

City of Gaylord,  
Michigan



Year Ended  
June 30,  
2013

Financial  
Statements

# CITY OF GAYLORD, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT**

December 5, 2013

City Council  
City of Gaylord  
Gaylord, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Gaylord, Michigan* (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Independent Auditors' Responsibility***

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows 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.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Funding Progress and Employer Contributions for the pension and other postemployment benefit plans listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual 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 fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013, on our consideration of the 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* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Johnson LLC". The signature is written in a cursive style with a large, stylized 'R' and 'J'.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF GAYLORD, MICHIGAN

## Management's Discussion and Analysis

As management of the *City of Gaylord, Michigan* (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. 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 assets of the City exceeded its liabilities at the close of the most recent fiscal year by approximately \$26,523,000 (net position). Of this amount, approximately \$1,641,000 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The Major asset acquisition was the annual Street Improvement Project.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic 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 financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions of the 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 legislative, general government, public safety, public works, culture and recreation, and other. The business-type activities include the water and sewer activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate component unit, the Downtown Development Authority, (the "DDA"), for which the City is financially accountable and as such, the DDA is accountable to the City for its activities.

**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, 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 the City's near-term financing requirements.



# CITY OF GAYLORD, MICHIGAN

## Management's Discussion and Analysis

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 City'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.

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 Fund, Municipal Streets Fund, and Major Streets Fund, each of which are considered to be major funds. The remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund, Municipal Streets Special Revenue Fund, and Major Streets Special Revenue Fund. The budget, as adopted, delineates each of the individual funds and specifies a certain amount for each funds budget.

**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 water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs related to the City's equipment internally among the various City functions.

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 water and sewer operations which are considered major enterprise funds of the City.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's 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 concerning the City's pension and other postemployment benefit plans. This information is presented immediately following the notes to the financial statements. The combining fund financial statements referred to earlier in connection with nonmajor governmental funds can be found as supplementary information, as listed in the table of contents.

# CITY OF GAYLORD, MICHIGAN

## Management's Discussion and Analysis

### Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by approximately \$26,523,000 at the close of fiscal year 2013.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 2,351,943	\$ 2,144,150	\$ 1,268,976	\$ 1,167,074	\$ 3,620,919	\$ 3,311,224
Capital assets, net	14,429,938	14,761,038	19,584,145	20,269,566	34,014,083	35,030,604
Total assets	16,781,881	16,905,188	20,853,121	21,436,640	37,635,002	38,341,828
Current and other liabilities	606,478	470,500	274,566	250,853	881,044	721,353
Long-term liabilities	4,862,559	5,210,154	5,368,213	5,825,608	10,230,772	11,035,762
Total liabilities	5,469,037	5,680,654	5,642,779	6,076,461	11,111,816	11,757,115
Net Position:						
Net investment						
in capital assets	9,729,938	9,796,038	14,274,145	14,519,566	24,004,083	24,315,604
Restricted	523,831	315,485	354,319	317,184	878,150	632,669
Unrestricted	1,059,075	1,113,011	581,878	523,429	1,640,953	1,636,440
Total net position	\$ 11,312,844	\$ 11,224,534	\$ 15,210,342	\$ 15,360,179	\$ 26,523,186	\$ 26,584,713

Approximately 91% of the City's net position reflects its net investment in capital assets (e.g., land, buildings, water and sewer systems, equipment and vehicles). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's 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. Net position restricted for debt service, perpetual care and capital improvements represent approximately 3% of total net position. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligation to citizens and creditors.

The City's net position decreased approximately \$62,000 during the current fiscal year.

CITY OF GAYLORD, MICHIGAN

Management's Discussion and Analysis

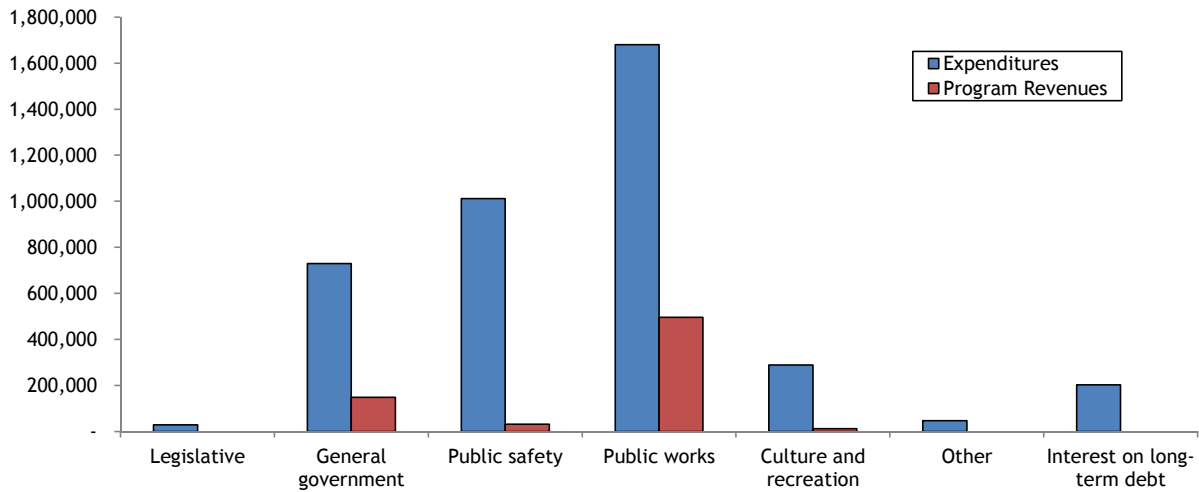
	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 42,260	\$ 49,318	\$ 1,824,459	\$ 1,757,119	\$ 1,866,719	\$ 1,806,437
Operating grants	644,259	545,621	-	-	644,259	545,621
Capital grants	-	12,000	-	-	-	12,000
General revenues:						
Property taxes	3,085,267	2,706,724	423,658	392,304	3,508,925	3,099,028
State shared revenues	294,183	286,910	-	-	294,183	286,910
Miscellaneous revenue	-	-	145	845	145	845
Interest earnings	13,331	22,087	539	-	13,870	22,087
Total revenues	<u>4,079,300</u>	<u>3,622,660</u>	<u>2,248,801</u>	<u>2,150,268</u>	<u>6,328,101</u>	<u>5,772,928</u>
Expenses:						
Legislative	28,901	32,659	-	-	28,901	32,659
General government	729,898	814,484	-	-	729,898	814,484
Public safety	1,011,981	1,220,405	-	-	1,011,981	1,220,405
Public works	1,679,827	1,537,636	-	-	1,679,827	1,537,636
Culture and recreation	288,488	238,137	-	-	288,488	238,137
Other	46,925	9,980	-	-	46,925	9,980
Water	-	-	604,647	596,858	604,647	596,858
Sewer	-	-	1,796,955	1,730,868	1,796,955	1,730,868
Interest on long-term debt	202,006	218,311	-	-	202,006	218,311
Total expenses	<u>3,988,026</u>	<u>4,071,612</u>	<u>2,401,602</u>	<u>2,327,726</u>	<u>6,389,628</u>	<u>6,399,338</u>
Change in net position, before transfers	91,274	(448,952)	(152,801)	(177,458)	(61,527)	(626,410)
Transfers	(2,964)	(120,821)	2,964	120,821	-	-
Change in net position, Net position:	88,310	(569,773)	(149,837)	(56,637)	(61,527)	(626,410)
Beginning of year	11,224,534	11,794,307	15,360,179	15,416,816	26,584,713	27,211,123
End of year	<u>\$ 11,312,844</u>	<u>\$ 11,224,534</u>	<u>\$ 15,210,342</u>	<u>\$ 15,360,179</u>	<u>\$ 26,523,186</u>	<u>\$ 26,584,713</u>

