

CITY OF CARSON CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018



Vredeveld Haefner LLC
CPAs and Consultants

CITY OF CARSON CITY

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INDEPENDENT AUDITORS' REPORT

September 11, 2018

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, 2018, 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, 2018, 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 and required information on pages 37 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 September 11, 2018, 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, 2018. 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

- Refaced library building exterior
- Purchased approximately \$54,000 of vehicles and equipment
- Expended approximately \$60,000 for road 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 funds balance sheet and in the governmental funds 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 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 \$11,722,647 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	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
Current and other assets	\$2,061,592	\$2,691,427	\$3,430,469	\$3,760,768	\$ 5,492,061	\$ 6,452,195
Capital assets	1,834,688	1,976,490	5,966,292	5,798,140	7,800,980	7,774,630
Total assets	3,896,280	4,667,917	9,396,761	9,558,908	13,293,041	14,226,825
Deferred outflows	7,757	22,123	9,647	18,102	17,404	40,225
Long-term liabilities	102,486	92,398	2,506,840	2,390,965	2,609,326	2,483,363
Other liabilities	49,963	35,475	16,977	14,306	66,940	49,781
Total liabilities	152,449	127,873	2,523,817	2,405,271	2,676,266	2,533,144
Deferred inflows	-	6,192	-	5,067	-	11,259
Net position						
Net investment in						
Capital assets	1,834,688	1,976,490	3,573,292	3,513,140	5,407,980	5,489,630
Restricted	1,014,620	910,013	60,536	60,536	1,075,156	970,549
Unrestricted	902,280	1,669,472	3,248,763	3,592,996	4,151,043	5,262,468
Total net position	\$3,751,588	\$4,555,975	\$6,882,591	\$7,166,672	\$10,634,179	\$11,722,647

Net position of the City increased by \$1,088,468. The business-type activities increase in net position of \$284,081 was primarily the result of sewer and water fund positive income. The governmental activities increased net position by \$804,387 primarily due to renaissance tax abatement expiration.

Summary of Activities

	Governmental Activities		Business-type Activities		Totals	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
Revenue						
Program revenue						
Charges for Services	\$ 126,593	\$ 118,461	\$1,050,835	\$1,025,252	\$ 1,177,428	\$ 1,143,713
Operating grants and contributions	223,657	248,516	178,900	-	402,557	248,516
Capital grants and contributions	7,192	36,946	10,750	-	17,942	36,946
	<u>357,442</u>	<u>403,923</u>	<u>1,240,485</u>	<u>1,025,252</u>	<u>1,597,927</u>	<u>1,429,175</u>
General revenue						
Property taxes	802,422	1,234,546	-	-	802,422	1,234,546
Other governmental sources	123,667	126,384	-	-	123,667	126,384
Other	10,714	19,066	(858)	(9,154)	9,856	9,912
Total revenues	<u>1,294,245</u>	<u>1,783,919</u>	<u>1,239,627</u>	<u>1,016,098</u>	<u>2,533,872</u>	<u>2,800,017</u>
Expenses						
Legislative	52,683	63,548	-	-	52,683	63,548
General government	149,874	150,987	-	-	149,874	150,987
Public safety	218,481	255,541	-	-	218,481	255,541
Public works	314,937	219,898	-	-	314,937	219,898
Culture and recreation	303,466	289,558	-	-	303,466	289,558
Sewer	-	-	477,795	332,202	477,795	332,202
Water	-	-	443,559	399,815	443,559	399,815
Total expenses	<u>1,039,441</u>	<u>979,532</u>	<u>921,354</u>	<u>732,017</u>	<u>1,960,795</u>	<u>1,711,549</u>
Increase (decrease) in net position	254,804	804,387	318,273	284,081	573,077	1,088,468
Net position, beginning of year	3,496,784	3,751,588	6,564,318	6,882,591	10,061,102	10,634,179
Net position, end of year	<u>\$3,751,588</u>	<u>\$4,555,975</u>	<u>\$6,882,591</u>	<u>\$7,166,672</u>	<u>\$10,634,179</u>	<u>\$11,722,647</u>

Governmental Activities. During the year the City invested \$289,558 or 30% of governmental activities expenses in culture and recreation, which includes library operations. Public safety was \$255,541 or 26% of governmental activities expenses while legislative, general government, and public works, made up the remaining 44% of governmental activities expenses.

Business-type Activities. Business-type activities increased the City's net position by \$284,081. By comparison, business-type activities reported an increase in net position the previous fiscal year of \$318,273.

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 \$2,344,583, an increase of \$626,485 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 \$1,026,615. 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 164% of total general fund expenditures.

The fund balance of the City's general fund increased \$615,893 during the current fiscal year after considering transfers to the capital projects fund of \$147,500 for future projects.

The library fund has a total fund balance of \$257,893, which decreased by \$192,071 during the year due to expenditures for building improvements. 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 \$2,178,672 and \$1,474,860 respectively. The sewer and water funds had an increase in net position for the year of \$16,861 and \$267,220 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

Conservative budgeting and timely monitoring resulted in no budget overages. The library fund expenditure budget was increased to reflect the building improvements that occurred during the year.

