

# CITY OF CARSON CITY, MICHIGAN

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011



*Vredeveld Haefner LLC*

# CITY OF CARSON CITY

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*Vredeveld Haefner LLC*

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

**Douglas J. Vredeveld, CPA**

**(616) 446-7474**

**Peter S. Haefner, CPA**

**(616) 460-9388**

## INDEPENDENT AUDITORS' REPORT

September 30, 2011

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Carson City, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2011, on our consideration of the City of Carson City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, the major fund budgetary information on pages 35 and 36, and the pension plan information on pages 37 and 38 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carson City's financial statements as a whole. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

*Uredexold Haefner LLC*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the City of Carson City, we offer readers of the City of Carson City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. 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 water supply system improvement project financed with USDA bonds began
- Exterior improvements were made to the city hall
- Began significant street improvement project

### Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City of Carson City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, public safety, public works including major and local street construction and maintenance, culture and recreation, capital outlay, and debt service activities. The business-type activities of the City include sewer and water services.

**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 of Carson City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and library funds, both of which are considered to be major funds of the City.

Data is combined into a single aggregated presentation for the other two governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements and schedules*.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

**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 and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its fleet of vehicles. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *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, both of which are considered to be major funds of the City.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resource of those funds are *not* available to the 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 includes this management discussion and analysis as well as major fund budget and actual schedules and schedules related to the City's pension plan.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Carson City, assets exceeded liabilities by \$9,558,784 at the close of the most recent fiscal year.

A significant portion of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), 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 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.

### Summary of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$1,569,538	\$1,831,631	\$2,858,661	\$2,735,002	\$4,428,199	\$4,566,633
Capital assets	2,041,682	1,950,141	5,919,377	4,729,351	7,961,059	6,679,492
<b>Total assets</b>	<b>3,611,220</b>	<b>3,781,772</b>	<b>8,778,038</b>	<b>7,464,353</b>	<b>12,389,258</b>	<b>11,246,125</b>
Long-term liabilities	44,315	122,504	2,246,250	1,428,678	2,290,565	1,551,182
Other liabilities	144,161	156,985	395,748	44,046	539,909	201,031
<b>Total liabilities</b>	<b>188,476</b>	<b>279,489</b>	<b>2,641,998</b>	<b>1,472,724</b>	<b>2,830,474</b>	<b>1,752,213</b>
Net assets						
Invested in capital assets, net of related debt	2,041,682	1,876,141	3,707,377	3,329,351	5,749,059	5,205,492
Restricted	845,853	1,027,825	-	-	845,853	1,027,825
Unrestricted	535,209	598,317	2,428,663	2,662,278	2,963,872	3,260,595
<b>Total net assets</b>	<b>\$3,422,744</b>	<b>\$3,502,283</b>	<b>\$6,136,040</b>	<b>\$5,991,629</b>	<b>\$9,558,784</b>	<b>\$9,493,912</b>

Net assets of the City increased by \$64,872. The business-type activities increase in net assets of \$144,411 was primarily the result of anticipated earnings intended for future maintenance and improvements. The governmental activities decrease in net assets of \$79,539 is primarily due to decreased operating grants and contributions during the year.

## Summary of Activities

	Governmental Activities		Business-type Activities		Totals	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenue</b>						
Program revenue						
Charges for Services	\$ 80,147	\$ 82,770	\$ 709,536	\$ 727,786	\$ 789,683	\$ 810,556
Operating grants and contributions	215,277	300,860	-	-	215,277	300,860
Capital grants and contributions	-	-	389	-	389	-
	<u>295,424</u>	<u>383,630</u>	<u>709,925</u>	<u>727,786</u>	<u>1,005,349</u>	<u>1,111,416</u>
General revenue						
Property taxes	512,332	519,947	-	-	512,332	519,947
Other governmental sources	120,829	122,308	-	-	120,829	122,308
Other	4,242	5,669	59,662	50,278	63,904	55,947
Transfers	-	35,000	-	(35,000)	-	-
<b>Total revenue and transfers</b>	<u>932,827</u>	<u>1,066,554</u>	<u>769,587</u>	<u>743,064</u>	<u>1,702,414</u>	<u>1,809,618</u>
<b>Expenses</b>						
Legislative	57,569	69,420	-	-	57,569	69,420
General government	187,916	212,540	-	-	187,916	212,540
Public safety	198,445	213,834	-	-	198,445	213,834
Public works	277,304	335,349	-	-	277,304	335,349
Culture and recreation	290,731	280,222	-	-	290,731	280,222
Interest	401	6,281	-	-	401	6,281
Sewer	-	-	273,570	251,106	273,570	251,106
Water	-	-	351,606	366,855	351,606	366,855
<b>Total expenses</b>	<u>1,012,366</u>	<u>1,117,646</u>	<u>625,176</u>	<u>617,961</u>	<u>1,637,542</u>	<u>1,735,607</u>
Increase (decrease) in net assets	(79,539)	(51,092)	144,411	125,103	64,872	74,011
<b>Net assets-beginning of year</b>	3,502,283	3,553,375	5,991,629	5,866,526	9,493,912	9,419,901
<b>Net assets end of year</b>	<u>\$3,422,744</u>	<u>\$3,502,283</u>	<u>\$6,136,040</u>	<u>\$5,991,629</u>	<u>\$9,558,784</u>	<u>\$9,493,912</u>

**Governmental Activities.** During the year the City invested \$277,304 or 27% of governmental activities expenses in public works. Culture and recreation expense, which includes library operations was \$290,731 or 29% of governmental activities expenses while legislative, general government, public safety, and interest on long-term debt made up the remaining 44% of governmental activities expenses.

**Business-type Activities.** Business-type activities increased the City's net assets by \$144,411 accounting for 223% of the total growth in the government's net assets for the current year. By comparison, business-type activities reported an increase in net assets the previous fiscal year of \$125,103. Key elements of this increase were charges exceeding expenses.

## Financial Analysis of the Government's Funds

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

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,200,495, a decrease of \$251,572 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$293,217. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 44% of total general fund expenditures.

The City's general fund fund balance decreased by \$69,600 during the current fiscal year primarily as a result of expenditures exceeding budget in several departments.

The library fund has a total fund balance of \$407,919, which decreased by \$44,368 during the year, primarily due to an advance payment of debt. The balance of this fund is restricted for library operations.

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

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$1,840,706 and \$587,957 respectively. The sewer and water funds had an increase in net assets for the year of \$60,754 and \$83,657 respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

## General Fund Budgetary Highlights

Exterior capital improvements financed with donations were not budgeted. Professional services budgeted for in the recreation and culture and legislative functions were adjusted downward to reflect the actual level of services.

## 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, 2011, amounted to \$7,961,059 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of a water system project, street improvements and improvement to the exterior of the city hall building.

