

CITY OF CARSON CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



Vredeveld Haefner LLC

CITY OF CARSON CITY

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CITY OF CARSON CITY

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INDEPENDENT AUDITORS' REPORT

September 25, 2012

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, 2012, 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, 2012, 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 25, 2012, 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 37 and 38, and the pension plan information on pages 39 and 40 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.

Uredexeld 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, 2012. 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 was completed
- The street lighting improvement project began with contribution funding of \$19,000
- Both water and sewer rate increases were implemented

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 and equipment. 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 \$9,743,373 at the close of the most recent fiscal year.

A 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	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$1,727,781	\$1,569,538	\$2,456,898	\$2,858,661	\$4,184,679	\$4,428,199
Capital assets	1,993,393	2,041,682	6,750,797	5,919,377	8,744,190	7,961,059
Total assets	3,721,174	3,611,220	9,207,695	8,778,038	12,928,869	12,389,258
Long-term liabilities	36,045	44,315	2,929,444	2,246,250	2,965,489	2,290,565
Other liabilities	203,390	144,161	16,617	395,748	220,007	539,909
Total liabilities	239,435	188,476	2,946,061	2,641,998	3,185,496	2,830,474
Net assets						
Invested in capital assets, net of related debt	1,993,393	2,041,682	3,856,797	3,707,377	5,850,190	5,749,059
Restricted	970,205	845,853	-	-	970,205	845,853
Unrestricted	518,141	535,209	2,404,837	2,428,663	2,922,978	2,963,872
Total net assets	\$3,481,739	\$3,422,744	\$6,261,634	\$6,136,040	\$9,743,373	\$9,558,784

Net assets of the City increased by \$184,589. The business-type activities increase in net assets of \$125,594 was primarily the result of a rate increase intended for future maintenance and improvements and to cover debt payments. The governmental activities increase in net assets of \$58,995 is primarily due to increased operating grants and contributions and frugal spending during the year.

Summary of Activities

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenue						
Program revenue						
Charges for Services	\$ 60,394	\$ 80,147	\$ 803,441	\$ 709,536	\$ 863,835	\$ 789,683
Operating grants and contributions	271,880	215,277	-	-	271,880	215,277
Capital grants and contributions	-	-	-	389	-	389
	332,274	295,424	803,441	709,925	1,135,715	1,005,349
General revenue						
Property taxes	505,232	512,332	-	-	505,232	512,332
Other governmental sources	110,872	120,829	-	-	110,872	120,829
Other	6,026	4,242	64,881	59,662	70,907	63,904
Transfers	-	-	-	-	-	-
Total revenue and transfers	954,404	932,827	868,322	769,587	1,822,726	1,702,414
Expenses						
Legislative	29,637	57,569	-	-	29,637	57,569
General government	187,793	187,916	-	-	187,793	187,916
Public safety	162,498	198,445	-	-	162,498	198,445
Public works	204,332	277,304	-	-	204,332	277,304
Culture and recreation	311,149	290,731	-	-	311,149	290,731
Interest	-	401	-	-	-	401
Sewer	-	-	295,679	273,570	295,679	273,570
Water	-	-	447,049	351,606	447,049	351,606
Total expenses	895,409	1,012,366	742,728	625,176	1,638,137	1,637,542
Increase (decrease) in net assets	58,995	(79,539)	125,594	144,411	184,589	64,872
Net assets-beginning of year	3,422,744	3,502,283	6,136,040	5,991,629	9,558,784	9,493,912
Net assets end of year	\$3,481,739	\$3,422,744	\$6,261,634	\$6,136,040	\$9,743,373	\$9,558,784

Governmental Activities. During the year the City invested \$204,332 or 23% of governmental activities expenses in public works. Culture and recreation expense, which includes library operations was \$311,149 or 35% of governmental activities expenses while legislative, general government, and public safety, made up the remaining 42% of governmental activities expenses.

Business-type Activities. Business-type activities increased the City's net assets by \$125,594 accounting for 68% 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 \$144,411. Key elements of this increase were water and sewer rate increases.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for 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 \$1,350,220, an increase of \$149,725 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 \$322,366. 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 56% of total general fund expenditures.

The City's general fund fund balance increased by \$25,373 during the current fiscal year primarily as a result of expenditure control.

The library fund has a total fund balance of \$453,926, which increased by \$46,007 during the year, primarily due to a significant contribution of \$50,000. 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 \$1,954,715 and \$450,122 respectively. The sewer and water funds had an increase in net assets for the year of \$70,001 and \$55,593 respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

Property tax revenues were over budgeted in error while cellular provider rent was not anticipated when the budget was adopted. Audit and park project expenditures budgeted under legislative were paid from the controller and parks departments. Police and fire expenditure were less than budgeted due to lower labor and benefit costs. Contributions of \$50,000 received by the library fund were not expected when the budget was adopted.

