

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Carson City	County Montcalm
Fiscal Year End June 30, 2007	Opinion Date July 26, 2007	Date Audit Report Submitted to State August 3, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|-----|----|--|
| YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|----|--|
1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. The local unit has adopted a budget for all required funds.
 5. A public hearing on the budget was held in accordance with State statute.
 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. The local unit only holds deposits/investments that comply with statutory requirements.
 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. The local unit is free of repeated comments from previous years.
 12. The audit opinion is UNQUALIFIED.
 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. The board or council approves all invoices prior to payment as required by charter or statute.
 15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Vredeveld Haefner LLC		Telephone Number 616-446-7474	
Street Address 4001 Granada Ct		City Grand Rapids	State Zip MI 49534
Authorizing CPA Signature		Printed Name Douglas J. Vredeveld	License Number 1101021289

CITY OF CARSON CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

CITY OF CARSON CITY

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CITY OF CARSON CITY

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INDEPENDENT AUDITORS' REPORT

July 26, 2007

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Carson City, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Carson City, Michigan as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 26, 2007, on our consideration of the City of Carson City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 and the schedules of funding progress and employer contributions on page 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carson City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules 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 and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ordebold Hoefner LLC

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, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The City began a storm drain project in conjunction with Carson City hospital.
- Over the last two years, the City spent over 1.6 million on water system improvements, including a new water tower, funded primarily through proceeds from a federal and state funded Drinking Water Revolving Fund loan. This project was completed during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Carson City's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences, accrued interest, etc.).

Both of the government-wide financial statements distinguish functions of the City of Carson City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, public safety, public works including major and local street construction and maintenance, culture and recreation, capital outlay, and debt service activities. The business-type activities of the City include sewer and water services.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Carson City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and library funds.

Data is combined into a single aggregated presentation for the other four governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements and schedules*.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Sewer and Water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its fleet of vehicles. 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 statement 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 schedules of funding progress and employer contributions related to the City's pension plan.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Carson City, assets exceeded liabilities by \$8,098,993 at the close of the most recent fiscal year.

A significant portion of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$1,658,915	\$1,466,933	\$1,919,734	\$1,883,323	\$3,578,649	\$3,350,256
Capital assets	1,672,432	1,558,911	5,002,227	5,023,234	6,674,659	6,582,145
Total assets	3,331,347	3,025,844	6,921,961	6,906,557	10,253,308	9,932,401
Long-term liabilities outstanding	311,503	324,532	1,627,578	1,525,669	1,941,081	1,850,201
Other liabilities	197,054	181,270	16,180	270,212	213,234	451,482
Total liabilities	508,557	505,802	1,645,758	1,795,881	2,154,315	2,301,683
Net assets						
Invested in capital assets, net of related debt	1,429,432	1,294,911	3,402,227	3,523,889	4,831,659	4,818,800
Restricted	901,428	811,456	-	-	901,428	811,456
Unrestricted	491,930	413,675	1,873,976	1,586,787	2,365,906	2,000,462
Total net assets	\$2,822,790	\$2,520,042	\$5,276,203	\$5,110,676	\$8,098,993	\$7,630,718

Net assets of the City increased by \$468,275 with both the governmental and business-type activities showing additions to prior balances. The business-type activities increase in net assets of \$165,527 was primarily the result of increased revenues from operations. The governmental activities increase in net assets of \$302,748 is primarily due to a combination of stable fuel tax revenue and no major projects.

Summary of Activities

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue						
Charges for Services	\$104,603	\$62,455	\$724,692	\$671,127	\$829,295	\$733,582
Operating grants and contributions	209,721	222,123	-	-	209,721	222,123
Capital grants and contributions	169,937	49,363	-	5,991	169,937	55,354
	484,261	333,941	724,692	677,118	1,208,953	1,011,059
General revenue						
Property taxes	447,959	419,861	-	-	447,959	419,861
Other governmental sources	141,049	149,625	-	-	141,049	149,625
Other	26,651	48,112	71,822	13,142	98,473	61,254
Transfers	35,000	-	(35,000)	-	-	-
Total revenue and transfers	1,134,920	951,539	761,514	690,260	1,896,434	1,641,799
Expenses						
Legislative	70,913	68,762	-	-	70,913	68,762
General government	166,538	159,987	-	-	166,538	159,987
Public Safety	202,601	187,411	-	-	202,601	187,411
Public works	142,161	170,811	-	-	142,161	170,811
Culture and recreation	237,638	208,714	-	-	237,638	208,714
Interest	12,321	13,191	-	-	12,321	13,191
Sewer	-	-	266,350	194,859	266,350	194,859
Water	-	-	329,637	234,975	329,637	234,975
Total expenses	832,172	808,876	595,987	429,834	1,428,159	1,238,710
Increase in net assets	302,748	142,663	165,527	260,426	468,275	403,089
Net assets-beginning of year	2,520,042	2,377,379	5,110,676	4,850,250	7,630,718	7,227,629
Net assets end of year	\$2,822,790	\$2,520,042	\$5,276,203	\$5,110,676	\$8,098,993	\$7,630,718

Governmental Activities. During the year the City invested \$202,601 or 24% of governmental activities expenses in public safety. Culture and recreation, which includes library operations was \$237,638 or 28% of governmental activities expenses while general government, public works and streets and interest on long-term debt made up the remaining 48% of governmental activities expenses.

Business-type Activities. Business-type activities increased the City's net assets by \$165,527, accounting for 35% of the total growth in the government's net assets for the current year. By comparison, business-type activities reported an increase in net assets the previous fiscal year of \$260,426. Key elements of this decrease are as follows:

- Salary costs increased due to more time spent in the water and sewer funds with construction activity.
- Depreciation increased due to the first year of depreciating the new water tower.

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, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,156,763, an increase of \$156,190 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, unreserved fund balance of the general fund was \$195,578 which is equal to total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 28% of total general fund expenditures.