The City's Capital Assets (net of depreciation) are summarized as follows:

<b>Capital Assets</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Land	\$ 158,996	\$ 14,475	\$ 173,471
Construction in progress	-	1,285,938	1,285,938
Buildings, Equipment and Infrastructure	1,882,686	4,618,964	6,501,650
<b>Total</b>	<b>\$2,041,682</b>	<b>\$5,919,377</b>	<b>\$7,961,059</b>

Additional information on the City of Carson City capital assets can be found in Note 5 of these financial statements.

**Debt.** At the end of the current fiscal year, the City had total debt outstanding as follows:

<b>Debt</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Accrued employee benefits	\$ 44,315	\$ 34,250	\$ 78,565
Bonds Payable	-	2,212,000	2,212,000
<b>Total</b>	<b>\$44,315</b>	<b>\$2,246,250</b>	<b>\$2,290,565</b>

The City's total debt increased by \$739,383 during the year primarily due to the issuance of USDA water supply bonds and payment of scheduled principal payments and the early payoff on the library note.

Additional information on the City's long-term debt can be found in Note 7 of these financial statements.

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

The following factors were considered in preparing the City's budget for the 2011-12 fiscal year:

- Scheduled road and project costs.
- Flat performance of the State of Michigan's economy will likely result in stagnant or additional decreases in state funding.
- Property values and tax rates.

### **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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Comptroller, 123 East Main St., Carson City, Michigan, 48811.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF CARSON CITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,473,023	\$ 2,730,403	\$ 4,203,426
Accounts receivable	31,000	82,069	113,069
Due from other governments	53,788	-	53,788
Land contract receivable	11,727	-	11,727
Restricted cash	-	46,189	46,189
Capital assets, net			
Land	158,996	14,475	173,471
Construction in progress	-	1,285,938	1,285,938
Buildings, equipment and infrastructure	<u>1,882,686</u>	<u>4,618,964</u>	<u>6,501,650</u>
<b>Total assets</b>	<u>3,611,220</u>	<u>8,778,038</u>	<u>12,389,258</u>
<b>Liabilities</b>			
Accounts payable and accrued expenses	31,733	394,157	425,890
Unearned revenue	112,428	-	112,428
Customer deposits	-	1,591	1,591
Noncurrent liabilities			
Compensated absences	44,315	34,250	78,565
Due within one year	-	95,000	95,000
Due in more than one year	<u>-</u>	<u>2,117,000</u>	<u>2,117,000</u>
<b>Total liabilities</b>	<u>188,476</u>	<u>2,641,998</u>	<u>2,830,474</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,041,682	3,707,377	5,749,059
Restricted for			
Library	407,919	-	407,919
Major streets	244,548	-	244,548
Local streets	193,386	-	193,386
Unrestricted	<u>535,209</u>	<u>2,428,663</u>	<u>2,963,872</u>
<b>Total net assets</b>	<u>\$ 3,422,744</u>	<u>\$ 6,136,040</u>	<u>\$ 9,558,784</u>

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

**CITY OF CARSON CITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities					
Legislative	\$ 57,569	\$ -	\$ -	\$ -	\$ (57,569)
General government	187,916	39,714	-	-	(148,202)
Public safety	198,445	23,259	10,715	-	(164,471)
Public works	277,304	6,404	93,027	-	(177,873)
Culture and recreation	290,731	10,770	111,535	-	(168,426)
Interest on long-term debt	401	-	-	-	(401)
<b>Total governmental activities</b>	<u>1,012,366</u>	<u>80,147</u>	<u>215,277</u>	<u>-</u>	<u>(716,942)</u>
Business-type activities					
Sewer	273,570	295,984	-	-	22,414
Water	351,606	413,552	-	389	62,335
<b>Total business-type activities</b>	<u>625,176</u>	<u>709,536</u>	<u>-</u>	<u>389</u>	<u>84,749</u>
<b>Total primary government</b>	<u>\$ 1,637,542</u>	<u>\$ 789,683</u>	<u>\$ 215,277</u>	<u>\$ 389</u>	<u>\$ (632,193)</u>

(Continued)

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

**CITY OF CARSON CITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	
<b>Changes in net assets</b>			
<b>Net (expense) revenue</b>	\$ (716,942)	\$ 84,749	\$ (632,193)
General revenues			
Property taxes			
General operating	394,506	-	394,506
Library	117,826	-	117,826
State shared revenues	120,829	-	120,829
Interest earnings	4,242	59,662	63,904
<b>Total general revenues and transfers</b>	<b>637,403</b>	<b>59,662</b>	<b>697,065</b>
Change in net assets	(79,539)	144,411	64,872
<b>Net assets, beginning of year</b>	<b>3,502,283</b>	<b>5,991,629</b>	<b>9,493,912</b>
<b>Net assets, end of year</b>	<b>\$ 3,422,744</b>	<b>\$ 6,136,040</b>	<b>\$ 9,558,784</b>

(Concluded)

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



**CITY OF CARSON CITY**  
**GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**

**JUNE 30, 2011**

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 423,055	\$ 413,549	\$ 422,964	\$ 1,259,568
Accounts receivable	31,000	-	-	31,000
Due from other governments	38,818	-	14,970	53,788
Land contract receivable	<u>11,727</u>	<u>-</u>	<u>-</u>	<u>11,727</u>
<b>Total assets</b>	<u>\$ 504,600</u>	<u>\$ 413,549</u>	<u>\$ 437,934</u>	<u>\$ 1,356,083</u>
 <b>Liabilities and fund balance</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 25,803	\$ 5,630	\$ -	\$ 31,433
Deferred revenue	<u>124,155</u>	<u>-</u>	<u>-</u>	<u>124,155</u>
<b>Total liabilities</b>	<u>149,958</u>	<u>5,630</u>	<u>-</u>	<u>155,588</u>
 <b>Fund balances</b>				
Nonspendable				
Long-term receivables	11,727	-	-	11,727
Restricted for				
Streets	-	-	437,934	437,934
Library	-	407,919	-	407,919
Committed for compensated absences	49,698	-	-	49,698
Assigned	-	-	-	-
Unassigned	<u>293,217</u>	<u>-</u>	<u>-</u>	<u>293,217</u>
<b>Total fund balances</b>	<u>354,642</u>	<u>407,919</u>	<u>437,934</u>	<u>1,200,495</u>
<b>Total liabilities and fund balance</b>	<u>\$ 504,600</u>	<u>\$ 413,549</u>	<u>\$ 437,934</u>	<u>\$ 1,356,083</u>

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

# CITY OF CARSON CITY

## RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

JUNE 30, 2011

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<b>Fund balances - total governmental funds</b>	\$ 1,200,495
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	1,895,721
Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.	
Add - land contract deferred revenue	11,727
An internal service fund is used by management to charge the costs of centralized services to individual funds. The assets and liabilities of the internal service fund is included in the governmental activities.	
Add - net assets of governmental activities accounted for in the internal service fund	359,116
Certain liabilities, such as long-term debt, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	<u>(44,315)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 3,422,744</u></u>

