

CITY OF CARSON CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014



Vredeveld Haefner LLC

CITY OF CARSON CITY

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INDEPENDENT AUDITORS' REPORT

September 15, 2014

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan, as of June 30, 2014, 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 September 15, 2014, 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, 2014. 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 City purchased a new truck, police radios, and land for the sewer system.
- The City sold the old water tower property to the hospital.

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 \$9,704,251 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 | |
|---------------------------|-------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Current and other assets | \$1,661,411 | \$1,706,399 | \$2,423,527 | \$2,425,421 | \$4,084,938 | \$4,131,820 |
| Capital assets | 1,937,067 | 2,043,836 | 6,575,087 | 6,632,235 | 8,512,154 | 8,676,071 |
| Total assets | 3,598,478 | 3,750,235 | 8,998,614 | 9,057,656 | 12,597,092 | 12,807,891 |
| Long-term liabilities | 32,162 | 37,794 | 2,738,253 | 2,841,677 | 2,770,415 | 2,879,471 |
| Other liabilities | 99,158 | 182,901 | 23,268 | 19,729 | 122,426 | 202,630 |
| Total liabilities | 131,320 | 220,695 | 2,761,521 | 2,861,406 | 2,892,841 | 3,082,101 |
| Net position | | | | | | |
| Net investment in | | | | | | |
| Capital assets | 1,937,067 | 2,043,836 | 3,875,087 | 3,832,235 | 5,812,154 | 5,876,071 |
| Restricted | 1,006,758 | 1,000,598 | - | - | 1,006,758 | 1,000,598 |
| Unrestricted | 523,333 | 485,106 | 2,362,006 | 2,364,015 | 2,885,339 | 2,849,121 |
| Total net position | \$3,467,158 | \$3,529,540 | \$6,237,093 | \$6,196,250 | \$9,704,251 | \$9,725,790 |

Net position of the City decreased by \$21,539. The business-type activities increase in net position of \$40,843 was primarily the result of controlling expenses. The governmental activities decrease in net position of \$62,382 is primarily the result of depreciation expense.

Summary of Activities

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|-------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Revenue | | | | | | |
| Program revenue | | | | | | |
| Charges for Services | \$ 127,969 | \$117,236 | \$ 791,890 | \$ 795,971 | \$ 919,859 | \$ 913,207 |
| Operating grants and contributions | 196,700 | 200,643 | - | - | 196,700 | 200,643 |
| Capital grants and contributions | 250 | 90,000 | - | - | 250 | 90,000 |
| | <u>324,919</u> | <u>470,475</u> | <u>791,890</u> | <u>795,971</u> | <u>1,116,809</u> | <u>1,266,446</u> |
| General revenue | | | | | | |
| Property taxes | 483,505 | 499,745 | - | - | 483,505 | 499,745 |
| Other governmental sources | 125,543 | 114,289 | - | - | 125,543 | 114,289 |
| Other | 11,757 | 1,526 | 10,241 | (7,592) | 21,998 | (6,066) |
| Total revenues | <u>945,724</u> | <u>1,086,035</u> | <u>802,131</u> | <u>788,379</u> | <u>1,747,855</u> | <u>1,874,414</u> |
| Expenses | | | | | | |
| Legislative | 50,981 | 49,415 | - | - | 50,981 | 49,415 |
| General government | 187,851 | 236,189 | - | - | 187,851 | 236,189 |
| Public safety | 230,182 | 232,333 | - | - | 230,182 | 232,333 |
| Public works | 244,294 | 207,256 | - | - | 244,294 | 207,256 |
| Culture and recreation | 309,798 | 313,041 | - | - | 309,798 | 313,041 |
| Sewer | - | - | 297,119 | 328,021 | 297,119 | 328,021 |
| Water | - | - | 449,169 | 525,742 | 449,169 | 525,742 |
| Total expenses | <u>1,023,106</u> | <u>1,038,234</u> | <u>746,288</u> | <u>853,763</u> | <u>1,769,394</u> | <u>1,891,997</u> |
| Increase (decrease) before transfers | (77,382) | 47,801 | 55,843 | (65,384) | (21,539) | (17,583) |
| Transfers | 15,000 | - | (15,000) | - | - | - |
| Increase (decrease) in net position | <u>(62,382)</u> | <u>47,801</u> | <u>40,843</u> | <u>(65,384)</u> | <u>(21,539)</u> | <u>(17,583)</u> |
| Net position, beginning 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> |
| Net position, end of year | <u>\$3,467,158</u> | <u>\$3,529,540</u> | <u>\$6,237,093</u> | <u>\$6,196,250</u> | <u>\$9,704,251</u> | <u>\$9,725,790</u> |

Governmental Activities. During the year the City invested \$230,182 or 22% of governmental activities expenses in public safety. Culture and recreation expense, which includes library operations was \$309,798 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 increased the City's net position by \$40,843. By comparison, business-type activities reported a decrease in net position the previous fiscal year of \$65,384.

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 \$1,384,597, an increase of \$25,318 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 \$179,960. 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 29% of total general fund expenditures.

The City's general fund fund balance increased slightly during the current fiscal year.

The library fund has a total fund balance of \$439,981, which decreased by \$3,722 during the year. 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 \$1,916,560 and \$445,446 respectively. The sewer and water funds had a increase in net position for the year of \$17,230 and \$23,613 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

Police expenses were adjusted for the purchase of new police radios. Fire expenses were adjusted during the year to more accurately to reflect staffing levels.

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, 2014, amounted to \$8,512,154 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of land, a 2014 Chevy Silverado, a new mower, and police radios.

