

CITY OF CASPIAN
AUDITED FINANCIAL STATEMENTS
IRON COUNTY, MICHIGAN

Fiscal Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Council
City of Caspian
Caspian, MI 49915

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Caspian, Michigan (City), as of and for the year ended June 30, 2014, which collectively comprise the City's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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 the maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from materials misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 risk 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Member
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinions

In my 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Caspian, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The City has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. My opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 39 through 42 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Caspian, Michigan's financial statements as a whole. The combining and individual non-major fund financial statements and the additional information section are presented for purposes of additional analysis and not a required part of the 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 financial statements. The information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

In accordance with Government Auditing Standards, I have also issued my report letter dated July 31, 2014, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my 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 on compliance. That report is an integral part of an audit performed in accordance with Government Accounting Standards in considering the City of Caspian's internal control over financial reporting and compliance.


Certified Public Accountant

July 31, 2014

FINANCIAL

STATEMENTS

CITY OF CASPIAN
GOVERNMENT WIDE STATEMENT OF NET POSITION
June 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 683,176	\$ 298,148	\$ 981,324	\$ 42,931
Receivables - net	82,939	91,754	174,693	2,880
Due from fiduciary funds (tax fund)	939	0	939	0
Due from primary government (general fund)	0	0	0	353
Due from primary government (tax fund)	0	0	0	329
Prepaid expenses	12,850	4,104	16,954	2,025
TOTAL CURRENT ASSETS	\$ 779,904	\$ 394,006	\$ 1,173,910	\$ 48,518
RESTRICTED ASSETS - Cash and equivalents	\$ 0	\$ 122,905	\$ 122,905	\$ 0
NON-CURRENT ASSETS				
Property and equipment, net of depreciation	\$ 518,480	\$ 6,243,844	\$ 6,762,324	\$ 0
TOTAL ASSETS	\$ 1,298,384	\$ 6,760,755	\$ 8,059,139	\$ 48,518
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 81,190	\$ 13,320	\$ 94,510	\$ 1,984
Accrued and other liabilities	4,346	28,976	33,322	792
Due to component units	353	0	353	0
Current part of non-current liabilities	16,809	42,000	58,809	0
TOTAL CURRENT LIABILITIES	\$ 102,698	\$ 84,296	\$ 186,994	\$ 2,776
NON-CURRENT LIABILITIES				
Compensated absences	\$ 10,734	\$ 0	\$ 10,734	\$ 0
Loan payable	13,086	0	13,086	0
Revenue bonds payable	0	1,772,000	1,772,000	0
TOTAL NON-CURRENT LIABILITIES	\$ 23,820	\$ 1,772,000	\$ 1,795,820	\$ 0
TOTAL LIABILITIES	\$ 126,518	\$ 1,856,296	\$ 1,982,814	\$ 2,776
NET POSITION				
Invested in capital assets, net of related debt	\$ 488,585	\$ 4,429,844	\$ 4,918,429	\$ 0
Restricted	51,353	122,905	174,258	18,567
Unrestricted	631,928	351,710	983,638	27,175
TOTAL NET POSITION	\$ 1,171,866	\$ 4,904,459	\$ 6,076,325	\$ 45,742

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
 Year ended June 30, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS			
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNITS
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Governmental Activities								
General government	\$ 226,959	\$ 367	\$ 0	\$ 0	\$ (226,592)		\$ (226,592)	
Public safety	73,771	0	0	0	(73,771)		(73,771)	
Public works	346,090	83,961	165,699	0	(96,430)		(96,430)	
Recreation and culture	38,988	0	0	0	(38,988)		(38,988)	
Community development	11,157	0	0	0	(11,157)		(11,157)	
Interest on long-term debt	1,655	0	0	0	(1,655)		(1,655)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 698,619	\$ 84,328	\$ 165,699	\$ 0	\$ (448,592)		\$ (448,592)	
Business-Type Activities								
Water	\$ 225,313	\$ 200,131	\$ 0	\$ 0		\$ (25,182)	\$ (25,182)	
Sewer	270,126	269,044	0	0		(1,082)	(1,082)	
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 495,439	\$ 469,175	\$ 0	\$ 0		\$ (26,264)	\$ (26,264)	
TOTAL PRIMARY GOVERNMENT	\$ 1,194,058	\$ 553,503	\$ 165,699	\$ 0	\$ (448,592)	\$ (26,264)	\$ (474,856)	
Component Units								
Caspian Recreation Association	\$ 11,058	\$ 0	\$ 0	\$ 0				\$ (11,058)
Caspian-Gastra Public Safety Authority	56,303	0	57,796	0				1,493
TOTAL COMPONENT UNITS	\$ 67,361	\$ 0	\$ 57,796	\$ 0				\$ (9,565)
GENERAL REVENUES								
Property taxes					\$ 298,217	\$ 0	\$ 298,217	\$ 11,941
State shared revenues and grants					108,844	0	108,844	0
Unrestricted investments earnings and rent					27,803	1,650	29,453	18
Licenses and permits					275	0	275	0
Fines					0	0	0	138
Reimbursements					793	0	793	0
Contributions					0	0	0	2,520
Other					2,553	0	2,553	1,543
SPECIAL ITEMS - Sale of property					0	0	0	735
TOTAL GENERAL REVENUES AND SPECIAL ITEMS					\$ 438,485	\$ 1,650	\$ 440,135	\$ 16,895
CHANGE IN NET POSITION								
Net position - beginning					\$ (10,107)	\$ (24,614)	\$ (34,721)	\$ 7,330
					1,181,973	4,929,073	6,111,046	38,412
					\$ 1,171,866	\$ 4,904,459	\$ 6,076,325	\$ 45,742

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
June 30, 2014

	GENERAL FUND	MAJOR STREET FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and equivalents	\$ 570,676	\$ 61,813	\$ 50,687	\$ 683,176
Taxes receivable - net	38,831	0	0	38,831
Accounts receivable	8,055	0	0	8,055
Due from fiduciary funds	939	0	0	939
Due from other governmental units	18,171	12,678	5,204	36,053
Prepaid expenses	11,142	854	854	12,850
TOTAL ASSETS	\$ 647,814	\$ 75,345	\$ 56,745	\$ 779,904
LIABILITIES				
Accounts payable	\$ 6,350	\$ 73,680	\$ 1,160	\$ 81,190
Accrued payroll	3,442	627	277	4,346
Due to other funds	0	0	0	0
Due to component units	353	0	0	353
Due to other governmental units	0	0	0	0
TOTAL LIABILITIES	\$ 10,145	\$ 74,307	\$ 1,437	\$ 85,889
FUND BALANCES				
Nonspendable	\$ 11,142	\$ 854	\$ 854	\$ 12,850
Committed	51,353	0	0	51,353
Unassigned	575,174	184	54,454	629,812
TOTAL FUND EQUITY	\$ 637,669	\$ 1,038	\$ 55,308	\$ 694,015
TOTAL LIABILITIES AND FUND EQUITY	\$ 647,814	\$ 75,345	\$ 56,745	\$ 779,904

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balance - total governmental funds	\$ 694,015
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	518,480
Long term liabilities:	
Loan not due and payable within the current period and not reported in the funds	(29,895)
Accumulated employee vacation and personal pay not used in current period	<u>(10,734)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,171,866</u>

CITY OF CASPIAN
GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE
Year ended June 30, 2014

	GENERAL FUND	MAJOR STREET FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Property taxes	\$ 237,656	\$ 0	\$ 60,561	\$ 298,217
State shared revenues and grants - operating	108,844	99,127	44,099	252,070
Licenses and permits	275	0	0	275
Contribution from other governmental unit	0	7,904	14,569	22,473
Charges for services	84,328	0	0	84,328
Interest and rentals	111,819	72	66	111,957
Reimbursements	793	0	0	793
Other	2,553	0	0	2,553
TOTAL REVENUES	\$ 546,268	\$ 107,103	\$ 119,295	\$ 772,666
EXPENDITURES				
Current				
General government	\$ 169,693	\$ 13,444	\$ 22,170	\$ 205,307
Public safety	50,112	0	12,000	62,112
Public works	172,345	172,603	57,619	402,567
Recreation	26,809	0	1,000	27,809
Insurance	9,570	0	0	9,570
Community development	0	0	11,157	11,157
Capital outlay	0	0	0	0
Debt service	0	0	17,762	17,762
TOTAL EXPENDITURES	\$ 428,529	\$ 186,047	\$ 121,708	\$ 736,284
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 117,739	\$ (78,944)	\$ (2,413)	\$ 36,382
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 0	\$ 53,500	\$ 8,700	\$ 62,200
Transfers (out)	(62,200)	0	0	(62,200)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (62,200)	\$ 53,500	\$ 8,700	\$ 0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 55,539	\$ (25,444)	\$ 6,287	\$ 36,382
Fund balance - beginning	582,130	26,482	49,021	657,633
FUND BALANCE - ENDING	\$ 637,669	\$ 1,038	\$ 55,308	\$ 694,015