The fund balance of the City's general fund increased by \$54,583 during the current fiscal year.

The library fund has a total fund balance of \$309,102, which increased by \$8,893 during the year primarily due to higher than expected property taxes and fees. The balance of this fund is restricted for use as defined by the City Council.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$1,178,325 and \$695,651, respectively. The sewer fund had an increase in net assets for the year of \$77,412 and the water fund had an increase of \$88,115. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were primarily due to the legislative expenditure budget being reduced due to a decrease in the amount budgeted for contingencies.

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, 2007, amounted to \$6,674,659 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of water system and storm drain improvements.

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

Capital Assets			
	Governmental Activities	Business-type Activities	Total
Land	\$ 171,996	\$ 14,475	\$ 186,471
Buildings, Equipment and Infrastructure	1,500,436	4,978,752	6,488,188
Total	\$1,672,432	\$5,002,227	\$6,674,659

Additional information on the City of Carson City capital assets can be found in Note 4 of these financial statements.

Debt. At the end of the current fiscal year, the City had total debt outstanding of \$1,941,081 summarized as follows:

Debt			
	Governmental Activities	Business-type Activities	Total
Accrued employee benefits	\$ 68,503	\$ 29,578	\$ 98,081
Notes payable	243,000	-	243,000
DWRF Loan payable	-	1,600,000	1,600,000
Total	\$311,503	\$1,629,578	\$1,941,081

The City's total debt increased by \$90,880 during the year primarily due to additional amounts borrowed under the Drinking Water Revolving Fund loan agreement.

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 2007-08 fiscal year:

- Increased employee wages costs.
- Flat performance of the State of Michigan's economy will likely result in stagnant or additional decreases in state funding.

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.

CITY OF CARSON CITY
STATEMENT OF NET ASSETS

JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 989,656	\$ 815,549	\$ 1,805,205
Investments	552,301	1,029,318	1,581,619
Accounts receivable	53,505	74,867	128,372
Due from other governments	59,134	-	59,134
Prepaid items	4,319	-	4,319
Capital assets, net			
Land	171,996	14,475	186,471
Buildings, equipment and infrastructure	1,500,436	4,987,752	6,488,188
Total assets	<u>3,331,347</u>	<u>6,921,961</u>	<u>10,253,308</u>
Liabilities			
Accounts payable and accrued expenses	16,341	16,180	32,521
Unearned revenue	180,713	-	180,713
Noncurrent liabilities			
Due within one year	22,000	65,000	87,000
Due in more than one year	289,503	1,564,578	1,854,081
Total liabilities	<u>508,557</u>	<u>1,645,758</u>	<u>2,154,315</u>
Net Assets			
Invested in capital assets, net of related debt	1,429,432	3,467,227	4,896,659
Restricted for			
Library	309,102	-	309,102
Major streets	261,222	-	261,222
Local streets	331,104	-	331,104
Unrestricted	491,930	1,808,976	2,300,906
Total net assets	<u>\$ 2,822,790</u>	<u>\$ 5,276,203</u>	<u>\$ 8,098,993</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, 2007

<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>	
Primary government				
Governmental activities				
Legislative	\$ 70,913	\$ -	\$ -	\$ (70,913)
General government	166,538	42,971	-	(122,385)
Public safety	202,601	22,270	10,181	(170,150)
Public works	142,161	25,181	98,339	139,872
Culture and recreation	237,638	14,181	101,201	(112,014)
Interest on long-term debt	12,321	-	-	(12,321)
Total governmental activities	<u>832,172</u>	<u>104,603</u>	<u>209,721</u>	<u>(347,911)</u>
Business-type activities				
Sewer	266,350	361,486	-	95,136
Water	329,637	363,206	-	33,569
Total business-type activities	<u>595,987</u>	<u>724,692</u>	<u>-</u>	<u>128,705</u>
Total primary government	<u>\$ 1,428,159</u>	<u>\$ 829,295</u>	<u>\$ 209,721</u>	<u>\$ (219,206)</u>

(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, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (347,911)	\$ 128,705	\$ (219,206)
General revenues			
Property taxes			
General operating	348,025	-	348,025
Library	99,934	-	99,934
State shared revenues	141,049	-	141,049
Interest earnings	26,651	71,822	98,473
Transfers	35,000	(35,000)	-
Total general revenues and transfers	<u>650,659</u>	<u>36,822</u>	<u>687,481</u>
Change in net assets	302,748	165,527	468,275
Net assets, beginning of year	<u>2,520,042</u>	<u>5,110,676</u>	<u>7,630,718</u>
Net assets, end of year	<u>\$ 2,822,790</u>	<u>\$ 5,276,203</u>	<u>\$ 8,098,993</u>

(Concluded)

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

CITY OF CARSON CITY
GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2007

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 269,288	\$ 207,932	\$ 395,712	\$ 872,932
Investments	16,601	104,183	240,272	361,056
Due from other governments	42,879	-	16,255	59,134
Accounts receivable	53,505	-	-	53,505
Prepaid expenditures	4,319	-	-	4,319
Total Assets	<u>\$ 386,592</u>	<u>\$ 312,115</u>	<u>\$ 652,239</u>	<u>\$ 1,350,946</u>
Liabilities and fund balance				
Liabilities				
Accounts payable and accrued liabilities	\$ 10,301	\$ 3,013	\$ 156	\$ 13,470
Deferred revenue	180,713	-	-	180,713
Total Liabilities	<u>191,014</u>	<u>3,013</u>	<u>156</u>	<u>194,183</u>
Fund balances				
Unreserved				
Undesignated	195,578	309,102	-	504,680
Undesignated reported in nonmajor Special revenue funds	-	-	652,083	652,083
Total fund balances	<u>195,578</u>	<u>309,102</u>	<u>652,083</u>	<u>1,156,763</u>
Total liabilities and fund balance	<u>\$ 386,592</u>	<u>\$ 312,115</u>	<u>\$ 652,239</u>	<u>\$ 1,350,946</u>

