units	32,220	--	--	--	--	--	--	--
Total Assets	\$ 152,872	\$ 125,574	\$ 1,063	\$ 209,522	\$ --	\$ 31,725	\$ 30,788	\$ 27,126
LIABILITIES								
Accounts Payable	\$ 1,918	\$ --	\$ 65	\$ 56,176	\$ --	\$ --	\$ --	\$ --
Accrued Liabilities	540	--	--	--	--	--	--	--
Due to Other Funds	--	--	--	153,346	--	--	--	--
Total Liabilities	2,458	--	65	209,522	--	--	--	--
DEFERRED INFLOWS OF RESOURCES								
Unavailable Revenue	--	--	--	--	--	695	1,525	745
Total Liabilities and Deferred Inflows of Resources	2,458	--	65	209,522	--	695	1,525	745
FUND BALANCE								
Restricted	150,414	125,574	998	--	--	31,030	29,263	26,381
Assigned	--	--	--	--	--	--	--	--
Unassigned	--	--	--	--	--	--	--	--
Total Fund Balance	150,414	125,574	998	--	--	31,030	29,263	26,381
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 152,872	\$ 125,574	\$ 1,063	\$ 209,522	\$ --	\$ 31,725	\$ 30,788	\$ 27,126

**City of Cheboygan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

	Debt Service			Capital Projects		Permanent	Total Nonmajor Governmental Funds
	2007 Capital Improvement Bonds	2009 Transportation Bond Debt	2012 Festival Square Debt	2017 Street Construction	Festival Square	Permanent Fund	
ASSETS							
Cash and Investments	\$ --	\$ --	\$ --	\$ 20,121	\$ 4,664	\$ 166,688	\$ 525,436
Accounts Receivable	--	--	--	--	--	--	209,522
Taxes Receivable	--	--	--	--	--	--	2,965
Due from Other Governmental Units	--	--	--	--	--	--	32,220
<i>Total Assets</i>	\$ --	\$ --	\$ --	\$ 20,121	\$ 4,664	\$ 166,688	\$ 770,143
LIABILITIES							
Accounts Payable	\$ --	\$ --	\$ --	\$ --	\$ 750	\$ --	\$ 58,909
Accrued Liabilities	--	--	--	--	--	--	540
Due to Other Funds	--	--	--	--	--	--	153,346
<i>Total Liabilities</i>	--	--	--	--	750	--	212,795
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue	--	--	--	--	--	--	2,965
<i>Total Liabilities and Deferred Inflows of Resources</i>	--	--	--	--	750	--	215,760
FUND BALANCE							
Restricted	--	--	--	20,121	--	166,688	550,469
Assigned	--	--	--	--	3,914	--	3,914
Unassigned	--	--	--	--	--	--	--
<i>Total Fund Balance</i>	--	--	--	20,121	3,914	166,688	554,383
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	\$ --	\$ --	\$ --	\$ 20,121	\$ 4,664	\$ 166,688	\$ 770,143

City of Cheboygan
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue				Debt Service			
	Local Street Fund	Streets, Non-P.A. 51	Cemetery	CDBG Facade Grant	2017 MI Transportation Bond Debt	Economic Development Loan	2006 Refunding Bond Debt	2004 General Obligation Bond
Revenues								
Property Taxes	\$ --	\$ 94,842	\$ --	\$ --	\$ --	\$ 114,425	\$ 247,857	\$ 114,395
State Revenues	210,722	--	--	--	--	--	--	--
Federal Revenues	--	--	--	209,522	--	--	--	--
Local Revenues	--	--	--	--	--	--	--	--
Charges for Services	700	--	9,100	--	--	--	--	--
Other Revenue	--	47	--	--	--	--	--	--
Interest Income	22,918	--	--	--	--	1,475	3,141	--
Total Revenues	234,340	94,889	9,100	209,522	--	115,900	250,998	114,395
Expenditures								
General Government	--	--	33,886	--	--	--	--	--
Public Works	153,078	--	--	--	--	--	--	--
Recreation and Culture	--	--	--	--	--	--	--	--
Capital Outlay	--	22,050	--	209,522	--	--	--	--
Debt Service - Principal	--	--	--	--	26,155	45,000	210,000	80,000
Debt Service - Interest	--	--	--	--	7,676	64,140	43,115	31,203
Total Expenditures	153,078	22,050	33,886	209,522	33,831	109,140	253,115	111,203
Excess of Revenues Over (Under) Expenditures	81,262	72,839	(24,786)	--	(33,831)	6,760	(2,117)	3,192
Other Financing Sources (Uses)								
Transfers In	--	--	25,000	--	33,831	--	--	--
Transfers Out	(16,588)	--	--	--	--	--	--	--
Net Other Financing Sources (Uses)	(16,588)	--	25,000	--	33,831	--	--	--
Net Change in Fund Balance	64,674	72,839	214	--	--	6,760	(2,117)	3,192
<i>Fund Balance at Beginning of Period</i>	85,740	52,735	784	--	--	24,270	31,380	23,189
Fund Balance at End of Period	\$ 150,414	\$ 125,574	\$ 998	\$ --	\$ --	\$ 31,030	\$ 29,263	\$ 26,381