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, 2012, amounted to \$8,744,190 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of a water system project, and equipment replacement.

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

Capital Assets			
	Governmental Activities	Business- type Activities	Total
Land	\$ 158,996	\$ 14,475	\$ 173,471
Buildings, equipment and infrastructure	1,834,397	6,736,322	8,570,719
Total	\$1,993,393	\$6,750,797	\$8,744,190

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:

Debt			
	Governmental Activities	Business- type Activities	Total
Accrued employee benefits	\$44,315	\$ 35,444	\$ 79,759
Bonds payable	-	2,894,000	2,894,000
Total	\$44,315	\$2,929,444	\$2,973,759

The City's total debt increased by \$647,924 during the year primarily due to the issuance of USDA water supply bonds and payment of scheduled principal payments.

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 2012-13 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, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,627,079	\$ 2,286,518	\$ 3,913,597
Accounts receivable	31,000	109,844	140,844
Due from other governments	49,847	-	49,847
Prepaid items	7,951	-	7,951
Land contract receivable	11,904	-	11,904
Restricted cash	-	60,536	60,536
Capital assets, net			
Land	158,996	14,475	173,471
Buildings, equipment and infrastructure	<u>1,834,397</u>	<u>6,736,322</u>	<u>8,570,719</u>
Total assets	<u>3,721,174</u>	<u>9,207,695</u>	<u>12,928,869</u>
Liabilities			
Accounts payable and accrued expenses	89,939	14,701	104,640
Unearned revenue	113,451	-	113,451
Customer deposits	-	1,916	1,916
Noncurrent liabilities			
Compensated absences	36,045	35,444	71,489
Due within one year	-	94,000	94,000
Due in more than one year	<u>-</u>	<u>2,800,000</u>	<u>2,800,000</u>
Total liabilities	<u>239,435</u>	<u>2,946,061</u>	<u>3,185,496</u>
Net Assets			
Invested in capital assets, net of related debt	1,993,393	3,856,797	5,850,190
Restricted for			
Library	453,926	-	453,926
Major streets	297,742	-	297,742
Local streets	218,537	-	218,537
Unrestricted	<u>518,141</u>	<u>2,404,837</u>	<u>2,922,978</u>
Total net assets	<u>\$ 3,481,739</u>	<u>\$ 6,261,634</u>	<u>\$ 9,743,373</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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 29,637	\$ -	\$ -	\$ -	\$ (29,637)
General government	187,793	34,255	-	-	(153,538)
Public safety	162,498	20,812	10,092	-	(131,594)
Public works	204,332	4,282	93,636	-	(106,414)
Culture and recreation	311,149	1,045	168,152	-	(141,952)
Total governmental activities	895,409	60,394	271,880	-	(563,135)
Business-type activities					
Sewer	295,679	318,600	-	-	22,921
Water	447,049	484,841	-	-	37,792
Total business-type activities	742,728	803,441	-	-	60,713
Total primary government	\$ 1,638,137	\$ 863,835	\$ 271,880	\$ -	\$ (502,422)

(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, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (563,135)	\$ 60,713	\$ (502,422)
General revenues			
Property taxes			
General operating	398,528	-	398,528
Library	106,704	-	106,704
State shared revenues	110,872	-	110,872
Interest earnings	6,026	64,881	70,907
Total general revenues and transfers	<u>622,130</u>	<u>64,881</u>	<u>687,011</u>
Change in net assets	58,995	125,594	184,589
Net assets, beginning of year	<u>3,422,744</u>	<u>6,136,040</u>	<u>9,558,784</u>
Net assets, end of year	<u>\$ 3,481,739</u>	<u>\$ 6,261,634</u>	<u>\$ 9,743,373</u>

(Concluded)

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

CITY OF CARSON CITY
GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 507,208	\$ 456,125	\$ 500,882	\$ 1,464,215
Accounts receivable	31,000	-	-	31,000
Due from other governments	34,450	-	15,397	49,847
Land contract receivable	11,904	-	-	11,904
Prepaid expenditures	7,951	-	-	7,951
Total assets	<u>\$ 592,513</u>	<u>\$ 456,125</u>	<u>\$ 516,279</u>	<u>\$ 1,564,917</u>
Liabilities and fund balance				
Liabilities				
Accounts payable and accrued expenses	\$ 87,793	\$ 2,199	\$ -	\$ 89,992
Deferred revenue	124,705	-	-	124,705
Total liabilities	<u>212,498</u>	<u>2,199</u>	<u>-</u>	<u>214,697</u>
Fund balances				
Nonspendable				
Prepaid	7,951	-	-	7,951
Restricted for				
Streets	-	-	516,279	516,279
Library	-	453,926	-	453,926
Committed for compensated absences	49,698	-	-	49,698
Unassigned	322,366	-	-	322,366
Total fund balances	<u>380,015</u>	<u>453,926</u>	<u>516,279</u>	<u>1,350,220</u>
Total liabilities and fund balance	<u>\$ 592,513</u>	<u>\$ 456,125</u>	<u>\$ 516,279</u>	<u>\$ 1,564,917</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, 2012