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, 2018, amounted to \$7,774,630 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of building improvements and equipment purchases.

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

Capital Assets			
	Governmental Activities	Business-type Activities	Total
Land	\$ 153,996	\$ 64,814	\$ 218,810
Construction in progress	-	-	-
Buildings, equipment and Infrastructure	1,822,494	5,733,326	7,555,820
Total	\$1,976,490	\$5,798,140	\$7,774,630

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

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

Debt			
	Governmental Activities	Business-type Activities	Total
Accrued employee benefits	\$34,930	\$ 58,947	\$ 93,877
Net pension liability	57,468	47,018	104,486
Bonds payable	-	2,285,000	2,285,000
Total	\$92,398	\$2,390,965	\$2,483,363

The City made payments of \$108,000 during the year 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 2018-19 fiscal year:

- Increased sewer and water rates 3% and 5.5% respectively
- Increase in property tax revenue resulting from renaissance zone
- Inflationary expense increases
- Following asset management plan for sewer and water funds

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, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 2,610,853	\$ 3,574,989	\$ 6,185,842
Accounts receivable	5,456	109,933	115,389
Due from other governments	45,769	-	45,769
Prepaid items	21,490	15,310	36,800
Land contract receivable	7,859	-	7,859
Restricted cash	-	60,536	60,536
Capital assets, net			
Land	153,996	64,814	218,810
Buildings, equipment and infrastructure	1,822,494	5,733,326	7,555,820
Total assets	<u>4,667,917</u>	<u>9,558,908</u>	<u>14,226,825</u>
Deferred outflow			
Pension related	<u>22,123</u>	<u>18,102</u>	<u>40,225</u>
Liabilities			
Accounts payable and accrued expenses	35,475	12,358	47,833
Customer deposits	-	1,948	1,948
Noncurrent liabilities			
Compensated absences	34,930	58,947	93,877
Net pension liability	57,468	47,018	104,486
Due within one year	-	109,000	109,000
Due in more than one year	<u>-</u>	<u>2,176,000</u>	<u>2,176,000</u>
Total liabilities	<u>127,873</u>	<u>2,405,271</u>	<u>2,533,144</u>
Deferred inflow			
Pension related	<u>6,192</u>	<u>5,067</u>	<u>11,259</u>
Net Position			
Net investment in capital assets	1,976,490	3,513,140	5,489,630
Restricted for			
Library	257,893	-	257,893
Major streets	330,404	-	330,404
Local streets	224,593	-	224,593
Parks	97,123	-	97,123
Debt service	-	60,536	60,536
Unrestricted	<u>1,669,472</u>	<u>3,592,996</u>	<u>5,262,468</u>
Total net position	<u>\$ 4,555,975</u>	<u>\$ 7,166,672</u>	<u>\$ 11,722,647</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, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Legislative	\$ 63,548	\$ -	\$ -	\$ -	\$ (63,548)
General government	150,987	52,861	-	-	(98,126)
Public safety	255,541	65,232	10,218	-	(180,091)
Public works	219,898	(623)	154,139	-	(66,382)
Culture and recreation	289,558	991	84,159	36,946	(167,462)
Total governmental activities	979,532	118,461	248,516	36,946	(575,609)
Business-type activities					
Sewer	332,202	355,939	-	-	23,737
Water	399,815	669,313	-	-	269,498
Total business-type activities	732,017	1,025,252	-	-	293,235
Total primary government	\$ 1,711,549	\$ 1,143,713	\$ 248,516	\$ 36,946	\$ (282,374)

(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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (575,609)	\$ 293,235	\$ (282,374)
General revenues			
Property taxes			
General operating	1,114,277	-	1,114,277
Library	120,269	-	120,269
State shared revenues	126,384	-	126,384
Interest earnings	19,066	(9,154)	9,912
Total general revenues and transfers	1,379,996	(9,154)	1,370,842
Change in net position	804,387	284,081	1,088,468
Net position, beginning of year	3,751,588	6,882,591	10,634,179
Net position, end of year	\$ 4,555,975	\$ 7,166,672	\$ 11,722,647

(Concluded)