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

**CITY OF CARSON CITY**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>				
Taxes	\$ 394,506	\$ 117,826	\$ -	\$ 512,332
Intergovernmental revenues	120,829	85,536	96,337	302,702
Fees and service charges	71,075	13,164	-	84,239
Interest	2,239	4,862	3,094	10,195
Contributions	5,908	12,835	-	18,743
Miscellaneous	3,034	-	-	3,034
<b>Total revenues</b>	<u>597,591</u>	<u>234,223</u>	<u>99,431</u>	<u>931,245</u>
<b>Expenditures</b>				
Current				
Legislative	57,569	-	-	57,569
General government	187,535	-	-	187,535
Public safety	165,634	-	-	165,634
Public works	153,698	-	224,782	378,480
Recreation and culture	72,043	203,613	-	275,656
Capital outlay	30,712	-	12,253	42,965
Debt service				
Principal	-	74,000	-	74,000
Interest	-	978	-	978
<b>Total expenditures</b>	<u>667,191</u>	<u>278,591</u>	<u>237,035</u>	<u>1,182,817</u>
Revenues over (under) expenditures	<u>(69,600)</u>	<u>(44,368)</u>	<u>(137,604)</u>	<u>(251,572)</u>
Other financing sources (uses)				
Transfers in	-	-	5,992	5,992
Transfers out	-	-	(5,992)	(5,992)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	(69,600)	(44,368)	(137,604)	(251,572)
<b>Fund balances, beginning of year</b>	<u>424,242</u>	<u>452,287</u>	<u>575,538</u>	<u>1,452,067</u>
<b>Fund balances, end of year</b>	<u>\$ 354,642</u>	<u>\$ 407,919</u>	<u>\$ 437,934</u>	<u>\$ 1,200,495</u>

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

# CITY OF CARSON CITY

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

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<b>Net changes in fund balances - total governmental funds</b>	<b>\$ (251,572)</b>
--	---------------------

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

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

Add - capital outlay	206,423
Deduct - depreciation expense	(92,166)

The land contract receivable is long-term in nature and is collectable over several years. However the current receipts are reflected as revenues on the fund statements.

Deduct - land contract receipts	(433)
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Long-term debt proceeds provide current financial resources to governmental funds in the period issued, but issuing notes increases long-term liabilities in the statement of net assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term debt	74,000
--	--------

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

Add - decrease in compensated absences	4,189
Add - decrease in accrued interest	577

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net assets of this fund are reported with governmental activities.

Deduct - loss from governmental activities in the internal service fund	<u>(20,557)</u>
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<b>Change in net assets of governmental activities</b>	<b><u>\$ (79,539)</u></b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF CARSON CITY**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS**

**JUNE 30, 2011**

	<b>Business-Type Activities</b>		<b>Enterprise</b>	<b>Governmental</b>
	<b>Sewer</b>	<b>Water</b>	<b>Fund</b>	<b>Activities</b>
	<u></u>	<u></u>	<u>Total</u>	<u>Internal Service Fund</u>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 1,845,608	\$ 884,795	\$ 2,730,403	\$ 213,455
Accounts receivable	31,047	51,022	82,069	-
Restricted cash and cash equivalent:	-	46,189	46,189	-
	<u>1,876,655</u>	<u>982,006</u>	<u>2,858,661</u>	<u>213,455</u>
Total current assets				
Capital assets				
Land	14,475	-	14,475	3,996
Buildings	-	80,576	80,576	67,975
Plant, mains and equipment	2,396,835	4,016,926	6,413,761	492,773
Construction in progress	-	1,285,938	1,285,938	-
Accumulated depreciator	(993,275)	(882,098)	(1,875,373)	(418,783)
	<u>1,418,035</u>	<u>4,501,342</u>	<u>5,919,377</u>	<u>145,961</u>
Net capital assets				
	<u>3,294,690</u>	<u>5,483,348</u>	<u>8,778,038</u>	<u>359,416</u>
<b>Total assets</b>				
<b>Liabilities</b>				
Current liabilities				
Accounts payable and accrued liabilities	18,019	376,138	394,157	300
Current portion of long-term deb	-	95,000	95,000	-
	<u>18,019</u>	<u>471,138</u>	<u>489,157</u>	<u>300</u>
Total current liabilities:				
Long-term liabilities				
Compensated absences	17,125	17,125	34,250	-
Long-term debt	-	2,117,000	2,117,000	-
Customer deposits	805	786	1,591	-
	<u>17,930</u>	<u>2,134,911</u>	<u>2,152,841</u>	<u>-</u>
Total long-term liabilities:				
	<u>35,949</u>	<u>2,606,049</u>	<u>2,641,998</u>	<u>300</u>
<b>Total liabilities</b>				
<b>Net assets</b>				
Invested in capital assets, net of related debt	1,418,035	2,289,342	3,707,377	145,961
Unrestricted	1,840,706	587,957	2,428,663	213,155
	<u>3,258,741</u>	<u>2,877,299</u>	<u>6,136,040</u>	<u>359,116</u>
<b>Total net assets</b>				

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

**CITY OF CARSON CITY**

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

**FOR THE YEAR ENDED JUNE 30, 2011**

	Business-Type Activities		Enterprise Fund Total	Governmental Activities
	Sewer	Water		Internal Service Fund
<b>Operating revenue</b>				
Charges for services	\$ 295,984	\$ 413,552	\$ 709,536	\$ 97,330
<b>Total operating revenue</b>	<u>295,984</u>	<u>413,552</u>	<u>709,536</u>	<u>97,330</u>
<b>Operating expense</b>				
Salaries and wages	109,875	110,622	220,497	16,619
Supplies	22,576	13,570	36,146	23,267
Professional services	32,267	19,172	51,439	30
Insurance and bonds	9,622	9,622	19,244	-
Utilities	21,068	28,623	49,691	-
Equipment rentals	15,494	11,838	27,332	1,786
Repair and maintenance	15,062	34,606	49,668	21,115
Depreciation	44,022	78,392	122,414	31,201
Miscellaneous	3,584	9,006	12,590	25,884
<b>Total operating expense</b>	<u>273,570</u>	<u>315,451</u>	<u>589,021</u>	<u>119,902</u>
Operating income (loss)	<u>22,414</u>	<u>98,101</u>	<u>120,515</u>	<u>(22,572)</u>
Non-operating revenue (expense)				
Interest income	38,340	21,322	59,662	2,015
Interest expense	-	(36,155)	(36,155)	-
Total non-operating revenue (expense)	<u>38,340</u>	<u>(14,833)</u>	<u>23,507</u>	<u>2,015</u>
Income (loss) before transfers and capital contributions	60,754	83,268	144,022	(20,557)
Capital contributions	-	389	389	-
Changes in net assets	60,754	83,657	144,411	(20,557)
<b>Net assets, beginning of year</b>	<u>3,197,987</u>	<u>2,793,642</u>	<u>5,991,629</u>	<u>379,673</u>
<b>Net assets, end of year</b>	<u>\$ 3,258,741</u>	<u>\$ 2,877,299</u>	<u>\$ 6,136,040</u>	<u>\$ 359,116</u>