# CITY OF GAYLORD, MICHIGAN

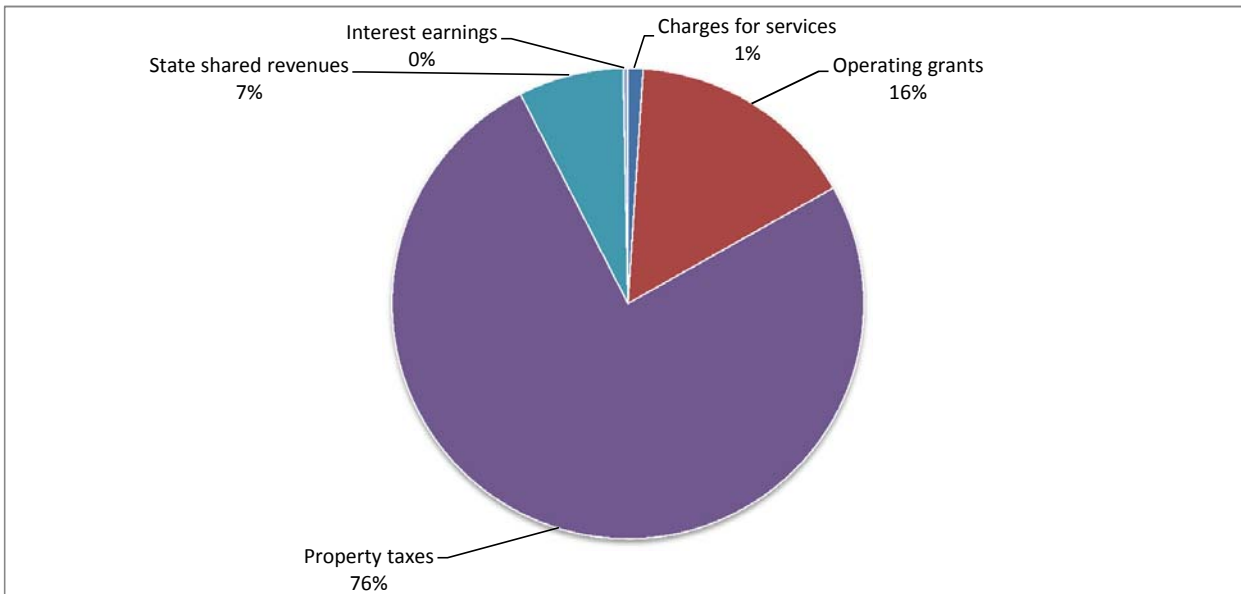
## Management's Discussion and Analysis

Governmental Activities. Governmental activities increased the City's net position by approximately \$88,000. General government expenses decreased approximately \$85,000 which was a result of reduced salary and benefits expenses and the City also purchased land for a park in the prior year. Public safety expenses decreased approximately \$208,000 which was a result of reduced salary and benefits expenses due to retirements within this department. Public works expenses increased approximately \$142,000 which is related to increased maintenance costs during the winter season and the implementation of seasonal curbside recycling. Transfers decreased approximately \$118,000 which is a result of decreased transfers to Business-Type Activities relating to the annual street project's utility infrastructure expense. Property tax revenue increased approximately \$379,000 which is related to a reduction in tax tribunals during the current year.

Expenditures and Program Revenues - Governmental Activities



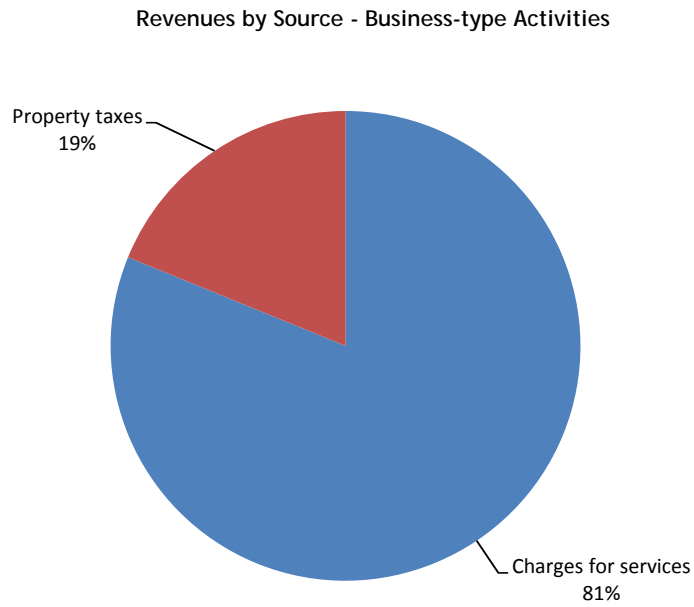
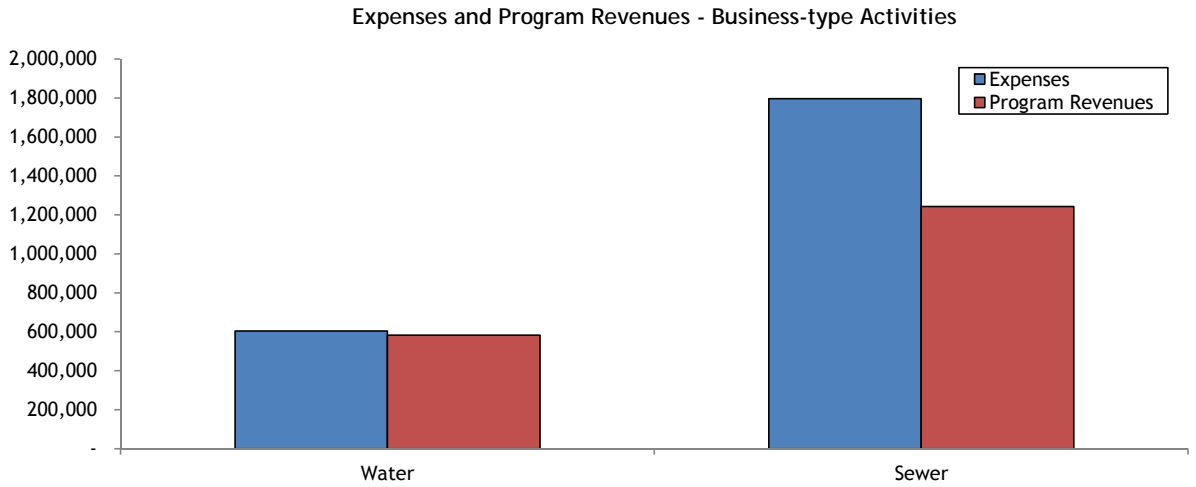
Revenues by Source - Governmental Activities



# CITY OF GAYLORD, MICHIGAN

## Management's Discussion and Analysis

Business-type Activities. Business-type activities decreased the City's net position by approximately \$150,000 which was the result of a reduction in transfers from the Governmental Activities, related to the street improvement project, and expenditures in excess of revenues.