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

| Capital Assets | | | |
|--|------------------------------------|--------------------------------------|--------------------|
| | Governmental Activities | Business- type Activities | Total |
| Land | \$ 158,996 | \$ 136,623 | \$ 295,619 |
| Construction in progress | 28,123 | - | 28,123 |
| Buildings, equipment and Infrastructure | 1,749,948 | 6,438,464 | 8,188,412 |
| Total | \$1,937,067 | \$6,575,087 | \$8,512,154 |

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 | \$32,162 | \$ 38,253 | \$ 70,415 |
| Bonds payable | - | 2,700,000 | 2,700,000 |
| Total | \$32,162 | \$2,738,253 | \$2,770,415 |

The City's total debt decreased by approximately \$110,000 during the year primarily due to scheduled payments on outstanding bonds and a slight decrease 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 2014-15 fiscal year:

- Maintain current levels of fund balance
- 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, 2014

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and pooled investments | \$ 1,592,084 | \$ 2,277,060 | \$ 3,869,144 |
| Accounts receivable | 3,150 | 85,931 | 89,081 |
| Due from other governments | 53,207 | - | 53,207 |
| Prepaid items | 2,378 | - | 2,378 |
| Land contract receivable | 10,592 | - | 10,592 |
| Restricted cash | - | 60,536 | 60,536 |
| Capital assets, net | | | |
| Land | 158,996 | 136,623 | 295,619 |
| Construction in progress | 28,123 | - | 28,123 |
| Buildings, equipment and infrastructure | <u>1,749,948</u> | <u>6,438,464</u> | <u>8,188,412</u> |
| Total assets | <u>3,598,478</u> | <u>8,998,614</u> | <u>12,597,092</u> |
| Liabilities | | | |
| Accounts payable and accrued expenses | 37,463 | 21,452 | 58,915 |
| Unearned revenue | 61,695 | - | 61,695 |
| Customer deposits | - | 1,816 | 1,816 |
| Noncurrent liabilities | | | |
| Compensated absences | 32,162 | 38,253 | 70,415 |
| Due within one year | - | 100,000 | 100,000 |
| Due in more than one year | <u>-</u> | <u>2,600,000</u> | <u>2,600,000</u> |
| Total liabilities | <u>131,320</u> | <u>2,761,521</u> | <u>2,892,841</u> |
| Net Position | | | |
| Net investment in capital assets | 1,937,067 | 3,875,087 | 5,812,154 |
| Restricted for | | | |
| Library | 439,981 | - | 439,981 |
| Major streets | 340,107 | - | 340,107 |
| Local streets | 226,670 | - | 226,670 |
| Unrestricted | <u>523,333</u> | <u>2,362,006</u> | <u>2,885,339</u> |
| Total net position | <u>\$ 3,467,158</u> | <u>\$ 6,237,093</u> | <u>\$ 9,704,251</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, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|---------------------------------------|---------------------|-----------------------------|---|---|------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government | | | | | |
| Governmental activities | | | | | |
| Legislative | \$ 50,981 | \$ - | \$ - | \$ - | \$ (50,981) |
| General government | 187,851 | 48,819 | - | - | (139,032) |
| Public safety | 230,182 | 65,007 | 10,447 | - | (154,728) |
| Public works | 244,294 | 5,651 | 95,580 | - | (143,063) |
| Culture and recreation | 309,798 | 8,492 | 90,673 | 250 | (210,383) |
| Total governmental activities | 1,023,106 | 127,969 | 196,700 | 250 | (698,187) |
| Business-type activities | | | | | |
| Sewer | 297,119 | 321,998 | - | - | 24,879 |
| Water | 449,169 | 469,892 | - | - | 20,723 |
| Total business-type activities | 746,288 | 791,890 | - | - | 45,602 |
| Total primary government | \$ 1,769,394 | \$ 919,859 | \$ 196,700 | \$ 250 | \$ (652,585) |

(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, 2014

| | Primary Government | | <u>Total</u> |
|--|--|---|---------------------|
| | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | |
| Changes in net assets | | | |
| Net (expense) revenue | \$ (698,187) | \$ 45,602 | \$ (652,585) |
| General revenues | | | |
| Property taxes | | | |
| General operating | 373,257 | - | 373,257 |
| Library | 110,248 | - | 110,248 |
| State shared revenues | 125,543 | - | 125,543 |
| Interest earnings | 11,757 | 10,241 | 21,998 |
| Transfers | 15,000 | (15,000) | - |
| Total general revenues and transfers | <u>635,805</u> | <u>(4,759)</u> | <u>631,046</u> |
| Change in net position | (62,382) | 40,843 | (21,539) |
| Net position, beginning of year | <u>3,529,540</u> | <u>6,196,250</u> | <u>9,725,790</u> |
| Net position, end of year | <u>\$ 3,467,158</u> | <u>\$ 6,237,093</u> | <u>\$ 9,704,251</u> |

(Concluded)

