

CITY OF CARSON CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015



Vredeveld Haefner LLC

CITY OF CARSON CITY

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INDEPENDENT AUDITORS' REPORT

December 7, 2015

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, 2015, 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, 2015, 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 37 and 38, and pension plan information on pages 39 through 41 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 December 7, 2015, 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, 2015. 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 new mowers, a new police cruiser, and completed street and trail projects
- The City established a capital projects fund for future capital improvements

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 five 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 three 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 \$9,844,186 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	2015	2014	2015	2014	2015
Current and other assets	\$1,661,411	\$1,548,606	\$2,423,527	\$2,751,613	\$4,084,938	\$4,300,219
Capital assets	1,937,067	2,095,607	6,575,087	6,322,651	8,512,154	8,418,258
Total assets	3,598,478	3,644,213	8,998,614	9,074,264	12,597,092	12,718,477
Deferred outflows	-	13,896	-	19,997	-	33,893
Long-term liabilities	32,162	107,567	2,738,253	2,748,687	2,770,415	2,856,254
Other liabilities	99,158	34,278	23,268	17,652	122,426	51,930
Total liabilities	131,320	141,845	2,761,521	2,766,339	2,892,841	2,908,184
Net position						
Net investment in						
Capital assets	1,937,067	2,095,607	3,875,087	3,722,651	5,812,154	5,818,258
Restricted	1,006,758	887,826	-	-	1,006,758	887,826
Unrestricted	523,333	532,831	2,362,006	2,605,271	2,885,339	3,193,337
Total net position	\$3,467,158	\$3,516,264	\$6,237,093	\$6,327,922	\$9,704,251	\$9,844,186

Net position of the City increased by \$275,565. The business-type activities increase in net position of \$170,851 was primarily the result of capital grants and contributions. The governmental activities increase in net position of \$104,714 is primarily the result of controlling expenses.

Summary of Activities

	Governmental Activities		Business-type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Revenue						
Program revenue						
Charges for Services	\$ 127,969	\$ 163,213	\$ 791,890	\$ 859,195	\$ 919,859	\$1,022,408
Operating grants and contributions	196,700	225,908	-	-	196,700	225,908
Capital grants and contributions	250	13,275	-	272,113	250	285,388
	324,919	402,396	791,890	1,131,308	1,116,809	1,533,704
General revenue						
Property taxes	483,505	479,527	-	-	483,505	479,527
Other governmental sources	125,543	117,603	-	-	125,543	117,603
Other	11,757	1,841	10,241	5,125	21,998	6,966
Total revenues	945,724	1,001,367	802,131	1,136,433	1,747,855	2,137,800
Expenses						
Legislative	50,981	35,733	-	-	50,981	35,733
General government	187,851	209,109	-	-	187,851	209,109
Public safety	230,182	164,040	-	-	230,182	164,040
Public works	244,294	207,832	-	-	244,294	207,832
Culture and recreation	309,798	279,939	-	-	309,798	279,939
Sewer	-	-	297,119	577,986	297,119	577,986
Water	-	-	449,169	387,596	449,169	387,596
Total expenses	1,023,106	896,653	746,288	965,582	1,769,394	1,862,235
Increase (decrease) before transfers	(77,382)	104,714	55,843	170,851	(21,539)	275,565
Transfers	15,000	-	(15,000)	-	-	-
Increase (decrease) in net position	(62,382)	104,714	40,843	170,851	(21,539)	275,565
Net position, beginning of year	3,529,540	3,411,550	6,196,250	6,157,071	9,725,790	9,568,621
Net position, end of year	\$3,467,158	\$3,516,264	\$6,237,093	\$6,327,922	\$9,704,251	\$9,844,186

Net position was restated at July 1, 2014 for the implementation of GASB Statements No. 68 and 71 (pension accounting). Governmental activities net position was reduced by \$55,608 and business-type activities were reduced by \$80,022.

Governmental Activities. During the year the City invested \$164,040 or 18% of governmental activities expenses in public safety. Culture and recreation expense, which includes library operations was \$279,939 or 31% of governmental activities expenses while legislative, general government, and public safety, made up the remaining 51% of governmental activities expenses.

Business-type Activities. Business-type activities increased the City's net position by \$170,851. By comparison, business-type activities reported an increase in net position the previous fiscal year of \$40,843.

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 \$1,293,535, a decrease of \$91,062 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 \$183,487. 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 33% of total general fund expenditures.

The City's general fund fund balance decreased \$134,776 during the current fiscal year.

The library fund has a total fund balance of \$444,239, which increased by \$4,258 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 \$1,917,796 and \$687,475 respectively. The sewer and water funds had an increase in net position for the year of \$22,784 and \$148,067 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 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, 2015, amounted to \$8,418,258 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of street improvements.