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

**CITY OF CARSON CITY**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Business-Type Activities</u>		<u>Enterprise Fund Total</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>		<u>Internal Service Fund</u>
	<b>Cash flows from operating activities</b>			
Receipts from internal services provided	\$ -	\$ -	\$ -	\$ 97,330
Receipts from customers and users	302,034	400,132	702,166	-
Payments to employees	(107,089)	(107,836)	(214,925)	(16,619)
Payments to suppliers	(99,539)	216,816	117,277	(72,582)
<b>Net cash provided by (used in) operating activities</b>	<u>95,406</u>	<u>509,112</u>	<u>604,518</u>	<u>8,129</u>
<b>Cash flows from capital and related financing activities</b>				
Payments on loans	-	(70,000)	(70,000)	-
Loan proceeds	-	882,000	882,000	-
Interest expense	-	(36,155)	(36,155)	-
Capital grants	-	389	389	-
Acquisitions of capital assets	(51,710)	(1,260,730)	(1,312,440)	(8,485)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(51,710)</u>	<u>(484,496)</u>	<u>(536,206)</u>	<u>(8,485)</u>
<b>Cash flows from investing activities</b>				
Interest income	38,340	21,322	59,662	2,015
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>82,036</u>	<u>45,938</u>	<u>127,974</u>	<u>1,659</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>1,763,572</u>	<u>885,046</u>	<u>2,648,618</u>	<u>211,796</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,845,608</u>	<u>\$ 930,984</u>	<u>\$ 2,776,592</u>	<u>\$ 213,455</u>
<b>Cash flows from operating activities</b>				
Operating income (loss)	\$ 22,414	\$ 98,101	\$ 120,515	\$ (22,572)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Depreciation	44,022	78,392	122,414	31,201
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	5,988	(13,513)	(7,525)	-
Accounts payable and accrued liabilities	14,214	337,333	351,547	(500)
Prepaid items	5,920	5,920	11,840	-
Compensated absences	2,786	2,786	5,572	-
Customer deposits	62	93	155	-
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 95,406</u>	<u>\$ 509,112</u>	<u>\$ 604,518</u>	<u>\$ 8,129</u>

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

**CITY OF CARSON CITY**  
**FIDUCIARY FUNDS**  
**STATEMENT OF NET ASSETS**

**JUNE 30, 2011**

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	<b>Employees Retirement System</b>	<b>Agency Fund</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 24,975	\$ 10,182
Contribution receivable	19,736	-
Investments		
US government securities mutual funds	14,504	-
Other mutual funds	22,770	-
Cash surrender value of life insurance	30,443	-
<b>Total assets</b>	<b>112,428</b>	<b>\$ 10,182</b>
<b>Liabilities</b>		
Accounts payable	-	\$ -
Due to other governments	-	10,182
<b>Total liabilities</b>	<b>-</b>	<b>\$ 10,182</b>
<b>Net assets</b>		
Net assets held in trust for pension benefits	<b>\$ 112,428</b>	

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



**CITY OF CARSON CITY**  
**EMPLOYEES RETIREMENT SYSTEM**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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	<b>Employees Retirement System</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 33,625
Investment income (loss)	<u>26,103</u>
<b>Total additions (reductions)</b>	59,728
<b>Deductions</b>	
Distributions, expenses and benefit payments	<u>272,307</u>
Net increase (decrease)	(212,579)
<b>Net assets, beginning of year</b>	<u>325,007</u>
<b>Net assets, end of year</b>	<u><u>\$ 112,428</u></u>

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

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Carson City, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

#### ***Reporting Entity***

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Carson City. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the City.

#### ***Government-wide and Fund Financial Statements***

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

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

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

#### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

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

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants and interest which use one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, state revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *Library Fund* accounts for the operations of the City library. This fund is primarily funded through a county-wide tax levy and penal fines.

The City reports the following major proprietary funds:

The *Sewer Enterprise Fund* is used to account for the operations of the City's sewer department that provides sewer services to most residents of the City on a user charge basis.

The *Water Enterprise Fund* is used to account for the operations of the City's water department that provides water services to most residents of the City on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Internal Service Fund* is used to account for the financing of goods or services by the City which are provided to other departments and funds or to other governmental units on a cost reimbursement basis. The City maintains one Internal Service Fund for motor pool operations.

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

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The *Trust and Agency Funds* are used to account for assets held in a trustee or agency capacity on behalf of outside parties, including other governments. These include a pension trust and an agency fund.

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

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

#### ***Budgets and Budgetary Accounting***

Comparisons to budget are presented for General and Special Revenue Funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget is adopted by activity.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621. The appropriations ordinances are 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. The City did amend its budget for the current year. Any revisions that alter the total expenditures of any activity must be approved by the City Council.

Budgets for expenditures are adopted on an activity basis. Budgeted amounts are as originally adopted, or as amended, by the City Council.

#### ***Cash and Cash Equivalents***

For the purpose of the statement of cash flows, the City considers cash and cash equivalents to include all cash as well as pooled investments because the pooling of these balances allows for withdrawal at any time similar to a demand deposit account.

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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### **Statutory Authority**

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.
- h. The City pension assets are also allowed to be invested in corporate equity and debt securities

### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added since 2004.

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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been capitalized on capital assets reported in proprietary funds.

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

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Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and systems	5-65
Machinery and equipment	3-15
Vehicles	5
Infrastructure	50

#### ***Unearned/Deferred Revenue***

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds consisted of amounts received from private sources to be used for City parks and land contracts receivable in future years.

#### ***Property Taxes***

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes. Real property taxes not collected as of March 1 are turned over to Montcalm County for collection, which advances the City 100% for the delinquent real taxes. Collection of delinquent personal property taxes remains the responsibility of the City Comptroller.

Property taxes levied in July of each year are recognized as revenue in that year.

#### ***Grants and Other Intergovernmental Revenues***

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

#### ***Interfund Transactions***

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Transfers are used to move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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### ***Compensated Absences***

Under contracts and employee policy, employee groups and individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts. Accumulated vacation time of governmental funds is recorded on the statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net assets of the individual enterprise funds.

### ***Long-Term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### ***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. During the year ended June 30, 2011, the City carried commercial insurance to cover risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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### **Net Assets and Fund Balance Reporting**

Governmental funds report fund balance in the following five categories:

1. Non-spendable - the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted – the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed – the related assets can only be spent for a specific purpose identified by formal action of the entities governing board.
4. Assigned – the related assets can only be spent for a specific purpose identified by management as authorized by the governing board.
5. Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

Fund Balance can only be committed by resolution of the City Council.

When multiple net asset/fund balance classifications are available for use it is the government's policy to utilize the most restricted balances first, then the next most restricted balance as needed.