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

CITY OF CARSON CITY
GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2014

| | <u>General</u> | <u>Library</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|-------------------|-------------------|--|---------------------|
| Assets | | | | |
| Cash and pooled investments | \$ 427,320 | \$ 441,505 | \$ 551,447 | \$ 1,420,272 |
| Accounts receivable | 3,150 | - | - | 3,150 |
| Due from other governments | 37,877 | - | 15,330 | 53,207 |
| Land contract receivable | 10,592 | - | - | 10,592 |
| Prepaid expenditures | 2,378 | - | - | 2,378 |
| Total assets | <u>\$ 481,317</u> | <u>\$ 441,505</u> | <u>\$ 566,777</u> | <u>\$ 1,489,599</u> |
| Liabilities, deferred inflows of resources and fund balance: | | | | |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | \$ 31,560 | \$ 1,524 | \$ - | \$ 33,084 |
| Unearned revenue | 61,695 | - | - | 61,695 |
| Total liabilities | <u>93,255</u> | <u>1,524</u> | <u>-</u> | <u>94,779</u> |
| Deferred inflows of resources | | | | |
| Unavailable revenue - long-term receivable | 10,223 | - | - | 10,223 |
| Fund balances | | | | |
| Nonspendable | | | | |
| Prepaid | 2,378 | - | - | 2,378 |
| Restricted for | | | | |
| Streets | - | - | 566,777 | 566,777 |
| Library | - | 439,981 | - | 439,981 |
| Committed | | | | |
| Compensated absences | 32,162 | - | - | 32,162 |
| Fire equipment | 111,151 | - | - | 111,151 |
| Police equipment | 10,693 | - | - | 10,693 |
| Matching | 5,975 | - | - | 5,975 |
| Master plan | 19,393 | - | - | 19,393 |
| Downtown development | 16,127 | - | - | 16,127 |
| Unassigned | 179,960 | - | - | 179,960 |
| Total fund balances | <u>377,839</u> | <u>439,981</u> | <u>566,777</u> | <u>1,384,597</u> |
| Total liabilities, deferred inflows of resources and fund balance | <u>\$ 481,317</u> | <u>\$ 441,505</u> | <u>\$ 566,777</u> | <u>\$ 1,489,599</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, 2014

| | |
|---|----------------------------|
| Fund balances - total governmental funds | \$ 1,384,597 |
| 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) | 1,777,243 |
| Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred inflows in the funds. | |
| Add - land contract deferred inflows | 10,223 |
| 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 | 327,257 |
| 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>(32,162)</u> |
| Net position of governmental activities | <u>\$ 3,467,158</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, 2014

| | <u>General</u> | <u>Library</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|---|-------------------|-------------------|--|---------------------|
| Revenues | | | | |
| Taxes | \$ 373,257 | \$ 110,248 | \$ - | \$ 483,505 |
| Intergovernmental revenues | 126,265 | 68,894 | 100,442 | 295,601 |
| Fees and service charges | 106,861 | 13,461 | - | 120,322 |
| Interest | 11,009 | 8,492 | 789 | 20,290 |
| Contributions | 250 | 8,318 | - | 8,568 |
| Miscellaneous | 17,227 | - | - | 17,227 |
| Total revenues | <u>634,869</u> | <u>209,413</u> | <u>101,231</u> | <u>945,513</u> |
| Expenditures | | | | |
| Current | | | | |
| Legislative | 50,981 | - | - | 50,981 |
| General government | 188,913 | - | - | 188,913 |
| Public safety | 203,335 | - | - | 203,335 |
| Public works | 121,383 | - | 78,451 | 199,834 |
| Recreation and culture | 65,537 | 213,135 | - | 278,672 |
| Capital outlay | 562 | - | 12,898 | 13,460 |
| Total expenditures | <u>630,711</u> | <u>213,135</u> | <u>91,349</u> | <u>935,195</u> |
| Revenues over (under) expenditures | <u>4,158</u> | <u>(3,722)</u> | <u>9,882</u> | <u>10,318</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 15,000 | - | 6,369 | 21,369 |
| Transfers out | - | - | (6,369) | (6,369) |
| Total other financing sources (uses) | <u>15,000</u> | <u>-</u> | <u>-</u> | <u>15,000</u> |
| Net changes in fund balances | 19,158 | (3,722) | 9,882 | 25,318 |
| Fund balances, beginning of year | <u>358,681</u> | <u>443,703</u> | <u>556,895</u> | <u>1,359,279</u> |
| Fund balances, end of year | <u>\$ 377,839</u> | <u>\$ 439,981</u> | <u>\$ 566,777</u> | <u>\$ 1,384,597</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, 2014

| | |
|--|---------------------------|
| Net changes in fund balances - total governmental funds | \$ 25,318 |
| 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 | 7,685 |
| Deduct - depreciation expense | (102,126) |
| 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 | (537) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds. | |
| Add - decrease in compensated absences | 5,632 |
| 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. | |
| Add - income from governmental activities in the internal service fund | <u>1,646</u> |
| Change in net position of governmental activities | <u>\$ (62,382)</u> |

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

CITY OF CARSON CITY

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION**

JUNE 30, 2014

| | Business-Type Activities | | Enterprise Fund Total | Governmental Activities |
|--|--------------------------|---------------------|-----------------------------|-----------------------------|
| | Sewer | Water | | Internal Service Fund |
| | | | | |
| Assets | | | | |
| Current assets | | | | |
| Cash and pooled investments | \$ 1,910,106 | \$ 366,954 | \$ 2,277,060 | \$ 171,812 |
| Accounts receivable | 32,501 | 53,430 | 85,931 | - |
| Restricted cash and pooled investments | - | 60,536 | 60,536 | - |
| Total current assets | <u>1,942,607</u> | <u>480,920</u> | <u>2,423,527</u> | <u>171,812</u> |
| Capital assets | | | | |
| Land | 136,623 | - | 136,623 | 3,996 |
| Buildings | - | 80,576 | 80,576 | 67,975 |
| Plant, mains and equipment | 2,426,835 | 6,332,673 | 8,759,508 | 507,419 |
| Accumulated depreciation | <u>(1,135,955)</u> | <u>(1,265,665)</u> | <u>(2,401,620)</u> | <u>(419,566)</u> |
| Net capital assets | <u>1,427,503</u> | <u>5,147,584</u> | <u>6,575,087</u> | <u>159,824</u> |
| Total assets | <u>3,370,110</u> | <u>5,628,504</u> | <u>8,998,614</u> | <u>331,636</u> |
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | 6,030 | 15,422 | 21,452 | 4,379 |
| Current portion of long-term debt | - | 100,000 | 100,000 | - |
| Total current liabilities | <u>6,030</u> | <u>115,422</u> | <u>121,452</u> | <u>4,379</u> |
| Long-term liabilities | | | | |
| Compensated absences | 19,126 | 19,127 | 38,253 | - |
| Long-term debt | - | 2,600,000 | 2,600,000 | - |
| Customer deposits | 891 | 925 | 1,816 | - |
| Total long-term liabilities | <u>20,017</u> | <u>2,620,052</u> | <u>2,640,069</u> | <u>-</u> |
| Total liabilities | <u>26,047</u> | <u>2,735,474</u> | <u>2,761,521</u> | <u>4,379</u> |
| Net position | | | | |
| Net investments in capital assets | 1,427,503 | 2,447,584 | 3,875,087 | 159,824 |
| Unrestricted | <u>1,916,560</u> | <u>445,446</u> | <u>2,362,006</u> | <u>167,433</u> |
| Total net position | <u>\$ 3,344,063</u> | <u>\$ 2,893,030</u> | <u>\$ 6,237,093</u> | <u>\$ 327,257</u> |

