

CITY OF CARSON CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013



Vredeveld Haefner LLC

CITY OF CARSON CITY

TABLE OF CONTENTS

FINANCIAL SECTION	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Governmental-wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10-11
Fund Financial Statements	
Balance Sheet - Governmental Funds	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Position of Governmental Activities on the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position - Proprietary Funds	16
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	17
Statement of Cash Flows - Proprietary Funds	18
Statement of Net Position - Fiduciary Funds	19
Statement of Changes in Net Position - Employees Retirement System	20
Notes to the Financial Statements	21-34
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	35
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Library Fund	36
Schedule of Funding Progress	37
Schedule of Employer Contributions	37
Summary of Actuarial Methods and Assumptions	38
Combining and Individual Fund Statements and Schedules	
General Fund	
Schedule of Revenues - Budget and Actual	39
Schedule of Expenditures by Activity - Budget and Actual	40
Nonmajor Governmental Funds	
Combining Balance Sheet	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	42
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Major Street Fund	43
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Local Street Fund	44

CITY OF CARSON CITY

TABLE OF CONTENTS

	<u>PAGE</u>
INTERNAL CONTROLS OVER FINANCIAL REPORTING SECTION	
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 <i>Government Auditing Standards</i>	45-46
Schedule of Findings	47



Vredeveld Haefner LLC

CPA's and Consultants

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

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

INDEPENDENT AUDITORS' REPORT

November 27, 2013

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

Report on the Financial Statements

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 City of Carson City, Michigan as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan, as of June 30, 2013, and the respective changes in financial position, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, budgetary comparison information on pages 35 and 36, and pension plan information on pages 37 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carson City, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013, on our consideration of the City of Carson City, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Carson City, Michigan's internal control over financial reporting and compliance.

Urodeuxeld 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, 2013. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The Police Department was fully staffed during the year
- The trail projected linking City parks was completed with Dynergy and state grant funding
- 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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will 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 position 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 \$9,725,790 at the close of the most recent fiscal year.

A portion of the City's net position reflects unrestricted net position which are available for future operation while a significant portion of net position 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 Position

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$1,706,399	\$1,727,781	\$2,425,421	\$2,456,898	\$4,131,820	\$4,184,679
Capital assets	2,043,836	1,993,393	6,632,235	6,750,797	8,676,071	8,744,190
Total assets	3,750,235	3,721,174	9,057,656	9,207,695	12,807,891	12,928,869
Long-term liabilities	37,794	36,045	2,841,677	2,929,444	2,879,471	2,965,489
Other liabilities	182,901	203,390	19,729	16,617	202,630	220,007
Total liabilities	220,695	239,435	2,861,406	2,946,061	3,082,101	3,185,496
Net position						
Invested in capital assets, net of related debt	2,043,836	1,993,393	3,832,235	3,856,797	5,876,071	5,850,190
Restricted	1,000,598	970,205	-	-	1,000,598	970,205
Unrestricted	485,106	518,141	2,364,015	2,404,837	2,849,121	2,922,978
Total net position	\$3,529,540	\$3,481,739	\$6,196,250	\$6,261,634	\$9,725,790	\$9,743,373

Net position of the City decreased by \$17,583. The business-type activities decrease in net position of \$65,384 was primarily the result of utility usage, rates, interest on debt and depreciation expense on newer system infrastructure. The governmental activities increase in net position of \$47,801 is primarily due to grants funded capital projects.

Summary of Activities

	Governmental Activities		Business-type Activities		Totals	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenue						
Program revenue						
Charges for Services	\$ 83,258	\$ 60,394	\$ 795,971	\$ 803,441	\$ 879,229	\$ 863,835
Operating grants and contributions	297,217	271,880	-	-	297,217	271,880
Capital grants and contributions	90,000	-	-	-	90,000	-
	<u>470,475</u>	<u>332,274</u>	<u>795,971</u>	<u>803,441</u>	<u>1,266,446</u>	<u>1,135,715</u>
General revenue						
Property taxes	499,745	505,232	-	-	499,745	505,232
Other governmental sources	114,289	110,872	-	-	114,289	110,872
Other	1,526	6,026	(7,592)	64,881	(6,066)	70,907
Transfers	-	-	-	-	-	-
Total revenue and transfers	<u>1,086,035</u>	<u>954,404</u>	<u>788,379</u>	<u>868,322</u>	<u>1,874,414</u>	<u>1,822,726</u>
Expenses						
Legislative	49,415	29,637	-	-	49,415	29,637
General government	236,189	187,793	-	-	236,189	187,793
Public safety	232,333	162,498	-	-	232,333	162,498
Public works	207,256	204,332	-	-	207,256	204,332
Culture and recreation	313,041	311,149	-	-	313,041	311,149
Sewer	-	-	328,021	295,679	328,021	295,679
Water	-	-	525,742	447,049	525,742	447,049
Total expenses	<u>1,038,234</u>	<u>895,409</u>	<u>853,763</u>	<u>742,728</u>	<u>1,891,997</u>	<u>1,638,137</u>
Increase (decrease) in net position	47,801	58,995	(65,384)	125,594	(17,583)	184,589
Net position, beginning of year	<u>3,481,739</u>	<u>3,422,744</u>	<u>6,261,634</u>	<u>6,136,040</u>	<u>9,743,373</u>	<u>9,558,784</u>
Net position, end of year	<u>\$3,529,540</u>	<u>\$3,481,739</u>	<u>\$6,196,250</u>	<u>\$6,261,634</u>	<u>\$9,725,790</u>	<u>\$9,743,373</u>