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

CITY OF CARSON CITY
GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 1,062,518	\$ 263,322	\$ 980,220	\$ 2,306,060
Accounts receivable	5,456	-	-	5,456
Due from other governments	21,197	-	24,572	45,769
Land contract receivable	7,859	-	-	7,859
Prepaid expenditures	21,490	-	-	21,490
	<u>1,118,520</u>	<u>263,322</u>	<u>1,004,792</u>	<u>2,386,634</u>
Total assets	<u>\$ 1,118,520</u>	<u>\$ 263,322</u>	<u>\$ 1,004,792</u>	<u>\$ 2,386,634</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 22,684	\$ 5,429	\$ 6,079	\$ 34,192
Deferred inflows of resources				
Unavailable revenue - long-term receivables	7,859	-	-	7,859
Fund balances				
Nonspendable				
Prepaid	21,490	-	-	21,490
Restricted for				
Streets	-	-	554,997	554,997
Parks	4,942	-	92,181	97,123
Library	-	257,893	-	257,893
Committed				
Compensated absences	34,930	-	-	34,930
Parks	-	-	99,320	99,320
Fire equipment	-	-	173,651	173,651
Building improvements	-	-	21,500	21,500
Police equipment	-	-	2,823	2,823
Master plan	-	-	19,393	19,393
Future matching	-	-	20,000	20,000
Downtown development	-	-	14,848	14,848
Unassigned	1,026,615	-	-	1,026,615
	<u>1,087,977</u>	<u>257,893</u>	<u>998,713</u>	<u>2,344,583</u>
Total fund balances	<u>1,087,977</u>	<u>257,893</u>	<u>998,713</u>	<u>2,344,583</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,118,520</u>	<u>\$ 263,322</u>	<u>\$ 1,004,792</u>	<u>\$ 2,386,634</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, 2018

Fund balances - total governmental funds	\$ 2,344,583
Amounts reported for <i>governmental activities</i> in the statement of net position	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	1,891,242
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	7,859
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	384,226
Certain balances are not due and payable in the in the current period or will be amortized to expense infuture periods and therefore are not reported in the funds.	
Deduct - compensated absences payable	(34,930)
Add - deferred outflows related to pensions	19,710
Deduct - deferred inflows related to pensions	(5,517)
Deduct - net pension liability	<u>(51,198)</u>
Net position of governmental activities	<u>\$ 4,555,975</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, 2018

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes	\$ 1,114,277	\$ 120,269	\$ -	\$ 1,234,546
Intergovernmental revenues	126,384	66,927	154,139	347,450
Fees and service charges	112,052	9,807	-	121,859
Interest	19,658	991	(623)	20,026
Contributions	-	7,425	36,946	44,371
Miscellaneous	17,025	-	-	17,025
Total revenues	<u>1,389,396</u>	<u>205,419</u>	<u>190,462</u>	<u>1,785,277</u>
Expenditures				
Current				
Legislative	63,548	-	-	63,548
General government	156,591	-	-	156,591
Public safety	223,945	-	16,679	240,624
Public works	139,023	-	107,940	246,963
Recreation and culture	42,896	397,490	10,680	451,066
Total expenditures	<u>626,003</u>	<u>397,490</u>	<u>135,299</u>	<u>1,158,792</u>
Revenues over (under) expenditures	<u>763,393</u>	<u>(192,071)</u>	<u>55,163</u>	<u>626,485</u>
Other financing sources (uses)				
Transfers in	-	-	167,006	167,006
Transfers out	(147,500)	-	(19,506)	(167,006)
Total other financing sources (uses)	<u>(147,500)</u>	<u>-</u>	<u>147,500</u>	<u>-</u>
Net changes in fund balances	615,893	(192,071)	202,663	626,485
Fund balances, beginning of year	<u>472,084</u>	<u>449,964</u>	<u>796,050</u>	<u>1,718,098</u>
Fund balances, end of year	<u>\$ 1,087,977</u>	<u>\$ 257,893</u>	<u>\$ 998,713</u>	<u>\$ 2,344,583</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, 2018

Net changes in fund balances - total governmental funds	\$ 626,485
Amounts reported for <i>governmental activities</i> in the statement of activities	
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	259,862
Deduct - depreciation expense	(131,190)
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	(766)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct - increase in compensated absences	(3,583)
Add - increase in deferred outflows related to pensions	11,953
Deduct - increase in deferred inflows related to pensions	(5,517)
Add - decrease in net pension liability	19,941
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>27,202</u>
Change in net position of governmental activities	<u>\$ 804,387</u>