# CITY OF GAYLORD, MICHIGAN

## Management's Discussion and Analysis

### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the City. The General Fund's fund balance increased by approximately \$276,000 from approximately \$123,000 to approximately \$400,000 during 2013. This increase was substantially due to an increase in tax revenue, transfers of funds from debt service funds which were closed during the year, and a reduction in salaries and benefits within the public works function.

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

The Water Fund had an decrease in net position of approximately \$19,000 and the Sewer Fund had a decrease in net position of approximately \$131,000. The decrease in both the Water Fund and Sewer Fund is mainly attributable to increases in depreciation expense.

### General Fund Budgetary Highlights

The actual revenues were approximately \$81,000 above budget which was mainly due to an increase in tax revenue. Expenditures fluctuated from budget between functions mainly related to reassignment of employees to other departments as well as a reduction in the total number of employees; however, total expenditures were under budget by approximately \$81,000.

### Capital Asset and Debt Administration

**Capital Assets.** The City defines a capital asset as an asset with an original cost that exceeds \$5,000 and an estimated useful life greater than one year. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their estimated useful lives.

	Capital Assets (Net of Depreciation, where applicable)					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,231,573	\$ 1,231,573	\$ 414,080	\$ 414,080	\$ 1,645,653	\$ 1,645,653
Construction-in-progress	376,125	34,546	-	-	376,125	34,546
Buildings and improvements	4,521,032	4,657,783	1,063,775	1,106,064	5,584,807	5,763,847
Office furnishings	8,368	9,656	-	-	8,368	9,656
Tools and equipment	61,270	84,568	-	-	61,270	84,568
Vehicles	103,286	134,735	-	-	103,286	134,735
Roads and sidewalks	8,128,284	8,608,177	-	-	8,128,284	8,608,177
Water and sewer system	-	-	18,106,290	18,749,422	18,106,290	18,749,422
<b>Total capital assets, net</b>	<b>\$ 14,429,938</b>	<b>\$ 14,761,038</b>	<b>\$ 19,584,145</b>	<b>\$ 20,269,566</b>	<b>\$ 34,014,083</b>	<b>\$ 35,030,604</b>

Additional information on the City's capital assets can be found in the notes to the financial statements.

**Long-Term Debt.** Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for through a debt service fund or proprietary fund. Debt is classified as long-term if the debt matures in a period greater than one year.

# CITY OF GAYLORD, MICHIGAN

## Management's Discussion and Analysis

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Bonds payable	\$ 4,495,000	\$ 4,745,000	\$ 5,310,000	\$ 5,750,000	\$ 9,805,000	\$ 10,495,000
Installment debt	205,000	220,000	-	-	205,000	220,000
Compensated absences	162,559	245,154	58,213	75,608	220,772	320,762
<b>Total</b>	<b>\$ 4,862,559</b>	<b>\$ 5,210,154</b>	<b>\$ 5,368,213</b>	<b>\$ 5,825,608</b>	<b>\$ 10,230,772</b>	<b>\$ 11,035,762</b>

Additional information on the City's long-term debt can be found in the notes to the financial statements.

### Economic Factors and Next Year's Budget and Rates

The 2014 budget projects the fourth straight year of decreases in taxable property values and increases in tax tribunal settlements. The overall economy of the area factors into the City's revenue projections. Property assessment values continue to be challenged by local property owners. The 2014 budget reflects a special assessment of 0.75 mills on the taxable value of real property to assist in financing essential services (police and fire) in the City. This assessment is expected to generate approximately \$109,000 over the fiscal year. In addition, City Council has authorized an Income Tax Study to further evaluate other revenue sources, which could potentially be used to finance City services and provide tax relief to property owners. In November 2013, the street millage levy of 4.1513 mills was approved by City voters for a term of ten years which will insure the continuation of street improvement and related infrastructure without relying on the General Fund to finance the construction. The City will continue to monitor closely its capital needs, debt service requirements, and upcoming projects as they relate to budget and projected revenue streams. The 2014 budget reflects a freeze in salaries for all employees, reduction in fringe benefit and restriction on nonessential overtime. No new debt issues are planned or being considered.

### 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 City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Joe Duff, City Manager, 305 E. Main Street, Gaylord, Michigan 49735.

## BASIC FINANCIAL STATEMENTS



## GOVERNMENT-WIDE FINANCIAL STATEMENTS

# CITY OF GAYLORD, MICHIGAN

## Statement of Net Position

June 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	
<b>Assets</b>				
Cash and cash equivalents	\$ 796,491	\$ 725,667	\$ 1,522,158	\$ 34,365
Receivables, net	513,361	139,442	652,803	285,275
Internal balances	27,036	(27,036)	-	-
Due from component unit	46,087	76,584	122,671	-
Due from primary government	-	-	-	358
Other assets	528,917	-	528,917	-
Restricted cash	285,543	354,319	639,862	-
Restricted investments	154,508	-	154,508	-
Capital assets not being depreciated	1,607,698	414,080	2,021,778	-
Capital assets being depreciated, net	12,822,240	19,170,065	31,992,305	586,345
<b>Total assets</b>	<b>16,781,881</b>	<b>20,853,121</b>	<b>37,635,002</b>	<b>906,343</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	458,000	274,566	732,566	165,987
Due to component unit	358	-	358	-
Due to primary government	-	-	-	122,671
Long-term liabilities:				
Due within one year	220,000	565,000	785,000	-
Due in more than one year	4,642,559	4,803,213	9,445,772	-
Net other postemployment benefit obligation	148,120	-	148,120	-
<b>Total liabilities</b>	<b>5,469,037</b>	<b>5,642,779</b>	<b>11,111,816</b>	<b>288,658</b>
<b>Net position</b>				
Net investment in capital assets	9,729,938	14,274,145	24,004,083	586,345
Restricted for:				
Highways and streets	237,938	-	237,938	-
Capital improvements	-	354,319	354,319	-
Nonexpendable perpetual care	285,893	-	285,893	-
Unrestricted	1,059,075	581,878	1,640,953	31,340
<b>Total net position</b>	<b>\$ 11,312,844</b>	<b>\$ 15,210,342</b>	<b>\$ 26,523,186</b>	<b>\$ 617,685</b>

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

CITY OF GAYLORD, MICHIGAN

**Statement of Activities**  
For the Year Ended June 30, 2013

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Primary government</b>					
Governmental activities:					
Legislative	\$ 28,901	\$ -	\$ -	\$ -	\$ (28,901)
General government	729,898	26,443	121,153	-	(582,302)
Public safety	1,011,981	13,874	18,082	-	(980,025)
Public works	1,679,827	1,943	493,042	-	(1,184,842)
Culture and recreation	288,488	-	11,982	-	(276,506)
Other	46,925	-	-	-	(46,925)
Interest on long-term debt	202,006	-	-	-	(202,006)
<b>Total governmental activities</b>	<b>3,988,026</b>	<b>42,260</b>	<b>644,259</b>	<b>-</b>	<b>(3,301,507)</b>
Business-type activities:					
Water	604,647	582,229	-	-	(22,418)
Sewer	1,796,955	1,242,230	-	-	(554,725)
<b>Total business-type activities</b>	<b>2,401,602</b>	<b>1,824,459</b>	<b>-</b>	<b>-</b>	<b>(577,143)</b>
<b>Total primary government</b>	<b>\$ 6,389,628</b>	<b>\$ 1,866,719</b>	<b>\$ 644,259</b>	<b>\$ -</b>	<b>\$ (3,878,650)</b>
<b>Component unit</b>	<b>\$ 484,058</b>	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ 220,839</b>	<b>\$ (263,218)</b>

Continued...