Governmental Activities. During the year the City invested \$232,333 or 22% of governmental activities expenses in public safety. Culture and recreation expense, which includes library operations was \$313,041 or 30% of governmental activities expenses while legislative, general government, and public safety, made up the remaining 48% of governmental activities expenses.

Business-type Activities. Business-type activities decreased the City's net position by \$65,384 accounting for 100% of the decline in the government's net position for the current year. By comparison, business-type activities reported an increase in net position the previous fiscal year of \$125,594. Key elements of this decrease were water infrastructure repairs made during the year and depreciation expense on newer system infrastructure.

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 \$1,359,279, an increase of \$9,059 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 \$310,514. 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 39% of total general fund expenditures.

The City's general fund fund balance decreased by \$21,334 during the current fiscal year primarily as a result of revenues and expenditures exceeding budget.

The library fund has a total fund balance of \$443,703, which decreased by \$10,223 during the year, primarily due to unbudgeted contributions and expenditure of prior year contributions. 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 position of the sewer and water funds at the end of the year amounted to \$1,972,289 and \$391,726 respectively. The sewer and water funds had a decrease in net position for the year of \$1,909 and \$63,457 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 under budgeted in error, the new hospital security service charges and related Police Department labor costs were not anticipated in the budget, interest was over budgeted as a result of declining values in pooled investments and the trail projected was completed for less than budgeted.

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, 2013, amounted to \$8,676,071 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of the trail project infrastructure, water and sewer system radio read equipment, and a new chipper in the equipment internal service fund.

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
Construction in progress	28,123	-	28,123
Buildings, equipment and infrastructure	1,856,717	6,617,760	8,474,477
Total	\$2,043,836	\$6,632,235	\$8,676,071

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	\$37,794	\$ 41,677	\$ 79,471
Bonds payable	-	2,800,000	2,800,000
Total	\$37,794	\$2,841,677	\$2,879,471

The City's total debt decreased by approximately \$86,000 during the year primarily due to scheduled payments on outstanding bonds and a slight increase in compensated absences payable.

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 2013-14 fiscal year:

- Flat performance of the State of Michigan's economy will likely result in stagnant state funding.
- Property values and tax rates.
- Expected wage and benefit costs

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 POSITION
JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,633,653	\$ 2,280,648	\$ 3,914,301
Accounts receivable	-	84,237	84,237
Due from other governments	51,266	-	51,266
Prepaid items	10,373	-	10,373
Land contract receivable	11,107	-	11,107
Restricted cash	-	60,536	60,536
Capital assets, net			
Land	158,996	14,475	173,471
Construction in progress	28,123	-	28,123
Buildings, equipment and infrastructure	<u>1,856,717</u>	<u>6,617,760</u>	<u>8,474,477</u>
Total assets	<u>3,750,235</u>	<u>9,057,656</u>	<u>12,807,891</u>
Liabilities			
Accounts payable and accrued expenses	121,206	17,863	139,069
Unearned revenue	61,695	-	61,695
Customer deposits	-	1,866	1,866
Noncurrent liabilities			
Compensated absences	37,794	41,677	79,471
Due within one year	-	100,000	100,000
Due in more than one year	<u>-</u>	<u>2,700,000</u>	<u>2,700,000</u>
Total liabilities	<u>220,695</u>	<u>2,861,406</u>	<u>3,082,101</u>
Net Position			
Invested in capital assets, net of related debt	2,043,836	3,832,235	5,876,071
Restricted for			
Library	443,703	-	443,703
Major streets	323,747	-	323,747
Local streets	233,148	-	233,148
Unrestricted	<u>485,106</u>	<u>2,364,015</u>	<u>2,849,121</u>
Total net position	<u>\$ 3,529,540</u>	<u>\$ 6,196,250</u>	<u>\$ 9,725,790</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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 49,415	\$ -	\$ -	\$ -	\$ (49,415)
General government	236,189	56,071	-	-	(180,118)
Public safety	232,333	24,933	43,193	-	(164,207)
Public works	207,256	1,559	94,861	-	(110,836)
Culture and recreation	313,041	695	159,163	90,000	(63,183)
Total governmental activities	1,038,234	83,258	297,217	90,000	(567,759)
Business-type activities					
Sewer	328,021	332,684	-	-	4,663
Water	525,742	463,287	-	-	(62,455)
Total business-type activities	853,763	795,971	-	-	(57,792)
Total primary government	\$ 1,891,997	\$ 879,229	\$ 297,217	\$ 90,000	\$ (625,551)