Fund balances - total governmental funds	\$ 1,350,220
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)	1,804,112
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	11,254
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	352,198
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>(36,045)</u>
Net assets of governmental activities	<u>\$ 3,481,739</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, 2012

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes	\$ 398,528	\$ 106,704	\$ -	\$ 505,232
Intergovernmental revenues	111,122	73,502	93,791	278,415
Fees and service charges	60,347	13,440	-	73,787
Interest	1,274	638	4,127	6,039
Contributions	407	62,210	-	62,617
Miscellaneous	24,035	-	-	24,035
Total revenues	<u>595,713</u>	<u>256,494</u>	<u>97,918</u>	<u>950,125</u>
Expenditures				
Current				
Legislative	29,637	-	-	29,637
General government	187,350	-	-	187,350
Public safety	134,200	-	-	134,200
Public works	146,464	-	17,424	163,888
Recreation and culture	72,689	210,487	-	283,176
Capital outlay	-	-	2,149	2,149
Total expenditures	<u>570,340</u>	<u>210,487</u>	<u>19,573</u>	<u>800,400</u>
Revenues over (under) expenditures	<u>25,373</u>	<u>46,007</u>	<u>78,345</u>	<u>149,725</u>
Other financing sources (uses)				
Transfers in	-	-	6,006	6,006
Transfers out	-	-	(6,006)	(6,006)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	25,373	46,007	78,345	149,725
Fund balances, beginning of year	<u>354,642</u>	<u>407,919</u>	<u>437,934</u>	<u>1,200,495</u>
Fund balances, end of year	<u>\$ 380,015</u>	<u>\$ 453,926</u>	<u>\$ 516,279</u>	<u>\$ 1,350,220</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, 2012

Net changes in fund balances - total governmental funds	\$ 149,725
Amounts reported for <i>governmental activities</i> 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.	
Deduct - depreciation expense	(91,609)
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	(473)
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	8,270
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>(6,918)</u>
Change in net assets of governmental activities	<u>\$ 58,995</u>

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

CITY OF CARSON CITY

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

JUNE 30, 2012

Assets	Business-Type Activities		Enterprise Fund Total	Governmental Activities
	Sewer	Water		Internal Service Fund
	Sewer	Water		Internal Service Fund
Current assets				
Cash and cash equivalents	\$ 1,915,560	\$ 370,958	\$ 2,286,518	\$ 162,864
Accounts receivable	59,876	49,968	109,844	114
Restricted cash and cash equivalents	-	60,536	60,536	-
	1,975,436	481,462	2,456,898	162,978
Capital assets				
Land	14,475	-	14,475	3,996
Buildings	-	80,576	80,576	67,975
Plant, mains and equipment	2,396,835	6,302,673	8,699,508	485,043
Accumulated depreciation	(1,037,283)	(1,006,479)	(2,043,762)	(367,733)
	1,374,027	5,376,770	6,750,797	189,281
Total assets	3,349,463	5,858,232	9,207,695	352,259
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	2,005	12,696	14,701	61
Current portion of long-term debt	-	94,000	94,000	-
	2,005	106,696	108,701	61
Total current liabilities	2,005	106,696	108,701	61
Long-term liabilities				
Compensated absences	17,722	17,722	35,444	-
Long-term debt	-	2,800,000	2,800,000	-
Customer deposits	994	922	1,916	-
	18,716	2,818,644	2,837,360	-
Total long-term liabilities	18,716	2,818,644	2,837,360	-
Total liabilities	20,721	2,925,340	2,946,061	61
Net assets				
Invested in capital assets, net of related debt	1,374,027	2,482,770	3,856,797	189,281
Unrestricted	1,954,715	450,122	2,404,837	162,917
	3,328,742	2,932,892	6,261,634	352,198
Total net assets	\$ 3,328,742	\$ 2,932,892	\$ 6,261,634	\$ 352,198