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

Capital Assets			
	Governmental Activities	Business- type Activities	Total
Land	\$ 158,996	\$ 64,814	\$ 223,810
Construction in progress	27,008	-	27,008
Buildings, equipment and Infrastructure	1,909,603	6,257,837	8,167,440
Total	\$2,095,607	\$6,322,651	\$8,418,258

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 <u>Activities</u>	Business- type <u>Activities</u>	<u>Total</u>
Accrued employee benefits	\$30,826	\$ 38,253	\$ 69,079
Net pension liability	76,741	110,434	187,175
Bonds payable	-	2,600,000	2,600,000
Total	\$107,567	\$2,748,687	\$2,856,254

The City's made payments of approximately \$100,000 during the year primarily on outstanding bonds.

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 2015-16 fiscal year:

- Increase water rates 5.5%
- Set aside funds for roof replacement on City Hall.
- Reduced street projects and related expenditures

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, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 1,466,091	\$ 2,594,684	\$ 4,060,775
Accounts receivable	2,940	96,393	99,333
Due from other governments	59,745	-	59,745
Prepaid items	9,878	-	9,878
Land contract receivable	9,952	-	9,952
Restricted cash and pooled investments	-	60,536	60,536
Capital assets, net			
Land	158,996	64,814	223,810
Construction in progress	27,008	-	27,008
Buildings, equipment and infrastructure	1,909,603	6,257,837	8,167,440
Total assets	<u>3,644,213</u>	<u>9,074,264</u>	<u>12,718,477</u>
Deferred outflow			
Pension experience loss/deficient investment earnings	13,896	19,997	33,893
Liabilities			
Accounts payable and accrued expenses	34,278	15,686	49,964
Customer deposits	-	1,966	1,966
Noncurrent liabilities			
Compensated absences	30,826	38,253	69,079
Net pension liability	76,741	110,434	187,175
Due within one year	-	101,000	101,000
Due in more than one year	-	2,499,000	2,499,000
Total liabilities	<u>141,845</u>	<u>2,766,339</u>	<u>2,908,184</u>
Net Position			
Net investment in capital assets	2,095,607	3,722,651	5,818,258
Restricted for			
Library	444,239	-	444,239
Major streets	214,828	-	214,828
Local streets	173,524	-	173,524
Parks	55,235	-	55,235
Unrestricted	532,831	2,605,271	3,193,337
Total net position	<u>\$ 3,516,264</u>	<u>\$ 6,327,922</u>	<u>\$ 9,844,186</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, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 35,733	\$ -	\$ -	\$ -	\$ (35,733)
General government	209,109	55,481	-	-	(153,628)
Public safety	164,040	50,378	19,738	2,025	(91,899)
Public works	207,832	1,563	108,277	11,250	(86,742)
Culture and recreation	279,939	55,791	97,893	-	(126,255)
Total governmental activities	896,653	163,213	225,908	13,275	(494,257)
Business-type activities					
Sewer	577,986	324,979	-	272,113	19,106
Water	387,596	534,216	-	-	146,620
Total business-type activities	965,582	859,195	-	272,113	165,726
Total primary government	\$ 1,862,235	\$ 1,022,408	\$ 225,908	\$ 285,388	\$ (328,531)

(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, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (494,257)	\$ 165,726	\$ (328,531)
General revenues			
Property taxes			
General operating	369,683	-	369,683
Library	109,844	-	109,844
State shared revenues	117,603	-	117,603
Interest earnings	1,841	5,125	6,966
Total general revenues and transfers	598,971	5,125	604,096
Change in net position	104,714	170,851	275,565
Net position, beginning of year	3,411,550	6,157,071	9,568,621
Net position, end of year	\$ 3,516,264	\$ 6,327,922	\$ 9,844,186

(Concluded)

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

CITY OF CARSON CITY
GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 218,040	\$ 447,544	\$ 588,601	\$ 1,254,185
Accounts receivable	2,940	-	-	2,940
Due from other governments	41,712	-	18,033	59,745
Land contract receivable	9,952	-	-	9,952
Prepaid expenditures	9,878	-	-	9,878
Due from other funds	545	-	1,085	1,630
Total assets	<u>\$ 283,067</u>	<u>\$ 447,544</u>	<u>\$ 607,719</u>	<u>\$ 1,338,330</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 30,320	\$ 3,305	\$ 401	\$ 34,026
Due to other funds	-	-	1,085	1,085
Total liabilities	<u>30,320</u>	<u>3,305</u>	<u>1,486</u>	<u>35,111</u>
Deferred inflow				
Unavaialbe	<u>9,684</u>	<u>-</u>	<u>-</u>	<u>9,684</u>
Fund balances				
Nonspendable				
Prepaid	9,878	-	-	9,878
Restricted for				
Streets	-	-	388,352	388,352
Parks	-	-	55,235	55,235
Library	-	444,239	-	444,239
Committed				
Compensated absences	49,698	-	-	49,698
Fire equipment	-	-	121,151	121,151
Matching	-	-	5,975	5,975
Master plan	-	-	19,393	19,393
Downtown development	-	-	16,127	16,127
Unassigned	<u>183,487</u>	<u>-</u>	<u>-</u>	<u>183,487</u>
Total fund balances	<u>243,063</u>	<u>444,239</u>	<u>606,233</u>	<u>1,293,535</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 273,383</u>	<u>\$ 447,544</u>	<u>\$ 607,719</u>	<u>\$ 1,328,646</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, 2015