### **2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

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

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown at the functional level. The approved budgets of the City for these budgetary funds were adopted at the activity level. During the current year, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
<b>General Fund</b>			
Legislative			
City council	\$ 44,344	\$ 57,669	\$(13,325)
General Government			
City administrator	45,580	49,979	(4,399)
Public Safety			
Police department	110,482	117,817	(7,335)
Recreation and Culture			
Parks	71,464	72,043	(579)
Capital outlay	-	30,712	(30,712)



# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2011**

### 3. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Cash and cash equivalents	\$1,473,023	\$2,730,403	\$ 35,157	4,238,583
Restricted Cash	-	46,189	-	46,189
Investments	-	-	67,717	67,717
	<u>\$1,473,023</u>	<u>\$2,776,592</u>	<u>\$102,874</u>	<u>\$4,352,489</u>

These deposits are in financial institutions located in Michigan. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following deposits and investments:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
American Funds				
US Government Securities Fund	N/A	\$ 14,504	2	Morning Star
Capital World Growth and Income	N/A	22,770	4	Morning Star
American Funds Money Market Fund	N/A	17,777	N/A	
CSV Life Insurance	N/A	30,443	N/A	
Money market funds	N/A	50,590	N/A	
US Treasury Note	1/15	446,940		
US Treasury Note	7/15	228,691		
US Treasury Note	4/12	201,313		
US Treasury Note	10/14	209,094		
US Treasury Note	3/16	256,914		
US Treasury Note	9/12	202,594		
US Treasury Note	6/13	227,883		
Federal Farm Note	4/14	104,626	Aaa	Moody's
FHLM	1/14	78,164	Aaa	Moody's
FHLM	5/16	256,294	Aaa	Moody's
FHLM	2/15	210,960	Aaa	Moody's
FHLB	7/11	100,111	Aaa	Moody's
FNMN	7/15	232,040	Aaa	Moody's
FNMN	12/13	236,731	Aaa	Moody's
Total investments		<u>\$3,128,439</u>		

The above investments do not include certificates of deposit which are included in the cash and cash equivalents caption on the financial statements.

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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### *Investment and deposit risk*

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of 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. The maturity date for each investment is identified above for investments with a specific maturity.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds qualified external investment pools as identified in Note 1 of the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment, where applicable, is identified above for investments held at year end.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$225,664 of the City's bank balance of \$1,222,356 is 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. Of the above investments, \$30,443 represents the cash surrender value of life insurance and \$105,641 is invested in mutual funds. Of the above mutual fund investments the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk..

#### 4. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2011 are as follows:

	<u>Non major Governmental Funds</u>	<u>Total</u>
<u>Transfers out</u> Non-major governmental fund	\$5,992	\$ 5,992
<b>Total</b>	<b>\$5,992</b>	<b>\$5,992</b>

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2011**

### 5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2011</b>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 158,996	\$ -	\$ -	\$ 158,996
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	158,996	-	-	158,996
<b>Capital assets, being depreciated</b>				
Building and improvements	1,283,642	26,599	-	1,310,241
Furniture and equipment	645,184	-	-	645,184
Motor pool equipment	520,588	8,485	23,882	505,191
Motor vehicles	601,844	7,250	-	609,094
Infrastructure	656,989	172,574	-	829,563
Total capital assets, being depreciated	3,708,247	214,908	23,882	3,899,273
Less accumulated depreciation for:				
Building and improvements	676,648	17,844	-	694,492
Furniture and equipment	471,496	19,156	-	490,652
Motor pool equipment	364,097	30,291	23,882	370,506
Motor vehicles	348,599	27,869	-	376,468
Infrastructure	56,262	28,207	-	84,469
Total accumulated depreciation	1,917,102	123,367	23,882	2,016,587
<b>Net capital assets, being depreciated</b>	<b>1,791,145</b>	<b>91,541</b>	<b>-</b>	<b>1,882,686</b>
<b>Governmental Activities capital assets, net</b>	<b>\$1,950,141</b>	<b>\$91,541</b>	<b>\$ -</b>	<b>\$2,041,682</b>
<b>Business-type Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 14,475	\$ -	\$ -	\$ 14,475
Construction in progress	25,208	1,260,730	-	1,285,938
Total capital assets, not being depreciated	39,683	1,260,730	-	1,300,413
<b>Capital assets being depreciated</b>				
Buildings and improvements	80,576	-	-	80,576
Mains and equipment	6,362,051	51,710	-	6,413,761
Total capital assets, being depreciated	6,442,627	51,710	-	6,494,337
Less accumulated depreciation for:				
Buildings and improvements	25,229	1,946	-	27,175
Mains and equipment	1,727,730	120,468	-	1,848,198
Total accumulated depreciation	1,752,959	122,414	-	1,875,373
<b>Net capital assets, being depreciated</b>	<b>4,689,668</b>	<b>(70,704)</b>	<b>-</b>	<b>4,618,964</b>
<b>Business-type Activities capital assets, net</b>	<b>\$4,729,351</b>	<b>\$1,190,026</b>	<b>\$ -</b>	<b>\$5,919,377</b>

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

<b>Governmental Activities</b>	
General government	\$ 4,570
Public safety	32,460
Public works	22,325
Culture and recreation	32,811
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>31,201</u>
<b>Total depreciation expense - governmental activities</b>	<b><u>\$123,367</u></b>
<b>Business-type Activities</b>	
Sewer	\$ 44,022
Water	<u>78,392</u>
<b>Total depreciation expense – business- type activities</b>	<b><u>\$122,414</u></b>

### 6. DEFINED BENEFIT PENSION PLAN

#### *Plan Description*

The City contributes to the City of Carson City Pension Plan, a single employer contributory defined benefit pension plan. All full-time employees over the age of 21 with one year of service are eligible to participate in the Plan.

Membership of the Plan consists of three terminated vested participants and 8 active plan members at the date of the latest actuarial valuation which was June 30, 2010.

#### *Basis of Accounting*

The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

#### *Method Used to Value Investments*

Investments are reported at fair value.

#### *Benefits Provided*

Employees who retire at age 65 (normal retirement) with 3 or more years of service are entitled to retirement benefits payable monthly. Normal retirement benefits are equal to 1.2% per year of service times the highest 5 year average salary over the 10 years prior to retirement. Benefits vest 20% per year after three years (100% after seven years). The accrued retirement benefit is actuarially reduced for each year by which early retirement precedes normal retirement. The Plan also provides for death benefits.

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

#### **Contributions**

The City has responsibility for making actuarially determined contributions to the Plan. Employees are not required to contribute to the Plan. The funding objective of the Plan is to establish and receive contributions, expressed as a percentage of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens. The contribution rate for normal cost is determined using an "individual spread gain" actuarial cost method and, further, follows the "level contribution method" as required by Michigan law. The actuarial assumptions are the same as used to compute the standardized measure of the Net Pension Obligation. The plan provisions and contribution requirements of plan members and the City are established and may be amended by City Council. The City is required to contribute at an actuarially determined rate; the current rate is 12.0% of annual covered payroll.