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

CITY OF CARSON CITY

RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

JUNE 30, 2007

Fund balances - total governmental funds	\$ 1,156,763
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	1,625,024
An internal service fund is used by management to charge the costs of centralized services to individual funds. The assets and liabilities of the internal service fund is included in the governmental activities.	
Add - net assets of governmental activities accounted for in the internal service fund	354,401
Certain liabilities, such as notes payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(68,503)
Deduct - notes payable	(243,000)
Deduct - accrued interest on notes payable	(1,895)
Net assets of governmental activities	<u>\$ 2,822,790</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, 2007

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes and special assessments	\$ 348,025	\$ 99,934	\$ 1,182	\$ 449,141
Intergovernmental revenues	252,128	84,908	99,576	436,612
Fees and service charges	50,196	20,307	-	70,503
Reimbursements	47,684	-	-	47,684
Contributions	-	6,228	-	6,228
Interest	13,770	14,181	25,579	53,530
Miscellaneous	24,538	-	-	24,538
Total revenues	<u>736,341</u>	<u>225,558</u>	<u>126,337</u>	<u>1,088,236</u>
Expenditures				
Current				
Legislative	83,913	-	-	83,913
General government	157,567	-	-	157,567
Public safety	170,453	-	-	170,453
Public works	252,955	-	19,130	272,085
Recreation and culture	41,870	183,181	-	225,051
Capital outlay	-	-	24,493	24,493
Debt service				
Principal	-	21,000	-	21,000
Interest	-	12,484	-	12,484
Total expenditures	<u>706,758</u>	<u>216,665</u>	<u>43,623</u>	<u>967,046</u>
Revenues over (under) expenditures	<u>29,583</u>	<u>8,893</u>	<u>82,714</u>	<u>121,190</u>
Other financing sources (uses)				
Transfers in	25,000	-	17,077	42,077
Transfers out	-	-	(7,077)	(7,077)
Total other financing sources (uses)	<u>25,000</u>	<u>-</u>	<u>10,000</u>	<u>35,000</u>
Net changes in fund balances	54,583	8,893	92,714	156,190
Fund balances, beginning of year	<u>140,995</u>	<u>300,209</u>	<u>559,369</u>	<u>1,000,573</u>
Fund balances, end of year	<u>\$ 195,578</u>	<u>\$ 309,102</u>	<u>\$ 652,083</u>	<u>\$ 1,156,763</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, 2007

Net changes in fund balances - total governmental funds	\$ 156,190
 Amounts reported for <i>governmental activities</i> in the statement of activities are different because	
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	195,978
Deduct - depreciation expense	(67,061)
 Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.	
Deduct - special assessment receipts	(1,197)
 Bond or note proceeds provide current financial resources to governmental funds in the period issued, but issuing notes increases long-term liabilities in the statement of net assets. Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Add - principal payments on notes payable	21,000
 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 - changes in compensated absences	(7,971)
Add - changes in accrued interest	163
 An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net assets of this fund are reported with governmental activities.	
Add - income from governmental activities in the internal service fund	<u>5,646</u>
Change in net assets of governmental activities	<u>\$ 302,748</u>

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

CITY OF CARSON CITY

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

FOR THE YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Taxes and special assessments	\$ 337,050	\$ 337,050	\$ 348,025	\$ 10,975
Intergovernmental	141,800	141,800	252,128	110,328
Fees and service charges	50,116	50,141	50,196	55
Reimbursements	-	-	47,684	47,684
Interest	21,000	21,000	13,770	(7,230)
Miscellaneous	11,325	5,300	24,538	19,238
Total revenues	<u>561,291</u>	<u>555,291</u>	<u>736,341</u>	<u>181,050</u>
Expenditures				
Current				
Legislative	112,229	84,256	83,913	343
General government	157,446	158,454	157,567	887
Public safety	162,644	176,029	170,453	5,576
Public works	110,898	93,601	252,955	(159,354)
Recreation and culture	43,074	40,450	41,870	(1,420)
Total expenditures	<u>586,291</u>	<u>552,790</u>	<u>706,758</u>	<u>(153,968)</u>
Revenues over (under) expenditures	<u>(25,000)</u>	<u>2,501</u>	<u>29,583</u>	<u>27,082</u>
Other financing sources (uses)				
Transfers in	25,000	25,000	25,000	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Net changes in fund balance	-	27,501	54,583	27,082
Fund balance, beginning of year	<u>140,995</u>	<u>140,995</u>	<u>140,995</u>	<u>-</u>
Fund balance, end of year	<u>\$ 140,995</u>	<u>\$ 168,496</u>	<u>\$ 195,578</u>	<u>\$ 27,082</u>

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

CITY OF CARSON CITY

**LIBRARY FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 87,000	\$ 85,000	\$ 99,934	\$ 14,934
Intergovernmental				
State shared	8,000	5,000	4,358	(642)
Penal fines	84,000	80,550	80,550	-
Fees and service charges	10,000	14,300	20,307	6,007
Contributions	-	5,983	6,228	245
Interest	5,500	12,900	14,181	1,281
Total Revenues	<u>194,500</u>	<u>203,733</u>	<u>225,558</u>	<u>21,825</u>
Expenditures				
Current				
Recreation and culture	178,500	174,782	183,181	(8,399)
Debt service				
Principal	28,000	21,000	21,000	-
Interest	6,500	12,485	12,484	1
Total expenditures	<u>213,000</u>	<u>208,267</u>	<u>216,665</u>	<u>(8,398)</u>
Net changes in fund balance	(18,500)	(4,534)	8,893	13,427
Fund balance, beginning of year	<u>300,209</u>	<u>300,209</u>	<u>300,209</u>	<u>-</u>
Fund balance, end of year	<u>\$ 281,709</u>	<u>\$ 295,675</u>	<u>\$ 309,102</u>	<u>\$ 13,427</u>