Fund balances - total governmental funds	\$ 1,293,535
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)	1,966,299
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	9,684
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	340,417
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	(30,826)
Add - deferred outflows related to pensions	13,896
Deduct - net pension liability	<u>(76,741)</u>
Net position of governmental activities	<u>\$ 3,516,264</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, 2015

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes	\$ 369,683	\$ 109,844	\$ -	\$ 479,527
Intergovernmental revenues	128,853	76,556	109,442	314,851
Fees and service charges	95,725	12,355	-	108,080
Interest	1,466	556	398	2,420
Contributions	2,025	8,982	-	11,007
Miscellaneous	30,411	-	55,235	85,646
Total revenues	<u>628,163</u>	<u>208,293</u>	<u>165,075</u>	<u>1,001,531</u>
Expenditures				
Current				
Legislative	35,733	-	-	35,733
General government	205,811	-	-	205,811
Public safety	168,904	-	-	168,904
Public works	127,212	-	300,242	427,454
Recreation and culture	50,565	204,035	-	254,600
Capital outlay	150	-	(59)	91
Total expenditures	<u>588,375</u>	<u>204,035</u>	<u>300,183</u>	<u>1,092,593</u>
Revenues over (under) expenditures	<u>39,788</u>	<u>4,258</u>	<u>(135,108)</u>	<u>(91,062)</u>
Other financing sources (uses)				
Transfers in	-	-	184,056	184,056
Transfers out	(174,564)	-	(9,492)	(184,056)
Total other financing sources (uses)	<u>(174,564)</u>	<u>-</u>	<u>174,564</u>	<u>-</u>
Net changes in fund balances	(134,776)	4,258	39,456	(91,062)
Fund balances, beginning of year	<u>377,839</u>	<u>439,981</u>	<u>566,777</u>	<u>1,384,597</u>
Fund balances, end of year	<u>\$ 243,063</u>	<u>\$ 444,239</u>	<u>\$ 606,233</u>	<u>\$ 1,293,535</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, 2015

Net changes in fund balances - total governmental funds	\$ (91,062)
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Amounts reported for *governmental activities* in the statement of activities are different because

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

Add - capital outlay	304,407
Deduct - depreciation expense	(115,351)

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	(539)
---------------------------------	-------

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	1,336
Add - increase in deferred outflows related to pensions	13,896
Deduct - increase in net pension liability	(21,133)

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>13,160</u>
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Change in net position of governmental activities	<u>\$ 104,714</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-Type Activities		Enterprise Fund	Governmental
				Activities
	Sewer	Water	Total	Internal Service Fund
Assets				
Current assets				
Cash and pooled investments	\$ 1,965,425	\$ 629,259	\$ 2,594,684	\$ 211,906
Accounts receivable	36,046	60,347	96,393	-
Restricted cash and pooled investments	-	60,536	60,536	-
Total current assets	2,001,471	750,142	2,751,613	211,906
Capital assets				
Land	64,814	-	64,814	3,996
Buildings	-	80,576	80,576	67,975
Plant, mains and equipment	2,526,594	6,232,913	8,759,507	520,048
Accumulated depreciation	(1,188,471)	(1,393,775)	(2,582,246)	(462,711)
Net capital assets	1,402,937	4,919,714	6,322,651	129,308
Total assets	3,404,408	5,669,856	9,074,264	341,214
Deferred outflow				
Pension experience loss / deficient investment earnings	11,524	8,473	19,997	-
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	11,467	4,219	15,686	252
Due to other funds	-	-	-	545
Current portion of long-term debt	-	101,000	101,000	-
Total current liabilities	11,467	105,219	116,686	797
Long-term liabilities				
Compensated absences	19,126	19,127	38,253	-
Net pension liability	63,640	46,794	110,434	-
Long-term debt	-	2,499,000	2,499,000	-
Customer deposits	966	1,000	1,966	-
Total long-term liabilities	83,732	2,565,921	2,649,653	-
Total liabilities	95,199	2,671,140	2,766,339	797
Net position				
Net investments in capital assets	1,402,937	2,319,714	3,722,651	129,308
Unrestricted	1,917,796	687,475	2,605,271	211,109
Total net position	\$ 3,320,733	\$ 3,007,189	\$ 6,327,922	\$ 340,417