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, 2014

| | Business-Type Activities | | Enterprise Fund Total | Governmental Activities |
|--|--------------------------|---------------------|-----------------------------|-----------------------------|
| | | | | Internal Service Fund |
| | Sewer | Water | | |
| Operating revenue | | | | |
| Charges for services | \$ 321,998 | \$ 449,930 | \$ 771,928 | \$ 113,647 |
| Total operating revenue | <u>321,998</u> | <u>449,930</u> | <u>771,928</u> | <u>113,647</u> |
| Operating expense | | | | |
| Salaries and wages | 117,500 | 113,052 | 230,552 | 14,822 |
| Supplies | 14,597 | 27,215 | 41,812 | 31,443 |
| Professional services | 34,768 | 23,015 | 57,783 | - |
| Insurance and bonds | 12,167 | 12,167 | 24,334 | - |
| Utilities | 20,527 | 30,212 | 50,739 | - |
| Equipment rentals | 27,304 | 17,843 | 45,147 | 793 |
| Repair and maintenance | 13,993 | 17,631 | 31,624 | 10,759 |
| Depreciation | 49,189 | 130,107 | 179,296 | 51,844 |
| Miscellaneous | 7,074 | 6,190 | 13,264 | 3,088 |
| Total operating expense | <u>297,119</u> | <u>377,432</u> | <u>674,551</u> | <u>112,749</u> |
| Operating income (loss) | <u>24,879</u> | <u>72,498</u> | <u>97,377</u> | <u>898</u> |
| Non-operating revenue (expense) | | | | |
| Interest income | 7,351 | 2,890 | 10,241 | 748 |
| Gain on sale of capital asset | - | 19,962 | 19,962 | - |
| Interest expense | - | (71,737) | (71,737) | - |
| Total non-operating revenue (expense) | <u>7,351</u> | <u>(48,885)</u> | <u>(41,534)</u> | <u>748</u> |
| Income (loss) before transfers | 32,230 | 23,613 | 55,843 | 1,646 |
| Transfers out | (15,000) | - | (15,000) | - |
| Changes in net position | 17,230 | 23,613 | 40,843 | 1,646 |
| Net position, beginning of year | <u>3,326,833</u> | <u>2,869,417</u> | <u>6,196,250</u> | <u>325,611</u> |
| Net position, end of year | <u>\$ 3,344,063</u> | <u>\$ 2,893,030</u> | <u>\$ 6,237,093</u> | <u>\$ 327,257</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, 2014

| | Business-Type Activities | | Enterprise Fund Total | Governmental Activities |
|--|--------------------------|-------------------|-----------------------------|-----------------------------|
| | Sewer | Water | | Internal Service Fund |
| | Sewer | Water | Total | Fund |
| Cash flows from operating activities | | | | |
| Receipts from internal services provided | \$ - | \$ - | \$ - | \$ 113,647 |
| Receipts from customers and users | 321,456 | 448,728 | 770,184 | - |
| Payments to employees | (119,212) | (114,764) | (233,976) | (14,822) |
| Payments to suppliers | (127,914) | (133,200) | (261,114) | (48,595) |
| Net cash provided by (used in) operating activities | <u>74,330</u> | <u>200,764</u> | <u>275,094</u> | <u>50,230</u> |
| Cash flows from non-capital financing activities | | | | |
| Transfers out | (15,000) | - | (15,000) | - |
| Cash flows from capital and related financing activities | | | | |
| Payments on loans | - | (100,000) | (100,000) | - |
| Interest expense | - | (71,737) | (71,737) | - |
| Proceeds from sale of capital assets | - | 19,962 | 19,962 | - |
| Acquisitions of capital assets | (122,148) | - | (122,148) | (39,516) |
| Net cash provided by (used in) capital and related financing activities | <u>(122,148)</u> | <u>(151,775)</u> | <u>(273,923)</u> | <u>(39,516)</u> |
| Cash flows from investing activities | | | | |
| Interest income | 7,351 | 2,890 | 10,241 | 748 |
| Net increase (decrease) in cash and cash equivalents | (55,467) | 51,879 | (3,588) | 11,462 |
| Cash and cash equivalents, beginning of year | <u>1,965,573</u> | <u>375,611</u> | <u>2,341,184</u> | <u>160,350</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,910,106</u> | <u>\$ 427,490</u> | <u>\$ 2,337,596</u> | <u>\$ 171,812</u> |
| Cash flows from operating activities | | | | |
| Operating income (loss) | \$ 24,879 | \$ 72,498 | \$ 97,377 | \$ 898 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities | | | | |
| Depreciation | 49,189 | 130,107 | 179,296 | 51,844 |
| Changes in operating assets and liabilities which provided (used) cash | | | | |
| Accounts receivable | (517) | (1,177) | (1,694) | - |
| Accounts payable and accrued liabilities | 2,516 | 1,073 | 3,589 | (2,512) |
| Compensated absences | (1,712) | (1,712) | (3,424) | - |
| Customer deposits | (25) | (25) | (50) | - |
| Net cash provided by (used in) operating activities | <u>\$ 74,330</u> | <u>\$ 200,764</u> | <u>\$ 275,094</u> | <u>\$ 50,230</u> |

Non cash transaction: During the year the motor pool fund traded a capital asset for \$3,000 worth of services.