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

CITY OF CARSON CITY

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

JUNE 30, 2007

Assets	Business-Type Activities		Enterprise	Governmental
	Sewer	Water	Fund	Activities
	<u></u>	<u></u>	<u>Total</u>	<u>Internal</u>
				<u>Service</u>
				<u>Fund</u>
Current assets				
Cash and cash equivalents	\$ 391,161	\$ 424,388	\$ 815,549	\$ 116,724
Investments	768,122	261,196	1,029,318	191,245
Accounts receivable	36,983	37,884	74,867	-
Total current assets	<u>1,196,266</u>	<u>723,468</u>	<u>1,919,734</u>	<u>307,969</u>
Capital assets				
Land	14,475	-	14,475	3,996
Buildings	-	80,576	80,576	58,875
Plant, mains and equipment	2,345,125	3,955,176	6,300,301	409,460
Accumulated depreciation	(821,892)	(571,233)	(1,393,125)	(424,923)
Net capital assets	<u>1,537,708</u>	<u>3,464,519</u>	<u>5,002,227</u>	<u>47,408</u>
Total assets	<u>2,733,974</u>	<u>4,187,987</u>	<u>6,921,961</u>	<u>355,377</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	2,501	12,451	14,952	976
Current portion of long-term debt	-	65,000	65,000	-
Total current liabilities	<u>2,501</u>	<u>77,451</u>	<u>79,952</u>	<u>976</u>
Long-term liabilities				
Compensated absences	14,789	14,789	29,578	-
Loans payable	-	1,535,000	1,535,000	-
Customer deposits	651	577	1,228	-
Total long-term liabilities	<u>15,440</u>	<u>1,550,366</u>	<u>1,565,806</u>	<u>-</u>
Total liabilities	<u>17,941</u>	<u>1,627,817</u>	<u>1,645,758</u>	<u>976</u>
Net assets				
Investment in capital assets net of related debt	1,537,708	1,929,519	3,467,227	47,408
Unrestricted	1,178,325	630,651	1,808,976	306,993
Total net assets	<u>\$ 2,716,033</u>	<u>\$ 2,560,170</u>	<u>\$ 5,276,203</u>	<u>\$ 354,401</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 ASSETS**

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities		Enterprise Fund Total	Governmental Activities
	Sewer	Water		Internal Service Fund
Operating revenue				
Charges for services	\$ 361,486	\$ 363,206	\$ 724,692	\$ 65,033
Operating expense				
Salaries and wages	105,782	97,292	203,074	9,301
Supplies	30,141	20,222	50,363	14,036
Professional services	15,831	25,568	41,399	973
Insurance and bonds	13,161	13,161	26,322	-
Utilities	16,889	28,307	45,196	-
Equipment rentals	29,164	16,007	45,171	1,427
Repair and maintenance	11,117	15,826	26,943	23,150
Depreciation	42,432	76,646	119,078	23,381
Miscellaneous	1,833	4,266	6,099	-
Total operating expense	<u>266,350</u>	<u>297,295</u>	<u>563,645</u>	<u>72,268</u>
Operating income (loss)	<u>95,136</u>	<u>65,911</u>	<u>161,047</u>	<u>(7,235)</u>
Non-operating revenue (expense)				
Interest income	47,498	24,324	71,822	12,881
Interest expense	-	(32,342)	(32,342)	-
Total non-operating revenue (expense)	<u>47,498</u>	<u>(8,018)</u>	<u>39,480</u>	<u>12,881</u>
Income (loss) before transfers	<u>142,634</u>	<u>57,893</u>	<u>200,527</u>	<u>5,646</u>
Transfers				
Transfers in	-	45,222	45,222	-
Transfers out	(65,222)	(15,000)	(80,222)	-
Total transfers	<u>(65,222)</u>	<u>30,222</u>	<u>(35,000)</u>	<u>-</u>
Changes in net assets	77,412	88,115	165,527	5,646
Net assets, beginning of year	<u>2,638,621</u>	<u>2,472,055</u>	<u>5,110,676</u>	<u>348,755</u>
Net assets, end of year	<u>\$ 2,716,033</u>	<u>\$ 2,560,170</u>	<u>\$ 5,276,203</u>	<u>\$ 354,401</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, 2007

	Business-Type Activities		Enterprise Fund Total	Governmental Activities Internal Service Fund
	Sewer	Water		
Cash flows from operating activities				
Receipts from internal services provided	\$ -	\$ -	\$ -	\$ 65,033
Receipts from customers and users	353,291	363,811	717,102	-
Payments to employees	(104,155)	(95,665)	(199,820)	(9,301)
Payments to suppliers	(118,509)	(123,282)	(241,791)	(38,884)
Net cash provided by (used in) operating activities	<u>130,627</u>	<u>144,864</u>	<u>275,491</u>	<u>16,848</u>
Cash flows from non-capital financing activities				
Transfers in	-	45,222	45,222	-
Transfers out	(65,222)	(15,000)	(80,222)	-
Net cash provided by (used in) non-capital financing activities	<u>(65,222)</u>	<u>30,222</u>	<u>(35,000)</u>	<u>-</u>
Cash flows from capital and related financing activities				
Proceeds of loan	-	100,655	100,655	-
Interest expense	-	(32,342)	(32,342)	-
Acquisitions of capital assets	-	(94,984)	(94,984)	(7,985)
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>(26,671)</u>	<u>(26,671)</u>	<u>(7,985)</u>
Cash flows from investing activities				
Purchases of investments	(30,328)	(9,676)	(40,004)	(6,509)
Interest income	47,498	24,324	71,822	12,881
Net cash provided by (used in) investing activities	<u>17,170</u>	<u>14,648</u>	<u>31,818</u>	<u>6,372</u>
Net increase (decrease) in cash and cash equivalents	<u>82,575</u>	<u>163,063</u>	<u>245,638</u>	<u>15,235</u>
Cash and cash equivalents, beginning of year	<u>308,586</u>	<u>261,325</u>	<u>569,911</u>	<u>101,489</u>
Cash and cash equivalents, end of year	<u>\$ 391,161</u>	<u>\$ 424,388</u>	<u>\$ 815,549</u>	<u>\$ 116,724</u>
Cash flows from operating activities				
Operating income (loss)	\$ 95,136	\$ 65,911	\$ 161,047	\$ (7,235)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Depreciation	42,432	76,646	119,078	23,381
Change in operating assets and liabilities which provided (used) cash				
Accounts receivable	(8,195)	605	(7,590)	-
Accounts payable and accrued liabilities	(423)	-	(423)	702
Compensated absences	1,627	1,627	3,254	-
Customer deposits	50	75	125	-
Net cash provided by (used in) operating activities	<u>\$ 130,627</u>	<u>\$ 144,864</u>	<u>\$ 275,491</u>	<u>\$ 16,848</u>