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

CITY OF CARSON CITY
PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2018

	<u>Business-Type Activities</u>		<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service Fund</u>
Assets				
Current assets				
Cash and pooled investments	\$ 2,201,863	\$ 1,373,126	\$ 3,574,989	\$ 304,793
Prepaid items	7,655	7,655	15,310	-
Accounts receivable	39,383	70,550	109,933	-
Restricted cash and pooled investments	-	60,536	60,536	-
Total current assets	<u>2,248,901</u>	<u>1,511,867</u>	<u>3,760,768</u>	<u>304,793</u>
Capital assets				
Land	64,814	-	64,814	3,996
Buildings	-	80,576	80,576	67,975
Plant, mains and equipment	2,533,594	6,232,913	8,766,507	527,364
Accumulated depreciation	<u>(1,341,652)</u>	<u>(1,772,105)</u>	<u>(3,113,757)</u>	<u>(514,087)</u>
Net capital assets	<u>1,256,756</u>	<u>4,541,384</u>	<u>5,798,140</u>	<u>85,248</u>
Total assets	<u>3,505,657</u>	<u>6,053,251</u>	<u>9,558,908</u>	<u>390,041</u>
Deferred outflow				
Pension related	<u>11,540</u>	<u>6,562</u>	<u>18,102</u>	<u>2,413</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	7,595	4,763	12,358	1,283
Current portion of long-term debt	<u>-</u>	<u>109,000</u>	<u>109,000</u>	<u>-</u>
Total current liabilities	<u>7,595</u>	<u>113,763</u>	<u>121,358</u>	<u>1,283</u>
Long-term liabilities				
Compensated absences	36,385	22,562	58,947	-
Net pension liability	34,887	12,131	47,018	6,270
Long-term debt	-	2,176,000	2,176,000	-
Customer deposits	<u>875</u>	<u>1,073</u>	<u>1,948</u>	<u>-</u>
Total long-term liabilities	<u>72,147</u>	<u>2,211,766</u>	<u>2,283,913</u>	<u>6,270</u>
Total liabilities	<u>79,742</u>	<u>2,325,529</u>	<u>2,405,271</u>	<u>7,553</u>
Deferred outflow				
Pension related	<u>2,027</u>	<u>3,040</u>	<u>5,067</u>	<u>675</u>
Net position				
Net investments in capital assets	1,256,756	2,256,384	3,513,140	85,248
Restricted for debt service	-	60,536	60,536	-
Unrestricted	<u>2,178,672</u>	<u>1,474,860</u>	<u>3,653,532</u>	<u>298,978</u>
Total net position	<u>\$ 3,435,428</u>	<u>\$ 3,731,244</u>	<u>\$ 7,166,672</u>	<u>\$ 384,226</u>

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

CITY OF CARSON CITY
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities		Fund Total	Governmental Activities
				Internal
	Sewer	Water		Service Fund
Operating revenue				
Charges for services	\$ 355,939	\$ 663,527	\$ 1,019,466	\$ 103,825
Other	-	5,786	5,786	-
Total operating revenue	<u>355,939</u>	<u>669,313</u>	<u>1,025,252</u>	<u>103,825</u>
Operating expense				
Salaries and wages	145,678	119,256	264,934	20,998
Supplies	16,793	17,556	34,349	19,605
Professional services	35,463	10,394	45,857	-
Insurance and bonds	9,751	9,751	19,502	-
Utilities	17,152	28,037	45,189	-
Equipment rentals	35,333	14,659	49,992	514
Repair and maintenance	16,923	9,688	26,611	18,452
Depreciation	46,042	122,110	168,152	37,619
Miscellaneous	9,067	5,588	14,655	343
Total operating expense	<u>332,202</u>	<u>337,039</u>	<u>669,241</u>	<u>97,531</u>
Operating income (loss)	<u>23,737</u>	<u>332,274</u>	<u>356,011</u>	<u>6,294</u>
Non-operating revenue (expense)				
Interest income	(6,876)	(2,278)	(9,154)	(592)
Gain on sale of capital asset	-	-	-	21,500
Interest expense	-	(62,776)	(62,776)	-
Total non-operating revenue (expense)	<u>(6,876)</u>	<u>(65,054)</u>	<u>(71,930)</u>	<u>20,908</u>
Changes in net position	16,861	267,220	284,081	27,202
Net position, beginning of year	<u>3,418,567</u>	<u>3,464,024</u>	<u>6,882,591</u>	<u>357,024</u>
Net position, end of year	<u>\$ 3,435,428</u>	<u>\$ 3,731,244</u>	<u>\$ 7,166,672</u>	<u>\$ 384,226</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, 2018

	<u>Business-Type Activities</u>		<u>Enterprise</u>	<u>Governmental</u>
	<u>Sewer</u>	<u>Water</u>	<u>Fund</u>	<u>Activities</u>
			<u>Total</u>	<u>Internal</u>
				<u>Service</u>
				<u>Fund</u>
Cash flows from operating activities				
Receipts from internal services provided	\$ -	\$ -	\$ -	\$ 103,825
Receipts from customers and users	380,756	677,634	1,058,390	-
Payments to employees	(148,685)	(127,512)	(276,197)	(24,180)
Payments to suppliers	(139,974)	(98,735)	(238,709)	(39,512)
Net cash provided by (used in) operating activities	<u>92,097</u>	<u>451,387</u>	<u>543,484</u>	<u>40,133</u>
Cash flows from capital and related financing activities				
Payments on loans	-	(108,000)	(108,000)	-
Interest expense	-	(62,776)	(62,776)	-
Proceeds from sale of capital assets	-	-	-	32,614
Acquisitions of capital assets	-	-	-	(54,149)
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>(170,776)</u>	<u>(170,776)</u>	<u>(21,535)</u>
Cash flows from investing activities				
Interest income	(6,876)	(2,278)	(9,154)	(592)
Net cash provided by (used in) investing activities	<u>(6,876)</u>	<u>(2,278)</u>	<u>(9,154)</u>	<u>(592)</u>
Net increase (decrease) in cash and cash equivalents	85,221	278,333	363,554	18,006
Cash and cash equivalents, beginning of year	<u>2,116,642</u>	<u>1,155,329</u>	<u>3,271,971</u>	<u>286,787</u>
Cash and cash equivalents, end of year	<u>\$ 2,201,863</u>	<u>\$ 1,433,662</u>	<u>\$ 3,635,525</u>	<u>\$ 304,793</u>
Cash flows from operating activities				
Operating income (loss)	\$ 23,737	\$ 332,274	\$ 356,011	\$ 6,294
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Depreciation	46,042	122,110	168,152	37,619
Net pension liability	(2,074)	(8,750)	(10,824)	(6,270)
Deferred inflows for pensions	2,027	3,040	5,067	675
Deferred outflows for pensions	(4,567)	(3,888)	(8,455)	2,413
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	(1,054)	(2,297)	(3,351)	-
Accounts payable and accrued liabilities	571	(2,999)	(2,428)	(598)
Due from government	25,982	10,750	36,732	-
Prepaid items	(63)	(63)	(126)	-
Compensated absences	1,607	1,342	2,949	-
Customer deposits	(111)	(132)	(243)	-
Net cash provided by (used in) operating activities	<u>\$ 92,097</u>	<u>\$ 451,387</u>	<u>\$ 543,484</u>	<u>\$ 40,133</u>