CITY OF GAYLORD, MICHIGAN

**Statement of Activities (Continued)**  
For the Year Ended June 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net expense	\$ (3,301,507)	\$ (577,143)	\$ (3,878,650)	\$ (263,218)
General revenues:				
Property taxes:				
General operating	3,085,267	-	3,085,267	-
Debt	-	423,658	423,658	190,040
State shared revenues	294,183	-	294,183	-
Interest earnings	13,331	539	13,870	13
Miscellaneous revenue	-	145	145	207,541
Transfers - internal activities	(2,964)	2,964	-	-
Total general revenues and transfers	3,389,817	427,306	3,817,123	397,594
Change in net position	88,310	(149,837)	(61,527)	134,376
Net position, beginning of year	11,224,534	15,360,179	26,584,713	483,309
Net position, end of year	\$ 11,312,844	\$ 15,210,342	\$ 26,523,186	\$ 617,685

Concluded

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

## FUND FINANCIAL STATEMENTS

# CITY OF GAYLORD, MICHIGAN

## Balance Sheet Governmental Funds June 30, 2013

	General Fund	Municipal Streets	Major Streets	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 286,635	\$ 249,615	\$ 105,248	\$ 84,937	\$ 726,435
Due from other governmental units	134,390	-	54,445	13,899	202,734
Special assessment receivable	-	-	-	295,900	295,900
Due from other funds	205,719	-	45,602	134	251,455
Due from component unit	34,498	-	-	-	34,498
Inventories	40,411	-	-	-	40,411
Real estate held for sale	250,000	-	-	238,506	488,506
Restricted cash	-	-	-	285,543	285,543
Restricted investments	154,508	-	-	-	154,508
<b>Total assets</b>	<b>\$ 1,106,161</b>	<b>\$ 249,615</b>	<b>\$ 205,295</b>	<b>\$ 918,919</b>	<b>\$ 2,479,990</b>
<b>Liabilities</b>					
Accounts payable	\$ 71,139	\$ 243,186	\$ 10,178	\$ 2,554	\$ 327,057
Accrued liabilities	60,229	-	1,633	931	62,793
Due to other funds	575,179	-	-	16,997	592,176
Due to component unit	-	358	-	-	358
<b>Total liabilities</b>	<b>706,547</b>	<b>243,544</b>	<b>11,811</b>	<b>20,482</b>	<b>982,384</b>
<b>Deferred inflow of resources</b>					
Unavailable revenue	-	-	-	295,900	295,900
<b>Fund balances</b>					
<b>Nonspendable</b>					
Inventories	40,411	-	-	-	40,411
Perpetual care	-	-	-	285,893	285,893
<b>Restricted</b>					
Highways and streets	-	6,071	193,484	38,383	237,938
Debt service	-	-	-	39,755	39,755
<b>Committed</b>					
Culture and recreation	42,481	-	-	-	42,481
Act 495 fire loss	22	-	-	-	22
Assigned - real estate held for sale	250,000	-	-	238,506	488,506
Unassigned	66,700	-	-	-	66,700
<b>Total fund balances</b>	<b>399,614</b>	<b>6,071</b>	<b>193,484</b>	<b>602,537</b>	<b>1,201,706</b>
<b>Total liabilities, deferred inflow of resources and fund balances</b>	<b>\$ 1,106,161</b>	<b>\$ 249,615</b>	<b>\$ 205,295</b>	<b>\$ 918,919</b>	<b>\$ 2,479,990</b>

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

# CITY OF GAYLORD, MICHIGAN

## Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2013

Fund balances - total governmental funds \$ 1,201,706

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 therefore are not reported in the fund statement.

Capital assets not being depreciated	1,596,108
Capital assets being depreciated, net	12,675,393

The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflow of resources in the governmental funds, and thus are not included in fund balance.

Unavailable revenue	295,900
Personal property tax receivables, net	14,727

Internal service funds are used by management to charge the costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.

Net position of governmental activities accounted for in an internal service fund	581,414
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Compensated absences	(157,075)
Installment debt and bonds payable	(4,700,000)
Net other postemployment benefit obligation	(148,120)
Accrued interest on bonds payable	(47,209)

Net position of governmental activities \$ 11,312,844

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

# CITY OF GAYLORD, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2013

	General Fund	Municipal Streets	Major Streets	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes and penalties	\$ 2,143,338	\$ 700,964	\$ -	\$ 237,280	\$ 3,081,582
Special assessments	-	-	-	78,778	78,778
Charges for services	40,317	-	-	-	40,317
State revenue	322,221	-	366,478	101,042	789,741
Local revenue	11,982	-	-	-	11,982
Interest	1,957	-	-	11,374	13,331
Miscellaneous	134,417	1,229	194	8,766	144,606
<b>Total revenues</b>	<b>2,654,232</b>	<b>702,193</b>	<b>366,672</b>	<b>437,240</b>	<b>4,160,337</b>
<b>Expenditures</b>					
Current:					
Legislative	28,901	-	-	-	28,901
General government	476,406	-	-	-	476,406
Public safety	1,071,257	-	-	-	1,071,257
Public works	350,365	653,394	324,133	178,787	1,506,679
Culture and recreation	41,928	-	-	-	41,928
Other	325,349	-	-	1,219	326,568
Debt service:					
Principal	15,000	-	-	280,000	295,000
Bond issuance costs	-	-	-	30,000	30,000
Interest and fiscal charges	10,194	-	-	209,690	219,884
<b>Total expenditures</b>	<b>2,319,400</b>	<b>653,394</b>	<b>324,133</b>	<b>699,696</b>	<b>3,996,623</b>
<b>Revenues over (under) expenditures</b>	<b>334,832</b>	<b>48,799</b>	<b>42,539</b>	<b>(262,456)</b>	<b>163,714</b>
<b>Other financing sources (uses)</b>					
Transfers in	149,935	-	-	248,391	398,326
Transfers out	(208,290)	(40,797)	(40,000)	(112,103)	(401,190)
Bond proceeds	-	-	-	630,000	630,000
Payment to refunded bond escrow agent	-	-	-	(600,000)	(600,000)
<b>Total other financing sources (uses)</b>	<b>(58,355)</b>	<b>(40,797)</b>	<b>(40,000)</b>	<b>166,288</b>	<b>27,136</b>
<b>Net change in fund balances</b>	<b>276,477</b>	<b>8,002</b>	<b>2,539</b>	<b>(96,168)</b>	<b>190,850</b>
<b>Fund balances (deficit), beginning of year</b>	<b>123,137</b>	<b>(1,931)</b>	<b>190,945</b>	<b>698,705</b>	<b>1,010,856</b>
<b>Fund balances, end of year</b>	<b>\$ 399,614</b>	<b>\$ 6,071</b>	<b>\$ 193,484</b>	<b>\$ 602,537</b>	<b>\$ 1,201,706</b>

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



# CITY OF GAYLORD, MICHIGAN

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2013

Net change in fund balances - total governmental funds \$ 190,850

Amounts reported for *governmental activities* in the statement of activities are different because:

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

Capital outlay	642,971
Depreciation expense	(921,500)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, because they are unavailable for current year operations.