(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, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (567,759)	\$ (57,792)	\$ (625,551)
General revenues			
Property taxes			
General operating	395,803	-	395,803
Library	103,942	-	103,942
State shared revenues	114,289	-	114,289
Interest earnings	1,526	(7,592)	(6,066)
Total general revenues and transfers	<u>615,560</u>	<u>(7,592)</u>	<u>607,968</u>
Change in net position	47,801	(65,384)	(17,583)
Net position, beginning of year	<u>3,481,739</u>	<u>6,261,634</u>	<u>9,743,373</u>
Net position, end of year	<u>\$ 3,529,540</u>	<u>\$ 6,196,250</u>	<u>\$ 9,725,790</u>

(Concluded)

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

CITY OF CARSON CITY
GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2013

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 457,461	\$ 447,169	\$ 568,673	\$ 1,473,303
Due from other governments	34,922	-	16,344	51,266
Land contract receivable	11,107	-	-	11,107
Prepaid expenditures	<u>10,373</u>	<u>-</u>	<u>-</u>	<u>10,373</u>
Total assets	<u>\$ 513,863</u>	<u>\$ 447,169</u>	<u>\$ 585,017</u>	<u>\$ 1,546,049</u>
 Liabilities and fund balance				
Liabilities				
Accounts payable and accrued liabilities	\$ 82,727	\$ 3,466	\$ 28,122	\$ 114,315
Deferred revenue	<u>72,455</u>	<u>-</u>	<u>-</u>	<u>72,455</u>
Total liabilities	<u>155,182</u>	<u>3,466</u>	<u>28,122</u>	<u>186,770</u>
 Fund balances				
Nonspendable				
Prepaid	10,373	-	-	10,373
Restricted for				
Streets	-	-	556,895	556,895
Library	-	443,703	-	443,703
Committed for compensated absences	37,794	-	-	37,794
Unassigned	<u>310,514</u>	<u>-</u>	<u>-</u>	<u>310,514</u>
Total fund balances	<u>358,681</u>	<u>443,703</u>	<u>556,895</u>	<u>1,359,279</u>
Total liabilities and fund balance	<u>\$ 513,863</u>	<u>\$ 447,169</u>	<u>\$ 585,017</u>	<u>\$ 1,546,049</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 POSITION OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION**

JUNE 30, 2013

Fund balances - total governmental funds	\$ 1,359,279
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	1,871,684
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	10,760
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 position of governmental activities accounted for in the internal service fund	325,611
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>(37,794)</u>
Net position of governmental activities	<u>\$ 3,529,540</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, 2013

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes	\$ 395,803	\$ 103,942	\$ -	\$ 499,745
Intergovernmental revenues	204,789	71,055	96,824	372,668
Fees and service charges	95,906	11,915	-	107,821
Interest	1,993	695	(404)	2,284
Contributions	52,250	23,943	-	76,193
Miscellaneous	28,285	-	-	28,285
Total revenues	<u>779,026</u>	<u>211,550</u>	<u>96,420</u>	<u>1,086,996</u>
Expenditures				
Current				
Legislative	49,415	-	-	49,415
General government	229,870	-	-	229,870
Public safety	199,900	-	-	199,900
Public works	127,115	-	53,630	180,745
Recreation and culture	194,060	221,773	-	415,833
Capital outlay	-	-	2,174	2,174
Total expenditures	<u>800,360</u>	<u>221,773</u>	<u>55,804</u>	<u>1,077,937</u>
Revenues over (under) expenditures	<u>(21,334)</u>	<u>(10,223)</u>	<u>40,616</u>	<u>9,059</u>
Other financing sources (uses)				
Transfers in	-	-	5,684	5,684
Transfers out	-	-	(5,684)	(5,684)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	(21,334)	(10,223)	40,616	9,059
Fund balances, beginning of year	<u>380,015</u>	<u>453,926</u>	<u>516,279</u>	<u>1,350,220</u>
Fund balances, end of year	<u>\$ 358,681</u>	<u>\$ 443,703</u>	<u>\$ 556,895</u>	<u>\$ 1,359,279</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, 2013