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, 2012

	<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>
Operating revenue				
Charges for services	\$ 317,934	\$ 484,841	\$ 802,775	\$ 96,550
Other	666	-	666	-
Total operating revenue	<u>318,600</u>	<u>484,841</u>	<u>803,441</u>	<u>96,550</u>
Operating expense				
Salaries and wages	106,825	112,483	219,308	19,159
Supplies	61,292	23,178	84,470	27,852
Professional services	9,468	9,721	19,189	-
Insurance and bonds	3,853	3,853	7,706	-
Utilities	20,988	26,346	47,334	-
Equipment rentals	25,815	17,529	43,344	1,333
Repair and maintenance	19,829	57,803	77,632	17,740
Depreciation	44,008	124,381	168,389	41,380
Miscellaneous	3,601	3,217	6,818	756
Total operating expense	<u>295,679</u>	<u>378,511</u>	<u>674,190</u>	<u>108,220</u>
Operating income (loss)	<u>22,921</u>	<u>106,330</u>	<u>129,251</u>	<u>(11,670)</u>
Non-operating revenue (expense)				
Interest income	47,080	17,801	64,881	4,752
Interest expense	-	(68,538)	(68,538)	-
Total non-operating revenue (expense)	<u>47,080</u>	<u>(50,737)</u>	<u>(3,657)</u>	<u>4,752</u>
Changes in net assets	70,001	55,593	125,594	(6,918)
Net assets, beginning of year	<u>3,258,741</u>	<u>2,877,299</u>	<u>6,136,040</u>	<u>359,116</u>
Net assets, end of year	<u>\$ 3,328,742</u>	<u>\$ 2,932,892</u>	<u>\$ 6,261,634</u>	<u>\$ 352,198</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, 2012

Cash flows from operating activities	Business-Type Activities		Enterprise Fund	Governmental Activities
	Sewer	Water	Total	Internal Service Fund
	Sewer	Water	Total	Internal Service Fund
Receipts from internal services provided	\$ -	\$ -	\$ -	\$ 96,550
Receipts from customers and users	289,960	486,031	775,991	-
Payments to employees	(106,228)	(111,886)	(218,114)	(19,159)
Payments to suppliers	(160,860)	(505,089)	(665,949)	(48,034)
Net cash provided by (used in) operating activities	22,872	(130,944)	(108,072)	29,357
Cash flows from capital and related financing activities				
Payments on loans	-	(95,000)	(95,000)	-
Loan proceeds	-	777,000	777,000	-
Interest expense	-	(68,538)	(68,538)	-
Proceeds from sale of capital assets	-	-	-	8,400
Acquisitions of capital assets	-	(999,809)	(999,809)	(93,100)
Net cash provided by (used in) capital and related financing activities	-	(386,347)	(386,347)	(84,700)
Cash flows from investing activities				
Interest income	47,080	17,801	64,881	4,752
Net cash provided by (used in) investing activities	47,080	17,801	64,881	4,752
Net increase (decrease) in cash and cash equivalents	69,952	(499,490)	(429,538)	(50,591)
Cash and cash equivalents, beginning of year	1,845,608	930,984	2,776,592	213,455
Cash and cash equivalents, end of year	\$ 1,915,560	\$ 431,494	\$ 2,347,054	\$ 162,864
Cash flows from operating activities				
Operating income (loss)	\$ 22,921	\$ 106,330	\$ 129,251	\$ (11,670)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Depreciation	44,008	124,381	168,389	41,380
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	(28,829)	1,054	(27,775)	-
Accounts payable and accrued liabilities	(16,014)	(363,442)	(379,456)	(353)
Compensated absences	597	597	1,194	-
Customer deposits	189	136	325	-
Net cash provided by (used in) operating activities	\$ 22,872	\$ (130,944)	\$ (108,072)	\$ 29,357

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

CITY OF CARSON CITY
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Employees Retirement <u>System</u>	Agency <u>Fund</u>
Assets		
Cash and cash equivalents	\$ 7,093	\$ 1,629
Accounts receivable	33,443	262
Investments		
US government securities mutual funds	33,350	-
Other mutual funds	21,419	-
Cash surrender value of life insurance	<u>20,533</u>	<u>-</u>
Total assets	<u>115,838</u>	<u>\$ 1,891</u>
Liabilities		
Accounts payable	164	\$ -
Due to other governments	<u>-</u>	<u>1,891</u>
Total liabilities	<u>164</u>	<u>\$ 1,891</u>
Net assets		
Net assets held in trust for pension benefits	<u>\$ 115,674</u>	

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, 2012

	Employees Retirement System
Additions	
Contributions:	
Employer	\$ 22,620
Employee	1,399
Investment income (loss)	<u>(282)</u>
Total additions (reductions)	23,737
Deductions	
Distributions, expenses and benefit payments	<u>20,491</u>
Net increase (decrease)	3,246
Net assets, beginning of year	<u>112,428</u>
Net assets, end of year	<u><u>\$ 115,674</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, 2012

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, 2012

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, 2012

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.