Current year collections on special assessments	(78,778)
Increase in delinquent personal property taxes	3,685

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term liabilities	295,000
Payment to refunded bond escrow agent	600,000
Proceeds from issuance of refunding bonds	(630,000)
Increase in net other postemployment benefit obligation	(39,567)

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 governmental funds.

Change in accrued interest on bonds	7,684
Change in the accrual of compensated absences	82,553

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Change in net position from the internal service fund accounted for in governmental activities	<u>(64,588)</u>
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Change in net position of governmental activities	<u>\$ 88,310</u>
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The accompanying notes are an integral part of these financial statements.

# CITY OF GAYLORD, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2013

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>			
Taxes and penalties	\$ 2,004,000	\$ 2,143,338	\$ 139,338
Charges for services	58,150	40,317	(17,833)
State revenue	274,150	322,221	48,071
Local revenue	20,550	11,982	(8,568)
Interest	1,000	1,957	957
Miscellaneous	214,933	134,417	(80,516)
<b>Total revenues</b>	<b>2,572,783</b>	<b>2,654,232</b>	<b>81,449</b>
<b>Expenditures</b>			
Current:			
Legislative	38,800	28,901	(9,899)
General government	520,414	476,406	(44,008)
Public safety	1,097,423	1,071,257	(26,166)
Public works	401,775	350,365	(51,410)
Culture and recreation	42,030	41,928	(102)
Other	274,550	325,349	50,799
Debt service:			
Principal	15,000	15,000	-
Interest	10,200	10,194	(6)
<b>Total expenditures</b>	<b>2,400,192</b>	<b>2,319,400</b>	<b>(80,792)</b>
<b>Revenues over (under) expenditures</b>	<b>172,591</b>	<b>334,832</b>	<b>162,241</b>
<b>Other financing sources (uses)</b>			
Transfers in	-	149,935	149,935
Transfers out	(130,516)	(208,290)	77,774
<b>Total other financing sources (uses)</b>	<b>(130,516)</b>	<b>(58,355)</b>	<b>(72,161)</b>
<b>Net change in fund balances</b>	<b>42,075</b>	<b>276,477</b>	<b>(234,402)</b>
<b>Fund balances, beginning of year</b>	<b>123,137</b>	<b>123,137</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>\$ 165,212</b>	<b>\$ 399,614</b>	<b>\$ (234,402)</b>

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

# CITY OF GAYLORD, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Municipal Streets Special Revenue Fund

For the Year Ended June 30, 2013

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Taxes and penalties	\$ 691,079	\$ 700,964	\$ 9,885
Miscellaneous	-	1,229	1,229
Total revenues	691,079	702,193	11,114
Expenditures			
Current:			
Public works	452,400	653,394	200,994
Revenues over (under) expenditures	238,679	48,799	(189,880)
Other financing uses			
Transfers out	-	(40,797)	40,797
Net change in fund balances	238,679	8,002	(230,677)
Fund balances (deficit), beginning of year	(1,931)	(1,931)	-
Fund balances, end of year	\$ 236,748	\$ 6,071	\$ (230,677)

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

# CITY OF GAYLORD, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Major Streets Special Revenue Fund For the Year Ended June 30, 2013

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
State revenue	\$ 279,931	\$ 366,478	\$ 86,547
Miscellaneous	-	194	194
Total revenues	279,931	366,672	86,741
Expenditures			
Current:			
Public works	252,528	324,133	71,605
Revenues over (under) expenditures	27,403	42,539	15,136
Other financing uses			
Transfers out	(40,000)	(40,000)	-
Net change in fund balances	(12,597)	2,539	15,136
Fund balances, beginning of year	190,945	190,945	-
Fund balances, end of year	\$ 178,348	\$ 193,484	\$ 15,136

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

CITY OF GAYLORD, MICHIGAN

Statement of Net Position

Proprietary Funds

June 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 136,815	\$ 588,852	\$ 725,667	\$ 70,056
Accounts receivable	33,081	106,361	139,442	-
Due from other funds	-	12,922	12,922	367,757
Due from component unit	-	76,584	76,584	11,589
Total current assets	<u>169,896</u>	<u>784,719</u>	<u>954,615</u>	<u>449,402</u>
Noncurrent assets:				
Restricted cash	124,498	229,821	354,319	-
Capital assets not being depreciated	33,100	380,980	414,080	11,590
Capital assets being depreciated, net	4,492,015	14,678,050	19,170,065	146,847
Total noncurrent assets	<u>4,649,613</u>	<u>15,288,851</u>	<u>19,938,464</u>	<u>158,437</u>
Total assets	<u>4,819,509</u>	<u>16,073,570</u>	<u>20,893,079</u>	<u>607,839</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	123,284	95,062	218,346	18,378
Accrued liabilities	4,880	51,340	56,220	2,563
Due to other funds	-	39,958	39,958	-
Current portion of bonds payable	-	565,000	565,000	-
Total current liabilities	<u>128,164</u>	<u>751,360</u>	<u>879,524</u>	<u>20,941</u>
Long-term debt:				
Bonds payable, net of current portion	-	4,745,000	4,745,000	-
Compensated absences	24,765	33,448	58,213	5,484
Total long-term debt	<u>24,765</u>	<u>4,778,448</u>	<u>4,803,213</u>	<u>5,484</u>
Total liabilities	<u>152,929</u>	<u>5,529,808</u>	<u>5,682,737</u>	<u>26,425</u>
<b>Net position</b>				
Net investment in capital assets	4,525,115	9,749,030	14,274,145	158,437
Restricted for capital improvements	124,498	229,821	354,319	-
Unrestricted	16,967	564,911	581,878	422,977
Total net position	<u>\$ 4,666,580</u>	<u>\$ 10,543,762</u>	<u>\$ 15,210,342</u>	<u>\$ 581,414</u>