City of Cheboygan
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Debt Service			Capital Projects		Permanent	Total Nonmajor Governmental Funds
	2007 Capital Improvement Bonds	2009 Transportation Bond Debt	2012 Festival Square Debt	2017 Street Construction	Festival Square	Permanent Fund	
Revenues							
Property Taxes	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 571,519
State Revenues	--	--	--	--	--	--	210,722
Federal Revenues	--	--	--	--	--	--	209,522
Local Revenues	--	--	43,203	--	--	--	43,203
Charges for Services	--	--	--	--	--	1,700	11,500
Other Revenue	--	--	--	--	250	--	297
Interest Income	--	--	--	--	--	1,393	28,927
Total Revenues	<u>--</u>	<u>--</u>	<u>43,203</u>	<u>--</u>	<u>250</u>	<u>3,093</u>	<u>1,075,690</u>
Expenditures							
General Government	--	--	--	--	--	--	33,886
Public Works	--	--	--	--	--	--	153,078
Recreation and Culture	--	--	--	--	1,572	--	1,572
Capital Outlay	--	--	--	211,779	--	--	443,351
Debt Service - Principal	25,000	25,000	50,000	--	--	--	461,155
Debt Service - Interest	13,200	8,175	7,603	--	--	--	175,112
Total Expenditures	<u>38,200</u>	<u>33,175</u>	<u>57,603</u>	<u>211,779</u>	<u>1,572</u>	<u>--</u>	<u>1,268,154</u>
Excess of Revenues Over (Under) Expenditures	<u>(38,200)</u>	<u>(33,175)</u>	<u>(14,400)</u>	<u>(211,779)</u>	<u>(1,322)</u>	<u>3,093</u>	<u>(192,464)</u>
Other Financing Sources (Uses)							
Transfers In	38,200	33,175	14,400	--	--	--	144,606
Transfers Out	--	--	--	--	--	--	(16,588)
Net Other Financing Sources (Uses)	<u>38,200</u>	<u>33,175</u>	<u>14,400</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>128,018</u>
Net Change in Fund Balance	<u>--</u>	<u>--</u>	<u>--</u>	<u>(211,779)</u>	<u>(1,322)</u>	<u>3,093</u>	<u>(64,446)</u>
<i>Fund Balance at Beginning of Period</i>	--	--	--	231,900	5,236	163,595	618,829
Fund Balance at End of Period	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 20,121</u>	<u>\$ 3,914</u>	<u>\$ 166,688</u>	<u>\$ 554,383</u>

City of Cheboygan - DDA and Brownfield Component Units
Balance Sheet
Governmental Funds
June 30, 2018

	<u>Special Revenue</u>			Total Governmental Funds
	DDA - General Operations	Brownfield Redevelopment Authority	DDA - Debt Service	
ASSETS				
Current Assets	\$ 207,812	\$ 23,998	\$ --	\$ 231,810
Prepaid Items	800	--	--	800
<i>Total Assets</i>	<u>\$ 208,612</u>	<u>\$ 23,998</u>	<u>\$ --</u>	<u>\$ 232,610</u>
LIABILITIES				
Accounts Payable	\$ 8,687	\$ --	\$ --	\$ 8,687
Accrued Liabilities	1,031	--	--	1,031
Unearned Revenue	3,900	--	--	3,900
<i>Total Liabilities</i>	<u>13,618</u>	<u>--</u>	<u>--</u>	<u>13,618</u>
FUND BALANCE				
Unassigned	194,994	23,998	--	218,992
<i>Total Fund Balance</i>	<u>194,994</u>	<u>23,998</u>	<u>--</u>	<u>218,992</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 208,612</u>	<u>\$ 23,998</u>	<u>\$ --</u>	<u>\$ 232,610</u>

Component Unit Fund Balances

\$ 218,992

Amounts reported for component unit in the statement of net position are different because:

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

Capital assets not being depreciated
Capital assets being depreciated, net

150,000
417,155

Net Position of Component Units

\$ 786,147

City of Cheboygan - DDA and Brownfield Component Units
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