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 not 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, 2012

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, 2012

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, 2012

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 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, 2012, 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, 2012

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 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</u> <u>(Unfavorable)</u>
General Fund			
General Government			
City administrator	\$ 46,828	\$ 55,706	\$ (8,878)
Comptroller	112,000	118,412	(6,412)
Public Works			
Department of public works	144,240	146,464	(2,224)
Recreation and Culture			
Parks	45,750	72,689	(26,939)
Major Street Fund			
Public works	-	10,925	(10,925)
Transfers out	-	6,006	(6,006)
Local Street Fund			
Public works	-	6,499	(6,499)
Capital outlay	-	2,149	(2,149)

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3. DEPOSITS AND INVESTMENTS

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

	Governmental Activities	Business- type Activities	Fiduciary Activities	Total
Cash and cash equivalents	\$1,627,079	\$2,286,518	\$ 8,722	\$3,922,319
Restricted Cash	-	60,536	-	60,536
Investments	-	-	75,302	75,302
	\$1,627,079	\$2,347,054	\$84,024	\$4,058,157

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>
Pension fund investments				
American Funds				
US Government Securities Fund	N/A	\$ 33,350	2	Morning Star
Capital World Growth and Income	N/A	21,419	3	Morning Star
CSV Life Insurance	N/A	20,533	N/A	
Pooled investments				
Money market funds				
US Treasury Note	7/13	151,148	N/A	
US Treasury Note	7/15	233,930		
US Treasury Note	1/15	448,210		
US Treasury Note	10/14	209,313		
US Treasury Note	3/16	265,937		
US Treasury Note	9/12	200,500		
US Treasury Note	6/13	226,863		
Federal Farm Note	4/14	104,036	Aaa	Moody's
FHLM	1/14	77,441	Aaa	Moody's
FHLM	5/16	267,178	Aaa	Moody's
FHLM	2/15	212,419	Aaa	Moody's
FNMN	7/15	237,622	Aaa	Moody's
FNMN	12/13	233,120	Aaa	Moody's
Total investments		\$2,982,468		

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, 2012

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, \$336,467 of the City's bank balance of \$1,247,022 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, \$20,533 represents the cash surrender value of life insurance and \$94,218 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, 2012 are as follows:

<u>Transfers out</u>	Non major Governmental	
	<u>Funds</u>	<u>Total</u>
Non-major governmental fund	\$6,006	\$6,006
Total	\$6,006	\$6,006

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 158,996	\$ -	\$ -	\$ 158,996
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	158,996	-	-	158,996
Capital assets, being depreciated				
Building and improvements	1,310,241	-	-	1,310,241
Furniture and equipment	645,184	-	2,300	642,884
Motor pool equipment	505,191	93,100	100,830	497,461
Motor vehicles	609,094	-	-	609,094
Infrastructure	829,563	-	-	829,563
Total capital assets, being depreciated	3,899,273	93,100	103,130	3,889,243
Less accumulated depreciation for:				
Building and improvements	694,492	17,843	-	712,335
Furniture and equipment	490,652	18,600	2,300	506,952
Motor pool equipment	370,506	40,470	92,430	318,546
Motor vehicles	376,468	27,869	-	404,337
Infrastructure	84,469	28,207	-	112,676
Total accumulated depreciation	2,016,587	132,989	94,730	2,054,846
Net capital assets, being depreciated	1,882,686	(39,889)	8,400	1,834,397
Governmental Activities capital assets, net	\$2,041,682	\$(39,889)	\$ 8,400	\$1,993,393
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 14,475	\$ -	\$ -	\$ 14,475
Construction in progress	1,285,938	-	1,285,938	-
Total capital assets, not being depreciated	1,300,413	-	1,285,938	14,475
Capital assets being depreciated				
Buildings and improvements	80,576	-	-	80,576
Mains and equipment	6,413,761	2,285,747	-	8,699,508
Total capital assets, being depreciated	6,494,337	2,285,747	-	8,780,084
Less accumulated depreciation for:				
Buildings and improvements	27,175	1,947	-	29,122
Mains and equipment	1,848,198	166,442	-	2,014,640
Total accumulated depreciation	1,875,373	168,389	-	2,043,762
Net capital assets, being depreciated	4,618,964	2,117,358	-	6,736,322
Business-type Activities capital assets, net	\$5,919,377	\$2,117,358	\$1,285,938	\$6,750,797

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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

Governmental Activities	
General government	\$ 4,570
Public safety	32,433
Public works	32,459
Culture and recreation	22,147
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>41,380</u>
Total depreciation expense - governmental activities	<u>\$132,989</u>
Business-type Activities	
Sewer	\$ 44,008
Water	<u>124,381</u>
Total depreciation expense – business- type activities	<u>\$168,389</u>

6. PENSION PLANS

The City provides the following pension plans to employees meeting specific requirements based on positions status and hire date:

- City of Carson City defined benefit pension plan (single employer defined benefit plan)
- City of Carson City defined contribution pension plan (single employer defined contribution plan)

CITY OF CARSON CITY DEFINED BENEFIT PENSION PLAN

Plan Description

The City and employees contribute to the City of Carson City Pension Plan (the plan), a single employer defined benefit pension plan. All full-time employees over the age of 21 with one year of service before July 1, 2011 are eligible to participate in the Plan.