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

CITY OF GAYLORD, MICHIGAN

Statement of Revenue, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Operating revenue				
Sales and charges for services	\$ 582,229	\$ 1,242,230	\$ 1,824,459	\$ -
Equipment rental	-	-	-	379,648
<b>Total operating revenue</b>	<b>582,229</b>	<b>1,242,230</b>	<b>1,824,459</b>	<b>379,648</b>
Operating expenses				
Personnel services	268,719	497,652	766,371	148,353
Contracted services	95,523	138,019	233,542	-
Supplies and repairs	33,650	49,967	83,617	203,394
Equipment rental	26,547	30,117	56,664	-
Utilities	61,755	152,416	214,171	-
Depreciation	105,242	620,976	726,218	68,571
Miscellaneous	13,211	13,926	27,137	28,068
<b>Total operating expenses</b>	<b>604,647</b>	<b>1,503,073</b>	<b>2,107,720</b>	<b>448,386</b>
<b>Operating loss</b>	<b>(22,418)</b>	<b>(260,843)</b>	<b>(283,261)</b>	<b>(68,738)</b>
Nonoperating revenue (expenses)				
Taxes and penalties	-	423,658	423,658	-
Miscellaneous revenue	145	-	145	4,250
Interest revenue	43	496	539	-
Bond issuance costs	-	(65,000)	(65,000)	-
Interest expense	-	(228,882)	(228,882)	-
<b>Total nonoperating revenue (expenses)</b>	<b>188</b>	<b>130,272</b>	<b>130,460</b>	<b>4,250</b>
<b>Loss before other financing sources (uses)</b>	<b>(22,230)</b>	<b>(130,571)</b>	<b>(152,801)</b>	<b>(64,488)</b>
Other financing sources (uses)				
Transfers in	23,875	17,545	41,420	-
Transfers out	(20,673)	(17,783)	(38,456)	(100)
<b>Total other financing sources (uses)</b>	<b>3,202</b>	<b>(238)</b>	<b>2,964</b>	<b>(100)</b>
<b>Change in net position</b>	<b>(19,028)</b>	<b>(130,809)</b>	<b>(149,837)</b>	<b>(64,588)</b>
Net position, beginning of year	4,685,608	10,674,571	15,360,179	646,002
<b>Net position, end of year</b>	<b>\$ 4,666,580</b>	<b>\$ 10,543,762</b>	<b>\$ 15,210,342</b>	<b>\$ 581,414</b>

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

# CITY OF GAYLORD, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
<b>Cash flows from operating activities</b>				
Cash collected from customers	\$ 605,305	\$ 1,271,992	\$ 1,877,297	\$ -
Cash collected from other funds	-	-	-	379,648
Cash paid for employee wages and benefits	(270,501)	(513,265)	(783,766)	(148,395)
Cash paid for other operating and administrative expenses	(170,551)	(382,884)	(553,435)	(195,075)
<b>Net cash provided by operating activities</b>	<b>164,253</b>	<b>375,843</b>	<b>540,096</b>	<b>36,178</b>
<b>Cash flows from noncapital financing activities</b>				
Taxes and penalties	-	423,658	423,658	-
Sale of investments	-	-	-	#REF!
Transfers in	23,875	17,545	41,420	-
Transfers out	(20,673)	(17,783)	(38,456)	(100)
Interest received	43	496	539	-
Other receipts	145	-	145	4,250
<b>Net cash provided by noncapital financing activities</b>	<b>3,390</b>	<b>423,916</b>	<b>427,306</b>	<b>#REF!</b>
<b>Cash flows from capital and related financing activities</b>				
Interest paid on long-term debt	-	(239,581)	(239,581)	-
Principal paid on long-term debt	-	(505,000)	(505,000)	-
Purchase of capital assets	(23,252)	(17,545)	(40,797)	(16,000)
<b>Net cash used in capital and related financing activities</b>	<b>(23,252)</b>	<b>(762,126)</b>	<b>(785,378)</b>	<b>(16,000)</b>
<b>Net increase in cash and cash equivalents</b>	<b>144,391</b>	<b>37,633</b>	<b>182,024</b>	<b>#REF!</b>
Cash and cash equivalents, beginning of year	116,922	781,040	897,962	45,628
Cash and cash equivalents, including restricted cash, end of year	261,313	818,673	1,079,986	#REF!
Less restricted cash, end of year	124,498	229,821	354,319	-
<b>Cash and cash equivalents, end of year</b>	<b>\$ 136,815</b>	<b>\$ 588,852</b>	<b>\$ 725,667</b>	<b>#REF!</b>

Continued...

# CITY OF GAYLORD, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Cash flows from operating activities				
Operating loss	\$ (22,418)	\$ (260,843)	\$ (283,261)	\$ (68,738)
Adjustments to reconcile operating loss to net cash provided by operating activities				
Depreciation	105,242	620,976	726,218	68,571
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	23,076	29,762	52,838	-
Due from other funds	-	(12,674)	(12,674)	-
Due from component unit	-	-	-	25,037
Accounts payable	58,313	(29,039)	29,274	8,787
Accrued liabilities	1,822	3,316	5,138	2,563
Due to other funds	-	39,958	39,958	-
Compensated absences	(1,782)	(15,613)	(17,395)	(42)
Net cash provided by operating activities	<u>\$ 164,253</u>	<u>\$ 375,843</u>	<u>\$ 540,096</u>	<u>\$ 36,178</u>

Concluded

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



# CITY OF GAYLORD, MICHIGAN

## Statement of Fiduciary Assets and Liabilities

Current Tax Collection - Agency Fund

June 30, 2013

### Assets

Cash and cash equivalents	\$ 15,598
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### Liabilities

Due to governmental entities	\$ 15,598
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The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

# CITY OF GAYLORD

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of Gaylord* (the “City”) and its component unit. The component unit discussed below is included in the City’s reporting entity because of the significance of its operational or financial relationship with the City.

**Gaylord Downtown Development Authority** - The Downtown Development Authority (the “DDA”) is a discretely presented component unit of the City. The component unit column in the government-wide financial statements include the financial data of the DDA. This component unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing Board of the DDA are appointed by the City Council. The budgets and expenditures of the DDA must be approved by the City Council. The City also has the ability to significantly influence operations of the DDA.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. 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 services. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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.

**Fund Financial Statements.** The fund financial statements provide information about the City’s funds, including its fiduciary funds, even though the latter are excluded from the government-wide financial statements. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City’s primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The *Municipal Streets Fund* accounts for the resources from a property tax levy restricted for the improvements of streets and related infrastructure.

The *Major Streets Fund* accounts for the resources which are used for the improvements of major streets and related infrastructure, generally funded by state revenue.

# CITY OF GAYLORD

## Notes to Financial Statements

Additionally, the City reports the following major enterprise funds:

The *Water Fund* accounts for the operation, maintenance and development of water facilities.

The *Sewer Fund* accounts for the operation, maintenance and development of sewer facilities.

The City reports the following fund types:

*Special Revenue Funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

*Debt Service Funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

*Capital Project Funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *Permanent Fund* accounts for and reports the financial resources of the Cemetery Perpetual Care Fund. The principal portion of these funds must stay intact, but the interest earnings are used to provide for maintenance of the City's cemetery.

*Enterprise Funds.* These funds account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The *Internal Service Fund* accounts for the operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the City holds for others in an agency capacity (such as taxes collected for other governments).

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The agency fund also uses the accrual basis of accounting but does not have a measurement focus.

Proprietary fund operating revenues such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

# CITY OF GAYLORD

## Notes to Financial Statements

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement-based grants. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Restricted net position includes assets that are subject to restrictions beyond the City's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, deferred inflows of resources, and equity

### *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.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

# CITY OF GAYLORD

## Notes to Financial Statements

Investments consist of the City's share in an external investment pool and are reported at fair value. This investment pool operates in a manner consistent with the Securities and Exchange Commission's Rule 2a(7) of the Investment Company Act of 1940.