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2014

Net change in fund balance - total governmental funds	\$	36,382
Amounts reported for governmental activities in the Statement of Activities are different because:		
Property and equipment:		
Governmental funds report capital outlays as expenditures		
General Government		0
Recreation		0
Depreciation recorded on capital assets		
General Government		(11,186)
Public Works		(27,677)
Public Safety		(11,659)
Recreation		(11,179)
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).		16,107
Decreases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.		<u>(896)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u><u>(10,107)</u></u>

CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF NET POSITION
 June 30, 2014

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
ASSETS			
Current Assets			
Cash and equivalents	\$ 56,520	\$ 241,628	\$ 298,148
Accounts receivable	40,619	51,135	91,754
Prepaid expenses	<u>2,383</u>	<u>1,721</u>	<u>4,104</u>
TOTAL CURRENT ASSETS	\$ 99,522	\$ 294,484	\$ 394,006
Noncurrent Assets			
Restricted cash and equivalents	\$ 78,495	\$ 44,410	\$ 122,905
Capital assets, net of depreciation	<u>2,028,383</u>	<u>4,215,461</u>	<u>6,243,844</u>
TOTAL NONCURRENT ASSETS	\$ 2,106,878	\$ 4,259,871	\$ 6,366,749
TOTAL ASSETS	\$ 2,206,400	\$ 4,554,355	\$ 6,760,755
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 1,016	\$ 12,304	\$ 13,320
Accrued expenses	16,523	12,453	28,976
Current portion of long-term debt	<u>26,000</u>	<u>16,000</u>	<u>42,000</u>
TOTAL CURRENT LIABILITIES	\$ 43,539	\$ 40,757	\$ 84,296
Noncurrent Liabilities			
Revenue bonds payable	\$ 844,000	\$ 970,000	\$ 1,814,000
Less: current portion included above	<u>(26,000)</u>	<u>(16,000)</u>	<u>(42,000)</u>
TOTAL NONCURRENT LIABILITIES	\$ 818,000	\$ 954,000	\$ 1,772,000
TOTAL LIABILITIES	\$ 861,539	\$ 994,757	\$ 1,856,296
NET POSITION			
Invested in capital assets-net of related debt	\$ 1,184,383	\$ 3,245,461	\$ 4,429,844
Restricted			
Debt service	78,495	41,656	120,151
System improvements	0	2,754	2,754
Unrestricted			
	<u>81,983</u>	<u>269,727</u>	<u>351,710</u>
TOTAL NET POSITION	\$ 1,344,861	\$ 3,559,598	\$ 4,904,459

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF REVENUES,
 EXPENSES AND CHANGES IN NET POSITION
 Year ended June 30, 2014

	WATER UTILITY	SEWER UTILITY	TOTAL
OPERATING REVENUES			
Metered sales	\$ 198,072	\$ 269,044	\$ 467,116
Water taps and other services	2,059	0	2,059
Reimbursements	0	0	0
TOTAL OPERATING REVENUES	\$ 200,131	\$ 269,044	\$ 469,175
OPERATING EXPENSES			
Personal services	\$ 24,171	\$ 13,448	\$ 37,619
Employee benefits	20,395	11,372	31,767
Supplies	6,670	1,604	8,274
Purchased services	17,963	152,370	170,333
Equipment rental	9,919	5,857	15,776
Utilities	16,802	1,133	17,935
Other	1,637	716	2,353
Depreciation	89,146	59,376	148,522
TOTAL OPERATING EXPENSES	\$ 186,703	\$ 245,876	\$ 432,579
OPERATING INCOME (LOSS)	\$ 13,428	\$ 23,168	\$ 36,596
NONOPERATING REVENUES (EXPENSES)			
Interest earned	\$ 1,618	\$ 32	\$ 1,650
Interest expense	(38,610)	(24,250)	(62,860)
TOTAL NONOPERATING REVENUE (EXPENSE)	\$ (36,992)	\$ (24,218)	\$ (61,210)
NET INCOME (LOSS)	\$ (23,564)	\$ (1,050)	\$ (24,614)
Total net position - beginning	1,368,425	3,560,648	4,929,073
TOTAL NET POSITION - ENDING	\$ 1,344,861	\$ 3,559,598	\$ 4,904,459

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF CASH FLOW
 Year ended June 30, 2014

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 199,910	\$ 266,150	\$ 466,060
Payments to suppliers	(54,006)	(160,425)	(214,431)
Payments to or on behalf of employees	<u>(44,382)</u>	<u>(24,688)</u>	<u>(69,070)</u>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 101,522	\$ 81,037	\$ 182,559
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	\$ (63,060)	\$ (39,438)	\$ (102,498)
Purchases of capital assets	0	0	0
Funding of restricted accounts	<u>(230)</u>	<u>(3,040)</u>	<u>(3,270)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING	\$ (63,290)	\$ (42,478)	\$ (105,768)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>1,618</u>	\$ <u>32</u>	\$ <u>1,650</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	\$ 39,850	\$ 38,591	\$ 78,441
Cash and equivalents - beginning	<u>16,670</u>	<u>203,037</u>	<u>219,707</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>56,520</u>	\$ <u>241,628</u>	\$ <u>298,148</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 13,428	\$ 23,168	\$ 36,596
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	89,146	59,376	148,522
Change in Assets and Liabilities			
Receivables - net	(221)	(2,894)	(3,115)
Prepaid expenses	29	59	88
Accounts payable	(1,044)	1,196	152
Accrued payroll expense	<u>184</u>	<u>132</u>	<u>316</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>101,522</u>	\$ <u>81,037</u>	\$ <u>182,559</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 FIDUCIARY FUNDS - STATEMENT OF NET POSITION
 June 30, 2014

		<u>AGENCY FUND TYPE</u> <u>(Tax Collections)</u>
ASSETS		
Cash and equivalents	\$	1,250
Due from other funds		0
Due from other governmental units		<u>18</u>
TOTAL ASSETS	\$	<u><u>1,268</u></u>
LIABILITIES		
Due to other funds	\$	939
Due to component unit		329
Due to other governmental units		0
Due to taxpayer		<u>0</u>
TOTAL LIABILITIES	\$	<u><u>1,268</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 COMPONENT UNITS
 STATEMENT OF NET POSITION
 June 30, 2014

	CASPIAN RECREATION ASSOCIATION	CASPIAN-GAASTRA PUBLIC SAFETY AUTHORITY	TOTAL COMPONENT UNITS
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 6,241	\$ 36,690	\$ 42,931
Receivables - net	1,531	0	1,531
Due from primary government (general fund)	0	353	353
Due from primary government (tax fund)	329	0	329
Due from other governmental units	0	1,349	1,349
Prepaid expenses	545	1,480	2,025
TOTAL CURRENT ASSETS	\$ 8,646	\$ 39,872	\$ 48,518
NON-CURRENT ASSETS			
Property and equipment, net of depreciation	\$ 0	\$ 0	\$ 0
TOTAL ASSETS	\$ 8,646	\$ 39,872	\$ 48,518
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 453	\$ 1,531	\$ 1,984
Accrued and other liabilities	0	792	792
Due to primary government	0	0	0
TOTAL CURRENT LIABILITIES	\$ 453	\$ 2,323	\$ 2,776
TOTAL LIABILITIES	\$ 453	\$ 2,323	\$ 2,776
NET POSITION			
Invested in capital assets, net of related debt	\$ 0	\$ 0	\$ 0
Restricted			
K9	0	2,520	2,520
Capital spending	0	16,047	16,047
Unrestricted	8,193	18,982	27,175
TOTAL NET POSITION	\$ 8,193	\$ 37,549	\$ 45,742

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 COMPONENT UNITS
 STATEMENT OF ACTIVITIES
 Year ended June 30, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CASPIAN RECREATION ASSOCIATION	CASPIAN-GAASTRA PUBLIC SAFETY AUTHORITY	TOTAL COMPONENT UNITS
Governmental Activities						
Caspian Recreation Association	\$ 11,058	\$ 0	\$ 0	\$ (11,058)	\$ 0	\$ (11,058)
Caspian-Gaastra Public Safety Authority	56,303	0	57,796	0	1,493	1,493
TOTAL COMPONENT UNITS	\$ 67,361	\$ 0	\$ 57,796	\$ (11,058)	\$ 1,493	\$ (9,565)
GENERAL REVENUES						
Property taxes				\$ 11,941	\$ 0	\$ 11,941
Unrestricted investments earnings				1	17	18
Fines				0	138	138
Contributions				0	2,520	2,520
Sale of supplies/equipment				0	735	735
Other				33	1,510	1,543
TOTAL GENERAL REVENUES AND SPECIAL ITEMS				\$ 11,975	\$ 4,920	\$ 16,895
CHANGE IN NET POSITION						
Net position - beginning				\$ 917	\$ 6,413	\$ 7,330
				7,276	31,136	38,412
NET POSITION - ENDING						
				\$ 8,193	\$ 37,549	\$ 45,742

The Notes to Financial Statements are an integral part of this statement.