Membership of the Plan consists of three terminated vested participants and 6 active plan members at the date of the latest actuarial valuation which was July 1, 2011.

Basis of Accounting

The financial statements of the Plan are prepared using the accrual basis of accounting. 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.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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.

Contributions

The City has responsibility for making actuarially determined contributions to the Plan. Employees are required to contribute 3% of covered wages to the Plan effective April 1, 2012. 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 the "unit credit" funding method and, further, follows the "level contribution method". 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 9.0% of annual covered payroll. The rate utilized from July 1, 2011 through March 31, 2012 was 12%.

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)	\$22,620
Contributions made	<u>22,620</u>
Increase (decrease) in net pension obligation	-
Net pension obligation beginning of year	<u>-</u>
Net pension obligation end of year	<u>\$ -</u>

The annual required contribution for the current year was determined as part of the July 1, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 6.2% rate of return and (b) projected salary increases of 0% per year.

Three-Year Trend Information			
Fiscal Year	Annual Pension	Percentage of APC	Net Pension
Ending	Cost (APC)	Contributed	Obligation
6/30/10	\$37,685	100%	-
6/30/11	33,625	100%	-
6/30/12	22,620	100%	-

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

Funding Progress

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>Total</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
7/1/11	\$92,693	\$169,620	\$(76,927)	54.65%	\$268,418	28.66%

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 DEFINED CONTRIBUTION PENSION PLAN

The City provides a defined contribution pension plan (externally managed IRS Section 457 plan), which provides pension benefits to qualified employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City's contribution for employees eligible to participate in the plans vests immediately. The City contributes 6% of participant coverage wages plus an additional match of employee contributions up to 3%. Participants contribute from 0 to 3% of covered wages which is matched by the City. City contributions were \$5,211 and participant contributions were \$2,389 to the plan during the year. The plan provisions and contribution amounts were established by the City Commission and may be amended by the Commission.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

7. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2012.

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Governmental Activities					
Accrued employee benefits	\$ 44,315	\$ -	\$ 8,270	\$ 36,045	\$ -
Business-type Activities					
Drinking Water Revolving Fund Loan. Payments due in annual installments of \$65,000 to \$95,000 through 2027; interest at 2.125%	1,330,000	-	70,000	1,260,000	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	777,000	25,000	1,634,000	24,000
Accrued employee benefits	34,250	1,194	-	35,444	-
Total Business-type Activities	2,246,250	778,194	95,000	2,929,444	94,000
Total	\$2,290,565	\$778,194	\$103,270	\$2,965,489	\$94,000

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2012 are as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ -	\$ -	\$ 94,000	\$ 74,316
2014	-	-	100,000	72,416
2015	-	-	100,000	70,072
2016	-	-	101,000	67,713
2017	-	-	106,000	65,286
2018-2022	-	-	566,000	287,650
2023-2027	-	-	632,000	217,006
2028-2032	-	-	191,000	165,165
2033-2037	-	-	217,000	134,535
2038-2042	-	-	248,000	99,900
2043-2047	-	-	284,000	60,000
2048-2052	-	-	255,000	15,555
Total	\$ -	\$ -	\$2,894,000	\$1,329,614

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

8. ECONOMIC DEPENDENCY

State of Michigan correctional facilities are a major customer of the City's sewer and water funds. During the year ended June 30, 2012, revenue attributable to charges for these services was approximately 76% of total charges for service revenue 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.

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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, 2012

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 494,000	\$ 494,000	\$ 398,528	\$ (95,472)
Intergovernmental	121,000	121,000	111,122	(9,878)
Fees and service charges	27,233	27,233	60,347	33,114
Interest	2,900	2,900	1,274	(1,626)
Contributions	-	-	407	407
Miscellaneous	10,000	10,000	24,035	14,035
Total revenues	<u>655,133</u>	<u>655,133</u>	<u>595,713</u>	<u>(59,420)</u>
Expenditures				
Current				
Legislative	63,292	63,292	29,637	33,655
General government	176,828	176,828	187,350	(10,522)
Public safety	169,890	169,890	134,200	35,690
Public works	144,240	144,240	146,464	(2,224)
Recreation and culture	45,750	45,750	72,689	(26,939)
Total expenditures	<u>600,000</u>	<u>600,000</u>	<u>570,340</u>	<u>29,660</u>
Net changes in fund balance	55,133	55,133	25,373	(29,760)
Fund balance, beginning of year	<u>354,642</u>	<u>354,642</u>	<u>354,642</u>	<u>-</u>
Fund balance, end of year	<u>\$ 409,775</u>	<u>\$ 409,775</u>	<u>\$ 380,015</u>	<u>\$ (29,760)</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, 2012