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, 2015

	<u>Business-Type Activities</u>		<u>Enterprise Fund Total</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>		<u>Internal Service Fund</u>
Operating revenue				
Charges for services	\$ 324,979	\$ 534,063	\$ 859,042	\$ 114,003
Other	-	153	153	-
Total operating revenue	<u>324,979</u>	<u>534,216</u>	<u>859,195</u>	<u>114,003</u>
Operating expense				
Salaries and wages	120,328	97,015	217,343	8,660
Supplies	19,894	18,280	38,174	22,288
Professional services	305,728	19,128	324,856	306
Insurance and bonds	9,574	9,574	19,148	-
Utilities	18,909	27,163	46,072	-
Equipment rentals	32,687	11,815	44,502	708
Repair and maintenance	10,737	13,300	24,037	15,037
Depreciation	52,516	128,110	180,626	53,619
Miscellaneous	7,613	3,026	10,639	600
Total operating expense	<u>577,986</u>	<u>327,411</u>	<u>905,397</u>	<u>101,218</u>
Operating income (loss)	<u>(253,007)</u>	<u>206,805</u>	<u>(46,202)</u>	<u>12,785</u>
Non-operating revenue (expense)				
Interest income	3,678	1,447	5,125	375
Interest expense	-	(60,185)	(60,185)	-
Total non-operating revenue (expense)	<u>3,678</u>	<u>(58,738)</u>	<u>(55,060)</u>	<u>375</u>
Income (loss) before transfers	(249,329)	148,067	(101,262)	13,160
Capital contributions	<u>272,113</u>	-	<u>272,113</u>	-
Changes in net position	22,784	148,067	170,851	13,160
Net position, beginning of year	<u>3,297,949</u>	<u>2,859,122</u>	<u>6,157,071</u>	<u>327,257</u>
Net position, end of year	<u>\$ 3,320,733</u>	<u>\$ 3,007,189</u>	<u>\$ 6,327,922</u>	<u>\$ 340,417</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, 2015

	Business-Type Activities		Enterprise Fund Total	Governmental Activities
	Sewer	Water		Internal Service Fund
	Cash flows from operating activities			
Receipts from internal services provided	\$ -	\$ -	\$ -	\$ 114,003
Receipts from customers and users	321,509	527,374	848,883	-
Payments to employees	(114,326)	(92,602)	(206,928)	(8,660)
Payments to suppliers	(399,705)	(113,489)	(513,194)	(43,066)
Net cash provided by (used in) operating activities	<u>(192,522)</u>	<u>321,283</u>	<u>128,761</u>	<u>62,277</u>
Cash flows from non-capital financing activities				
Loans to other funds	-	-	-	545
Cash flows from capital and related financing activities				
Payments on loans	-	(100,000)	(100,000)	-
Interest expense	-	(60,185)	(60,185)	-
Capital grants	272,113	-	272,113	-
Proceeds from sale of capital assets	71,810	-	71,810	-
Transfer of capital assets	(99,760)	99,760	-	-
Acquisitions of capital assets	-	-	-	(23,103)
Net cash provided by (used in) capital and related financing activities	<u>244,163</u>	<u>(60,425)</u>	<u>183,738</u>	<u>(23,103)</u>
Cash flows from investing activities				
Interest income	3,678	1,447	5,125	375
Net increase (decrease) in cash and cash equivalents	55,319	262,305	317,624	40,094
Cash and cash equivalents, beginning of year	<u>1,910,106</u>	<u>427,490</u>	<u>2,337,596</u>	<u>171,812</u>
Cash and cash equivalents, end of year	<u>\$ 1,965,425</u>	<u>\$ 689,795</u>	<u>\$ 2,655,220</u>	<u>\$ 211,906</u>
Cash flows from operating activities				
Operating income (loss)	\$ (253,007)	\$ 206,805	\$ (46,202)	\$ 12,785
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Depreciation	52,516	128,110	180,626	53,619
Net pension liability	17,526	12,886	30,412	-
Deferred outflows for pensions	(11,524)	(8,473)	(19,997)	-
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	(3,545)	(6,917)	(10,462)	-
Accounts payable and accrued liabilities	5,437	(11,203)	(5,766)	(4,127)
Customer deposits	75	75	150	-
Net cash provided by (used in) operating activities	<u>\$ (192,522)</u>	<u>\$ 321,283</u>	<u>\$ 128,761</u>	<u>\$ 62,277</u>

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

CITY OF CARSON CITY
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2015

	Employees Retirement <u>System</u>	Agency <u>Fund</u>
Assets		
Cash and pooled investments	\$ 772	\$ 5,237
Accounts receivable	4,224	-
Investments		
Equity mutual funds	130,311	-
US government securities mutual funds	<u>20,313</u>	<u>-</u>
Total assets	<u>155,620</u>	<u>\$ 5,237</u>
Liabilities		
Accounts payable	3,569	\$ 4,338
Due to other governments	<u>-</u>	<u>899</u>
Total liabilities	<u>3,569</u>	<u>\$ 5,237</u>
Net position		
Held in trust for pension benefits	<u>\$ 152,051</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, 2015

	Employees Retirement System
Additions	
Contributions:	
Employer	\$ 11,721
Employee	3,909
Investment income (loss)	<u>2,016</u>
Total additions	17,646
Deductions	
Distributions and benefit payments	43,517
Administrative	<u>4,338</u>
Total deductions	<u>47,855</u>
Net increase (decrease)	(30,209)
Net position, beginning of year	<u>182,260</u>
Net position, end of year	<u><u>\$ 152,051</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, 2015

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, 2015

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, 2015

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, 2015

- 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

Pensions

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

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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, 2015

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, 2015, 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 items that qualify for reporting in this category related to the net pension liability these items are discussed in Note 6. The government has no other items that qualify 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 City reports a deferred inflow of resources in the governmental fund balance sheet for unavailable revenue related to long-term land contracts receivable.