NOTES
TO
FINANCIAL
STATEMENTS

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Caspian, Michigan (City) is governed by an elected five member City Council(Council). The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

The financial reporting entity, as required by generally accepted accounting principles, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations referred to generally as component units for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the electoral officials of the primary government are financially accountable.

Educational services are provided to citizens through the local school district, which is a separate governmental entity.

DISCRETELY PRESENTED COMPONENT UNITS

The following component units are reported within the "component units" column in the government wide financial statements. The discretely presented component units are entities that are legally separate from the City of Caspian, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Caspian Recreation Association

The Caspian Recreation Association is governed by a board of trustees appointed by the City Council. Its purpose is to provide recreational opportunities for the citizens of the City of Caspian by operating and maintaining a recreational center and surrounding property located in the City. The citizens of the City of Caspian have approved a 1.0000 mill levy on property located within the City. The levy of one mill was renewed in 2010 and resulted in revenues during the fiscal year of \$11,941. Separate financial statements are not prepared and as such are included as part of this report.

Caspian-Gaastra Public Safety Authority

In January, 2010, the Cities of Caspian and Gaastra voted to form the Caspian-Gaastra Public Safety Authority. The Authority is governed by a Board with membership appointed by the City Council's of the participating cities. The Authority was formed to provide police services to the citizens of both communities. Funding for the Authority is based on the most recent census population data. As a result, Caspian is funding 75% of the Authority and Gaastra is funding the remaining 25%.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

During the year the City of Caspian contributed \$27,813 from its General Fund, \$12,000 from its Tax Incremental Financing Fund and \$1,800 from its Water Fund.

The agreement calls for the City of Caspian to be the fiscal agent for the Authority. Separate financial statements are not prepared and as such are included as part of this report.

Jointly Governed Organizations

Caspian-Gaastra Fire Authority

The Cities of Caspian and Gaastra participate jointly in the operation of the Caspian-Gaastra Fire Authority. Each city appoints two board members to the fire authority's governing board with the governing board appointing a fifth member. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the City of Gaastra offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Fire Authority for the audit period was \$22,299 from its General Fund for operations and \$17,762 from its Tax Incremental Financing Fund for debt retirement.

West Iron County Sewage Authority

The City is one of three municipalities participating jointly in the Sewage Authority. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the Sewage Authority Offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Sewage Authority for the audit period was \$147,636.

Basis of presentation

Government-Wide Financial Statements

The government-wide statements (i.e., Statement of Net Position and the Statement of Activities) report information on all of the activities of the City except for the fiduciary activities. All of the City's activities are considered to be governmental activities or business type activities. For the most part, the effect of governmental interfund activity has been eliminated from these statements.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Based Financial Statements

Separate financial statements are provided for on the basis of funds, each of which is considered a separate physical and accounting entity. The operations of each fund are accounted for, with a separate set of self balancing accounts that comprise of assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenue and expenditures/expenses. Resources are allocated to an 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. Governmental, business type activities, as well as fiduciary funds are provided. The various fund types are grouped in the financial statements as major or nonmajor funds. The City reports the following major government funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The City reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

The City reports the following non-major governmental funds:

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Local Streets.

The Tax Incremental Financing Fund accounts for the taxes collected that are restricted for use in the Tax Incremental Financing District and the payment of obligated loans.

Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenue, expenses and gains and losses using economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Based Financial Statements

Government fund types in agency funds use the modified accrual basis of accounting and the flow of expendable financial resources as their measurement focus. Under the modified accrual basis of accounting, revenues are recorded when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Revenues are available when they are collectible during the period and actual collection will occur either during the current period or after the end of the period but in time to pay fund liabilities. The City considers revenues to be available if they are expected to be collected within 60 days of the end of the year. Property tax revenues are recognized as revenue when they are levied with a proper allowance made for estimated uncollectible and/or delinquent accounts. Other tax revenues, fees and nontax revenues are recognized when received. Grants, entitlements and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when the conditions of the grants are satisfied. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable resources, except unmatured interest on general long term debt is recorded when due.

Proprietary Financial Statements

Proprietary fund types use the accrual basis of accounting and the flow of all economic resources as their measurement focus. The basis of accounting and measurement focus emphasizes the measurement of net income similar to approach used by commercial enterprises. Revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the City applies all GASB pronouncements and FASB statements and interpretations, APB opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Granting of Credit

The City grants credit to the State of Michigan and various local units of government. The City also extends credit to its enterprise fund customers.

Financial Statement Presentation

Cash and Cash Equivalents - Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested into various interest-bearing securities on a short-term basis.

Receivables - All receivables are reported at the gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due to and Due from Other Funds - Interfund receivables and payables arise from interfund transactions that are recorded by all funds affected in the period in which transactions are executed. At the end of the fiscal year, all interfund activities had been satisfied except an amount due to the General Fund from the Tax Collection Fund, an amount due to the Caspian Recreation Association from the Tax Collection Fund and an amount due from the General Fund to the Public Safety Authority.

Inventory - Inventory value in each fund is considered a material to that fund and, as such, are not recorded as an asset on the financial statements.

Restricted Assets - Money that is restricted for a designated purpose (i.e. construction, capital improvements, debt service) are segregated from operational cash accounts due to their restriction. In addition, some bonds contain covenants that require the City to establish and maintain prescribed amounts of resources for making system improvements or future bond payments.

Capital Assets - Capital assets, which include property, plant and equipment are reported in the applicable governmental or 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 \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City has elected not to report its infrastructure assets which is in compliance with Governmental Accounting Standards Board Statement Number 34 as the Township is a “tier three” entity. All future infrastructure asset additions will be recorded and reported in the government wide financial statements.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences (Vacation, Personal and Sick) - It is the City's policy to permit employees to accumulate earned but unused vacation benefits. The City does not have a determinable liability for unpaid accumulated sick leave since the city has a policy only to pay a portion of the accumulated sick benefits to employees upon retirement.

Long-Term Debt - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. In the applicable governmental activities, proceeds from any noncurrent liabilities and payments on those liabilities are recorded as other financing sources and debt services expenditures, respectively.

Property Tax Revenues - Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Allowances are made for estimated uncollectible accounts and delinquent accounts. Property taxes attach as an enforceable lien on property in December of each year.

In addition to its own taxes, the City collects taxes for the State of Michigan, Iron County, the local school district and intermediate school district.

The City actually assessed 19.5377 mills for General Fund operations and 1.0000 mill for operating the Caspian Recreation Association. The millage generated net tax collections of \$237,656 in the General Fund and \$11,941 in the Caspian Recreation Association component unit. In addition, the City captured property taxes in its Tax Incremental Financing Fund of \$60,561 for use in Downtown Development. Further, the City has tax sharing agreements with Iron County for road improvements and Downtown Development with the County of Iron.

Delinquent real property taxes of the City are purchased annually by Iron County except for delinquent utilities which are collected by Iron County and remitted monthly upon collection.

Investment in Capital Assets, Net of Related Debt - The portion of net position of the City that consists of capital assets, net of accumulated depreciation and reduced by liabilities attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position - Net position are restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Position - Net position not meeting either category above are considered unrestricted.

Fund Balance Policies - Fund balance measures the net financial resources available to finance expenditures of future periods. Fund balance is the difference between assets and the deferred outflows of resources and liabilities and deferred inflows of resources reported in a governmental fund. The City's unassigned general fund balance will be maintained to provide the City with sufficient working capital and a safety of margin to address local emergency's without unnecessary borrowing. The unassigned general fund balance may only be appropriated by resolution of the Council. It is recognized that it will not always be possible to avoid borrowing to provide cash flow.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonspendable Fund Balances include amounts that are not in an expendable form. The City reports prepaid expenses as Nonspendable Fund Balance.