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 85,000	\$ 85,000	\$ 106,704	\$ 21,704
Intergovernmental				
State shared	-	-	4,523	4,523
Penal fines	70,000	70,000	68,979	(1,021)
Fees and service charges	17,000	17,000	13,440	(3,560)
Interest	2,000	2,000	638	(1,362)
Contributions	-	-	62,210	62,210
Total Revenues	<u>174,000</u>	<u>174,000</u>	<u>256,494</u>	<u>82,494</u>
Expenditures				
Current				
Recreation and culture	<u>243,500</u>	<u>243,500</u>	<u>210,487</u>	<u>33,013</u>
Total expenditures	<u>243,500</u>	<u>243,500</u>	<u>210,487</u>	<u>33,013</u>
Net changes in fund balance	(69,500)	(69,500)	46,007	115,507
Fund balance, beginning of year	<u>407,919</u>	<u>407,919</u>	<u>407,919</u>	<u>-</u>
Fund balance, end of year	<u>\$ 338,419</u>	<u>\$ 338,419</u>	<u>\$ 453,926</u>	<u>\$ 115,507</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%
7/1/2011	92,693	169,620	(76,927)	54.65%	268,418	28.66%

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%
6/30/2012	22,620	22,620	100%

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

CITY OF CARSON CITY

REQUIRED SUPPLEMENTARY INFORMATION

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	7/1/2011
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%

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, 2012

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property taxes	\$ 494,000	\$ 494,000	\$ 398,528	\$ (95,472)
Intergovernmental revenues				
State shared revenues	121,000	121,000	111,122	(9,878)
Total intergovernmental revenues	121,000	121,000	111,122	(9,878)
Fees and service charges				
Fire contracts	27,000	27,000	29,698	2,698
Rent	-	-	30,183	30,183
Licenses and permits	33	33	390	357
Court costs	200	200	76	(124)
Total fees and service charges	27,233	27,233	60,347	33,114
Interest	2,900	2,900	1,274	(1,626)
Contributions	-	-	407	407
Miscellaneous	10,000	10,000	24,035	14,035
Total revenues	\$ 655,133	\$ 655,133	\$ 595,713	\$ (59,420)

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

FOR THE YEAR ENDED JUNE 30, 2012

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
Legislative				
City Council	\$ 63,292	\$ 63,292	\$ 29,637	\$ 33,655
General government				
City Administrator	46,828	46,828	55,706	(8,878)
Election Commission	4,000	4,000	3,328	672
Assessor	14,000	14,000	9,904	4,096
Comptroller	112,000	112,000	118,412	(6,412)
Total general government	176,828	176,828	187,350	(10,522)
Public Safety				
Police Department	129,640	129,640	110,689	18,951
Fire Department	40,250	40,250	23,511	16,739
Total public safety	169,890	169,890	134,200	35,690
Public Works				
Department of Public Works	144,240	144,240	146,464	(2,224)
Recreation and culture				
Parks	45,750	45,750	72,689	(26,939)
Total expenditures	\$ 600,000	\$ 600,000	\$ 570,340	\$ 29,660

CITY OF CARSON CITY

NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET

JUNE 30, 2012

	Special Revenue		<u>Total</u>
	<u>Major Street</u>	<u>Local Street</u>	
Assets			
Cash and cash equivalents	\$ 286,688	\$ 214,194	\$ 500,882
Due from other governments	<u>11,054</u>	<u>4,343</u>	<u>15,397</u>
Total assets	<u>\$ 297,742</u>	<u>\$ 218,537</u>	<u>\$ 516,279</u>
Liabilities and fund balance			
Liabilities			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -
Fund balances			
Restricted for Streets	<u>297,742</u>	<u>218,537</u>	<u>516,279</u>
Total fund balances	<u>297,742</u>	<u>218,537</u>	<u>516,279</u>
Total liabilities and fund balances	<u>\$ 297,742</u>	<u>\$ 218,537</u>	<u>\$ 516,279</u>