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

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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.

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. Variances of expenditures in excess of appropriations at the activity level have been disclosed. 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	\$ 44,745	\$ 55,868	\$ (11,123)
Comptroller	116,126	134,430	(18,304)

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	\$1,466,091	\$2,594,684	\$ 6,009	\$4,066,784
Restricted Cash and pooled investments	-	60,536	-	60,536
Investments	-	-	150,624	150,624
	<u>\$1,466,091</u>	<u>\$2,655,220</u>	<u>\$156,633</u>	<u>\$4,277,944</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.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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, \$929,923 of the City's bank balance of \$2,889,425 is exposed to custodial credit risk because it was uninsured and uncollateralized.

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 (mutual funds)				
US Government Securities Fund	N/A	\$ 20,312	2	Morning Star
Capital World Growth and Income	N/A	42,619	4	Morning Star
AMCAP Fund	N/A	34,657	3	Morning Star
Income Fund of America	N/A	28,919	3	Morning Star
Washington Mutual Investors Fund	N/A	24,117	3	Morning Star
Pooled investments				
Money market funds				
US Treasury Note .625%	12/16	200,406	N/A	
US Treasury Note 1%	2/18	200,500	N/A	
US Treasury Note 1.75%	7/15	100,141	N/A	
US Treasury Note 2.25%	3/16	253,750	N/A	
Fannie Mae 2.375%	7/15	225,388	Unrated	
Freddie Mac 2.5%	5/16	254,852	Unrated	
		\$1,404,416		
Total investments		\$1,404,416		

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

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments with a specific maturity.

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

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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, \$150,624 is invested in mutual funds. Of the above mutual fund investments the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

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

4. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2015 are as follows:

	Transfers out		
Transfers in	General Fund	Major Streets	Total
Major Streets	\$ 5,959	\$ -	\$ 5,959
Local Streets	5,959	9,492	15,451
Capital Projects	162,646		162,646
Total	\$174,564	\$9,492	\$184,056

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.

Interfund receivables and payables of individual funds at June 30, 2015 were as follows:

	Payable		
Receivable	Major Streets	Internal Service	Total
General fund	\$ -	\$545	\$545
Local streets	1,085	-	1,085
Total	\$1,085	\$545	\$1,630

Interfund balances reflect loans made from funds with cash and pooled investments to those funds requiring temporary cash flow.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 158,996	\$ -	\$ -	\$ 158,996
Construction in progress	28,123	27,008	28,123	27,008
Total capital assets, not being depreciated	187,119	27,008	28,123	186,004
Capital assets, being depreciated				
Building and improvements	1,310,241	-	-	1,310,241
Furniture and equipment	650,569	5,770	-	656,339
Motor pool equipment	507,418	23,104	10,474	520,048
Motor vehicles	609,094	-	-	609,094
Infrastructure	969,602	299,752	-	1,269,354
Total capital assets, being depreciated	4,046,924	328,626	10,474	4,365,076
Less accumulated depreciation for:				
Building and improvements	748,023	20,788	-	768,811
Furniture and equipment	544,975	20,232	-	565,207
Motor pool equipment	356,141	49,765	10,474	395,432
Motor vehicles	460,075	20,660	-	480,735
Infrastructure	187,762	57,526	-	245,288
Total accumulated depreciation	2,296,976	168,971	10,474	2,455,473
Net capital assets, being depreciated	1,749,948	159,655	-	1,909,603
Governmental Activities capital assets, net	\$1,937,067	\$186,663	\$28,123	\$2,095,607

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 136,623	\$ -	\$ 71,809	\$ 64,814
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	136,623	-	71,809	64,814
Capital assets being depreciated				
Buildings and improvements	80,575	-	-	80,575
Mains and equipment	8,759,508	-	-	8,759,508
Total capital assets, being depreciated	8,840,083	-	-	8,840,083
Less accumulated depreciation for:				
Buildings and improvements	33,014	1,946	-	34,960
Mains and equipment	2,368,606	178,680	-	2,547,286
Total accumulated depreciation	2,401,620	180,626	-	2,582,246
Net capital assets, being depreciated	6,438,463	(180,626)	-	6,257,837
Business-type Activities capital assets, net	\$6,575,086	\$(180,626)	\$ 71,809	\$6,322,651

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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

Governmental Activities	
General government	\$ 4,485
Public safety	27,914
Public works	31,539
Culture and recreation	51,414
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>53,619</u>
Total depreciation expense - governmental activities	<u><u>\$168,971</u></u>
Business-type Activities	
Sewer	\$ 52,516
Water	<u>128,110</u>
Total depreciation expense – business- type activities	<u><u>\$180,626</u></u>

6. PENSION PLANS

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

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

City Of Carson City Defined Benefit Pension Plan

Plan Description

The City and employees contribute to the City of Carson City Pension Plan (the plan), a single employer defined benefit pension plan. All full-time employees over the age of 21 with one year of service before July 1, 2011 are eligible to participate in the Plan. The Plan does not issue separately audited financial statements.