Restricted Fund Balances are those that can be spent only for specific purposes stipulated by external resource providers or statute.

Fund balances of the City may be committed for a specific source by formal action of the Council. Amendments or modifications to the Committed Fund Balance must also be approved by formal action of the Council. Committed Fund Balance does not lapse at year-end.

The Council can delegate authority to assign fund balance for a specific purpose to the City Manager. Assigned Fund Balance does not lapse at year-end.

Unassigned Fund Balance is the residual fund balance not falling into one of the above listed categories.

For purposes of fund balance classification, expenditures are to be spent from Restricted Fund Balance first (when appropriate), followed in order by Committed Fund Balance, Assigned Fund Balance and lastly, Unassigned Fund Balance.

Budget

Formal budgetary accounting is employed as a management control for all funds of the City. The budgetary financial statements included in this report do not include the proprietary funds of the city. For the funds required to adopt a budget, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles.

The City follows these procedures in establishing data reflected in the financial statements:

1. The city manager submits to the City Council, a recommended operating budget for the fiscal year commencing July 1. The proposed budget includes expenditures and the means of financing them.
2. Public hearing is held to obtain taxpayers comments.
3. The budget is legally enacted by City Council adoption authorizing a General Appropriation Act for the fiscal year.
4. Any revisions to budgeted amounts are approved by the City Council.
5. Budgeted amounts are as originally adopted, plus amendments made on or before June 30 by the City Council.
6. The budget expires on June 30 of the budget year.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from those estimates.

Subsequent Events - Events occurring after the end of the fiscal year up to the date of this report with no items occurring that require reporting under accounting principles generally accepted in the United States of America.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Public Act 275 of 1980

The City did not have any funds with a net position deficiency or fund balance deficit at June 30, 2014.

Public Act 621 of 1978

Public act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. In the body of financial statements, the City's actual expenditures and appropriations have been shown on a functional basis. The approved budgets for the City for the budgetary funds were adopted on the functional level.

During the year ended June 30, 2014, the City incurred expenditures in some of the governmental funds that exceeded the appropriated amounts. These variances can be found on pages 39 through 42 of this report.

Bond Covenants

The schedule showing bond covenants can be found on page 60 of this report. The City is in compliance with the financial bond covenants required under the ordinance.

NOTE C - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; bond securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of

CITY OF CASPIAN
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE C - DEPOSITS AND INVESTMENTS (CONTINUED)

Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City has designated three banks and one investment organization for the deposit of City funds. The investments policy adopted by the board in accordance with Public Act 196 of 1997, as amended, had authorized investment in bonds and securities of the United States government and its agencies and bank time deposit accounts but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the Local Unit's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash & Cash Equivalents	\$ 683,176	\$ 298,148	\$ 1,250	\$ 982,574	\$ 42,931
Restricted Assets	0	122,905	0	122,905	0
Total	<u>\$ 683,176</u>	<u>\$ 421,053</u>	<u>\$ 1,250</u>	<u>\$ 1,105,479</u>	<u>\$ 42,931</u>

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The primary government bank balance is \$1,105,479 of which \$559,966 is covered by federal depository insurance and the entire component unit cash balance is covered by federal depository insurance.

NOTE D - INTERFUND TRANSFERS

The following interfund transfers were recorded during the year and are reflected in the financial statements.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Major Streets	General	\$ 53,500
Local Streets	General	8,700

The transfers were required by Michigan statutes that (1) allow only 10% of Michigan Transportation Funds to be expended for administrative purposes and that (2) no funds have a deficit fund balance. These transfers put the City in compliance with those statutes.

CITY OF CASPIAN
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE E - INTERFUND RECEIVABLES AND PAYABLES

The June 30, 2014 balances of interfund receivables and payables are as follows:

<u>Due From</u>	<u>Due to</u>	<u>Amount</u>
General	Tax	\$ 939
Public Safety Authority	General	353
Caspian Recreation Association	Tax	329

NOTE F - CHANGES IN CAPITAL ASSETS

Capital asset activity for the City for the year ended June 30, 2014 was as follows:

	Beginning	Additions	Disposals	Ending
Governmental Funds				
Assets not depreciated				
Land	\$ 18,000	\$ 0	\$ 0	\$ 18,000
Assets being depreciated				
Buildings	187,955	0	0	187,955
Equipment	<u>759,932</u>	<u>0</u>	<u>0</u>	<u>759,932</u>
Total at historic cost	\$ 965,887	\$ 0	\$ 0	\$ 965,887
Less accumulated depreciation for:				
Buildings	\$ 46,218	\$ 6,244	\$ 0	\$ 52,462
Equipment	<u>339,489</u>	<u>55,456</u>	<u>0</u>	<u>394,945</u>
Total accumulated depreciation	\$ <u>385,707</u>	\$ <u>61,700</u>	\$ <u>0</u>	\$ <u>447,407</u>
Governmental Funds-Capital Assets	\$ <u>580,180</u>	\$ <u>(61,700)</u>	\$ <u>0</u>	\$ <u>518,480</u>
	Beginning	Additions	Disposals	Ending
Business Type Funds				
Assets being depreciated				
Water utility system	\$ 3,507,890	\$ 0	\$ 0	\$ 3,507,890
Sewer utility system	<u>4,382,703</u>	<u>0</u>	<u>0</u>	<u>4,382,703</u>
Total at historic cost	\$ 7,890,593	\$ 0	\$ 0	\$ 7,890,593
Less accumulated depreciation for:				
Water utility system	\$ 1,390,361	\$ 89,146	\$ 0	\$ 1,479,507
Sewer utility system	<u>107,866</u>	<u>59,376</u>	<u>0</u>	<u>167,242</u>
Total accumulated depreciation	\$ <u>1,498,227</u>	\$ <u>148,522</u>	\$ <u>0</u>	\$ <u>1,646,749</u>
Business Type Funds-Capital Assets	\$ <u>6,392,366</u>	\$ <u>(148,522)</u>	\$ <u>0</u>	\$ <u>6,243,844</u>

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE F - CHANGES IN CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the City as follows:

Governmental Activities		
General Government	\$	11,186
Public Safety		11,659
Public Works		27,677
Recreation		<u>11,178</u>
Total Governmental Activities	<u>\$</u>	<u>61,700</u>
Business-Type Activities		
Water utility system	\$	89,146
Sewer utility system		<u>59,376</u>
Total Business Type Activities	<u>\$</u>	<u>148,522</u>

The Public Safety Authority has only one recorded equipment item and it is fully depreciated.

NOTE G - GENERAL LONG TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquisition or constructed assets to pay the associated debt service.

2011 Fire Hall Bond

During a prior fiscal year, the Caspian-Gaastra Fire Authority refinanced the bonds that are servicing the debt on the fire hall. The City's portion of the debt is 73.3% of the total based on population when the debt originated. The refinancing carries an interest rate of 4.219% and has a term of 57 months expiring in March of 2016. The City's monthly payment is \$1,480.15 and is being paid through tax collections by the Tax Incremental Financing Fund.

The cumulative debt service schedule is below:

Payable Fiscal Year	Monthly Payments		Total
	Interest	Principal	
2014-2015	\$ 952	\$ 16,809	\$ 17,762
2015-2016	<u>235</u>	<u>13,086</u>	<u>13,321</u>
TOTALS	<u>\$ 1,187</u>	<u>\$ 29,895</u>	<u>\$ 31,083</u>

CITY OF CASPIAN
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE G - GENERAL LONG TERM DEBT (CONTINUED)

Summary of General Long Term Debt

	<u>Beginning</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending</u>	<u>Current Part</u>
Fire Hall Bond	\$ <u>46,002</u>	\$ <u>0</u>	\$ <u>16,107</u>	\$ <u>29,895</u>	\$ <u>16,809</u>

NOTE H - PROPRIETARY FUNDS LONG TERM DEBT

1996 Water Utility System Revenue Bond

A Water System Revenue Bond was issued in 1996 and is secured by the revenue of the Water Utility System. The bond requires annual principal payments as scheduled below and bears interest at the rate of 4.5% per annum. Interest is payable semiannually on August 1 and February 1 of each year.