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

CITY OF CARSON CITY
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Employees Retirement System	Agency Fund
Assets		
Cash and pooled investments	\$ 772	\$ -
Accounts receivable	2,161	-
Investments		
Equity mutual funds	334,779	-
US government securities mutual funds	<u>25,607</u>	<u>-</u>
Total assets	<u>363,319</u>	<u>\$ -</u>
Liabilities		
Accounts payable	3,570	\$ -
Due to other governments	<u>-</u>	<u>-</u>
Total liabilities	<u>3,570</u>	<u>\$ -</u>
Net position		
Held in trust for pension benefits	<u>\$ 359,749</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, 2018

	Employees Retirement System
Additions	
Employer	\$ 31,600
Employee	6,369
Investment income (loss)	33,739
Total additions	71,708
Deductions	
Administrative	5,153
Net increase (decrease)	66,555
Net position, beginning of year	293,194
Net position, end of year	\$ 359,749

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, 2018

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, 2018

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, 2018

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 Manager 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 amended 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, 2018

- 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 fair value (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction) 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, 2018

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, 2018

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, 2018, 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 City has items that qualify for reporting in this category related to the net pension liability these items are discussed in Note 6.

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. The City also has items that qualify for reporting in this category related to the net pension liability these items are discussed in Note 6.

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, 2018

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 activity item level. During the current year, the City incurred no expenditures in excess of the amounts appropriated.

3. DEPOSITS AND INVESTMENTS

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

	Governmental Activities	Business- type Activities	Fiduciary Activities	Total
Cash and pooled investments	\$2,610,853	\$3,574,989	\$ 772	\$6,186,614
Restricted Cash and pooled investments	-	60,536	-	60,536
Investments	-	-	360,386	360,386
Total	\$2,610,853	\$3,635,525	\$361,158	\$6,607,536

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

Custodial Credit Risk - Deposits. The City had deposits of \$3,941,536 at year end. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$3,490,935 of the City's bank balance of \$3,973,977 is exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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	\$ 25,607	3	Morning Star
Capital World Growth and Income	N/A	86,886	N/A	
AMCAP Fund	N/A	83,747	N/A	
Income Fund of America	N/A	103,427	N/A	
Washington Mutual Investors Fund	N/A	60,719	N/A	
Pooled investments				
Money market funds				
US Treasury Note .875%	4/2019	247,227	N/A	
US Treasury Note 1%	9/2019	270,188	N/A	
US Treasury Note 1.25%	1/2020	220,676	N/A	
US Treasury Note 1.375%	4/2020	195,906	N/A	
US Treasury Note 2%	5/2021	196,500	N/A	
US Treasury Note 2%	11/2021	244,688	N/A	
Negotiable CDs	2016-2018	914,190	Unrated	
Total investments		\$2,666,000		

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

The City categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of year-end.

- US Treasury Notes are valued using quoted market prices (Level 1 inputs).
- Pension fund investments, money market accounts and negotiable CDs are valued using a pricing model utilizing observable fair value measures of fund/pool investments and other observable inputs to determining the fair value of the securities making up the of investments fund/pool (Level 2 inputs).
- The City does not has any investments that report fair value based on significant unobservable inputs (Level 3 inputs).

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

Investment and deposit risk

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

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

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above investments, \$360,386 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, 2018 are as follows:

<u>Transfers out</u>	<u>Nonmajor Governmental Funds</u>
General Fund	\$147,500
Nonmajor Governmental funds	19,506
Total	<u><u>\$167,006</u></u>