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.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (June 30, 2015):

Active plan members	4
Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled but not yet receiving benefits	1
	<hr/>
Total	5
	<hr/>

This plan is closed to additional participants

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.

Net Pension Liability

The employer's Net Pension Liability was measured as of June 30, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the June 30, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 0%

Salary Increases: 2% in the long-term

Investment rate of return: 6.0%, net of investment expense, including inflation

Mortality rates used were based on the 1982 individual annuity mortality (female rates).

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

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	60.0%	6.7%
International equity	20.0%	6.1%
Fixed Income	15.0%	3.3%
Cash	5.0%	1.8%

Discount rate. The discount rate used to measure the total pension liability is 5.37%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
Balance at 7/1/14	\$315,534	\$182,260	\$133,630
Changes for the Year:			
Service Cost	16,412	-	16,412
Interest	16,944	-	16,944
Change in benefits	-	-	-
Differences between expected and actual experience	33,853	-	33,853
Change in assumptions	-	-	-
Contributions : Employer	-	11,721	(11,721)
Contributions: Employee	-	3,909	(3,909)
Net Investment Income	-	2,016	(2,016)
Benefit Payments, including refunds	(43,517)	(43,517)	-
Administrative expense	-	(4,338)	4,338
Other Changes	-	-	-
Net Changes	23,692	(30,209)	53,901
Balance at 6/30/15	\$339,226	\$152,051	\$187,175

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

Sensitivity of the Net Pension Liability to changes in the discount rate.

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 5.37%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (4.37%) or 1% higher (6.37%) than the current rate.

	1% Decrease	Current Discount rate	1% increase
Total Pension Liability	\$360,408	\$339,226	\$318,928
Fiduciary Net Position	152,051	152,051	152,051
Net Pension Liability	\$208,537	\$187,175	\$166,877

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

For the year ended June 30, 2015 the employer recognized pension expense of \$29,373. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$30,598	\$ -
Differences in assumptions	-	-
Excess (Deficit) Investment Returns	3,295	-
Total	\$33,893	\$ -

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

2016	\$ 4,079
2017	4,079
2018	4,079
2019	4,078
2020	3,255
Thereafter	14,323
Total	\$33,893

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 \$16,739 and participant contributions were \$6,107 to the plan during the year. The plan provisions and contribution amounts were established and may be amended by the City Council.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>	<u>Due Within One Year</u>
Governmental Activities					
Accrued employee benefits	\$ 32,162	\$ -	\$ 1,336	\$ 30,826	\$ -
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%	1,115,000	-	75,000	1,040,000	75,000
2010 USDA Water Supply Revenue Bonds. Payments due in annual installments of \$24,000 to \$66,000 through 2051; interest at 3.00%	1,585,000	-	25,000	1,560,000	26,000
Accrued employee benefits	38,253	-	-	38,253	-
Total Business-type Activities	2,738,253	-	100,000	2,638,253	101,000
Total	\$2,770,415	\$ -	\$101,336	\$2,669,079	\$101,000

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2015 are as follows:

<u>Year Ended June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 101,000	\$ 67,713
2017	106,000	65,286
2018	108,000	62,776
2019	109,000	60,221
2020	114,000	57,598
2021-2025	608,000	246,239
2026-2030	371,000	180,362
2031-2035	207,000	147,255
2036-2040	233,000	114,315
2041-2045	270,000	76,620
2046-2050	307,000	33,435
2051	66,000	990
Total	\$2,600,000	\$1,112,810

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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, 2015, 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. PRIOR PERIOD ADJUSTMENT

Beginning net position of the City was decreased to record the net pension liability in accordance with the implementation of Governmental Accounting Standards Board Statement No. 68 as follows:

<u>Opinion Unit</u>	<u>Amount</u>
Governmental Activities	\$55,608
Business-Type Activities	80,022
Water Fund	46,114
Sewer Fund	33,908