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

The cumulative debt service schedule is below:

<u>Fiscal Year</u>	<u>August 1</u>		<u>February 1</u>		<u>Total</u>
	<u>Interest</u>	<u>Interest</u>	<u>Principal</u>		
2014-2015	\$ 18,990	\$ 18,990	\$ 26,000	\$ 63,980	
2015-2016	18,405	18,405	26,000	62,810	
2016-2017	17,820	17,820	28,000	63,640	
2017-2018	17,190	17,190	28,000	62,380	
2018-2019	16,560	16,560	30,000	63,120	
2019-2024	72,360	72,360	162,000	306,720	
2024-2029	52,830	52,830	197,000	302,660	
2029-2034	28,013	28,012	275,000	331,025	
2034-2035	<u>1,620</u>	<u>1,620</u>	<u>72,000</u>	<u>75,240</u>	
TOTALS	\$ 243,788	\$ 243,787	\$ 844,000	\$ 1,331,575	

The bond ordinance requires that the City fund specific accounts designated for bond interest and redemption payments and a bond redemption reserve.

2011 Sewer Utility System Revenue Bond

In conjunction with a Rural Development Grant, the City issued a Sewer System Revenue Bond on July 22, 2011 for \$1,000,000. The Bond is secured by the revenue of the Sewer Utility System. The bond requires annual principal payments as scheduled below and bears interest at the rate of 2.5% per annum. Interest is payable semiannually on July 1 and January 1 of each year.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE H - PROPRIETARY FUNDS LONG TERM DEBT (CONTINUED)

2011 Sewer Utility System Revenue Bond (Continued)

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

The cumulative debt service schedule is below:

Payable Fiscal Year	July 1		January 1		Total
	Interest	Principal	Interest		
2014-2015	\$ 12,125	\$ 16,000	\$ 11,925	\$ 40,050	
2015-2016	11,925	16,000	11,725	39,650	
2016-2017	11,725	16,000	11,525	39,250	
2017-2018	11,525	17,000	11,313	39,838	
2018-2019	11,312	17,000	11,100	39,412	
2019-2024	53,212	93,000	52,050	198,262	
2024-2029	47,150	104,000	45,850	197,000	
2029-2034	40,275	119,000	38,788	198,063	
2034-2039	32,450	135,000	30,762	198,212	
2039-2044	23,600	152,000	21,700	197,300	
2044-2049	13,600	172,000	11,450	197,050	
2049-2052	2,838	113,000	1,425	117,263	
TOTALS	\$ 271,737	\$ 970,000	\$ 259,613	\$ 1,501,350	

Summary of Proprietary Long Term Debt

	Beginning	New Debt	Payments	Ending	Current Part
1996 Water Bond	\$ 868,000	\$ 0	\$ 24,000	\$ 844,000	\$ 26,000
2011 Sewer Bond	985,000	0	15,000	970,000	16,000
TOTALS	\$ 1,853,000	\$ 0	\$ 39,000	\$ 1,814,000	\$ 42,000

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE I - ACCUMULATED VACATION, COMPENSATORY AND SICK PAY

Sick days can accumulate to a maximum of 100 days and are paid out at one half of the accumulated balance if the employee retires. If the employee terminates his/her employment for any reason other than retirement, all accumulated sick time is forfeited. As of June 30, 2014, the accumulated sick leave liability approximates \$47,015. Annual leave can accumulate to a maximum of 25 days and may exceed this amount with City Council approval. Upon termination, a cash payout of the accumulated days at the employee's present hourly rate occurs. As of June 30, 2014, the estimated liability for unused vacation and personal leave is \$ 10,734.

NOTE J - PENSION PLAN

Plan Description

The City's defined-benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Plan is affiliated with the Municipal Employees Retirement System of Michigan (MERS), and agent multiple-employer public employee pension plan. MERS acts as the administrator of the plan. Act No. 427 of the Public Acts of 1984, as amended, and the Constitution of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. The December 31, 2014 actuarial valuation of the plan has been prepared by representatives of MERS.

Funding Policy

Plan members are not required to contribute to the retirement plan. The City is required to contribute at an actuarially determined rate. The rate for the year beginning July 1, 2014, is 24.74% of the valuation payroll. The rate for the year beginning July 1, 2015, is 25.11% of valuation payroll.

Benefit Summary

All full-time City employees and officers are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service. The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits are 2.50% of final average compensation for their last five years of employment multiplied by their years of credited service.

Annual Pension Cost

For the year ended June 30, 2014, the city's annual pension cost of \$42,241 exceeded the City's required annual contributions. The required contribution was determined as part of the December 31, 2012, actuarial valuation using the entry age normal funding method. Significant actuarial assumptions used were: (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of

CITY OF CASPIAN
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE J - PENSION PLAN (CONTINUED)

Annual Pension Cost (Continued)

4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 8.5% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.0% annually for beneficiaries. The actuarial value of Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a ten-year period. The Plans underfunded actuarial accrued liability is being amortized by the level percent of payroll contributions using a 25 year amortization.

GASB 25 INFORMATION (as of 12/31/13)

Actuarial Accrued Liability:	
Retiree and beneficiaries currently receiving benefits	\$ 532,128
Terminated employees not yet receiving benefits	39,824
Non-vested terminated employees	0
Current employees:	
Accumulated employee contributions including allocated investment income	0
Employer financed	<u>545,880</u>
Total Actuarial Liability	\$ 1,117,832
Net assets available for benefits, at actuarial value (Market Value is \$628,127)	666,970
Unfunded (overfunded) actuarial accrued liability	<u><u>\$ 450,862</u></u>

GASB 27 INFORMATION (as of 12/31/13)

Fiscal year beginning	July 1, 2015
Annual required contributions (ARC)	\$ 42,924
Amortization factor used	0.085453

Funding Progress

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2011	\$ 29,964	100%	\$ 0
December 31, 2012	33,674	100%	0
December 31, 2013	38,968	100%	0

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE J- PENSION PLAN (CONTINUED)

Funding Progress (Continued)

REQUIRED SUPPLEMENTAL INFORMATION

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability(AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Dec 31, 2011	\$ 652,460	\$ 1,065,642	\$ 413,182	61.2%	\$ 158,268	261%
Dec 31, 2012	651,025	1,072,726	421,701	60.7%	163,062	259%
Dec 31, 2013	666,970	1,117,832	450,862	59.7%	170,952	264%

NOTE K- NEW ACCOUNTING STANDARDS

For the year ended June 30, 2014, the City implemented the following new pronouncements:

GASB Statement 62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989, when it does not conflict or contradict GASB pronouncements.

GASB Statement 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, defined as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively.

The statement also identifies net position as the residual of all other elements presented in a Statement of Financial Position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Managements Discussion and Analysis - for State and Local Governments* and other pronouncements by incorporating deferred overflows resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65 - Items previously reported as Assets and Liabilities. This Statement requires that bond issuance costs be expensed in the year in which they are incurred. The adoption of this Statement did not affect the current year financial statements.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE L - UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012, and will be effective for the City's 2014-2015 fiscal year. The Statement requires governments that participated defined-benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefits payable to employees based on their past service) and the assets (mostly investments reported fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 will improve the comparability inconsistency of how governments calculate the pension liabilities and expense.

NOTE M - 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. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF CASPIAN
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 Year ended June 30, 2014

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>	<u>BUDGET</u>	<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 582,130	\$ 582,130	\$ 582,130	\$ 0
Resources (Inflows)				
Property taxes	192,698	192,698	237,656	44,958
State shared revenues and grants - operating	104,700	104,700	108,844	4,144
Licenses and permits	150	150	275	125
Charges for services	78,750	78,750	84,328	5,578
Interest and rentals	92,685	92,685	111,819	19,134
Reimbursements	944	944	793	(151)
Sale of property	0	0	0	0
Other	<u>18,000</u>	<u>18,000</u>	<u>2,553</u>	<u>(15,447)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 1,070,057	\$ 1,070,057	\$ 1,128,398	\$ 58,341
Charges to Appropriations (Outflows)				
General Government				
City council	\$ 995	\$ 995	\$ 958	\$ 37
City manager	47,700	47,700	56,410	(8,710)
Treasurer	34,500	34,500	39,390	(4,890)
Tax administration	13,250	13,250	13,385	(135)
Clerk	2,650	2,650	1,092	1,558
Elections	4,170	4,170	2,698	1,472
Counsel	14,000	14,000	17,169	(3,169)
Audit	7,000	7,000	3,994	3,006
Buildings and grounds	19,450	19,450	27,349	(7,899)
Cemetery	7,248	7,248	7,248	0
Public Safety				
Police	37,350	37,350	27,813	9,537
Fire	22,300	22,300	22,299	1
Public Works				
General	79,550	79,550	79,479	71
Alleys	300	300	1,135	(835)
Street lighting	25,300	25,300	25,309	(9)
Refuse collection and disposal	68,400	68,400	66,422	1,978
Recreation				
Parks and other	26,850	26,850	26,809	41
Employee benefits	0	0	0	0
Insurance				
General	14,611	14,611	9,570	5,041
Capital outlay	0	0	0	0
Transfers to other funds	<u>44,070</u>	<u>44,070</u>	<u>62,200</u>	<u>(18,130)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>469,694</u>	\$ <u>469,694</u>	\$ <u>490,729</u>	\$ <u>(21,035)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>600,363</u>	\$ <u>600,363</u>	\$ <u>637,669</u>	\$ <u>37,306</u>