Net changes in fund balances - total governmental funds	\$ 9,059
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.	
Add - capital outlay	168,161
Deduct - depreciation expense	(100,589)
Deduct - net book value of capital asset disposal	
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	(494)
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.	
Deduct - increase in compensated absences	(1,749)
An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net position of this fund is reported with governmental activities.	
Deduct - loss from governmental activities in the internal service fund	<u>(26,587)</u>
Change in net position of governmental activities	<u>\$ 47,801</u>

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

CITY OF CARSON CITY

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION**

JUNE 30, 2013

Assets	Business-Type Activities		Enterprise Fund Total	Governmental Activities Internal Service Fund
	Sewer	Water		
Current assets				
Cash and cash equivalents	\$ 1,965,573	\$ 315,075	\$ 2,280,648	\$ 160,350
Accounts receivable	31,984	52,253	84,237	-
Restricted cash and cash equivalents	-	60,536	60,536	-
	1,997,557	427,864	2,425,421	160,350
Capital assets				
Land	14,475	-	14,475	3,996
Buildings	-	80,576	80,576	67,975
Plant, mains and equipment	2,426,835	6,332,673	8,759,508	525,162
Accumulated depreciation	(1,086,766)	(1,135,558)	(2,222,324)	(424,981)
	1,354,544	5,277,691	6,632,235	172,152
Total assets	3,352,101	5,705,555	9,057,656	332,502
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	3,514	14,349	17,863	6,891
Current portion of long-term debt	-	100,000	100,000	-
	3,514	114,349	117,863	6,891
Total current liabilities	3,514	114,349	117,863	6,891
Long-term liabilities				
Compensated absences	20,838	20,839	41,677	-
Long-term debt	-	2,700,000	2,700,000	-
Customer deposits	916	950	1,866	-
	21,754	2,721,789	2,743,543	-
Total long-term liabilities	21,754	2,721,789	2,743,543	-
Total liabilities	25,268	2,836,138	2,861,406	6,891
Net position				
Invested in capital assets, net of related debt	1,354,544	2,477,691	3,832,235	172,152
Unrestricted	1,972,289	391,726	2,364,015	153,459
	3,326,833	2,869,417	6,196,250	325,611
Total net position	\$ 3,326,833	\$ 2,869,417	\$ 6,196,250	\$ 325,611

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 POSITION**

FOR THE YEAR ENDED JUNE 30, 2013

	<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	\$ 332,684	\$ 463,287	\$ 795,971	\$ 93,509
Operating expense				
Salaries and wages	112,027	117,117	229,144	13,979
Supplies	62,391	64,345	126,736	25,359
Professional services	16,488	71,876	88,364	-
Insurance and bonds	9,314	9,314	18,628	-
Utilities	24,504	30,441	54,945	-
Equipment rentals	24,571	13,897	38,468	1,264
Repair and maintenance	22,772	9,930	32,702	18,979
Depreciation	49,483	129,079	178,562	44,830
Miscellaneous	6,471	5,052	11,523	15,218
Total operating expense	<u>328,021</u>	<u>451,051</u>	<u>779,072</u>	<u>119,629</u>
Operating income (loss)	<u>4,663</u>	<u>12,236</u>	<u>16,899</u>	<u>(26,120)</u>
Non-operating revenue (expense)				
Interest income	(6,572)	(1,020)	(7,592)	(467)
Interest expense	-	(74,691)	(74,691)	-
Total non-operating revenue (expense)	<u>(6,572)</u>	<u>(75,711)</u>	<u>(82,283)</u>	<u>(467)</u>
Changes in net position	(1,909)	(63,475)	(65,384)	(26,587)
Net position, beginning of year	<u>3,328,742</u>	<u>2,932,892</u>	<u>6,261,634</u>	<u>352,198</u>
Net position, end of year	<u>\$ 3,326,833</u>	<u>\$ 2,869,417</u>	<u>\$ 6,196,250</u>	<u>\$ 325,611</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, 2013