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

CITY OF CARSON CITY
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014

| | Employees Retirement System | Agency Fund |
|--|--|------------------------|
| Assets | | |
| Cash and pooled investments | \$ 16,816 | \$ 13,063 |
| Accounts receivable | 15,691 | - |
| Investments | | |
| US government securities mutual funds | 33,719 | - |
| Other mutual funds | 105,680 | - |
| Cash surrender value of life insurance | <u>10,518</u> | <u>-</u> |
| Total assets | <u>182,424</u> | <u>\$ 13,063</u> |
| Liabilities | | |
| Accounts payable | 164 | \$ 5,253 |
| Due to other governments | <u>-</u> | <u>7,810</u> |
| Total liabilities | <u>164</u> | <u>\$ 13,063</u> |
| Net position | | |
| Held in trust for pension benefits | <u>\$ 182,260</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, 2014

| | Employees Retirement System |
|--|--|
| Additions | |
| Contributions: | |
| Employer | \$ 31,808 |
| Employee | 4,513 |
| Investment income (loss) | <u>9,638</u> |
| Total additions | 45,959 |
| Deductions | |
| Distributions, expenses and benefit payments | <u>2,894</u> |
| Net increase (decrease) | 43,065 |
| Net position, beginning of year | <u>139,195</u> |
| Net position, end of year | <u><u>\$ 182,260</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, 2014

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, 2014

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, 2014

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, 2014

- 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 Revenue

Governmental funds report *unearned revenue* in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, *unearned revenue* reported in the governmental funds consisted of amounts received from private sources to be used for City parks.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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, 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, 2014

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, 2014, 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.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government has no items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has no items that qualified for reporting in this category.

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 resolution 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. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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 General and Library funds have been shown at the functional level. The approved budgets of the City for these budgetary funds were adopted at the line item level we have disclosed variances at the activity level. The City did not approve a budget for the Major or Local Streets funds. 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 | \$ 46,917 | \$ 59,506 | \$ (12,589) |
| Recreation and culture | | | |
| Parks | 56,498 | 65,537 | (9,039) |
| Capital outlay | - | 562 | (562) |

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 pooled investments | \$1,592,084 | \$2,277,060 | \$ 29,879 | \$3,899,023 |
| Restricted Cash and pooled investments | - | 60,536 | - | 60,536 |
| Investments | - | - | 149,917 | 149,917 |
| | <u>\$1,592,084</u> | <u>\$2,337,596</u> | <u>\$179,796</u> | <u>\$4,109,476</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, \$781,408 of the City's bank balance of \$2,264,737 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, 2014

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 | \$ 33,719 | 2 | Morning Star |
| Capital World Growth and Income | N/A | 105,680 | 3 | Morning Star |
| CSV Life Insurance | N/A | 10,518 | N/A | |
| Pooled investments | | | | |
| Money market funds | | | | |
| US Treasury Note 1.75% | 7/15 | 101,719 | N/A | |
| US Treasury Note 2.375% | 10/14 | 201,531 | N/A | |
| US Treasury Note 2.25% | 3/16 | 258,242 | N/A | |
| US Treasury INFL IDX 1.625% | 1/15 | 441,565 | N/A | |
| FHLMC 2.5% | 5/16 | 259,758 | AAA | Moody's |
| FHLMC 2.875% | 2/15 | 203,316 | AAA | Moody's |
| FNMA 2.375% | 7/15 | <u>230,215</u> | AAA | Moody's |
| Total investments | | <u>\$1,876,872</u> | | |

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.

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, \$10,518 represents the cash surrender value of life insurance and \$139,399 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.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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 \$6,369 to the Local street fund and the Sewer fund transferred \$15,000 to the General 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:

| | Balance July 1, 2013 | Additions | Deletions | Balance June 30, 2014 |
|--|-------------------------------------|--------------------|------------------|--------------------------------------|
| 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 | 187,119 | - | - | 187,119 |
| Capital assets, being depreciated | | | | |
| Building and improvements | 1,310,241 | - | - | 1,310,241 |
| Furniture and equipment | 642,884 | 7,685 | - | 650,569 |
| Motor pool equipment | 525,161 | 39,516 | 57,259 | 507,418 |
| Motor vehicles | 609,094 | - | - | 609,094 |
| Infrastructure | 969,602 | - | - | 969,602 |
| Total capital assets, being depreciated | 4,056,982 | 47,201 | 57,259 | 4,046,924 |
| Less accumulated depreciation for: | | | | |
| Building and improvements | 730,179 | 17,844 | - | 748,023 |
| Furniture and equipment | 525,195 | 19,780 | - | 544,975 |
| Motor pool equipment | 362,466 | 50,934 | 57,259 | 356,141 |
| Motor vehicles | 432,206 | 27,869 | - | 460,075 |
| Infrastructure | 150,219 | 37,543 | - | 187,762 |
| Total accumulated depreciation | 2,200,265 | 153,970 | 57,259 | 2,296,976 |
| Net capital assets, being depreciated | 1,856,717 | (106,769) | - | 1,749,948 |
| Governmental Activities capital assets, net | \$2,043,836 | \$(106,769) | \$ - | \$1,937,067 |