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, 2015

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 374,238	\$ 374,238	\$ 369,683	\$ (4,555)
Intergovernmental	126,971	137,971	128,853	(9,118)
Fees and service charges	113,017	113,017	95,725	(17,292)
Interest	1,750	1,750	1,466	(284)
Contributions	-	-	2,025	2,025
Miscellaneous	5,425	5,425	30,411	24,986
Total revenues	<u>621,401</u>	<u>632,401</u>	<u>628,163</u>	<u>(4,238)</u>
Expenditures				
Current				
Legislative	50,036	44,963	35,733	9,230
General government	181,799	177,362	205,811	(28,449)
Public safety	197,644	193,019	168,904	24,115
Public works	128,230	139,260	127,212	12,048
Recreation and culture	55,859	61,964	50,565	11,399
Capital Outlay	5,000	2,000	150	1,850
Total expenditures	<u>618,568</u>	<u>618,568</u>	<u>588,375</u>	<u>30,193</u>
Revenues over (under) expenditures	<u>2,833</u>	<u>13,833</u>	<u>39,788</u>	<u>25,955</u>
Other financing sources (uses)				
Transfers out	-	-	(174,564)	(174,564)
Net changes in fund balance	2,833	13,833	(134,776)	(148,609)
Fund balance, beginning of year	<u>377,839</u>	<u>377,839</u>	<u>377,839</u>	<u>-</u>
Fund balance, end of year	<u>\$ 380,672</u>	<u>\$ 391,672</u>	<u>\$ 243,063</u>	<u>\$ (148,609)</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, 2015

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 102,000	\$ 102,000	\$ 109,844	\$ 7,844
Intergovernmental				
State shared	5,000	5,000	6,394	1,394
Penal fines	58,000	58,000	70,162	12,162
Fees and service charges	18,000	18,000	12,355	(5,645)
Interest	1,000	1,000	556	(444)
Contributions	-	-	8,982	8,982
Total Revenues	184,000	184,000	208,293	24,293
Expenditures				
Current				
Recreation and culture	237,000	237,000	204,035	32,965
Net changes in fund balance	(53,000)	(53,000)	4,258	57,258
Fund balance, beginning of year	439,981	439,981	439,981	-
Fund balance, end of year	\$ 386,981	\$ 386,981	\$ 444,239	\$ 57,258

CITY OF CARSON CITY

DEFINED BENEFIT PENSION PLAN SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
Total pension liability	
Service cost	\$ 16,412
Interest	16,944
Changes in benefit terms	-
Difference between expected and actual experience	33,853
Changes in assumptions	-
Benefit payments including employee refunds	(43,517)
Other	-
Net change in total pension liability	<u>23,692</u>
Total pension liability, beginning of year	<u>315,534</u>
Total pension liability, ending of year	<u>\$ 339,226</u>
Plan Fiduciary Net Position	
Contributions-employer	\$ 11,721
Contributions-employee	3,909
Net Investment income	2,016
Benefit payments including employee refunds	(43,517)
Administrative expense	(4,338)
Net change in plan fiduciary net position	<u>(30,209)</u>
Plan fiduciary net position, beginning of year	<u>182,260</u>
Plan fiduciary net position, ending of year	<u>\$ 152,051</u>
Employer net pension liability	<u>\$ 187,175</u>
Plan fiduciary net position as a percentage of the total pension liability	45%
Covered employee payroll	\$ 130,051
Employer's net pension liability as a percentage of covered employee payroll	144%

Notes to schedule:

Above data is based on a June 30, 2015 measurement date.

CITY OF CARSON CITY

DEFINED BENEFIT PENSION PLAN SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
Actuarial determined contributions	\$ 30,769
Contributions in relation to the actuarially determined contribution	<u>27,412</u>
Contribution deficiency (excess)	<u>\$ 3,357</u>
Covered employee payroll	\$ 130,051
Contributions as a percentage of covered employee payroll	21%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	fair market value
Inflation	0.00%
Salary increases	2.00%
Investment rate of return	5.37%
Retirement age	65
Mortality	1983 Individual Annuity Mortality female rates

CITY OF CARSON CITY
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2015

2015

Annual money-weighted rate of return net of investment expense	-1%
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**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, 2015

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property taxes	\$ 374,238	\$ 374,238	\$ 369,683	\$ (4,555)
Intergovernmental revenues				
Federal grants	-	-	11,250	11,250
State shared revenues	126,971	137,971	117,603	(20,368)
Total intergovernmental revenues	126,971	137,971	128,853	(9,118)
Fees and service charges				
Fire contracts	38,987	38,987	32,996	(5,991)
Rent	35,505	35,505	36,966	1,461
Licenses and permits	50	50	325	275
Hospital services	38,325	38,325	25,221	(13,104)
Court costs	150	150	217	67
Total fees and service charges	113,017	113,017	95,725	(17,292)
Interest	1,750	1,750	1,466	(284)
Contributions	-	-	2,025	2,025
Miscellaneous	5,425	5,425	30,411	24,986
Total revenues	\$ 621,401	\$ 632,401	\$ 628,163	\$ (4,238)

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

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current				
Legislative				
City Council	\$ 50,036	\$ 44,963	\$ 35,733	\$ 9,230
General government				
City Administrator	46,832	44,745	55,868	(11,123)
Election Commission	4,850	2,900	2,145	755
Assessor	14,391	13,591	13,368	223
Comptroller	115,726	116,126	134,430	(18,304)
Total general government	181,799	177,362	205,811	(28,449)
Public Safety				
Police Department	159,044	151,044	142,587	8,457
Fire Department	38,600	41,975	26,317	15,658
Total public safety	197,644	193,019	168,904	24,115
Public Works				
Department of Public Works	128,230	139,260	127,212	12,048
Recreation and culture				
Parks	55,859	61,964	50,565	11,399
Capital outlay	5,000	2,000	150	1,850
Total expenditures	\$ 618,568	\$ 618,568	\$ 588,375	\$ 30,193