### *Receivables and payables*

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The governmental activities have an allowance recorded for delinquent personal property taxes in the amount of \$62,849 at June 30, 2013.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

### *Property taxes*

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Otsego County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes for the Downtown Development Authority are derived by capturing the taxes on the increase in taxable value of the property located within the District.

Property taxes are recognized in the fiscal year for which they are levied.

### *Inventories*

Inventory maintained by the General Fund, which consists of road maintenance materials, is valued at cost using the first-in, first-out method.

### *Restricted assets*

Certain resources are set aside for future improvements to the City's water and sewer system and cemetery perpetual care, which are classified as restricted assets on the statement of net position because their use is restricted by an external party or law.

### *Capital assets*

Capital assets, which include property, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 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 value at the date of donation.

# CITY OF GAYLORD

## Notes to Financial Statements

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component unit are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	5-50
Office furnishings and tools and equipment	3-20
Vehicles	3-10
Water and sewer system	40-75
Roads and sidewalks	15-25

### *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### *Long-term obligations*

In the government-wide financial statements and 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, business-type activities, or proprietary fund type statement of net position.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

### *Deferred inflows for resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

# CITY OF GAYLORD

## Notes to Financial Statements

### *Fund equity*

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council (the City's highest level of decision-making authority). A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has delegated the authority to assign fund balance to the City Manager or his designee. Unassigned fund balance is the residual classification for the General Fund.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Restricted net position represents assets which are legally restricted by outside parties or enabling legislation.

### *Interfund transactions*

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Internal service funds are used to record charges for services to all City departments and funds as transfers or operating revenue. All City funds record these payments to the internal service funds as transfers or operating expenditures/expenses.

### *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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## 2. BUDGETARY INFORMATION

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The General Fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. Debt service and capital project funds are also included in the budgetary process; however, State statutes do not require legally adopted budgets for such funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Each June, after receiving input from the individual departments, the City Manager prepares a proposed operating budget for the fiscal period commencing July 1 and lapsing on June 30. The operating budget includes proposed expenditures and the means of financing them.



# CITY OF GAYLORD

## Notes to Financial Statements

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through a resolution passed by the City Council.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets are adopted at the functional level. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the City Council. All appropriations lapse at the end of the fiscal year.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed during the year. The appropriations resolution is 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. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within an activity, subject to the condition that the total expenditures do not exceed the approved appropriations by activity.

### 3. EXCESS OF EXPENDITURES OVER BUDGET

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the City were adopted on the functional level basis for all governmental funds, which is the legal level of control. During the year ended June 30, 2013 the City had expenditures in excess of the amounts budgeted as follows:

	Final Budget	Actual Expenditures	Unfavorable Variance
<b>General Fund</b>			
Other	\$ 274,550	\$ 325,349	\$ 50,799
Transfers out	130,516	208,290	77,774
<b>Municipal Streets Fund</b>			
Public works	452,400	653,394	200,994
Transfers out	-	40,797	40,797
<b>Major Streets Fund</b>			
Public works	252,528	324,133	71,605

# CITY OF GAYLORD

## Notes to Financial Statements

### 4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2013:

	Primary Government	Component Unit	Totals
Statement of Net Position			
Cash and cash equivalents	\$ 1,522,158	\$ 34,365	\$ 1,556,523
Restricted cash	639,862	-	639,862
Restricted investments	154,508	-	154,508
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents	-	-	15,598
<b>Total</b>	<b>\$ 2,316,528</b>	<b>\$ 34,365</b>	<b>\$ 2,366,491</b>
Deposits and investments			
Bank deposits:			
Checking and savings accounts			\$ 2,211,583
Investments:			
External investment pool			154,508
Cash on hand			400
<b>Total</b>			<b>\$ 2,366,491</b>

#### 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 the following list of authorized investments. 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.

*Credit risk.* The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City has no investments for which ratings are required.

*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. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$1,950,984 of the City's total bank deposits of \$2,383,772 is uninsured and uncollateralized.

*Custodial credit risk - investments.* Custodial credit risk is the risk that, in the event of the failure of the counterpart the City will not be able to recover the value of its investments 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. The City's investments are not exposed to custodial credit risk because external investment pools are not evidenced by securities in physical or book entry form.

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

# CITY OF GAYLORD

## Notes to Financial Statements

- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Investment pools organized under surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- d. Obligations described in subdivision (a) through (g), of PA 20, as revised, if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, (Ex Sess) PA 7, MCL 124.501 to 124.512.
- e. Certificate of Deposit Account Registry Service (“CDARS”), (Approved December 18, 2008, Senate Bill No 1517).

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City’s deposits are in accordance with statutory authority.

## 5. RECEIVABLES

The composition of receivables is as follows as of June 30, 2013:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable	\$ -	\$ 139,442	\$ 285,275
Personal property taxes receivable, net	14,727	-	-
Due from other governmental units	202,734	-	-
Special assessment receivable			
Due within one year	75,900	-	-
Due after one year	220,000	-	-
	<u>\$ 513,361</u>	<u>\$ 139,442</u>	<u>\$ 285,275</u>

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unavailable revenue in connection with resources that have been received, but not earned. At the end of the current fiscal year, \$295,900 was recorded as unavailable revenue in the Edelweiss Special Assessment Fund and is unavailable to liquidate liabilities of the current period.

# CITY OF GAYLORD

## Notes to Financial Statements

### 6. CAPITAL ASSETS

#### Primary government

Capital asset activity was as follows for the year ended June 30, 2013:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 1,231,573	\$ -	\$ -	\$ -	\$ 1,231,573
Construction-in-progress	34,546	376,125	-	(34,546)	376,125
	<u>1,266,119</u>	<u>376,125</u>	<u>-</u>	<u>(34,546)</u>	<u>1,607,698</u>
Capital assets, being depreciated:					
Buildings and improvements	5,672,054	-	-	-	5,672,054
Office furnishings	262,875	-	-	-	262,875
Tools and equipment	818,755	-	-	-	818,755
Vehicles	1,433,613	16,000	-	-	1,449,613
Roads and sidewalks	17,431,041	266,846	-	34,546	17,732,433
	<u>25,618,338</u>	<u>282,846</u>	<u>-</u>	<u>34,546</u>	<u>25,935,730</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,014,271)	(136,751)	-	-	(1,151,022)
Office furnishings	(253,219)	(1,288)	-	-	(254,507)
Tools and equipment	(734,187)	(23,298)	-	-	(757,485)
Vehicles	(1,298,878)	(47,449)	-	-	(1,346,327)
Roads and sidewalks	(8,822,864)	(781,285)	-	-	(9,604,149)
	<u>(12,123,419)</u>	<u>(990,071)</u>	<u>-</u>	<u>-</u>	<u>(13,113,490)</u>
Total capital assets being depreciated, net	<u>13,494,919</u>	<u>(707,225)</u>	<u>-</u>	<u>34,546</u>	<u>12,822,240</u>
Governmental activities capital assets, net	<u>\$ 14,761,038</u>	<u>\$ (331,100)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,429,938</u>
<b>Business-type Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 414,080	\$ -	\$ -	\$ -	\$ 414,080
Capital assets, being depreciated:					
Buildings & equipment	1,824,680	-	-	-	1,824,680
Water and sewer system	29,001,116	40,797	-	-	29,041,913
	<u>30,825,796</u>	<u>40,797</u>	<u>-</u>	<u>-</u>	<u>30,866,593</u>
Less accumulated depreciation for:					
Buildings & equipment	(718,616)	(42,289)	-	-	(760,905)
Water and sewer system	(10,251,694)	(683,929)	-	-	(10,935,623)
	<u>(10,970,310)</u>	<u>(726,218)</u>	<u>-</u>	<u>-</u>	<u>(11,696,528)</u>
Total capital assets being depreciated, net	<u>19,855,486</u>	<u>(685,421)</u>	<u>-</u>	<u>-</u>	<u>19,170,065</u>
Business-type activities capital assets, net	<u>\$ 20,269,566</u>	<u>\$ (685,421)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,584,145</u>

# CITY OF GAYLORD

## Notes to Financial Statements

### Component Unit

The DDA maintains the rights for the use of the pavilion. Title of the pavilion is held by the City of Gaylord; however, the DDA maintains control and upkeep of the asset.