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Balance July 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2014</u> |
|---|-------------------------------------|-------------------|------------------|--------------------------------------|
| Business-type Activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 14,475 | \$122,148 | \$ - | \$ 136,623 |
| Construction in progress | - | - | - | - |
| Total capital assets, not being depreciated | 14,475 | 122,148 | - | 136,623 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 80,576 | - | - | 80,576 |
| Mains and equipment | 8,759,508 | - | - | 8,759,508 |
| Total capital assets, being depreciated | 8,840,084 | - | - | 8,840,084 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 31,069 | 1,946 | - | 33,015 |
| Mains and equipment | 2,191,255 | 177,350 | - | 2,368,605 |
| Total accumulated depreciation | 2,222,324 | 179,296 | - | 2,401,620 |
| Net capital assets, being depreciated | 6,617,760 | (179,296) | - | 6,438,464 |
| Business-type Activities capital assets, net | \$6,632,235 | \$(57,148) | \$ - | \$6,575,087 |

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

| | |
|---|------------------|
| Governmental Activities | |
| General government | \$ 4,570 |
| Public safety | 33,970 |
| Public works | 32,460 |
| Culture and recreation | 31,126 |
| Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets | 51,844 |
| Total depreciation expense - governmental activities | \$153,970 |
| Business-type Activities | |
| Sewer | \$ 49,189 |
| Water | 130,107 |
| Total depreciation expense – business- type activities | \$179,296 |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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. The Plan does not issue separately audited financial statements.

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 two years (100% after six 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% 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, 2014

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) | \$31,808 |
| Contributions made | 31,808 |
| 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> |
|-------------------------------------|--|--|---|
| 6/30/12 | \$22,620 | 100% | - |
| 6/30/13 | 11,288 | 100% | - |
| 6/30/14 | 31,808 | 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 \$16,293 and participant contributions were \$5,431 to the plan during the year. The plan provisions and contribution amounts were established by the City Council and may be amended by the City Council.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

7. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2014.

| | <u>Balance July 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2014</u> | <u>Due Within One Year</u> |
|--|-------------------------------------|------------------|------------------|--------------------------------------|--|
| Governmental Activities | | | | | |
| Accrued employee benefits | \$ 37,794 | \$ - | \$ 5,632 | \$ 32,162 | \$ - |
| 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% | 1,190,000 | - | 75,000 | 1,115,000 | 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% | 1,610,000 | - | 25,000 | 1,585,000 | 25,000 |
| Accrued employee benefits | 41,677 | - | 3,424 | 38,253 | - |
| Total Business-type Activities | 2,841,677 | - | 103,424 | 2,738,253 | 100,000 |
| Total | \$2,879,471 | \$ - | \$109,056 | \$2,770,415 | \$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> |
| 2015 | \$ 100,000 | \$ 70,072 |
| 2016 | 101,000 | 67,713 |
| 2017 | 106,000 | 65,286 |
| 2018 | 108,000 | 62,776 |
| 2019 | 109,000 | 60,221 |
| 2020-2024 | 594,000 | 260,375 |
| 2025-2029 | 461,000 | 190,764 |
| 2030-2034 | 202,000 | 153,390 |
| 2035-2039 | 227,000 | 121,215 |
| 2040-2044 | 262,000 | 84,600 |
| 2045-2049 | 299,000 | 42,525 |
| 2050 | 131,000 | 3,945 |
| Total | \$2,700,000 | \$1,182,882 |

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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, 2014, 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.

10. COMMITMENTS

The City has approximately \$875,000 in commitments for a storm water asset management plan, wastewater asset management plan, and street improvements.

11. UPCOMING ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will be effective for the fiscal year beginning after June 15, 2014. This Statement requires governments providing defined benefit pensions to recognize their net pension liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. The net pension liability that will be recorded on the government-wide statements will be computed differently than the current unfunded actuarial accrued liability using specific parameters set forth by the GASB. The impact this Statement will have on the financial statements when adopted is currently not determinable.

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, 2014

| | <u>Budget Amounts</u> | | <u>Actual Amount</u> | <u>Variance Positive (Negative)</u> |
|---|-----------------------|-------------------|--------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 386,561 | \$ 386,561 | \$ 373,257 | \$ (13,304) |
| Intergovernmental | 122,602 | 122,602 | 126,265 | 3,663 |
| Fees and service charges | 100,115 | 100,115 | 106,861 | 6,746 |
| Interest | 1,500 | 1,500 | 11,009 | 9,509 |
| Contributions | - | - | 250 | 250 |
| Miscellaneous | 3,000 | 3,000 | 17,227 | 14,227 |
| Total revenues | <u>613,778</u> | <u>613,778</u> | <u>634,869</u> | <u>21,091</u> |
| Expenditures | | | | |
| Current | | | | |
| Legislative | 73,165 | 51,665 | 50,981 | 684 |
| General government | 178,782 | 179,282 | 188,913 | (9,631) |
| Public safety | 206,055 | 219,055 | 203,335 | 15,720 |
| Public works | 131,278 | 137,278 | 121,383 | 15,895 |
| Recreation and culture | 54,498 | 56,498 | 65,537 | (9,039) |
| Capital Outlay | - | - | 562 | (562) |
| Total expenditures | <u>643,778</u> | <u>643,778</u> | <u>630,711</u> | <u>13,067</u> |
| Revenues over (under) expenditures | <u>(30,000)</u> | <u>(30,000)</u> | <u>4,158</u> | <u>34,158</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 30,000 | 30,000 | 15,000 | (15,000) |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>30,000</u> | <u>30,000</u> | <u>15,000</u> | <u>(15,000)</u> |
| Net changes in fund balance | - | - | 19,158 | 19,158 |
| Fund balance, beginning of year | <u>358,681</u> | <u>358,681</u> | <u>358,681</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 358,681</u> | <u>\$ 358,681</u> | <u>\$ 377,839</u> | <u>\$ 19,158</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, 2014