#### **Annual Pension Cost and Net Pension Obligation**

The City's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution (equal to annual pension cost)	\$33,625
Contributions made	33,625
Increase (decrease) in net pension obligation	-
Net pension obligation beginning of year	-
<b>Net pension obligation end of year</b>	<b>\$ -</b>

The annual required contribution for the current year was determined as part of the June 30, 2010 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 6.2% rate of return and (b) projected salary increases ranging from 0% per year.

#### **Three-Year Trend Information**

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/09	\$38,592	100%	-
6/30/10	37,685	100%	-
6/30/11	33,625	100%	-

#### **Funding Progress**

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
6/30/10	\$326,371	\$426,888	\$(100,517)	76.45%	\$239,971	41.89%

GASB Statement 25 and 50 require supplementary information to be presented after the notes to the financial statements section in this report. The required schedule of funding progress immediately following the notes to the financial statements presents multi year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits. A stand-alone financial report of defined benefit Plan has not been issued.

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

#### 7. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2011.

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
\$300,000, note to ACI Finance, Series 2000. Payments due in annual installments of \$17,000 to \$33,000 through May 1, 2016; interest at 4.68%	\$ 74,000	\$ -	\$ 74,000	\$ -	\$ -
Accrued employee benefits	48,504	-	4,189	44,315	-
<b>Total Governmental Activities</b>	<b>122,504</b>	<b>-</b>	<b>78,189</b>	<b>44,315</b>	<b>-</b>
<b>Business-type Activities</b>					
Drinking Water Revolving Fund Loan. Payments due in annual installments of \$65,000 to \$95,000 through 2027; interest at 2.125%	1,400,000	-	70,000	1,330,000	70,000
2010 USDA Water Supply Revenue Bonds. Payments due in annual installments of \$24,000 to \$66,000 through 2050; interest at 3.00%	-	882,000	-	882,000	25,000
Accrued employee benefits	28,678	5,572	-	34,250	-
<b>Total Business-type Activities</b>	<b>1,428,678</b>	<b>887,572</b>	<b>70,000</b>	<b>2,246,250</b>	<b>95,000</b>
<b>Total</b>	<b>\$1,551,182</b>	<b>\$887,572</b>	<b>\$148,189</b>	<b>\$2,290,565</b>	<b>\$95,000</b>

The 2010 Water Supply Revenue Bonds are issued through a USDA program which provides for bond proceeds to be received as the related construction project progresses to a maximum amount of \$1,659,000. The future minimum payment schedule includes only debt outstanding at June 30, 2011.

# CITY OF CARSON CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2011 are as follows:

Year Ended June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ -	\$ -	\$ 95,000	\$ 44,474
2013	-	-	94,000	42,510
2014	-	-	100,000	40,491
2015	-	-	100,000	38,409
2016	-	-	101,000	36,318
2017-2021	-	-	552,000	148,129
2022-2026	-	-	622,000	87,091
2027-2031	-	-	281,000	36,285
2032-2036	-	-	212,000	15,873
2037-2041	-	-	55,000	731
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$2,212,000</b>	<b>\$ 490,311</b>

#### 8. ECONOMIC DEPENDENCY

State of Michigan correctional facilities is a major customer of the City's sewer and water funds. During the year ended June 30, 2011, revenue attributable to charges for these services was approximately 73% of total charges in these funds.

#### 9. 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.

#### 10. COMMITMENTS

At year end the city had construction commitments of approximately \$825,000

#### 11. PRIOR PERIOD ADJUSTMENT

Beginning fund balance of the general fund was increased by \$49,686 to reflect the consolidation of the compensated absences special revenue fund with the general fund in accordance with the requirements of new accounting standards.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF CARSON CITY**

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

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 391,949	\$ 391,949	\$ 394,506	\$ 2,557
Intergovernmental	223,538	223,538	120,829	(102,709)
Fees and service charges	66,220	66,220	71,075	4,855
Interest	9,700	9,700	2,239	(7,461)
Contributions	68,000	68,000	5,908	(62,092)
Miscellaneous	2,140	2,140	3,034	894
<b>Total revenues</b>	<u>761,547</u>	<u>761,547</u>	<u>597,591</u>	<u>(163,956)</u>
<b>Expenditures</b>				
Current				
Legislative	93,160	44,344	57,569	(13,225)
General government	203,851	186,137	187,535	(1,398)
Public safety	174,052	160,299	165,634	(5,335)
Public works	145,470	155,846	153,698	2,148
Recreation and culture	168,814	71,464	72,043	(579)
Capital Outlay	-	-	30,712	(30,712)
<b>Total expenditures</b>	<u>785,347</u>	<u>618,090</u>	<u>667,191</u>	<u>(49,101)</u>
Revenues over (under) expenditures	<u>(23,800)</u>	<u>143,457</u>	<u>(69,600)</u>	<u>(213,057)</u>
Other financing sources (uses)				
Transfers in	35,000	35,000	-	(35,000)
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>35,000</u>	<u>35,000</u>	<u>-</u>	<u>(35,000)</u>
Net changes in fund balance	11,200	178,457	(69,600)	(248,057)
<b>Fund balance, beginning of year, as restated</b>	<u>424,242</u>	<u>424,242</u>	<u>424,242</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 435,442</u>	<u>\$ 602,699</u>	<u>\$ 354,642</u>	<u>\$ (248,057)</u>

**CITY OF CARSON CITY**

**LIBRARY FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 99,000	\$ 99,000	\$ 117,826	\$ 18,826
Intergovernmental				
State shared	3,000	3,000	5,880	2,880
Penal fines	81,000	81,000	79,656	(1,344)
Fees and service charges	14,000	14,000	13,164	(836)
Interest	4,500	4,500	4,862	362
Contributions	-	5,777	12,835	7,058
<b>Total Revenues</b>	<u>201,500</u>	<u>207,277</u>	<u>234,223</u>	<u>26,946</u>
<b>Expenditures</b>				
Current				
Recreation and culture	231,000	205,396	203,613	1,783
Debt service				
Principal	20,000	74,000	74,000	-
Interest	6,000	978	978	-
<b>Total expenditures</b>	<u>257,000</u>	<u>280,374</u>	<u>278,591</u>	<u>1,783</u>
Net changes in fund balance	(55,500)	(73,097)	(44,368)	28,729
<b>Fund balance, beginning of year</b>	<u>452,287</u>	<u>452,287</u>	<u>452,287</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 396,787</u>	<u>\$ 379,190</u>	<u>\$ 407,919</u>	<u>\$ 28,729</u>

**CITY OF CARSON CITY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
5/1/1995	\$ 296,274	\$ 215,347	\$ 80,927	137.58%	\$ 222,759	36.33%
5/1/1996	304,041	235,779	68,262	128.95%	214,870	31.77%
5/1/1997	358,147	262,754	95,393	136.31%	237,511	40.16%
5/1/1998	448,622	292,918	155,704	153.16%	240,222	64.82%
5/1/1999	561,309	440,021	121,288	127.56%	220,810	54.93%
5/1/2000	594,942	496,426	98,516	119.85%	256,773	38.37%
5/1/2002	492,776	415,483	77,293	118.60%	262,085	29.49%
6/30/2008	738,113	675,195	62,918	109.32%	297,773	21.13%
6/30/2009	789,781	731,989	57,792	107.90%	297,773	19.41%
6/30/2010	326,371	426,888	(100,517)	76.45%	239,971	41.89%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<u>Year Ended</u>	<u>Annual required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
4/30/2001	\$ 25,279	\$ 25,279	100%
4/30/2002	27,416	27,416	100%
4/30/2003	23,704	23,704	100%
4/30/2004	26,840	26,840	100%
4/30/2005	30,815	30,815	100%
4/30/2006	28,431	28,431	100%
4/30/2007	30,318	30,318	100%
6/30/2008	41,196	41,196	100%
6/30/2009	38,592	38,592	100%
6/30/2010	37,685	37,685	100%
6/30/2011	33,625	33,625	100%

The plan fiscal year end was changed to June 30 for the 2008 fiscal year.