	Business-Type Activities		Enterprise Fund	Governmental Activities
	Sewer	Water	Total	Internal Service Fund
Cash flows from operating activities				
Receipts from internal services provided	\$ -	\$ -	\$ -	\$ 93,622
Receipts from customers and users	360,498	461,030	821,528	-
Payments to employees	(108,911)	(114,000)	(222,911)	(13,979)
Payments to suppliers	(165,002)	(203,202)	(368,204)	(53,990)
Net cash provided by (used in) operating activities	86,585	143,828	230,413	25,653
Cash flows from capital and related financing activities				
Payments on loans	-	(94,000)	(94,000)	-
Interest expense	-	(74,691)	(74,691)	-
Acquisitions of capital assets	(30,000)	(30,000)	(60,000)	(27,700)
Net cash provided by (used in) capital and related financing activities	(30,000)	(198,691)	(228,691)	(27,700)
Cash flows from investing activities				
Interest income	(6,572)	(1,020)	(7,592)	(467)
Net cash provided by (used in) investing activities	(6,572)	(1,020)	(7,592)	(467)
Net increase (decrease) in cash and cash equivalents	50,013	(55,883)	(5,870)	(2,514)
Cash and cash equivalents, beginning of year	1,915,560	431,494	2,347,054	162,864
Cash and cash equivalents, end of year	\$ 1,965,573	375,611	\$ 2,341,184	\$ 160,350
Cash flows from operating activities				
Operating income (loss)	\$ 4,663	12,236	\$ 16,899	\$ (26,120)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Depreciation	49,483	129,079	178,562	44,830
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	27,892	(2,285)	25,607	113
Accounts payable and accrued liabilities	1,509	1,653	3,162	6,830
Compensated absences	3,116	3,117	6,233	-
Customer deposits	(78)	28	(50)	-
Net cash provided by (used in) operating activities	\$ 86,585	\$ 143,828	\$ 230,413	\$ 25,653

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

CITY OF CARSON CITY
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Employees Retirement System	Agency Fund
Assets		
Cash and cash equivalents	\$ 10,573	\$ 1,799
Accounts receivable	49,626	-
Investments		
US government securities mutual funds	32,715	-
Other mutual funds	25,557	-
Cash surrender value of life insurance	<u>20,888</u>	<u>-</u>
Total assets	<u>139,359</u>	<u>\$ 1,799</u>
Liabilities		
Accounts payable	164	\$ -
Due to other governments	<u>-</u>	<u>1,799</u>
Total liabilities	<u>164</u>	<u>\$ 1,799</u>
Net position		
Held in trust for pension benefits	<u>\$ 139,195</u>	

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

CITY OF CARSON CITY
EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Employees Retirement System
Additions	
Contributions:	
Employer	\$ 11,288
Employee	3,763
Investment income (loss)	<u>9,235</u>
Total additions	24,286
Deductions	
Distributions, expenses and benefit payments	<u>765</u>
Net increase (decrease)	23,521
Net position, beginning of year	<u>115,674</u>
Net position, end of year	<u><u>\$ 139,195</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, 2013

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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, 2013

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.

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.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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.

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.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

- 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.

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.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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.

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 position 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 position 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 position. 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.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013, 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.

Net Position 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 but do not meet the criteria to be classified as committed.
5. Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

The City Council has not delegated the authority to assign fund balance. Only the City Council can assign or commit fund balance

Net Position and Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

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

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
General Fund			
General Government			
City administrator	\$ 49,997	\$ 59,461	\$ (9,464)
Comptroller	91,300	155,689	(64,389)
Assessor	12,200	12,391	(191)
Public Safety			
Police department	130,000	167,363	(37,363)
Major Streets			
Public Works	23,392	36,789	(13,397)
Capital Outlay	-	1,315	(1,315)
Local Street Fund			
Public works	12,716	16,841	(4,125)
Capital outlay	-	859	(859)

3. DEPOSITS AND INVESTMENTS

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

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Cash and cash equivalents	\$1,633,653	\$2,280,648	\$ 12,372	\$3,926,673
Restricted Cash	-	60,536	-	60,536
Investments	-	-	79,160	79,160
	<u>\$1,633,653</u>	<u>\$2,341,184</u>	<u>\$91,532</u>	<u>\$4,066,369</u>

These deposits are in financial institutions located in Michigan. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value.

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, \$653,915 of the City's bank balance of \$1,576,717 is exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following 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	\$ 32,715	2	Morning Star
Capital World Growth and Income	N/A	25,557	4	Morning Star
CSV Life Insurance	N/A	20,888	N/A	
Pooled investments				
Money market funds				
US Treasury Note 1.75%	7/15	231,328		
US Treasury Note 1%	7/13	150,047		
US Treasury Note 2.375%	10/14	205,688		
US Treasury Note 2.25%	3/16	261,211		
US Treasury INFL IDX 1.625%	1/15	443,190		
Federal Farm Note 2.625%	4/14	101,927		
FHLMC 2.5%	1/14	75,905		
FHLMC 2.5%	5/16	262,627		
FHLMC 2.875%	2/15	208,146		
FNMA 2.375%	7/15	233,843		
FNMA 2.875%	12/13	227,679		
		<u>\$2,508,760</u>		
Total investments				

The above investments do not include certificates of deposit which are classified as deposits for risk identification purposes.