CITY OF CARSON CITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Total</u>
	<u>Major Street</u>	<u>Local Street</u>		
Assets				
Cash and pooled investments	\$ 203,672	\$ 167,048	\$ 217,881	\$ 588,601
Due to other funds	-	1,085	-	1,085
Due from other governments	12,467	5,566	-	18,033
Total assets	<u>\$ 216,139</u>	<u>\$ 173,699</u>	<u>\$ 217,881</u>	<u>\$ 607,719</u>
Liabilities and fund balance				
Liabilities				
Accounts payable and accrued liabilities	\$ 226	\$ 175	\$ -	\$ 401
Due to other funds	1,085	-	-	1,085
Total Liabilities	<u>1,311</u>	<u>175</u>	<u>-</u>	<u>1,486</u>
Fund balances				
Restricted for streets	214,828	173,524	-	388,352
Restricted for parks	-	-	55,235	55,235
Committed				
Fire equipment	-	-	121,151	121,151
Matching grants	-	-	5,975	5,975
Master Plan	-	-	19,393	19,393
Downtown development	-	-	16,127	16,127
Total fund balances	<u>214,828</u>	<u>173,524</u>	<u>217,881</u>	<u>606,233</u>
Total liabilities and fund balances	<u>\$ 216,139</u>	<u>\$ 173,699</u>	<u>\$ 217,881</u>	<u>\$ 607,719</u>

CITY OF CARSON CITY

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

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Total</u>
	<u>Major Street</u>	<u>Local Street</u>		
Revenues				
State revenues	\$ 76,966	\$ 32,476	\$ -	\$ 109,442
Interest	268	130	-	398
Miscellaneous	-	-	55,235	55,235
Total revenues	<u>77,234</u>	<u>32,606</u>	<u>55,235</u>	<u>165,075</u>
Expenditures				
Current				
Public works	198,976	101,266	-	300,242
Capital outlay	4	(63)	-	(59)
Total expenditures	<u>198,980</u>	<u>101,203</u>	<u>-</u>	<u>300,183</u>
Revenues over (under) expenditures	<u>(121,746)</u>	<u>(68,597)</u>	<u>55,235</u>	<u>(135,108)</u>
Other financing sources (uses)				
Transfers in	5,959	15,451	162,646	184,056
Transfers out	(9,492)	-	-	(9,492)
Total other financing sources (uses)	<u>(3,533)</u>	<u>15,451</u>	<u>162,646</u>	<u>174,564</u>
Net changes in fund balances	(125,279)	(53,146)	217,881	39,456
Fund balances, beginning of year	<u>340,107</u>	<u>226,670</u>	<u>-</u>	<u>566,777</u>
Fund balances, end of year	<u>\$ 214,828</u>	<u>\$ 173,524</u>	<u>\$ 217,881</u>	<u>\$ 606,233</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

December 7, 2015

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, 2015, 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 December 7, 2015.

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 2015-001 and 2015-002 described in the accompanying schedule of findings and responses 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 also noted certain matters that we reported to management of City of Carson City, Michigan, in a separate letter dated December 7, 2015.

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.

Ordevel Haefner LLC

CITY OF CARSON CITY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2015

Finding 2015-001

CONDITION: The City does not have procedures in place to prepare financial statements in accordance with generally accepted accounting principles including procedures to record certain revenue and expense accruals and to present required financial statement disclosures.

CRITERIA: The City is required to prepare financial statements in accordance with generally accepted accounting principles and to record revenue and expense accruals as appropriate.

CAUSE OF CONDITION: The audit process identified several significant journal entries which were necessary to present financial statements in accordance with generally accepted accounting principles.

POTENTIAL EFFECT OF CONDITION: Auditing standards require that this control deficiency be reported as a material weakness.

RECOMMENDATION: The City's system of controls should be modified so that the City prepares the necessary adjustments to present financial statements and disclosures in accordance with generally accepted accounting principles.

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

Finding 2015-002

CONDITION: The City did not reconcile all bank, investment and other account balances from the general ledger to supporting detail in a timely manner.

CRITERIA: The City is required to complete reconciliations in a timely manner to assure accurate financial reporting throughout the year and at year end.

CAUSE OF CONDITION: Transition of City personnel resulted in delays in the completion of reconciliations in a timely manner.

POTENTIAL EFFECT OF CONDITION: Inaccurate account balances and financial statements.

RECOMMENDATION: The City should implement policies to assure reconciliation of bank, investment and other account balances from the general ledger to supporting detail in a timely manner.

MANAGEMENT RESPONSE: The City will provide for timely reconciliations as recommended.