	<u>Special Revenue</u>			Total Governmental Funds
	DDA - General Operations	Brownfield Redevelopment Authority	DDA - Debt Service	
Revenues				
Property Taxes	\$ 209,967	\$ 23,998	\$ --	\$ 233,965
Local Contributions	33,464	--	--	33,464
Other Revenue	--	--	--	--
Total Revenues	<u>243,431</u>	<u>23,998</u>	<u>--</u>	<u>267,429</u>
Expenditures				
Community & Economic Development	193,286	17,175	--	210,461
Debt Service - Principal	--	--	60,000	60,000
Debt Service - Interest	--	--	1,125	1,125
Total Expenditures	<u>193,286</u>	<u>17,175</u>	<u>61,125</u>	<u>271,586</u>
Excess of Revenues Over (Under) Expenditures	<u>50,145</u>	<u>6,823</u>	<u>(61,125)</u>	<u>(4,157)</u>
Other Financing Sources (Uses)				
Transfers In	--	--	61,125	61,125
Transfers Out	(61,125)	--	--	(61,125)
Net Other Financing Sources (Uses)	<u>(61,125)</u>	<u>--</u>	<u>61,125</u>	<u>--</u>
Net Change in Fund Balance	(10,980)	6,823	--	(4,157)
<i>Fund Balance at Beginning of Period</i>	205,974	17,175	--	223,149
Fund Balance at End of Period	\$ 194,994	\$ 23,998	\$ --	\$ 218,992

Net Change in Fund Balances - Component Units **\$ (4,157)**

Amounts reported for component unit in the statement of activities are different because:

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

Depreciation expense (21,792)

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

Principal payments on long-term debt 60,000
Decrease in accrued interest 375

Change in Net Position of Component Units **\$ 34,426**



THE CITY OF
CHEBOYGAN

CITY OF CHEBOYGAN
CHEBOYGAN COUNTY, MICHIGAN
SINGLE AUDIT ACT COMPLIANCE
YEAR ENDED JUNE 30, 2018

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**INDEPENDENT AUDITOR'S REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council
City of Cheboygan, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Cheboygan, Michigan (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 31, 2018, which contained unmodified opinions on those financial statements. Our report includes a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
December 31, 2018

City of Cheboygan
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Contract Number</i>	<i>Grant Period</i>	<i>2018 Subawards</i>	<i>Federal Expenditures</i>
U.S. Department of Agriculture					
Direct Program:					
Community Facility Loan Grants	10.766	n/a		\$ -	\$ 50,000
Total U.S. Department of Agriculture				<u>-</u>	<u>50,000</u>
U.S. Department of Housing and Urban Development					
Passed-through from State of Michigan:					
CDBG Block Grant Program - Facade Grant	14.228	MSC 217021-CDF		-	209,522
CDBG Block Grant Program - ICE Grant	14.228	MSC 216009-ICE		-	324,836
<i>Total Passed-through State of Michigan</i>				<u>-</u>	<u>534,358</u>
Received by the Cheboygan Housing Commission (Component Unit)					
Public and Indian Housing	14.850	n/a		-	98,946
Section 8 HCV Program	14.871	n/a		-	379,979
Public Housing Capital Fund	14.872	n/a		-	1,883
Total U.S. Department of Housing and Urban Development				<u>-</u>	<u>480,808</u>
Total Expenditures of Federal Awards				<u>\$ -</u>	<u>\$ 1,065,166</u>

See notes to the schedule of expenditures of federal awards

City of Cheboygan

Notes to the Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Cheboygan (the "City") under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where applicable and have been identified in the Schedule.

The City has elected not to use the 10-percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Schedule of Expenditures of Federal Awards

All federal funds of \$1,065,166 were spent in the governmental and business-type activities. The \$1,065,166 agrees with the federal expenditures as reported in the Schedule.

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*

To the City Council
City of Cheboygan, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Cheboygan (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2018. Our report includes a reference to other auditors who audited the financial statements of the Cheboygan Housing Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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".

Gabridge & Company, PLC
Grand Rapids, MI
December 31, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE

To the City Council
City of Cheboygan, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Cheboygan (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The City's basic financial statements include the operations of the Cheboygan Housing Commission, which is a discretely presented component unit; which received certain federal awards which are included in the schedule of expenditures of federal awards for the year ended June 30, 2018 because they did not arrange for a separate audit in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

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

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

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

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
December 31, 2018

**City of Cheboygan
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal controls over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No (none reported)
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No (none reported)
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number
CDBG Block Grant Program	14.228
Dollar threshold used to distinguish between Type A and B programs?	\$750,000
Auditee qualified as a low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS
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No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
--

No findings or questioned costs.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

No prior audit findings were reported.

December 31, 2018

To the City Council
City of Cheboygan, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cheboygan for the year ended June 30, 2018. Our report includes a reference to other auditors. 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 October 15, 2018. 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 of Cheboygan are described in Note 1 to the financial statements. The City implemented GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions during 2018. Refer to Note 15 to the financial statements for more information on how implementing the new OPEB standard impacted the City's financial statements as of and during the year ended June 30, 2018. We noted no transactions entered into by the City of Cheboygan during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- The assumptions used in the actuarial valuations of the pension and other post-employment plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

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 December 31, 2018.

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, OPEB and pension schedules, and budgetary comparison schedules, which is 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 statements and individual fund 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 information and use of the City Council and management of the City of Cheboygan 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 printed name of the company.

Gabridge & Company, PLC
Grand Rapids, MI