CITY OF CASPIAN
 BUDGETARY COMPARISON SCHEDULE
 MAJOR STREET FUND
 Year ended June 30, 2014

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 26,482	\$ 26,482	\$ 26,482	\$ 0
Resources (Inflows)				
State shared revenues and grants	98,400	98,400	99,127	727
Contribution from other governmental unit	3,200	3,200	7,904	4,704
Interest earned	0	0	72	72
Transfer from other funds	<u>0</u>	<u>0</u>	<u>53,500</u>	<u>53,500</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 128,082	\$ 128,082	\$ 187,085	\$ 59,003
Charges to Appropriations (Outflows)				
Public Works				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Routine maintenance	12,800	12,800	93,664	(80,864)
Street sweeping	2,600	2,600	3,494	(894)
Trees and shrubs	300	300	6,866	(6,566)
Traffic services	450	450	1,448	(998)
Winter maintenance	64,500	64,500	67,131	(2,631)
Administration	<u>10,800</u>	<u>10,800</u>	<u>13,444</u>	<u>(2,644)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>91,450</u>	\$ <u>91,450</u>	\$ <u>186,047</u>	\$ <u>(94,597)</u>
BUDGETARY FUND BALANCE--ENDING	<u>\$ 36,632</u>	<u>\$ 36,632</u>	<u>\$ 1,038</u>	<u>\$ (35,594)</u>

CITY OF CASPIAN
 BUDGETARY COMPARISON SCHEDULE
 LOCAL STREET FUND
 Year ended June 30, 2014

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 35,474	\$ 35,474	\$ 35,474	\$ 0
Resources (Inflows)				
State shared revenues and grants	38,200	38,200	44,099	5,899
Contribution from other governmental unit	1,720	1,720	4,569	2,849
Interest earned	0	0	66	66
Transfer from other funds	<u>0</u>	<u>0</u>	<u>8,700</u>	<u>8,700</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 75,394	\$ 75,394	\$ 92,908	\$ 17,514
Charges to Appropriations (Outflows)				
Public Works				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Routine maintenance	6,000	6,000	9,798	(3,798)
Street sweeping	250	250	1,482	(1,232)
Trees and shrubs	200	200	2,784	(2,584)
Traffic services	550	550	603	(53)
Winter maintenance	27,300	27,300	42,952	(15,652)
Administration	<u>10,826</u>	<u>10,826</u>	<u>12,838</u>	<u>(2,012)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>45,126</u>	\$ <u>45,126</u>	\$ <u>70,457</u>	\$ <u>(25,331)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>30,268</u></u>	\$ <u><u>30,268</u></u>	\$ <u><u>22,451</u></u>	\$ <u><u>(7,817)</u></u>

CITY OF CASPIAN
 BUDGETARY COMPARISON SCHEDULE
 TAX INCREMENTING FINANCING FUND
 Year ended June 30, 2014

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 13,547	\$ 13,547	\$ 13,547	\$ 0
Resources (Inflows)				
Property taxes	59,000	59,000	60,561	1,561
Contribution from other governmental unit	10,000	10,000	10,000	0
Interest earned	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 82,547	\$ 82,547	\$ 84,108	\$ 1,561
Charges to Appropriations (Outflows)				
Public Works				
General government				
Administration	\$ 11,600	\$ 11,600	\$ 9,332	\$ 2,268
Buildings and grounds	5,085	5,085	0	5,085
Public safety	12,000	12,000	12,000	0
Parks and recreation	1,000	1,000	1,000	0
Community development	4,155	4,155	11,157	(7,002)
Debt service	17,762	17,762	17,762	0
Capital outlay	<u>16,300</u>	<u>16,300</u>	<u>0</u>	<u>16,300</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>67,902</u>	\$ <u>67,902</u>	\$ <u>51,251</u>	\$ <u>16,651</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>14,645</u>	\$ <u>14,645</u>	\$ <u>32,857</u>	\$ <u>18,212</u>

ADDITIONAL
INFORMATION

CITY OF CASPIAN
 COMBINING NON-MAJOR GOVERNMENTAL FUNDS
 BALANCE SHEET
 June 30, 2014

	<u>LOCAL STREET FUND</u>	<u>TAX INCREMENTAL FINANCING FUND</u>	<u>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</u>
ASSETS			
Cash and equivalents	\$ 17,570	\$ 33,117	\$ 50,687
Due from other governmental units	5,204	0	5,204
Prepaid expenses	<u>854</u>	<u>0</u>	<u>854</u>
TOTAL ASSETS	\$ <u>23,628</u>	\$ <u>33,117</u>	\$ <u>56,745</u>
LIABILITIES			
Accounts payable	\$ 900	\$ 260	\$ 1,160
Accrued payroll	<u>277</u>	<u>0</u>	<u>277</u>
TOTAL LIABILITIES	\$ 1,177	\$ 260	\$ 1,437
FUND BALANCES			
Nonspendable	\$ 854	\$ 0	\$ 854
Unassigned	<u>21,597</u>	<u>32,857</u>	<u>54,454</u>
TOTAL FUND EQUITY	\$ <u>22,451</u>	\$ <u>32,857</u>	\$ <u>55,308</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>23,628</u>	\$ <u>33,117</u>	\$ <u>56,745</u>

CITY OF CASPIAN
 COMBINING NON-MAJOR GOVERNMENTAL FUNDS STATEMENT OF
 REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
 Year ended June 30, 2014

	<u>LOCAL STREET FUND</u>	<u>TAX INCREMENTAL FINANCING FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES			
Property taxes	\$ 0	\$ 60,561	\$ 60,561
State shared revenues and grants - operating	44,099	0	44,099
Contribution from other governmental unit	4,569	10,000	14,569
Interest and rentals	66	0	66
Other	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL REVENUES	\$ 48,734	\$ 70,561	\$ 119,295
EXPENDITURES			
Current			
General government	\$ 12,838	\$ 9,332	\$ 22,170
Public safety	0	12,000	12,000
Public works	57,619	0	57,619
Recreation	0	1,000	1,000
Community development	0	11,157	11,157
Capital outlay	0	0	0
Debt service	<u>0</u>	<u>17,762</u>	<u>17,762</u>
TOTAL EXPENDITURES	\$ 70,457	\$ 51,251	\$ 121,708
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (21,723)	\$ 19,310	\$ (2,413)
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 8,700	\$ 0	\$ 8,700
Transfers (out)	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ 8,700	\$ 0	\$ 8,700
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (13,023)	\$ 19,310	\$ 6,287
Fund balance - beginning	<u>35,474</u>	<u>13,547</u>	<u>49,021</u>
FUND BALANCE - ENDING	<u>\$ 22,451</u>	<u>\$ 32,857</u>	<u>\$ 55,308</u>

CITY OF CASPIAN
CASPIAN RECREATION ASSOCIATION
BALANCE SHEET
June 30, 2014

ASSETS

Cash and equivalents	\$	6,241
Taxes receivable		1,531
Due from primary government (tax)		329
Prepaid expenses		<u>545</u>
TOTAL ASSETS		\$ <u><u>8,646</u></u>

LIABILITIES

Accounts payable	\$	453
Due to primary government		<u>0</u>
TOTAL LIABILITIES		\$ 453

FUND BALANCES

FUND EQUITY		
Nonspendable	\$	545
Unassigned		<u>7,648</u>
TOTAL FUND EQUITY		\$ <u>8,193</u>
TOTAL LIABILITIES AND FUND EQUITY		\$ <u><u>8,646</u></u>

CITY OF CASPIAN
CASPIAN RECREATION ASSOCIATION
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balance - total governmental funds	\$	8,193
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		0
Long term liabilities:		
Accumulated employee vacation and personal pay not used in current period		<u>0</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u><u>8,193</u></u>

CITY OF CASPIAN
 CASPIAN RECREATION ASSOCIATION
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
 Year ended June 30, 2014