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

CITY OF CARSON CITY
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>Employees Retirement System</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ 63,869	\$ 22,515
Investments		
US government securities funds	78,704	-
Bond funds	138,377	-
Mutual funds	389,107	-
Other	40,042	-
	<u>710,099</u>	<u>22,515</u>
Total assets		\$ 22,515
Liabilities		
Accounts payable	-	\$ 7,811
Due to other governments	-	14,704
	<u>-</u>	<u>22,515</u>
Total liabilities		\$ 22,515
Net assets		
Held in trust for pension benefits	<u>710,099</u>	
Total net assets	\$ 710,099	

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

CITY OF CARSON CITY
EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	Employees Retirement System
Additions	
Contributions:	
Employer	\$ 30,318
Investment income	<u>66,959</u>
Total Additions	97,277
Deductions	
Distributions, expenses and benefit payments	<u>5,503</u>
Net increase (decrease)	91,774
Net assets, Beginning of year	<u>618,325</u>
Net assets, end of year	<u>\$ 710,099</u>

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

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Carson City, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Carson City. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the City.

Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

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 penal fines which are recognized when received and reimbursement-based grants 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 *Debt Service Fund* is used to account for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs. The City maintains one Debt Service Fund.

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 two agency funds.

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and Special Revenue Funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget is adopted by activity.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621. The appropriations ordinances are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. The City did amend its budget for the year ended June 30, 2007. Any revisions that alter the total expenditures of any fund 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.

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Statutory Authority

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Due to and Due from Other Funds

Interfund receivables and payables are short term borrowings that arise from interfund transactions which are recorded by all funds affected in the period in which transactions are executed.

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 an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added since 2004.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been capitalized on capital assets reported in proprietary funds.

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

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

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds consisted of amounts received from private sources to be used for City parks.

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.

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Compensated Absences

Under contracts and employee policy, employee groups and individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts. Accumulated vacation time of governmental funds is recorded on the statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net assets of the individual enterprise funds.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pension Trust

The Pension Trust Fund statement of net assets and statement of changes in net assets are presented as of and for the plan year end of April 30, 2007.

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, 2007, the City carried commercial insurance to cover risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

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

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown at the functional level. The approved budgets of the City for these budgetary funds were adopted at the activity level. During the year ended June 30, 2007, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
General Fund			
General Government			
Election commission	\$ 2,521	\$ 2,641	\$ (120)
Assessor	15,095	15,116	(21)
Public Works			
Department of public works	93,601	252,955	(159,354)
Recreation and Culture			
Parks	40,450	41,870	(1,420)
Special Revenue Funds			
Library Fund			
Library	174,782	183,181	(8,399)
Major Street Fund			
Winter maintenance	2,943	3,007	(64)
Local Street Fund			
Routine maintenance	4,532	4,907	(375)
Winter maintenance	2,574	2,637	(63)

3. DEPOSITS AND INVESTMENTS

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

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 989,656	\$ 815,549	\$ 86,384	\$1,891,589
Investments	552,301	1,029,318	646,230	2,227,849
	<u>\$1,541,957</u>	<u>\$1,844,867</u>	<u>\$732,614</u>	<u>\$4,119,438</u>

These deposits are in three financial institutions located in Michigan. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following deposits and investments:

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Investments

<u>Pension Trust Fund</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Capital World Growth and Income Fund	N/A	\$112,001	3	Morningstar
Income Fund of America	N/A	277,106	4	Morningstar
Bond Fund of America	N/A	138,377	4	Morningstar
U.S. Government Securities Fund	N/A	78,704	2	Morningstar
CSV Life Insurance	N/A	40,042	N/A	

The above investments do not include certificates of deposit which are included in the investment caption on the financial statements as their original maturity date is greater than three months.

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 held at year-end.