| | <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 | \$ 110,248 | \$ 10,248 |
| Intergovernmental | | | | |
| State shared | 4,000 | 4,000 | 5,883 | 1,883 |
| Penal fines | 58,000 | 58,000 | 63,011 | 5,011 |
| Fees and service charges | 18,000 | 18,000 | 13,461 | (4,539) |
| Interest | 1,000 | 1,000 | 8,492 | 7,492 |
| Contributions | - | - | 8,318 | 8,318 |
| Total Revenues | <u>181,000</u> | <u>181,000</u> | <u>209,413</u> | <u>28,413</u> |
| Expenditures | | | | |
| Current | | | | |
| Recreation and culture | <u>247,500</u> | <u>247,500</u> | <u>213,135</u> | <u>34,365</u> |
| Net changes in fund balance | (66,500) | (66,500) | (3,722) | 62,778 |
| Fund balance, beginning of year | <u>443,703</u> | <u>443,703</u> | <u>443,703</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 377,203</u> | <u>\$ 377,203</u> | <u>\$ 439,981</u> | <u>\$ 62,778</u> |

CITY OF CARSON CITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>Percentage of Covered Payroll</u> |
|---|--|--|------------------------------------|-------------------------|----------------------------|--|
| 5/1/1995 | \$ 296,274 | \$ 215,347 | \$ 80,927 | 137.58% | \$ 222,759 | 36.33% |
| 5/1/1996 | 304,041 | 235,779 | 68,262 | 128.95% | 214,870 | 31.77% |
| 5/1/1997 | 358,147 | 262,754 | 95,393 | 136.31% | 237,511 | 40.16% |
| 5/1/1998 | 448,622 | 292,918 | 155,704 | 153.16% | 240,222 | 64.82% |
| 5/1/1999 | 561,309 | 440,021 | 121,288 | 127.56% | 220,810 | 54.93% |
| 5/1/2000 | 594,942 | 496,426 | 98,516 | 119.85% | 256,773 | 38.37% |
| 5/1/2002 | 492,776 | 415,483 | 77,293 | 118.60% | 262,085 | 29.49% |
| 6/30/2008 | 738,113 | 675,195 | 62,918 | 109.32% | 297,773 | 21.13% |
| 6/30/2009 | 789,781 | 731,989 | 57,792 | 107.90% | 297,773 | 19.41% |
| 6/30/2010 | 326,371 | 426,888 | (100,517) | 76.45% | 239,971 | 41.89% |
| 7/1/2011 | 92,693 | 169,620 | (76,927) | 54.65% | 268,418 | 28.66% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| <u>Year Ended</u> | <u>Annual required Contribution</u> | <u>Actual Contribution</u> | <u>Percent Contributed</u> |
|-------------------|---|--------------------------------|--------------------------------|
| 4/30/2002 | \$ 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% |
| 6/30/2014 | 31,808 | 31,808 | 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, 2014

| | <u>Budget Amounts</u> | | <u>Actual Amount</u> | <u>Variance Positive (Negative)</u> |
|--------------------------------|-----------------------|-------------------|--------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ 386,561 | \$ 386,561 | \$ 373,257 | \$ (13,304) |
| Intergovernmental revenues | | | | |
| State shared revenues | 122,602 | 122,602 | 126,265 | 3,663 |
| Fees and service charges | | | | |
| Fire contracts | 35,553 | 35,553 | 35,705 | 152 |
| Rent | 26,027 | 26,027 | 33,044 | 7,017 |
| Licenses and permits | 60 | 60 | 40 | (20) |
| Hospital services | 38,325 | 38,325 | 37,921 | (404) |
| Court costs | 150 | 150 | 151 | 1 |
| Total fees and service charges | 100,115 | 100,115 | 106,861 | 6,746 |
| Interest | 1,500 | 1,500 | 11,009 | 9,509 |
| Contributions | - | - | 250 | 250 |
| Miscellaneous | 3,000 | 3,000 | 17,227 | 14,227 |
| Total revenues | \$ 613,778 | \$ 613,778 | \$ 634,869 | \$ 21,091 |

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

FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Budget Amounts</u> | | <u>Actual Amount</u> | <u>Variance Positive (Negative)</u> |
|----------------------------|-----------------------|-------------------|----------------------|-------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current | | | | |
| Legislative | | | | |
| City Council | \$ 73,165 | \$ 51,665 | \$ 50,981 | \$ 684 |
| General government | | | | |
| City Administrator | 46,917 | 46,917 | 59,506 | (12,589) |
| Election Commission | 3,777 | 4,277 | 2,753 | 1,524 |
| Assessor | 13,611 | 13,611 | 13,338 | 273 |
| Comptroller | 114,477 | 114,477 | 113,316 | 1,161 |
| Total general government | <u>178,782</u> | <u>179,282</u> | <u>188,913</u> | <u>(9,631)</u> |
| Public Safety | | | | |
| Police Department | 166,655 | 176,655 | 172,302 | 4,353 |
| Fire Department | 39,400 | 42,400 | 31,033 | 11,367 |
| Total public safety | <u>206,055</u> | <u>219,055</u> | <u>203,335</u> | <u>15,720</u> |
| Public Works | | | | |
| Department of Public Works | 131,278 | 137,278 | 121,383 | 15,895 |
| Recreation and culture | | | | |
| Parks | 54,498 | 56,498 | 65,537 | (9,039) |
| Capital outlay | - | - | 562 | (562) |
| Total expenditures | <u>\$ 643,778</u> | <u>\$ 643,778</u> | <u>\$ 630,711</u> | <u>\$ 13,067</u> |