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.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 153,996	\$ -	\$ -	\$ 153,996
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	153,996	-	-	153,996
Capital assets, being depreciated				
Building and improvements	1,329,023	189,725	-	1,518,748
Furniture and equipment	661,554	2,940	-	664,494
Motor pool equipment	498,700	54,149	25,485	527,364
Motor vehicles	579,448	7,000	-	586,448
Infrastructure	1,269,355	60,197	-	1,329,552
Total capital assets, being depreciated	4,338,080	314,011	25,485	4,626,606
Less accumulated depreciation for:				
Building and improvements	797,919	28,906	-	826,825
Furniture and equipment	594,027	15,943	-	609,970
Motor pool equipment	432,398	36,709	22,085	447,022
Motor vehicles	472,704	25,711	-	498,415
Infrastructure	360,340	61,540	-	421,880
Total accumulated depreciation	2,657,388	168,809	22,085	2,804,112
Net capital assets, being depreciated	1,680,692	145,202	3,400	1,822,494
Governmental Activities capital assets, net	\$1,834,688	\$145,202	\$ 3,400	\$1,976,490
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 64,814	\$ -	\$ -	\$ 64,814
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	64,814	-	-	64,814
Capital assets being depreciated				
Buildings and improvements	80,576	-	-	80,576
Mains and equipment	8,766,507	-	-	8,766,507
Total capital assets, being depreciated	8,847,083	-	-	8,847,083
Less accumulated depreciation for:				
Buildings and improvements	38,852	1,946	-	40,798
Mains and equipment	2,906,753	166,206	-	3,072,959
Total accumulated depreciation	2,945,605	168,152	-	3,113,757
Net capital assets, being depreciated	5,901,478	(168,152)	-	5,733,326
Business-type Activities capital assets, net	\$5,966,292	\$(168,152)	\$ -	\$5,798,140

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

Governmental Activities	
General government	\$ 6,441
Public safety	31,011
Public works	55,003
Culture and recreation	38,735
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>37,619</u>
Total depreciation expense - governmental activities	<u>\$168,809</u>
Business-type Activities	
Sewer	\$ 46,042
Water	<u>122,110</u>
Total depreciation expense – business- type activities	<u>\$168,152</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, 2018

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (June 30, 2017):

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

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 15% of annual covered payroll.

Net Pension Liability

The employer's net pension liability was calculated using roll forward procedures through June 30, 2018 based on an actuarial valuation as of June 30, 2017.

The total pension liability in the June 30, 2017 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, 2018

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%	6.85%
International equity	20.0%	7.00%
Fixed Income	15.0%	3.00%
Other	2.0%	0.00%
Cash	3.0%	0.00%

Discount rate. The discount rate used to measure the total pension liability is 5.96%. 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 July 1, 2017	\$422,175	\$293,194	\$128,981
Changes for the Year:			
Service Cost	16,409	-	16,409
Interest	25,651	-	25,651
Change in benefits	-	-	-
Differences between expected and actual experience	-	-	-
Change in assumptions	-	-	-
Contributions : Employer	-	31,600	(31,600)
Contributions: Employee	-	6,369	(6,369)
Net Investment Income	-	33,739	(33,739)
Benefit Payments, including refunds	-	-	-
Administrative expense	-	(5,153)	5,153
Other Changes	-	-	-
Net Changes	42,060	66,555	(24,495)
Balance at June 30, 2018	\$464,235	\$359,749	\$104,486

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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	\$486,099	\$464,235	\$443,232
Fiduciary Net Position	359,749	359,749	359,749
Net Pension Liability	\$126,350	\$104,486	\$ 83,483

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

For the year ended June 30, 2018 the employer recognized pension expense of (\$6,031). The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contribution after measurement date	\$ -	\$ -
Differences in experience	40,225	-
Differences in assumptions	-	9,891
Excess (Deficit) Investment Returns	-	1,368
Total	\$40,225	\$11,259

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

2018	\$ 3,725
2019	2,901
2020	2,903
2021	7,711
2022	4,652
Thereafter	7,074
Total	\$28,966

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. Employees can contribute additional amount what are not matched. City contributions were \$18,921 and participant contributions were \$26,053 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, 2018

7. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2018.

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
Governmental Activities					
Accrued employee benefits	\$ 31,347	\$3,583	\$ -	\$ 34,930	\$ -
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%	885,000	-	80,000	805,000	80,000
2010 USDA Water Supply Revenue Bonds. Payments due in annual installments of \$24,000 to \$66,000 through 2051; interest at 3.00%	1,508,000	-	28,000	1,480,000	29,000
Accrued employee benefits	55,998	2,949	-	58,947	-
Total Business-type Activities	2,448,998	2,949	108,000	2,343,947	109,000
Total	\$2,480,345	\$6,532	\$108,000	\$2,378,877	\$109,000

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2018 are as follows:

<u>Year Ended June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 109,000	\$ 60,221
2020	114,000	57,598
2021	115,000	54,907
2022	120,000	52,148
2023	122,000	49,305
2024-2028	547,000	202,996
2029-2033	196,000	159,360
2034-2038	222,000	127,950
2039-2043	255,000	92,355
2044-2048	291,000	51,375
2049-2051	194,000	8,820
Total	\$2,285,000	\$917,035

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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, 2018, revenue attributable to charges for these services was approximately 66% of total charges for service revenue in these funds.