REVENUES

Property taxes	\$	11,472
Payment in lieu of taxes		469
Interest		1
Other		<u>33</u>
TOTAL REVENUES		\$ 11,975

EXPENDITURES

Recreation		
Supplies	\$	18
Telephone		516
Insurance		838
Utilities		9,686
Capital outlay		0
Debt service		<u>0</u>
TOTAL EXPENDITURES		\$ <u>11,058</u>

EXCESS OF REVENUES		
OVER (UNDER) EXPENDITURES	\$	917

Fund balance - beginning		<u>7,276</u>
FUND BALANCE - ENDING		\$ <u><u>8,193</u></u>

CITY OF CASPIAN
 CASPIAN RECREATION ASSOCIATION
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2014

Net change in fund balance - total governmental funds	\$	917
Amounts reported for governmental activities in the Statement of Activities are different because:		
Property and equipment:		
Governmental funds report capital outlays as expenditures		0
Depreciation recorded on capital assets		0
Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.		0
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$		917

CITY OF CASPIAN
 CASPIAN-GAASTRA PUBLIC SAFETY AUTHORITY
 BALANCE SHEET
 June 30, 2014

ASSETS

Cash and equivalents	\$	36,690
Due from primary government		353
Due from other governmental units		1,349
Prepaid expenses		<u>1,480</u>
TOTAL ASSETS	\$	<u><u>39,872</u></u>

LIABILITIES

Accounts payable	\$	1,531
Accrued payroll		<u>792</u>
TOTAL LIABILITIES	\$	2,323

FUND BALANCES

FUND EQUITY		
Nonspendable	\$	1,480
Restricted - K9		2,520
Committed		16,047
Unassigned		<u>17,502</u>
TOTAL FUND EQUITY	\$	<u><u>37,549</u></u>
TOTAL LIABILITIES AND FUND EQUITY	\$	<u><u>39,872</u></u>

CITY OF CASPIAN
CASPIAN-GAASTRA PUBLIC SAFETY AUTHORITY
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balance - total governmental funds	\$ 37,549
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	0
Long term liabilities:	
Accumulated employee vacation and personal pay not used in current period	<u>0</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES \$	<u><u>37,549</u></u>

CITY OF CASPIAN
 CASPIAN-GAASTRA PUBLIC SAFETY AUTHORITY
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
 Year ended June 30, 2014

REVENUES

Contribution from primary government	\$	41,613
Contribution from other governmental unit		16,183
Fines		138
Interest		17
Restricted contributions		2,520
Sale of supplies		735
Other		<u>1,510</u>
TOTAL REVENUES \$		62,716

EXPENDITURES

Police		
Salaries and wages	\$	32,427
Employee benefits		2,453
Supplies		10,959
Fuel		2,772
Professional fees		3,551
Telephone		1,292
Insurance		2,137
Other		257
General government - Board		455
Capital outlay		0
Debt service		<u>0</u>
TOTAL EXPENDITURES \$		<u>56,303</u>

EXCESS OF REVENUES
 OVER (UNDER) EXPENDITURES \$ 6,413

Fund balance - beginning		<u>31,136</u>
FUND BALANCE - ENDING \$		<u><u>37,549</u></u>

CITY OF CASPIAN
 CASPIAN-GAASTRA PUBLIC SAFETY AUTHORITY
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2014

Net change in fund balance - total governmental funds	\$	6,413
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Property and equipment:</p>		
Governmental funds report capital outlays as expenditures		0
Depreciation recorded on capital assets		0
<p>Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.</p>		
		<u>0</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$		<u><u>6,413</u></u>

CITY OF CASPIAN
COMPARATIVE STATEMENT OF NET POSITION
WATER SUPPLY SYSTEM FUND
June 30, 2014 and 2013

	ASSETS	<u>2014</u>	<u>2013</u>
Current Assets:			
Cash	\$	56,520	\$ 16,670
Accounts receivable		40,619	40,398
Prepaid expenses		<u>2,383</u>	<u>2,412</u>
	TOTAL CURRENT ASSETS \$	99,522	\$ 59,480
Restricted Assets - bond and interest redemption and bond reserve	\$	78,495	\$ 78,265
Property and Equipment:			
Property and equipment	\$	3,507,890	\$ 3,507,890
Less accumulated depreciation		<u>(1,479,507)</u>	<u>(1,390,361)</u>
	NET PROPERTY AND EQUIPMENT \$	<u>2,028,383</u>	\$ <u>2,117,529</u>
	TOTAL ASSETS \$	2,206,400	\$ 2,255,274
	LIABILITIES		
Current Liabilities:			
Account payable	\$	1,016	\$ 2,060
Accrued payroll		698	514
Accrued interest		15,825	16,275
Current portion of long-term debt		<u>26,000</u>	<u>24,000</u>
	TOTAL CURRENT LIABILITIES \$	43,539	\$ 42,849
Long-Term Debt:			
Revenue bonds	\$	844,000	\$ 868,000
Less current portion included above		<u>(26,000)</u>	<u>(24,000)</u>
	TOTAL LONG-TERM DEBT \$	<u>818,000</u>	\$ <u>844,000</u>
	TOTAL LIABILITIES \$	<u>861,539</u>	\$ <u>886,849</u>
	NET POSITION		
Net investment in capital assets	\$	1,184,383	\$ 1,249,529
Restricted		78,495	78,265
Unrestricted		<u>81,983</u>	<u>40,631</u>
	TOTAL NET POSITION \$	<u><u>1,344,861</u></u>	\$ <u><u>1,368,425</u></u>

CITY OF CASPIAN
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER SUPPLY SYSTEM FUND
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Charges for services:			
Customer sales	\$ 198,072	\$ 193,696	\$ 4,376
Water taps and other services	<u>2,059</u>	<u>2,024</u>	<u>35</u>
TOTAL OPERATING REVENUES	\$ 200,131	\$ 195,720	\$ 4,411
OPERATING EXPENSES			
Wages	\$ 24,171	\$ 29,164	\$ 4,993
Employee benefits	20,395	24,702	4,307
Supplies	6,670	11,912	5,242
Purchased services	17,963	8,577	(9,386)
Equipment rental	9,919	10,621	702
Utilities	16,802	14,939	(1,863)
Other	1,637	2,265	628
Depreciation	<u>89,146</u>	<u>89,146</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ 186,703	\$ 191,326	\$ 4,623
OPERATING INCOME	\$ 13,428	\$ 4,394	\$ 9,034
NON-OPERATING REVENUE (EXPENSE)			
Interest income	\$ 1,618	\$ 1,640	\$ (22)
Interest expense	<u>(38,610)</u>	<u>(39,690)</u>	<u>1,080</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	\$ (36,992)	\$ (38,050)	\$ 1,058
NET INCOME	\$ (23,564)	\$ (33,656)	\$ <u>10,092</u>
Net Position - beginning	<u>1,368,425</u>	<u>1,402,081</u>	
NET POSITION - ENDING	\$ <u>1,344,861</u>	\$ <u>1,368,425</u>	

CITY OF CASPIAN
COMPARATIVE STATEMENT OF CASH FLOWS
WATER SUPPLY SYSTEM FUND
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 199,910	\$ 187,816
Payments to suppliers	(54,006)	(87,814)
Payments to or on behalf of employees	<u>(44,382)</u>	<u>(54,441)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 101,522	\$ 45,561
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt	\$ (24,000)	\$ (24,000)
Interest paid on revenue bonds	(39,060)	(40,140)
Purchases of capital assets	0	(131)
Funding of restricted accounts	<u>(230)</u>	<u>269</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (63,290)	\$ (64,002)
CASH FLOWS FROM INVESTING ACTIVITIES - Interest	\$ 1,618	\$ 1,640
NET INCREASE (DECREASE) IN CASH	\$ 39,850	\$ (16,801)
Cash and equivalents - beginning	<u>16,670</u>	<u>33,471</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>56,520</u>	\$ <u>16,670</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 13,428	\$ 4,394
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	89,146	89,146
Change in Assets and Liabilities		
Receivables - net	(221)	(8,035)
Due from other governmental units	0	131
Prepaid expenses	29	(483)
Accounts payable	(1,044)	(39,017)
Accrued payroll	<u>184</u>	<u>(575)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>101,522</u>	\$ <u>45,561</u>