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 is identified above for investments held at year end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$3,130,166 of the City's bank balance of \$3,430,166 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$646,230 of investments, \$40,042 represents the cash surrender value of life insurance and \$606,188 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. More than 5 percent of the City's investments are in mutual funds which are exempt from concentration of credit risk disclosure. All investments held at year-end are reported above.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, <u>2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2007</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 158,996	\$ 13,000	\$ -	\$ 171,996
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	<u>158,996</u>	<u>13,000</u>	<u>-</u>	<u>171,996</u>
Capital assets, being depreciated				
Building and improvements	1,262,967	-	-	1,262,967
Furniture and equipment	628,258	-	-	628,258
Motor pool equipment	401,475	7,985	-	409,460
Motor vehicles	565,796	-	-	565,796
Infrastructure	143,068	182,978	-	326,046
Total capital assets, being depreciated	<u>3,001,564</u>	<u>190,963</u>	<u>-</u>	<u>3,192,527</u>
Less accumulated depreciation for:				
Building and improvements	616,994	13,479	-	630,473
Furniture and equipment	386,603	22,795	-	409,398
Motor pool equipment	342,667	23,381	-	366,048
Motor vehicles	248,231	23,940	-	272,171
Infrastructure	7,154	6,847	-	14,001
Total accumulated depreciation	<u>1,601,649</u>	<u>90,442</u>	<u>-</u>	<u>1,692,091</u>
Net capital assets, being depreciated	<u>1,399,915</u>	<u>100,521</u>	<u>-</u>	<u>1,500,436</u>
Governmental Activities capital assets, net	<u>\$1,558,911</u>	<u>\$ 113,521</u>	<u>\$ -</u>	<u>\$1,672,432</u>
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 14,475	\$ -	\$ -	\$ 14,475
Construction in Progress	1,555,524	-	1,555,524	-
Total capital assets, not being depreciated	<u>1,569,999</u>	<u>-</u>	<u>1,555,524</u>	<u>14,475</u>
Capital assets being depreciated				
Buildings and improvements	80,576	-	-	80,576
Mains and equipment	4,646,705	1,653,596	-	6,300,301
Total capital assets, being depreciated	<u>4,727,281</u>	<u>1,653,596</u>	<u>-</u>	<u>6,380,877</u>
Less accumulated depreciation for:				
Buildings and improvements	17,443	1,947	-	19,390
Mains and equipment	1,256,604	117,131	-	1,373,735
Total accumulated depreciation	<u>1,274,047</u>	<u>119,078</u>	<u>-</u>	<u>1,393,125</u>
Net capital assets, being depreciated	<u>3,453,234</u>	<u>1,534,518</u>	<u>-</u>	<u>4,987,752</u>
Business-type Activities capital assets, net	<u>\$5,023,233</u>	<u>\$1,534,518</u>	<u>\$1,555,524</u>	<u>\$5,002,227</u>

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

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

Governmental Activities	
General government	\$ 4,669
Public safety	29,407
Public works	20,398
Culture and recreation	12,587
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	23,381
Total depreciation expense - governmental activities	\$ 90,442
 Business-type Activities	
Sewer	\$ 42,432
Water	76,646
Total depreciation expense - business- type activities	\$ 119,078

5. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2007 are as follows:

Transfers out:	Transfers in			Total
	General Fund	Non-Major Funds	Water Fund	
Non-major Funds	\$ -	\$ 7,077	\$ -	\$ 7,077
Sewer	15,000	5,000	45,222	65,222
Water	10,000	5,000	-	15,000
	\$25,000	\$17,077	\$45,222	\$87,299

Transfers are used to allocate administrative costs and move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

6. DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the City of Carson City Pension Plan, a single employer contributory defined benefit pension plan. All full-time employees over the age of 21 are eligible to participate in the Plan after one year of service.

Membership of the Plan consists of one terminated participant not yet receiving benefits and nine active plan members at the date of the latest actuarial valuation (May 1, 2002).

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Basis of Accounting

The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member 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 or at age 55 with 10 or more years of service are entitled to retirement benefits payable monthly. Normal retirement benefits are equal to 1.2% per year of service times the highest 5 year average salary over the 10 years prior to retirement. Benefits vest 20% per year after three years (100% after seven years). The accrued retirement benefit is actuarially reduced for each year by which early retirement precedes normal retirement. The Plan also provides for death benefits.

Contributions

The City has responsibility for making actuarially determined contributions to the Plan. Employees are not required to contribute to the Plan. 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 an "individual spread gain" actuarial cost method and, further, follows the "level contribution method" as required by Michigan law. 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 12.0% of annual covered payroll.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution (equal to annual pension cost)	\$ 30,318	
Contributions made	(30,318)	
	-	
Increase (decrease) in net pension obligation	-	
Net pension obligation beginning of year	-	
Net pension obligation end of year	\$ -	

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

The annual required contribution for the current year was determined as part of the May 1, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7% pre-retirement and 5% post retirement investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4% per year. Both (a) and (b) included an inflation component of 0%.

Three-Year Trend Information			
Fiscal Year	Annual Pension	Percentage of APC	Net Pension
<u>Ending</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/05	30,815	100%	\$ -
6/30/06	28,431	100%	-
6/30/07	30,318	100%	-

A separate financial report of the Plan has not been issued.

7. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2007.

	<u>Balance</u>			<u>Balance</u>	<u>Due</u>
	<u>July 1,</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30,</u>	<u>Within</u>
	<u>2006</u>			<u>2007</u>	<u>One</u>
					<u>Year</u>
Governmental Activities					
\$300,000, note to ACI Finance, Series 2000. Payments due in annual installments of \$17,000 to \$33,000 through May 1, 2016; interest at 4.68%	\$ 264,000	\$ -	\$(21,000)	\$ 243,000	\$ 22,000
Accrued employee benefits	60,532	7,971	-	68,503	-
Total Governmental Activities	324,532	7,971	(21,000)	311,503	22,000
Business-type Activities					
Drinking Water Revolving Fund Loan. Payments due in annual installments of \$65,000 to \$95,000 through 2027; interest at 2.125%	1,499,345	100,655	-	1,600,000	65,000
Accrued employee benefits	26,324	3,254	-	29,578	-
Total Business-type Activities	1,525,669	103,909	-	1,629,578	65,000
Total	\$1,850,201	\$111,880	\$(21,000)	\$1,941,081	\$ 87,000

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2007 are as follows:

Year Ended June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 22,000	\$ 11,372	\$ 65,000	\$ 33,335
2009	23,000	10,343	65,000	31,928
2010	24,000	9,266	70,000	30,494
2011	25,000	8,143	70,000	29,006
2012	26,000	6,973	70,000	27,519
2013-2017	123,000	14,788	375,000	114,378
2018-2022	-	-	420,000	72,250
2023-2027	-	-	465,000	25,021
Total	\$ 243,000	\$ 60,885	\$1,600,000	\$ 363,931