CITY OF CARSON CITY

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

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Special Revenue</u>		<u>Total</u>
	<u>Major Street</u>	<u>Local Street</u>	
Revenues			
State revenues	\$ 67,362	\$ 26,429	\$ 93,791
Interest	<u>2,763</u>	<u>1,364</u>	<u>4,127</u>
Total revenues	<u>70,125</u>	<u>27,793</u>	<u>97,918</u>
Expenditures			
Current			
Public works	10,925	6,499	17,424
Capital outlay	<u>-</u>	<u>2,149</u>	<u>2,149</u>
Total expenditures	<u>10,925</u>	<u>8,648</u>	<u>19,573</u>
Revenues over (under) expenditures	<u>59,200</u>	<u>19,145</u>	<u>78,345</u>
Other financing sources (uses)			
Transfers in	-	6,006	6,006
Transfers out	<u>(6,006)</u>	<u>-</u>	<u>(6,006)</u>
Total other financing sources (uses)	<u>(6,006)</u>	<u>6,006</u>	<u>-</u>
Net changes in fund balances	53,194	25,151	78,345
Fund balances, beginning of year	<u>244,548</u>	<u>193,386</u>	<u>437,934</u>
Fund balances, end of year	<u>\$ 297,742</u>	<u>\$ 218,537</u>	<u>\$ 516,279</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, 2012

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue	\$ 65,500	\$ 65,500	\$ 67,362	\$ 1,862
Interest	1,000	1,000	2,763	1,763
Total revenues	<u>66,500</u>	<u>66,500</u>	<u>70,125</u>	<u>3,625</u>
Expenditures				
Current				
Public works				
Routine maintenance	-	-	5,488	(5,488)
Winter maintenance	-	-	3,134	(3,134)
State trunkline	-	-	2,303	(2,303)
Total expenditures	<u>-</u>	<u>-</u>	<u>10,925</u>	<u>(10,925)</u>
Revenues over (under) expenditures	66,500	66,500	59,200	(7,300)
Other financing uses				
Transfers out	-	-	(6,006)	(6,006)
Net changes in fund balance	66,500	66,500	53,194	(13,306)
Fund balance, beginning of year	<u>244,548</u>	<u>244,548</u>	<u>244,548</u>	<u>-</u>
Fund balance, end of year	<u>\$ 311,048</u>	<u>\$ 311,048</u>	<u>\$ 297,742</u>	<u>\$ (13,306)</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, 2012

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue	\$ -	\$ -	\$ 26,429	\$ 26,429
Interest	-	-	1,364	1,364
Total revenues	<u>-</u>	<u>-</u>	<u>27,793</u>	<u>27,793</u>
Expenditures				
Current				
Public works				
Routine maintenance	-	-	4,314	(4,314)
Winter maintenance	-	-	2,185	(2,185)
Capital outlay				
Construction	-	-	2,149	(2,149)
Total expenditures	<u>-</u>	<u>-</u>	<u>8,648</u>	<u>(8,648)</u>
Revenues over (under) expenditures	-	-	19,145	19,145
Other financing sources				
Transfers in	-	-	6,006	6,006
Net changes in fund balance	-	-	25,151	25,151
Fund balance, beginning of year	<u>193,386</u>	<u>193,386</u>	<u>193,386</u>	<u>-</u>
Fund balance, end of year	<u>\$ 193,386</u>	<u>\$ 193,386</u>	<u>\$ 218,537</u>	<u>\$ 25,151</u>

INTERNAL CONTROL AND COMPLIANCE



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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 25, 2012

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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 25, 2012. 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

Management of the City of Carson City is responsible for establishing and maintaining effective 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 2012-1 and 2012-2 described in the accompanying schedule of findings 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 25, 2012.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. 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

CITY OF CARSON CITY

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENT FINDINGS

2012-1

Condition: The City does not have procedures in place to prepare financial statements 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.

2012-2

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

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



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September 25, 2012

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, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 13, 2012. 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. No new accounting policies were adopted and the application of existing policies was not changed during. 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 the useful lives of capital assets and the valuation of the pension benefit plan obligations.

Management's estimate of the useful lives is based on previous history and the estimate of pension benefit plan obligations is based on an actuarial valuation of the Plan. 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.

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. 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 proposed a significant number of material adjustments, all of which were recorded by Management. In our judgment, the adjustments we proposed indicate matters that have a significant effect on the City's financial reporting process. The adjustments were recorded to adjust the fund financial statements to the modified accrual basis of accounting and to adjust the government-wide statements to the accrual basis of accounting as required by generally accepted accounting principles.

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.

Specializing in services to governmental and nonprofit entities

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 25, 2012.

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

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

We suggest that changes in the City's pension benefit policies be documented with formal pension plan documents and formal Board action. We also suggest that the City consider purchasing life insurance policies on employees which are consistent with employee benefit plans.

We suggest that the City develop a policy to assure timely deposit of receipts with the City's bank.

Other Matters

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

Uredaxeld Haefner LLC