CITY OF CARSON CITY

NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET

JUNE 30, 2014

| | Special Revenue | | Total |
|--|-------------------|-------------------|-------------------|
| | Major Street | Local Street | |
| Assets | | | |
| Cash and pooled investments | \$ 329,109 | \$ 222,338 | \$ 551,447 |
| Due from other governments | <u>10,998</u> | <u>4,332</u> | <u>15,330</u> |
| Total assets | <u>\$ 340,107</u> | <u>\$ 226,670</u> | <u>\$ 566,777</u> |
| Liabilities and fund balance | | | |
| Liabilities | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - |
| Fund balances | | | |
| Restricted for streets | <u>340,107</u> | <u>226,670</u> | <u>566,777</u> |
| Total fund balances | <u>340,107</u> | <u>226,670</u> | <u>566,777</u> |
| Total liabilities and fund balances | <u>\$ 340,107</u> | <u>\$ 226,670</u> | <u>\$ 566,777</u> |

CITY OF CARSON CITY

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

FOR THE YEAR ENDED JUNE 30, 2014

| | Special Revenue | | Total |
|---|-------------------|-------------------|-------------------|
| | Major Street | Local Street | |
| Revenues | | | |
| State revenues | \$ 73,449 | \$ 26,993 | \$ 100,442 |
| Interest | <u>527</u> | <u>262</u> | <u>789</u> |
| Total revenues | <u>73,976</u> | <u>27,255</u> | <u>101,231</u> |
| Expenditures | | | |
| Current | | | |
| Public works | 42,967 | 35,484 | 78,451 |
| Capital outlay | <u>8,280</u> | <u>4,618</u> | <u>12,898</u> |
| Total expenditures | <u>51,247</u> | <u>40,102</u> | <u>91,349</u> |
| Revenues over (under) expenditures | <u>22,729</u> | <u>(12,847)</u> | <u>9,882</u> |
| Other financing sources (uses) | | | |
| Transfers in | - | 6,369 | 6,369 |
| Transfers out | <u>(6,369)</u> | <u>-</u> | <u>(6,369)</u> |
| Total other financing sources (uses) | <u>(6,369)</u> | <u>6,369</u> | <u>-</u> |
| Net changes in fund balances | 16,360 | (6,478) | 9,882 |
| Fund balances, beginning of year | <u>323,747</u> | <u>233,148</u> | <u>556,895</u> |
| Fund balances, end of year | <u>\$ 340,107</u> | <u>\$ 226,670</u> | <u>\$ 566,777</u> |

INTERNAL CONTROL AND COMPLIANCE



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

September 15, 2014

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 September 15, 2014.

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 2014-1 and 2014-2 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 September 15, 2014.

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.

Oredexeld Haefner LLC

CITY OF CARSON CITY

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENT FINDINGS

2014-1

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.

2014-2

Condition: The City does not have a process in place to reconcile bank, investment, and other balance sheet account balances from the general ledger to supporting information 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, investment, and other account balances from the general ledger to supporting information in a timely manner.

Management corrective action: Management will provide for timely reconciliation of bank, investment and other account balances from the general ledger to supporting information.

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September 15, 2014

To the 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, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 12, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City adopted Statement of Governmental Accounting Standards (GASB Statement) No. 65 in 2014. 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 of capital assets is based on previous history and future expectations 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.

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

The disclosure of concentrations in Note 8 and commitments in Note 10 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- Depreciation was not recorded in the enterprise and internal service funds
- The effect of the sale of capital assets was not properly recorded.
- Various expenditure/expense accruals were not recorded at year end
- Pension activity was recorded on the City's general ledger accounting system

Specializing in services to governmental and nonprofit entities

- Transfer between funds were incorrectly recorded
- Payroll liabilities required material adjustments

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 15, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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:

- We recommend that journal entries be reviewed and approved by someone other than the journal entry preparer. This may be documented by initialing and dating a printed copy of each journal entry.
- We recommend that the bank and investment account reconciliations be reviewed monthly by an individual other than the person preparing the reconciliation.
- We suggest that the City develop a policy to ensure timely deposit of receipts to the City's bank account.
- We noted that, according to City policy, invoices require review and approval by management before payment is made. This process appears to be occurring however it is not clearly documented. We recommend that such approval be documented by initialing and dating the invoice.
- We recommend the City develop a policy to ensure timely deposit of contributions into the City's pension account.
- We recommend that the payroll process be reviewed and amended to include the review and approval of the payroll registers by someone other than the individual who processes the payroll. This may be documented by initialing and dating a copy of the payroll register for each pay period.
- We noted that there was an instance where a tax distribution was not made in a timely manner. Reconciliation of account balances at year end to supporting documentation would assist in identifying unpaid balances.
- We noted a balance payable to the internal revenue service within the defined benefit pension plan which was withheld from a terminating employee's distribution which remains unpaid. We suggest payment of the withheld balance.
- Defined benefit pension plan document requires specific activities including timely distributions, meetings and distribution of reports to members annually. We suggest management review pension plan documents to assure that timely action is taken as necessary.

- New pension standards identified below should be reviewed and considered when requesting the required actuarial valuation for the defined benefit pension plan.
- We noted that the City's is providing cellular phone plans to employees on a cost reimbursement basis through payroll deductions. We also noted that there was not a consistent reconciliation process to assure accurate payroll deductions for employee cellular phone plan costs. We suggest that the City implement a process to reconcile the balance paid by the City with the payroll deduction for all employee cellular phone costs.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI), as itemized in the table of contents, that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Accounting and Financial Reporting for Pensions

Effective for the year ending June 30, 2015, the City will be required to implement a new pension reporting standard. This standard establishes new requirements for governments to report a "net pension liability" for the unfunded portion of its pension plan. Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability will be limited to the full accrual basis financial statements. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts may be deferred and amortized over varying periods.

This new standard will also require more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context.

Restriction on Use

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

Sincerely,

Uredaxold Haefner LLC