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.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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, \$20,888 represents the cash surrender value of life insurance and \$58,272 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

The Major street fund transferred \$5,684 to the Local street fund. Transfers are used to (1) move unrestricted revenues collected in the general fund to finance capital and other various programs accounted for in other funds in accordance with budgetary authorizations and (2) move allocated cost of general operations to applicable funds

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 158,996	\$ -	\$ -	\$ 158,996
Construction in progress	-	28,123	-	28,123
Total capital assets, not being depreciated	158,996	28,123	-	187,119
Capital assets, being depreciated				
Building and improvements	1,310,241	-	-	1,310,241
Furniture and equipment	642,884	-	-	642,884
Motor pool equipment	497,461	27,700	-	525,161
Motor vehicles	609,094	-	-	609,094
Infrastructure	829,563	140,039	-	969,602
Total capital assets, being depreciated	3,889,243	167,739	-	4,056,982
Less accumulated depreciation for:				
Building and improvements	712,335	17,844	-	730,179
Furniture and equipment	506,952	18,243	-	525,195
Motor pool equipment	318,546	43,920	-	362,466
Motor vehicles	404,337	27,869	-	432,206
Infrastructure	112,676	37,543	-	150,219
Total accumulated depreciation	2,054,846	145,419	-	2,200,265
Net capital assets, being depreciated	1,834,397	22,320	-	1,856,717
Governmental Activities capital assets, net	\$1,993,393	\$50,443	\$ -	\$2,043,836

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Balance</u> <u>July 1,</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2013</u>
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 14,475	\$ -	\$ -	\$ 14,475
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	14,475	-	-	14,475
Capital assets being depreciated				
Buildings and improvements	80,576	-	-	80,576
Mains and equipment	8,699,508	60,000	-	8,759,508
Total capital assets, being depreciated	8,780,084	60,000	-	8,840,084
Less accumulated depreciation for:				
Buildings and improvements	29,122	1,947	-	31,069
Mains and equipment	2,014,640	176,615	-	2,191,255
Total accumulated depreciation	2,043,762	178,562	-	2,222,324
Net capital assets, being depreciated	6,736,322	(118,562)	-	6,617,760
Business-type Activities capital assets, net	\$6,750,797	\$(118,562)	\$ -	\$6,632,235

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

Governmental Activities	
General government	\$ 4,570
Public safety	32,460
Public works	31,126
Culture and recreation	32,433
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	44,830
Total depreciation expense - governmental activities	\$145,419
Business-type Activities	
Sewer	\$ 49,483
Water	129,079
Total depreciation expense – business- type activities	\$178,562

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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.

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%.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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)	\$11,288
Contributions made	11,288
Increase (decrease) in net pension obligation	-
Net pension obligation beginning of year	-
Net pension obligation end of year	\$ -

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

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/11	\$33,625	100%	-
6/30/12	22,620	100%	-
6/30/13	11,288	100%	-

Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
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 \$16,623 and participant contributions were \$10,892 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, 2013

7. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2013.

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Governmental Activities					
Accrued employee benefits	\$ 36,045	\$ 1,749	\$ -	\$ 37,794	\$ -
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%	1,260,000	-	70,000	1,190,000	75,000
2010 USDA Water Supply Revenue Bonds. Payments due in annual installments of \$24,000 to \$66,000 through 2050; interest at 3.00%	1,634,000	-	24,000	1,610,000	25,000
Accrued employee benefits	35,444	6,233	-	41,677	-
Total Business-type Activities	2,929,444	6,233	94,000	2,841,677	100,000
Total	\$2,965,489	\$7,982	\$94,000	\$2,879,471	\$100,000

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2013 are as follows:

<u>Year Ended June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 100,000	\$ 72,416
2015	100,000	70,072
2016	101,000	67,713
2017	106,000	65,286
2018	108,000	62,776
2019-2023	580,000	274,179
2024-2028	547,000	202,996
2029-2033	196,000	159,360
2034-2038	222,000	127,950
2039-2043	255,000	92,355
2044-2048	291,000	51,375
2049-2052	194,000	8,820
Total	\$2,800,000	\$1,255,298

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013, revenue attributable to charges for these services was approximately 80% 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.