# CITY OF CARSON CITY

## ***REQUIRED SUPPLEMENTARY INFORMATION***

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### **Summary of Actuarial Methods and Assumptions**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows

Valuation date	6/30/2010
Actuarial cost Method	Unit credit
Amortization method	Level percentage of active payroll over future working lifetime
Remaining amortization period	0 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return	6.20%
Projected salary increases	0.00%
Cost of living increase	0.00%

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## ***NOTES TO REQUIRED SUPPLEMENTARY INFORMATION***

### **Basis of Accounting**

Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

**CITY OF CARSON CITY**

**GENERAL FUND  
SCHEDULE OF REVENUES  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes				
Property taxes	\$ 391,949	\$ 391,949	\$ 394,506	\$ 2,557
Intergovernmental revenues				
State shared revenues	223,538	223,538	120,829	(102,709)
Total intergovernmental revenues	223,538	223,538	120,829	(102,709)
Fees and service charges				
Fire contracts	35,000	35,000	30,421	(4,579)
Rent	30,647	30,647	38,180	7,533
Licenses and permits	48	48	36	(12)
Court costs	525	525	2,438	1,913
Total fees and service charges	66,220	66,220	71,075	4,855
Interest	9,700	9,700	2,239	(7,461)
Contributions	68,000	68,000	5,908	(62,092)
Miscellaneous	2,140	2,140	3,034	894
<b>Total revenues</b>	<b>\$ 761,547</b>	<b>\$ 761,547</b>	<b>\$ 597,591</b>	<b>\$ (163,956)</b>

**CITY OF CARSON CITY**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES**  
**BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2011**

<b>Expenditures</b>	<b>Budget Amounts</b>		<b>Actual Amount</b>	<b>Variance Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Current				
Legislative				
City Council	\$ 93,160	\$ 44,344	\$ 57,569	\$ (13,225)
General government				
City Administrator	46,518	45,580	49,979	(4,399)
Election Commission	3,002	3,384	3,384	-
Assessor	16,000	13,629	13,034	595
Comptroller	138,331	123,544	121,138	2,406
Total general government	203,851	186,137	187,535	(1,398)
Public Safety				
Police Department	138,052	110,482	117,817	(7,335)
Fire Department	36,000	49,817	47,817	2,000
Total public safety	174,052	160,299	165,634	(5,335)
Public Works				
Department of Public Works	145,470	155,846	153,698	2,148
Recreation and culture				
Parks	168,814	71,464	72,043	(579)
Capital outlay	-	-	30,712	(30,712)
<b>Total expenditures</b>	<b>\$ 785,347</b>	<b>\$ 618,090</b>	<b>\$ 667,191</b>	<b>\$ (49,101)</b>

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

**JUNE 30, 2011**

	<u>Special Revenue</u>		<u>Total</u>
	<u>Major Street</u>	<u>Local Street</u>	
<b>Assets</b>			
Cash and cash equivalents	\$ 233,814	\$ 189,150	\$ 422,964
Due from other governments	10,734	4,236	14,970
<b>Total assets</b>	<u>\$ 244,548</u>	<u>\$ 193,386</u>	<u>\$ 437,934</u>
<b>Liabilities and fund balance</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -
<b>Fund balances</b>			
Restricted for Streets	244,548	193,386	437,934
<b>Total fund balances</b>	<u>244,548</u>	<u>193,386</u>	<u>437,934</u>
<b>Total liabilities and fund balances</b>	<u>\$ 244,548</u>	<u>\$ 193,386</u>	<u>\$ 437,934</u>



**CITY OF CARSON CITY**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Special Revenue</u>		
	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<b>Revenues</b>			
State revenues	\$ 70,090	\$ 26,247	\$ 96,337
Interest	<u>2,270</u>	<u>824</u>	<u>3,094</u>
<b>Total revenues</b>	<u>72,360</u>	<u>27,071</u>	<u>99,431</u>
<b>Expenditures</b>			
Current			
Public works	113,152	111,630	224,782
Capital outlay	<u>6,199</u>	<u>6,054</u>	<u>12,253</u>
<b>Total expenditures</b>	<u>119,351</u>	<u>117,684</u>	<u>237,035</u>
Revenues over (under) expenditures	<u>(46,991)</u>	<u>(90,613)</u>	<u>(137,604)</u>
Other financing sources (uses)			
Transfers in	-	5,992	5,992
Transfers out	<u>(5,992)</u>	<u>-</u>	<u>(5,992)</u>
Total other financing sources (uses)	<u>(5,992)</u>	<u>5,992</u>	<u>-</u>
Net changes in fund balances	(52,983)	(84,621)	(137,604)
<b>Fund balances, beginning of year</b>	<u>297,531</u>	<u>278,007</u>	<u>575,538</u>
<b>Fund balances, end of year</b>	<u>\$ 244,548</u>	<u>\$ 193,386</u>	<u>\$ 437,934</u>

**CITY OF CARSON CITY**

**MAJOR STREET FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
State revenue	\$ 93,369	\$ 93,369	\$ 70,090	\$ (23,279)
Interest	2,560	2,560	2,270	(290)
<b>Total revenues</b>	<u>95,929</u>	<u>95,929</u>	<u>72,360</u>	<u>(23,569)</u>
<b>Expenditures</b>				
Current				
Public works				
Routine maintenance	76,000	98,505	98,505	-
Winter maintenance	8,075	9,893	9,893	-
State trunkline	1,366	4,754	4,754	-
Capital outlay				
Construction	488	6,199	6,199	-
<b>Total expenditures</b>	<u>85,929</u>	<u>119,351</u>	<u>119,351</u>	<u>-</u>
Revenues over (under) expenditures	10,000	(23,422)	(46,991)	(23,569)
Other financing uses				
Transfers out	(10,000)	(10,000)	(5,992)	4,008
Net changes in fund balance	-	(33,422)	(52,983)	(19,561)
<b>Fund balance, beginning of year</b>	<u>297,531</u>	<u>297,531</u>	<u>297,531</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 297,531</u>	<u>\$ 264,109</u>	<u>\$ 244,548</u>	<u>\$ (19,561)</u>