CITY OF CARSON CITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
5/1/1994	\$ 280,896	\$ 284,896	\$ (4,000)	-1.42%	\$ 277,398	-1.44%
5/1/1995	296,274	215,347	80,927	27.31%	222,759	36.33%
5/1/1996	304,041	235,779	68,262	22.45%	214,870	31.77%
5/1/1997	358,147	262,754	95,393	26.64%	237,511	40.16%
5/1/1998	448,622	292,918	155,704	34.71%	240,222	64.82%
5/1/1999	561,309	440,021	121,288	21.61%	220,810	54.93%
5/1/2000	594,942	496,426	98,516	16.56%	256,773	38.37%
5/1/2002	492,776	415,483	77,293	15.69%	262,085	29.49%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended April 30</u>	<u>Annual required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
1998	\$ 23,753	\$ 23,753	100%
1999	23,270	23,270	100%
2000	28,330	28,330	100%
2001	25,279	25,279	100%
2002	27,416	27,416	100%
2003	23,704	23,704	100%
2004	26,840	26,840	100%
2005	30,815	30,815	100%
2006	28,431	28,431	100%
2007	30,318	30,318	100%

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF CARSON CITY

GENERAL FUND SCHEDULE OF REVENUES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 337,050	\$ 337,050	\$ 348,025	\$ 10,975
Intergovernmental revenues				
Federal grants	-	-	110,829	110,829
State shared revenues	141,800	141,800	141,299	(501)
Total intergovernmental revenues	141,800	141,800	252,128	110,328
Fees and service charges				
Fire contracts	28,216	28,216	28,102	(114)
Rent	21,300	21,400	21,323	(77)
Licenses and permits	100	25	108	83
Court costs	500	500	663	163
Total fees and service charges	50,116	50,141	50,196	55
Reimbursements	-	-	47,684	47,684
Interest	21,000	21,000	13,770	(7,230)
Miscellaneous	11,325	5,300	24,538	19,238
Total Revenues	\$ 561,291	\$ 555,291	\$ 736,341	\$ 133,366

CITY OF CARSON CITY

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
Legislative				
City Council	\$ 112,229	\$ 84,256	\$ 83,913	\$ 343
General government				
City Administrator	38,996	36,129	36,063	66
Election Commission	3,344	2,521	2,641	(120)
Assessor	16,200	15,095	15,116	(21)
Comptroller	89,856	104,709	103,747	962
Rental	1,050	-	-	-
Storm Sewer	2,000	-	-	-
Master Plan	6,000	-	-	-
Total general government	157,446	158,454	157,567	887
Public Safety				
Police Department	127,514	144,560	140,891	3,669
Fire Department	35,130	31,469	29,562	1,907
Total public safety	162,644	176,029	170,453	5,576
Public Works				
Department of Public Works	110,898	93,601	252,955	(159,354)
Recreation and culture				
Parks	43,074	40,450	41,870	(1,420)
Total expenditures	\$ 586,291	\$ 552,790	\$ 706,758	\$ (154,311)

CITY OF CARSON CITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2007

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Total</u>
	<u>Major Street</u>	<u>Local Street</u>	<u>Compensated Absences</u>		
Assets					
Cash and cash equivalents	\$ 204,916	\$ 131,039	\$ 59,757	\$ -	\$ 395,712
Investments	44,610	195,662	-	-	240,272
Due from other governments	11,696	4,559	-	-	16,255
Total Assets	<u>\$ 261,222</u>	<u>\$ 331,260</u>	<u>\$ 59,757</u>	<u>\$ -</u>	<u>\$ 652,239</u>
Liabilities and fund balance					
Liabilities					
Accounts payable and accrued liabilities	\$ -	\$ 156	\$ -	\$ -	\$ 156
Fund balances					
Unreserved					
Undesignated	<u>261,222</u>	<u>331,104</u>	<u>59,757</u>	<u>-</u>	<u>652,083</u>
Total liabilities and fund balances	<u>\$ 261,222</u>	<u>\$ 331,260</u>	<u>\$ 59,757</u>	<u>\$ -</u>	<u>\$ 652,239</u>

CITY OF CARSON CITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue			Debt Service	Total
	Major Street	Local Street	Compensated Absences		
Revenues					
Special assessments	\$ -	\$ -	\$ -	\$ 1,182	\$ 1,182
State revenues	72,010	27,566	-	-	99,576
Interest	11,120	12,824	1,635	-	25,579
Total Revenues	<u>83,130</u>	<u>40,390</u>	<u>1,635</u>	<u>1,182</u>	<u>126,337</u>
Expenditures					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	11,586	7,544	-	-	19,130
Recreation and cultural	-	-	-	-	-
Capital Outlay	24,493	-	-	-	24,493
Total Expenditures	<u>36,079</u>	<u>7,544</u>	<u>-</u>	<u>-</u>	<u>43,623</u>
Revenues over (under) expenditures	<u>47,051</u>	<u>32,846</u>	<u>1,635</u>	<u>1,182</u>	<u>82,714</u>
Other financing sources (uses)					
Transfers in	-	7,077	10,000	-	17,077
Transfers out	(7,077)	-	-	-	(7,077)
Total other financing sources (uses)	<u>(7,077)</u>	<u>7,077</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Net changes in fund balances	39,974	39,923	11,635	1,182	92,714
Fund balances (deficit), beginning of year	221,248	291,181	48,122	(1,182)	559,369
Fund balances, end of year	<u>\$ 261,222</u>	<u>\$ 331,104</u>	<u>\$ 59,757</u>	<u>\$ -</u>	<u>\$ 652,083</u>

CITY OF CARSON CITY

MAJOR STREET FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
State revenue	\$ 65,000	\$ 72,072	\$ 72,010	\$ (62)
Interest	1,700	9,400	11,120	1,720
Total Revenues	<u>66,700</u>	<u>81,472</u>	<u>83,130</u>	<u>1,658</u>
Expenditures				
Current				
Public works				
Routine maintenance	6,827	7,865	7,629	236
Winter maintenance	4,367	2,943	3,007	(64)
State trunk line	13,594	950	950	-
Capital Outlay				
Construction	<u>30,662</u>	<u>24,493</u>	<u>24,493</u>	<u>-</u>
Total expenditures	<u>55,450</u>	<u>36,251</u>	<u>36,079</u>	<u>172</u>
Revenues over (under) expenditures	11,250	45,221	47,051	1,830
Other financing uses				
Transfers out	<u>(11,250)</u>	<u>(7,080)</u>	<u>(7,077)</u>	<u>3</u>
Net changes in fund balance	-	38,141	39,974	1,833
Fund balance, beginning of year	<u>221,248</u>	<u>221,248</u>	<u>221,248</u>	<u>-</u>
Fund balance, end of year	<u>\$ 221,248</u>	<u>\$ 259,389</u>	<u>\$ 261,222</u>	<u>\$ 1,833</u>