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, 2013

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 382,373	\$ 382,373	\$ 395,803	\$ 13,430
Intergovernmental	211,000	211,000	204,789	(6,211)
Fees and service charges	58,450	58,450	95,906	37,456
Interest	17,714	17,714	1,993	(15,721)
Contributions	60,000	60,000	52,250	(7,750)
Miscellaneous	5,010	5,010	28,285	23,275
Total revenues	<u>734,547</u>	<u>734,547</u>	<u>779,026</u>	<u>44,479</u>
Expenditures				
Current				
Legislative	70,650	70,650	49,415	21,235
General government	158,197	158,197	229,870	(71,673)
Public safety	170,000	170,000	199,900	(29,900)
Public works	138,500	138,500	127,115	11,385
Recreation and culture	222,200	222,200	194,060	28,140
Total expenditures	<u>759,547</u>	<u>759,547</u>	<u>800,360</u>	<u>(40,813)</u>
Revenues over (under) expenditures	<u>(25,000)</u>	<u>(25,000)</u>	<u>(21,334)</u>	<u>3,666</u>
Other financing sources (uses)				
Transfers in	25,000	25,000	-	(25,000)
Net changes in fund balance	-	-	(21,334)	(21,334)
Fund balance, beginning of year	<u>380,015</u>	<u>380,015</u>	<u>380,015</u>	<u>-</u>
Fund balance, end of year	<u>\$ 380,015</u>	<u>\$ 380,015</u>	<u>\$ 358,681</u>	<u>\$ (21,334)</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, 2013

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 100,000	\$ 100,000	\$ 103,942	\$ 3,942
Intergovernmental				
State shared	4,000	4,000	5,166	1,166
Penal fines	58,000	58,000	65,889	7,889
Fees and service charges	17,000	17,000	11,915	(5,085)
Interest	1,500	1,500	695	(805)
Contributions	-	-	23,943	23,943
Total Revenues	180,500	180,500	211,550	31,050
Expenditures				
Current				
Recreation and culture	243,000	243,000	221,773	21,227
Net changes in fund balance	(62,500)	(62,500)	(10,223)	52,277
Fund balance, beginning of year	453,926	453,926	453,926	-
Fund balance, end of year	\$ 391,426	\$ 391,426	\$ 443,703	\$ 52,277

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%
6/30/2013	11,288	11,288	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, 2013

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property taxes	\$ 382,373	\$ 382,373	\$ 395,803	\$ 13,430
Intergovernmental revenues				
State shared revenues	211,000	211,000	204,789	(6,211)
Total intergovernmental revenues	211,000	211,000	204,789	(6,211)
Fees and service charges				
Fire contracts	30,000	30,000	32,155	2,155
Rent	28,250	28,250	29,450	1,200
Licenses and permits	100	100	50	(50)
Hospital services	-	-	33,978	33,978
Court costs	100	100	273	173
Total fees and service charges	58,450	58,450	95,906	37,456
Interest	17,714	17,714	1,993	(15,721)
Contributions	60,000	60,000	52,250	(7,750)
Miscellaneous	5,010	5,010	28,285	23,275
Total revenues	\$ 734,547	\$ 734,547	\$ 779,026	\$ 44,479

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

FOR THE YEAR ENDED JUNE 30, 2013

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
Legislative				
City Council	\$ 70,650	\$ 70,650	\$ 49,415	\$ 21,235
General government				
City Administrator	49,997	49,997	59,461	(9,464)
Election Commission	4,700	4,700	2,329	2,371
Assessor	12,200	12,200	12,391	(191)
Comptroller	91,300	91,300	155,689	(64,389)
Total general government	158,197	158,197	229,870	(71,673)
Public Safety				
Police Department	130,000	130,000	167,363	(37,363)
Fire Department	40,000	40,000	32,537	7,463
Total public safety	170,000	170,000	199,900	(29,900)
Public Works				
Department of Public Works	138,500	138,500	127,115	11,385
Recreation and culture				
Parks	222,200	222,200	194,060	28,140
Total expenditures	\$ 759,547	\$ 759,547	\$ 800,360	\$ (40,813)

CITY OF CARSON CITY

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2013

	<u>Special Revenue</u>		<u>Total</u>
	<u>Major Street</u>	<u>Local Street</u>	
Assets			
Cash and cash equivalents	\$ 335,918	\$ 232,755	\$ 568,673
Due from other governments	<u>11,733</u>	<u>4,611</u>	<u>16,344</u>
Total assets	<u>\$ 347,651</u>	<u>\$ 237,366</u>	<u>\$ 585,017</u>
Liabilities and fund balance			
Liabilities			
Accounts payable and accrued liabilities	\$ 23,904	\$ 4,218	\$ 28,122
Fund balances			
Restricted for streets	<u>323,747</u>	<u>233,148</u>	<u>556,895</u>
Total fund balances	<u>323,747</u>	<u>233,148</u>	<u>556,895</u>
Total liabilities and fund balances	<u>\$ 347,651</u>	<u>\$ 237,366</u>	<u>\$ 585,017</u>