9. CONTINGENCIES

In the normal course of its operations, the City has become a party in various legal actions, including property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses related to legal actions have not been included as a liability in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CARSON CITY

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

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,073,000	\$ 1,073,000	\$ 1,114,277	\$ 41,277
Intergovernmental	120,591	120,591	126,384	5,793
Fees and service charges	104,940	104,940	112,052	7,112
Interest	1,050	1,050	19,658	18,608
Miscellaneous	7,500	7,500	17,025	9,525
Total revenues	<u>1,307,081</u>	<u>1,307,081</u>	<u>1,389,396</u>	<u>82,315</u>
Expenditures				
Current				
Legislative	102,900	102,900	63,548	39,352
General government	194,211	194,211	156,591	37,620
Public safety	233,260	233,260	223,945	9,315
Public works	170,841	170,841	139,023	31,818
Recreation and culture	78,848	78,848	42,896	35,952
Total expenditures	<u>780,060</u>	<u>780,060</u>	<u>626,003</u>	<u>154,057</u>
Revenues over (under) expenditures	527,021	527,021	763,393	236,372
Other financing sources (uses)				
Transfers out	(147,500)	(147,500)	(147,500)	-
Net changes in fund balance	379,521	379,521	615,893	236,372
Fund balance, beginning of year	<u>472,084</u>	<u>472,084</u>	<u>472,084</u>	<u>-</u>
Fund balance, end of year	<u>\$ 851,605</u>	<u>\$ 851,605</u>	<u>\$ 1,087,977</u>	<u>\$ 236,372</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, 2018

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 110,000	\$ 110,000	\$ 120,269	\$ 10,269
Intergovernmental				
State shared	6,000	6,000	9,051	3,051
Penal fines	64,500	64,500	57,876	(6,624)
Fees and service charges	16,000	16,000	9,807	(6,193)
Interest	500	500	991	491
Contributions	1,000	1,000	7,425	6,425
Total Revenues	198,000	198,000	205,419	7,419
Expenditures				
Current				
Recreation and culture	388,500	445,000	397,490	47,510
Net changes in fund balance	(190,500)	(247,000)	(192,071)	54,929
Fund balance, beginning of year	449,964	449,964	449,964	-
Fund balance, end of year	\$ 259,464	\$ 202,964	\$ 257,893	\$ 54,929

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, 2018

	2015	2016	2017	2018
Total pension liability				
Service cost	16,944	16,944	16,409	16,409
Interest	16,412	16,412	20,889	25,651
Difference between expected and actual experience	33,853	-	25,096	-
Changes in assumptions	-	-	(12,801)	-
Benefit payments including employee refunds	(43,517)	-	-	-
Net change in total pension liability	23,692	33,356	49,593	42,060
Total pension liability, beginning of year	315,534	339,226	372,582	422,175
Total pension liability, end of year	<u>\$ 339,226</u>	<u>\$ 372,582</u>	<u>\$ 422,175</u>	<u>\$ 464,235</u>
Plan Fiduciary Net Position				
Contributions-employer	\$ 11,721	\$ 67,858	27,743	31,600
Contributions-employee	3,909	5,682	5,938	6,369
Net Investment income	2,016	2,449	31,473	33,739
Benefit payments including employee refunds	(43,517)	-	-	-
Administrative expense	(4,338)	-	-	(5,153)
Net change in plan fiduciary net position	<u>(30,209)</u>	<u>75,989</u>	<u>65,154</u>	<u>66,555</u>
Plan fiduciary net position, beginning of year	<u>182,260</u>	<u>152,051</u>	<u>228,040</u>	<u>293,194</u>
Plan fiduciary net position, end of year	<u>\$ 152,051</u>	<u>\$ 228,040</u>	<u>\$ 293,194</u>	<u>\$ 359,749</u>
Employer net pension liability	<u>\$ 187,175</u>	<u>\$ 144,542</u>	<u>\$ 128,981</u>	<u>\$ 104,486</u>
Plan fiduciary net position as a percentage of the total pension liability	45%	61%	69%	77%
Covered employee payroll	\$ 130,051	\$ 189,400	\$ 197,920	\$ 212,204
Employer's net pension liability as a percentage of covered employee payroll	144%	76%	65%	49%

Notes to schedule:

Above dates are based on a June 30 measurement date.

Pension schedules are being accumulated prospectively until ten years of data is presented.

CITY OF CARSON CITY
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

	2015	2016	2017	2018
Actuarial determined contributions	\$ 30,769	\$ 37,880	\$ 27,743	\$ 31,600
Contributions in relation to the actuarially	27,412	67,858	27,743	31,600
Contribution deficiency (excess)	\$ 3,357	\$ (29,978)	\$ -	\$ -
Covered employee payroll	\$ 130,051	\$ 189,400	\$ 197,920	\$ 197,920
Contributions as a percentage of covered employee payroll	21%	36%	14%	16%

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

Note to schedule:

Pension schedules are being accumulated prospectively until ten years of data is presented.

CITY OF CARSON CITY
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2018

	2015	2016	2017	2018
Annual money-weighted rate of return net of investment expense	-1%	1%	8%	10%

Note to schedule:

Pension schedules are being accumulated prospectively until ten years of data is presented.