CITY OF CASPIAN
 COMPARATIVE STATEMENT OF NET POSITION
 SEWER SYSTEM FUND
 June 30, 2014 and 2013

	ASSETS	<u>2014</u>	<u>2013</u>
Current Assets:			
Cash	\$	241,628	\$ 203,037
Accounts receivable		51,135	48,241
Prepaid expenses		<u>1,721</u>	<u>1,780</u>
	TOTAL CURRENT ASSETS \$	294,484	\$ 253,058
Restricted Assets:			
Construction	\$	0	\$ 10
Bond interest and redemption		30,337	32,406
Bond reserve		11,319	7,203
Repair, replacement and improvement		<u>2,754</u>	<u>1,751</u>
	TOTAL RESTRICTED ASSETS \$	44,410	\$ 41,370
Property and Equipment:			
Property and equipment	\$	4,382,703	\$ 4,382,703
Less accumulated depreciation		<u>(167,242)</u>	<u>(107,866)</u>
	NET PROPERTY AND EQUIPMENT \$	<u>4,215,461</u>	<u>\$ 4,274,837</u>
	TOTAL ASSETS \$	4,554,355	\$ 4,569,265
LIABILITIES			
Current Liabilities:			
Account payable	\$	12,304	\$ 11,108
Accrued payroll		328	196
Accrued interest		12,125	12,313
Current portion of long-term debt		<u>16,000</u>	<u>15,000</u>
	TOTAL CURRENT LIABILITIES \$	40,757	\$ 38,617
Long-Term Debt:			
Revenue bonds	\$	970,000	\$ 985,000
Less current portion included above		<u>(16,000)</u>	<u>(15,000)</u>
	TOTAL LONG-TERM DEBT \$	<u>954,000</u>	<u>\$ 970,000</u>
	TOTAL LIABILITIES \$	<u>994,757</u>	<u>\$ 1,008,617</u>
NET POSITION			
Net investment in capital assets	\$	3,245,461	\$ 3,289,837
Restricted		44,410	41,370
Unrestricted		<u>269,727</u>	<u>229,441</u>
	TOTAL NET POSITION \$	<u>3,559,598</u>	<u>\$ 3,560,648</u>

CITY OF CASPIAN
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 SEWER SYSTEM FUND
 Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Charges for services:			
Customer sales	\$ 269,044	\$ 266,043	\$ 3,001
Reimbursements	<u>0</u>	<u>7,737</u>	<u>(7,737)</u>
TOTAL OPERATING REVENUES	\$ 269,044	\$ 273,780	\$ (4,736)
OPERATING EXPENSES			
Wages	\$ 13,448	\$ 21,606	\$ 8,158
Employee benefits	11,372	18,353	6,981
Supplies	1,604	2,225	621
Purchased services	152,370	143,073	(9,297)
Utilities	1,133	0	(1,133)
Equipment rental	5,857	9,767	3,910
Other	716	1,125	409
Depreciation	<u>59,376</u>	<u>59,376</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ 245,876	\$ 255,525	\$ 9,649
OPERATING INCOME	\$ 23,168	\$ 18,255	\$ 4,913
NON-OPERATING REVENUE (EXPENSE)			
Interest income	\$ 32	\$ 17	\$ 15
Federal grant	0	1,171,324	(1,171,324)
Interest expense	<u>(24,250)</u>	<u>(24,625)</u>	<u>375</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	\$ (24,218)	\$ 1,146,716	\$ (1,170,934)
NET INCOME	\$ (1,050)	\$ 1,164,971	\$ <u>(1,166,021)</u>
Net Position - beginning	<u>3,560,648</u>	<u>2,395,677</u>	
NET POSITION - ENDING	\$ <u>3,559,598</u>	\$ <u>3,560,648</u>	

CITY OF CASPIAN
 COMPARATIVE STATEMENT OF CASH FLOWS
 SEWER SYSTEM FUND
 Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 266,150	\$ 267,146
Payments to suppliers	(160,425)	(157,436)
Payments to or on behalf of employees	<u>(24,688)</u>	<u>(40,810)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 81,037	\$ 68,900
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt	\$ (15,000)	\$ (15,000)
Interest paid on revenue bonds	(24,438)	(24,812)
Capital grant proceeds	0	1,849,900
Purchases of capital assets	0	(1,856,930)
Loan from (repaid to) other fund	0	0
Funding of restricted accounts	<u>(3,040)</u>	<u>(11,037)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (42,478)	\$ (57,879)
CASH FLOWS FROM INVESTING ACTIVITIES - Interest	\$ <u>32</u>	\$ <u>17</u>
NET INCREASE (DECREASE) IN CASH	\$ 38,591	\$ 11,038
Cash and equivalents - beginning	<u>203,037</u>	<u>191,999</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>241,628</u></u>	\$ <u><u>203,037</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 23,168	\$ 18,255
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	59,376	59,376
Change in Assets and Liabilities		
Receivables - net	(2,894)	(6,634)
Prepaid expenses	59	(760)
Accounts payable	1,196	(486)
Accrued payroll	<u>132</u>	<u>(851)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>81,037</u></u>	\$ <u><u>68,900</u></u>

CITY OF CASPIAN
BOND ORDINANCE COMPLIANCE
30-Jun-14

WATER FUND:

THE BOND ORDINANCE REQUIRES FUNDING OF THE FOLLOWING ACCOUNTS:

	BEGINNING BALANCE	TRANSFERS IN	INTEREST EARNED	EXPENDITURES	ENDING BALANCE	CUMULATIVE REQUIRED BALANCE	ANNUAL TRANSFER IN REQUIREMENT
BOND INTEREST AND REDEMPTION	16,111.66	62,873.87	69.47	63,060.00	15,995.00	15,995.00	63,290.00
BOND RESERVE	<u>62,500.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>62,500.00</u>	<u>62,500.00</u>	<u>0.00</u>
	<u>78,611.66</u>	<u>62,873.87</u>	<u>69.47</u>	<u>63,060.00</u>	<u>78,495.00</u>	<u>78,495.00</u>	<u>63,290.00</u>

BOND INTEREST AND REDEMPTION IS TO BE FUNDED AT 1/2 OF THE NEXT INTEREST PAYMENT DUE AND 1/4 OF THE NEXT PRINCIPAL PAYMENT DUE
BOND RESERVE IS TO BE FUNDED AT \$1,562.50 PER QUARTER UP TO A MAXIMUM OF \$62,500

FUNDING IS CURRENT AND COMPLIANT WITH THE ORDINANCE

SEWER FUND:

THE BOND ORDINANCE REQUIRES FUNDING OF THE FOLLOWING ACCOUNTS:

	BEGINNING BALANCE	TRANSFERS IN	INTEREST EARNED	EXPENDITURES	ENDING BALANCE	CUMULATIVE REQUIRED BALANCE	ANNUAL TRANSFER IN REQUIREMENT
BOND INTEREST AND REDEMPTION	32,406.25	37,339.04	29.00	39,437.50	30,336.79	18,062.50	25,093.75
BOND RESERVE	<u>7,203.00</u>	<u>4,116.00</u>	<u>0.00</u>	<u>0.00</u>	<u>11,319.00</u>	<u>11,319.00</u>	<u>4,116.00</u>
REPAIR, REPLACEMENT AND IMPROVE	<u>1,751.21</u>	<u>1,000.00</u>	<u>3.16</u>	<u>0.00</u>	<u>2,754.37</u>	<u>2,750.00</u>	<u>1,000.00</u>
	<u>41,360.46</u>	<u>42,455.04</u>	<u>32.16</u>	<u>39,437.50</u>	<u>44,410.16</u>	<u>32,131.50</u>	<u>30,209.75</u>

BOND INTEREST AND REDEMPTION IS TO BE FUNDED AT 1/2 OF THE NEXT INTEREST PAYMENT DUE AND 1/4 OF THE NEXT PRINCIPAL PAYMENT DUE
BOND RESERVE IS TO BE FUNDED AT \$1,029 PER QUARTER UP TO A MAXIMUM OF \$41,160
REPAIR, REPLACE AND IMPROVEMENT IS \$1,279 PER QUARTER LESS BOND RESERVE AMOUNT

FUNDING IS CURRENT AND COMPLIANT WITH THE ORDINANCE

SCOTT R. KENNEY

Certified Public Accountant

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Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

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

The Honorable Mayor and Council
City of Caspian
Caspian, MI 49915

I have audited 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Caspian, Michigan (City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated July 31, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. I do not consider the deficiencies described in the accompanying letter of comments and recommendations to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness but important enough to merit attention by those charged with governance. I do not consider the deficiencies described in the accompanying letter of comments and recommendations to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THE REPORT

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


Certified Public Accountant

July 31, 2014