CITY OF CARSON CITY

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

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Special Revenue</u>		<u>Total</u>
	<u>Major Street</u>	<u>Local Street</u>	
Revenues			
State revenues	\$ 70,062	\$ 26,762	\$ 96,824
Interest	(269)	(135)	(404)
Total revenues	<u>69,793</u>	<u>26,627</u>	<u>96,420</u>
Expenditures			
Current			
Public works	36,789	16,841	53,630
Capital outlay	1,315	859	2,174
Total expenditures	<u>38,104</u>	<u>17,700</u>	<u>55,804</u>
Revenues over (under) expenditures	<u>31,689</u>	<u>8,927</u>	<u>40,616</u>
Other financing sources (uses)			
Transfers in	-	5,684	5,684
Transfers out	(5,684)	-	(5,684)
Total other financing sources (uses)	<u>(5,684)</u>	<u>5,684</u>	<u>-</u>
Net changes in fund balances	26,005	14,611	40,616
Fund balances, beginning of year	<u>297,742</u>	<u>218,537</u>	<u>516,279</u>
Fund balances, end of year	<u>\$ 323,747</u>	<u>\$ 233,148</u>	<u>\$ 556,895</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, 2013

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue	\$ 67,086	\$ 67,086	\$ 70,062	\$ 2,976
Interest	2,560	2,560	(269)	(2,829)
Total revenues	<u>69,646</u>	<u>69,646</u>	<u>69,793</u>	<u>147</u>
Expenditures				
Current				
Public works				
Routine maintenance	8,745	8,745	29,348	(20,603)
Winter maintenance	9,893	9,893	4,512	5,381
State trunkline	4,754	4,754	2,929	1,825
Capital outlay				
Construction	-	-	1,315	(1,315)
Total expenditures	<u>23,392</u>	<u>23,392</u>	<u>38,104</u>	<u>(14,712)</u>
Revenues over (under) expenditures	46,254	46,254	31,689	(14,565)
Other financing uses				
Transfers out	(10,000)	(10,000)	(5,684)	4,316
Net changes in fund balance	36,254	36,254	26,005	(10,249)
Fund balance, beginning of year	<u>297,742</u>	<u>297,742</u>	<u>297,742</u>	<u>-</u>
Fund balance, end of year	<u>\$ 333,996</u>	<u>\$ 333,996</u>	<u>\$ 323,747</u>	<u>\$ (10,249)</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, 2013

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue	\$ 34,496	\$ 34,496	\$ 26,762	\$ (7,734)
Interest	5,000	5,000	(135)	(5,135)
Total revenues	<u>39,496</u>	<u>39,496</u>	<u>26,627</u>	<u>(12,869)</u>
Expenditures				
Current				
Public works				
Routine maintenance	7,188	7,188	12,533	(5,345)
Winter maintenance	5,528	5,528	4,308	1,220
Capital outlay				
Construction	-	-	859	(859)
Total expenditures	<u>12,716</u>	<u>12,716</u>	<u>17,700</u>	<u>(4,984)</u>
Revenues over (under) expenditures	26,780	26,780	8,927	(17,853)
Other financing sources				
Transfers in	10,000	10,000	5,684	(4,316)
Net changes in fund balance	36,780	36,780	14,611	(22,169)
Fund balance, beginning of year	<u>218,537</u>	<u>218,537</u>	<u>218,537</u>	<u>-</u>
Fund balance, end of year	<u>\$ 255,317</u>	<u>\$ 255,317</u>	<u>\$ 233,148</u>	<u>\$ (22,169)</u>

INTERNAL CONTROL AND COMPLIANCE



Vredeveld Haefner LLC

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

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

November 27, 2013

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carson City, Michigan, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Carson City, Michigan's basic financial statements and have issued our report thereon dated November 27, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 2013-1 and 2013-2 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, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 November 27, 2013.

Response to Findings

City of Carson City, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings. City of Carson City, Michigan's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Ordevelo Haefner LLC

CITY OF CARSON CITY

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENT FINDINGS

2013-1

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.

2013-2

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.



Vredeveld Haefner LLC

CPA's and Consultants

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

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

November 27, 2013

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 (the City) for the year ended June 30, 2013. 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 18, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Results

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City adopted Statement of Governmental Accounting Standards (GASB Statement) No. 62 and No. 63 in 2013 which did not have a significant impact on the financial statements. 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 future expected usefulness 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 November 27, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

We noted that invoices require review and approval before payment. This process is occurring but is not clearly documented. We suggest this be documented with a simple initial and date.

We noted that the current credit card procedures require providing a receipt or documentation of the charges made, however this is not always occurring. We suggest that the receipts or documentation be provided for all charges.

We suggest that the City develop a policy to assure timely deposit of contributions into the City's pension account.

We suggest that the payroll process be reviewed and amended to include the review and approval of payroll by someone other than the person who processed the payroll.

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