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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, 2018

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Taxes				
Property taxes	\$ 1,073,000	\$ 1,073,000	\$ 1,114,277	\$ 41,277
Intergovernmental revenues				
State shared revenues	120,591	120,591	126,384	5,793
Total intergovernmental revenues	120,591	120,591	126,384	5,793
Fees and service charges				
Fire contracts	31,000	31,000	30,873	(127)
Rent	37,840	37,840	39,457	1,617
Licenses and permits	100	100	815	715
Hospital services	36,000	36,000	38,458	2,458
Court costs	-	-	2,449	2,449
Total fees and service charges	104,940	104,940	112,052	7,112
Interest	1,050	1,050	19,658	18,608
Miscellaneous	7,500	7,500	17,025	9,525
Total revenues	\$ 1,307,081	\$ 1,307,081	\$ 1,389,396	\$ 82,315

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

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Current				
Legislative				
City Council	\$ 102,900	\$ 102,900	\$ 63,548	\$ 39,352
General government				
City Administrator	55,501	55,501	46,881	8,620
Election Commission	9,650	9,650	1,771	7,879
Assessor	17,000	17,000	13,689	3,311
Comptroller	112,060	112,060	94,250	17,810
Total general government	194,211	194,211	156,591	37,620
Public Safety				
Police Department	180,130	180,130	174,696	5,434
Fire Department	53,130	53,130	49,249	3,881
Total public safety	233,260	233,260	223,945	9,315
Public Works				
Department of Public Works	170,841	170,841	139,023	31,818
Recreation and culture				
Parks	78,848	78,848	42,896	35,952
Total expenditures	\$ 780,060	\$ 780,060	\$ 626,003	\$ 154,057

CITY OF CARSON CITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2018

	<u>Special Revenue</u>			<u>Total</u>
	<u>Major Street</u>	<u>Local Street</u>	<u>Capital Projects</u>	
Assets				
Cash and pooled investments	\$ 312,777	\$ 217,648	\$ 449,795	\$ 980,220
Due from other governments	17,627	6,945	-	24,572
Total assets	<u>\$ 330,404</u>	<u>\$ 224,593</u>	<u>\$ 449,795</u>	<u>\$ 1,004,792</u>
Liabilities and fund balance				
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 6,079	\$ 6,079
Fund balances				
Restricted for streets	330,404	224,593	-	554,997
Restricted for parks	-	-	92,181	92,181
Committed				
Parks	-	-	99,320	99,320
Fire equipment	-	-	173,651	173,651
Building improvements	-	-	21,500	21,500
Police equipment	-	-	2,823	2,823
Master Plan	-	-	19,393	19,393
Future matching	-	-	20,000	20,000
Downtown development	-	-	14,848	14,848
Total fund balances	<u>330,404</u>	<u>224,593</u>	<u>443,716</u>	<u>998,713</u>
Total liabilities and fund balances	<u>\$ 330,404</u>	<u>\$ 224,593</u>	<u>\$ 449,795</u>	<u>\$ 1,004,792</u>

CITY OF CARSON CITY

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

FOR THE YEAR ENDED JUNE 30, 2018

	Special Revenue		Capital Projects	Total
	Major Street	Local Street		
State revenues	\$ 103,031	\$ 51,108	\$ -	\$ 154,139
Interest	(417)	(206)	-	(623)
Contributions	-	-	36,946	36,946
Total revenues	<u>102,614</u>	<u>50,902</u>	<u>36,946</u>	<u>190,462</u>
Expenditures				
Current				
Public safety	-	-	16,679	16,679
Public works	54,668	53,272	-	107,940
Recreation and cultural	-	-	10,680	10,680
Total expenditures	<u>54,668</u>	<u>53,272</u>	<u>27,359</u>	<u>135,299</u>
Revenues over (under) expenditures	<u>47,946</u>	<u>(2,370)</u>	<u>9,587</u>	<u>55,163</u>
Other financing sources (uses)				
Transfers in	-	19,506	147,500	167,006
Transfers out	(19,506)	-	-	(19,506)
Total other financing sources (uses)	<u>(19,506)</u>	<u>19,506</u>	<u>147,500</u>	<u>147,500</u>
Net changes in fund balances	28,440	17,136	157,087	202,663
Fund balances, beginning of year	<u>301,964</u>	<u>207,457</u>	<u>286,629</u>	<u>796,050</u>
Fund balances, end of year	<u>\$ 330,404</u>	<u>\$ 224,593</u>	<u>\$ 443,716</u>	<u>\$ 998,713</u>

INTERNAL CONTROL AND COMPLIANCE



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

September 11, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise City of Carson City, Michigan's basic financial statements and have issued our report thereon dated September 11, 2018.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first 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. We did identify a deficiency in internal control described in the accompanying schedule of findings and responses as deficiency 2018-001 that we consider to be a material weakness.

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 September 11, 2018.

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.

Uredexold Haefner LLC

CITY OF CARSON CITY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2018

Finding 2018-001

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.