CITY OF CARSON CITY

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

FOR THE YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
State revenue	\$ 26,000	\$ 27,565	\$ 27,566	\$ 1
Interest	3,000	11,283	12,824	1,541
Total Revenues	<u>29,000</u>	<u>38,848</u>	<u>40,390</u>	<u>1,542</u>
Expenditures				
Current				
Public works				
Routine maintenance	6,828	4,532	4,907	(375)
Winter maintenance	3,048	2,574	2,637	(63)
Capital Outlay				
Construction	<u>30,374</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>40,250</u>	<u>7,106</u>	<u>7,544</u>	<u>(438)</u>
Revenues over (under) expenditures	(11,250)	31,742	32,846	1,104
Other financing sources				
Transfers in	<u>11,250</u>	<u>7,080</u>	<u>7,077</u>	<u>(3)</u>
Net changes in fund balance	-	38,822	39,923	1,101
Fund balance, beginning of year	<u>291,181</u>	<u>291,181</u>	<u>291,181</u>	<u>-</u>
Fund balance, end of year	<u>\$ 291,181</u>	<u>\$ 330,003</u>	<u>\$ 331,104</u>	<u>\$ 1,101</u>

CITY OF CARSON CITY

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

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest	\$ -	\$ 1,278	\$ 1,635	\$ 357
Expenditures				
Current				
General Government	-	-	-	-
Revenues over (under) expenditures	-	1,278	1,635	357
Other financing sources				
Transfers in	10,000	10,000	10,000	-
Net changes in fund balance	10,000	11,278	11,635	357
Fund balance, beginning of year	<u>48,122</u>	<u>48,122</u>	<u>48,122</u>	<u>-</u>
Fund balance, end of year	<u>\$ 58,122</u>	<u>\$ 59,400</u>	<u>\$ 59,757</u>	<u>\$ 357</u>

CITY OF CARSON CITY
ALL AGENCY FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2007

	<u>Agency Funds</u>		<u>Total</u>
	<u>Imprest Payroll Fund</u>	<u>Tax Trust Fund</u>	
Assets			
Cash	\$ 22,515	\$ -	\$ 22,515
Total assets	<u>\$ 22,515</u>	<u>\$ -</u>	<u>\$ 22,515</u>
Liabilities			
Accounts payable	\$ 7,811	\$ -	\$ 7,811
Due to other governments	14,704	-	14,704
Total Liabilities	<u>\$ 22,515</u>	<u>\$ -</u>	<u>\$ 22,515</u>



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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

July 26, 2007

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City of Carson City's basic financial statements and have issued our report thereon dated July 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Carson City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Carson City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Carson City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Carson City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Carson City's financial statements that is more than inconsequential will not be prevented or detected by the City of Carson City's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Carson City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Carson City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Carson City, in a separate letter dated July 26, 2007.

The City of Carson City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Carson City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ordevelo Haefner LLC

CITY OF CARSON CITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007

Finding 2007-1

New auditing standards emphasize that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) and that the auditor cannot be a part of those internal controls.

We noted that the City was not recording entries necessary to prepare fund basis financial statements on the modified accrual basis of accounting or to prepare entity-wide financial statements on the accrual basis of accounting.

Management response: We have determined that the cost of completing GAAP basis financial statements outweighs the benefit and rely on our auditors to assist us with some of the required entries and necessary disclosures.

Finding 2007-2

During the course of the audit, we noted that cash balances were being reconciled to a subsidiary ledger rather than to the general ledger. This resulted in posting of significant entries to correct cash between funds.

Management response: We have implemented procedures to begin this reconciliation process effective with the July month end closing.



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July 26, 2007

To the City Council and Management
City of Carson City

In planning and performing our audit of the financial statements of the City of Carson City, for the year ended June 30, 2007, we noted certain matters involving your operations which we would like to bring to your attention. These matters were reviewed with management and we will review these matters during future audits.

FIRE AUXILIARY (repeat comment)

During the current and previous audits we noted that the Carson City Fire Department Auxiliary was not complying with the disbursement of funds requirements identified within their bylaws. State law generally requires that the control and signatory authority over all accounts be with the City Comptroller. We suggest that the City Comptroller maintain control over the Auxiliary's disbursement process as well as their depository account balance as specified in the Auxiliary's bylaws and State law.

PERSONNEL POLICY MANUAL

We noted the City does not have a comprehensive and current personnel policy manual. Your manual should include such items as policies on employee honesty, conflicts of interest, employment expectations, appropriate disciplinary actions etc. We recommend a comprehensive manual be completed and adopted as soon as possible.

ACTUARIAL STUDY FOR PENSION PLAN

The pension plan has not completed a comprehensive actuarial study since 2002. An actuarial study is required to determine the funded status of the Plan and the contributions required for each year. There are also certain financial statement disclosures related to this study which may not be accurate after 4 years. We further noted the Plan increased the benefit multiplier from 1.0% to 1.2% which will cause a significant increase in the benefit obligations of the Plan. We recommend an actuarial study be completed as of May 1, 2007 and annually thereafter to closely monitor the Plan as several key City employees near retirement.

We would like to thank the City Staff for their assistance during the annual audit. Their advanced preparation and availability allowed for an efficient and effective audit process.

This report is intended solely for the information and use of the City Council and Management of the City of Carson City, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Vredeveld Haefner LLC