**CITY OF CARSON CITY**

**LOCAL STREET FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
State revenue	\$ 67,960	\$ 67,960	\$ 26,247	\$ (41,713)
Interest	5,000	5,000	824	(4,176)
<b>Total revenues</b>	<u>72,960</u>	<u>72,960</u>	<u>27,071</u>	<u>(45,889)</u>
<b>Expenditures</b>				
Current				
Public works				
Routine maintenance	75,000	106,102	106,102	-
Winter maintenance	5,960	5,528	5,528	-
Capital outlay				
Construction	2,000	6,054	6,054	-
<b>Total expenditures</b>	<u>82,960</u>	<u>117,684</u>	<u>117,684</u>	<u>-</u>
Revenues over (under) expenditures	(10,000)	(44,724)	(90,613)	(45,889)
Other financing sources				
Transfers in	10,000	10,000	5,992	(4,008)
Net changes in fund balance	-	(34,724)	(84,621)	(49,897)
<b>Fund balance, beginning of year</b>	<u>278,007</u>	<u>278,007</u>	<u>278,007</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 278,007</u>	<u>\$ 243,283</u>	<u>\$ 193,386</u>	<u>\$ (49,897)</u>

## **SINGLE AUDIT SECTION**



*Vredeveld Haefner LLC*

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

**Douglas J. Vredeveld, CPA**

**(616) 446-7474**

**Peter S. Haefner, CPA**

**(616) 460-9388**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 30, 2011

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described below we identified deficiencies in internal control over financial reporting that we consider to be a material weakness.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 2011-1 and 2011-2 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of City of Carson City, Michigan, in a separate letter dated September 30, 2011.

The City's responses to the findings identified in our audit are identified above. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wendell Haefner LLC*



*Vredeveld Haefner LLC*

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

**Douglas J. Vredeveld, CPA**

**(616) 446-7474**

**Peter S. Haefner, CPA**

**(616) 460-9388**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 30, 2011

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

**Compliance**

We have audited the City of Carson City, Michigan, compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have direct and material effect on each of the City of Carson City's major federal programs for the year ended June 30, 2011. The City of Carson City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Carson City's management. Our responsibility is to express an opinion on the City of Carson City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Carson City 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. Our audit does not provide a legal determination on the City of Carson City's compliance with those requirements.

In our opinion, the City of Carson City, complied, in all material respects, with the 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, 2011.

**Internal Control Over Compliance**

Management of the City of Carson City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Carson City's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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..

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Uredewald Haefner LLC*



**CITY OF CARSON CITY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</b>	<b>Grant Number</b>	<b>CFDA Number</b>	<b>Federal Expenditures</b>
United States Department of Agriculture Water System Improvement Project		10.760	<u>\$ 1,161,529</u>

Expenditures on the schedule of expenditures of federal awards may differ from expenditures in the financial statements due to assets being purchased with capital grants being capitalized and depreciated over the related asset's estimated useful lives.

**CITY OF CARSON CITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued	Unqualified on basic financial statements	
Internal controls over financial reporting		
Material weaknesses identified?	<u>  X  </u> yes	<u>      </u> no
Significant deficiencies identified not considered to be material weaknesses?	<u>      </u> yes	<u>  X  </u> none reported
Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  X  </u> no

**Federal Awards**

Internal control over major programs		
Material weaknesses identified?	<u>      </u> yes	<u>  X  </u> no
Significant deficiencies identified not considered to be material weaknesses?	<u>      </u> yes	<u>  X  </u> none reported
Type of auditors' report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section 510(a)?	<u>      </u> yes	<u>  X  </u> no

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	USDA Rural Development

Dollar threshold used to distinguish between Type A and B programs?	<u>  \$300,000  </u>
Auditee qualified as low-risk auditee?	<u>      </u> yes <u>  X  </u> no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

2011-1

Condition: The City does not have procedures in place to prepare financial statements or the schedule of expenditures of federal awards in accordance with U.S. generally accepted accounting principles, including procedures to present required financial statement disclosures.

Effect: Auditing standards require that the inability to prepare financial statements in accordance with generally accepted accounting principles be reported as a material weakness.

Recommendation: The City's system of control should be modified to provide for financial statements prepared in accordance with generally accepted accounting principles.

Management corrective action: The City maintains its financial records throughout the year on a modified accrual basis of accounting and has determined that any benefits derived from preparing annual accrual basis financial statements and required disclosures is not cost effective.

**CITY OF CARSON CITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

Condition: The City does not have a process in place to prepare bank and investment account to the general ledger in a timely manner.

Effect: Accurate City financial information is not always available in a timely manner.

Recommendation: The City should develop a process to provide timely reconciliation of bank and investment account balances to general ledger balances.

Management corrective action: Management will provide for timely reconciliation of investment and bank account balances.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted

**SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS**

2010-1 was repeated as 2011-1 in the current year

2010-2 was repeated as 2011-2 in the current year

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*Vredeveld Haefner LLC*

CPA's and Consultants

4001 Granada Ct.  
Grand Rapids, MI 49534  
FAX (616) 828-0307

**Douglas J. Vredeveld, CPA**

**(616) 446-7474**

**Peter S. Haefner, CPA**

**(616) 460-9388**

September 30, 2011

To the management and City Council  
City of Carson City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City for the year ended June 30, 2011. 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, 2010. 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 Carson City are described in Note 1 to the financial statements. As described in Note 1 the City of Carson City changed accounting policies related to the classification of fund balance by adopting GASB Statements Number 54 in 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of capital assets is based on previous history. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Prior period adjustment in Note 9 to the financial statements which described the resulting fund balance changes related to the implementation of GASB Statements Number 54.

*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 trivial, and communicate them to the appropriate level of management. We have proposed audit adjustment to management to correct these misstatements. An audit adjustment may or may not indicate matters that could have a significant

effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). We have attached a listing of the proposed adjustments, all of which were recorded by the City. In our judgment, the adjustments we proposed indicate matters that could have a significant effect on the City's financial reporting process.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as 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 September 30, 2011.

#### *Management Consultations with Other Independent Accountants*

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

#### *Other Audit Findings or Issues*

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

We also noted the following items during our audit:

We suggest that management be provided with accurate and timely monthly budget and actual reports to assist in the management of the City's operations.

We suggest that journal entries be reviewed and approved by someone other than the journal entry preparer. This can be documented with a simple initial and date.

Water and sewer rates are established by ordinance; we noted the finance committee approved a reallocation of the rates during the year to allow for more charges in the water fund and lower charges in the sewer fund. While the water ordinance allowed for additional charges in excess of inflation, there is no provision for lowering sewer rates in the sewer ordinance. We recommend council review this ordinance and make adjustments as necessary.

We suggest that the monthly bank and investment account reconciliations be reviewed monthly by an individual other than the person preparing these documents.

Minutes of each meeting are not being kept for the Finance Committee. We suggest that minutes be kept for each City committee meeting.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with 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.

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

Sincerely,

*Ordevald Haefner LLC*