Capital asset activity for the DDA component unit was as follow for the year ended June 30, 2013:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, being depreciated:					
Investment in pavilion	\$ 754,523	\$ -	\$ -	\$ -	\$ 754,523
Less accumulated depreciation for:					
Investment in pavilion	(136,726)	(31,452)	-	-	(168,178)
Capital assets, net	<u>\$ 617,797</u>	<u>\$ (31,452)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 586,345</u>

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

#### Governmental activities

General government	\$ 143,753
Public works	737,553
Culture and recreation	40,194
Capital assets held by the City's internal service fund are charged to the various functions based on their usage of the assets	<u>68,571</u>
	<u>\$ 990,071</u>

#### Business-type activities

Water	\$ 105,242
Sewer	<u>620,976</u>
	<u>\$ 726,218</u>

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The composition of accounts payable and accrued liabilities is as follows at June 30, 2013:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 345,435	\$ 218,346	\$ -
Accrued liabilities	<u>112,565</u>	<u>56,220</u>	<u>165,987</u>
Total accounts payable and accrued liabilities	<u>\$ 458,000</u>	<u>\$ 274,566</u>	<u>\$ 165,987</u>

# CITY OF GAYLORD

## Notes to Financial Statements

### 8. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2013, was as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 205,719	\$ 575,179
Major Streets Fund	45,602	-
Nonmajor governmental funds	134	16,997
Sewer Fund	12,922	39,958
Internal Service Fund	367,757	-
	<u>\$ 632,134</u>	<u>\$ 632,134</u>

At June 30, 2013, the DDA owes \$34,498, \$76,584 and \$11,589 to the General Fund, Sewer Fund and Internal Service Fund, respectively. The Municipal Streets Fund owes the DDA \$358.

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers consisted of the following for the year ended June 30, 2013:

	Transfers In	Transfers Out
General Fund	\$ 149,935	\$ 208,290
Municipal Streets Fund	-	40,797
Major Streets Fund	-	40,000
Nonmajor governmental funds	248,391	112,103
Water Fund	23,875	20,673
Sewer Fund	17,545	17,783
Internal Service Fund	-	100
	<u>\$ 439,746</u>	<u>\$ 439,746</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# CITY OF GAYLORD

## Notes to Financial Statements

### 9. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
<b>Installment debt</b>					
Act 99 Installment Purchase Agreement due in annual principal installments ranging from \$15,000 to \$25,000; interest is charged annually at a rate of 4.80%; final payment due October 2022.	\$ 220,000	\$ -	\$ (15,000)	\$ 205,000	\$ 15,000
<b>Bonded debt</b>					
2013 General Obligation Limited Tax Refunding Bond, payable in annual installments ranging from \$10,000 to \$70,000, interest is charged semi-annually at 2.09%; final payment due October 2022.	-	630,000	-	630,000	10,000
2006 General Obligation Unlimited Tax Bonds, payable in annual installments ranging from \$75,000 to \$250,000, interest is charged semi-annually ranging from 4.25% to 5.50%; final payment due April 2036.	3,600,000	-	(75,000)	3,525,000	75,000
2003 Special Assessment Limited Tax Bonds, payable in annual installments ranging from \$50,000 to \$70,000, interest is charged semi-annually ranging from 3.00% to 3.70%; final payment due October 2017.	360,000	-	(70,000)	290,000	70,000
2003 General Obligation Limited Tax Bonds, partially refunded in 2013 (see defeased debt below); final payment of \$50,000 was paid October 2013.	700,000	-	(650,000)	50,000	50,000

# CITY OF GAYLORD

## Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
2003 General Obligation Limited Tax Bonds, repaid during 2013.	\$ 75,000	\$ -	\$ (75,000)	\$ -	\$ -
1997 Special Assessment Limited Tax Bonds, repaid during 2013.	10,000	-	(10,000)	-	-
<b>Total bonded debt</b>	<b>4,745,000</b>	<b>630,000</b>	<b>(880,000)</b>	<b>4,495,000</b>	<b>205,000</b>
Total installment and bonded debt	4,965,000	630,000	(895,000)	4,700,000	220,000
Accrued compensated absences	245,154	80,297	(162,892)	162,559	-
<b>Total governmental activities</b>	<b>\$ 5,210,154</b>	<b>\$ 710,297</b>	<b>\$ (1,057,892)</b>	<b>\$ 4,862,559</b>	<b>\$ 220,000</b>
<b>Business-type Activities</b>					
General Obligation Unlimited Tax Refunding Bonds, Series 2005, payable in annual installments ranging from \$385,000 to \$570,000, interest is charged semi-annually ranging from 3.43% to 4.24%; final payment due October 2019.	\$ 3,760,000	\$ -	\$ (385,000)	\$ 3,375,000	\$ 405,000
2013 General Obligation Limited Tax Refunding Bond, payable in annual installments ranging from \$155,000 to \$180,000, interest is charged semi-annually at 2.09%; final payment due October 2020.	-	1,335,000	-	1,335,000	160,000
1999 General Obligation Unlimited Tax Bonds (non-refunded portion), payable in one final installment of \$600,000; due October 2020, interest is charged semi-annually at 4.00%.	600,000	-	-	600,000	-



# CITY OF GAYLORD

## Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
1999 Revenue Bonds, refunded during 2013.	\$ 1,390,000	\$ -	\$ (1,390,000)	\$ -	\$ -
Total bonded debt	5,750,000	1,335,000	(1,775,000)	5,310,000	565,000
Accrued compensated absences	75,608	28,213	(45,608)	58,213	-
Total business-type activities	<u>\$ 5,825,608</u>	<u>\$ 1,363,213</u>	<u>\$ (1,820,608)</u>	<u>\$ 5,368,213</u>	<u>\$ 565,000</u>

Accrued compensated absences are generally liquidated by the General Fund for all governmental activities and the Water and Sewer Funds for business-type activities.

Annual debt service requirements to maturity for the above obligations of the governmental activities and business-type activities except for accrued compensated absences are as follows:

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 220,000	\$ 191,591	\$ 565,000	\$ 171,706
2015	220,000	183,489	580,000	155,329
2016	195,000	175,407	610,000	135,938
2017	200,000	166,697	630,000	114,846
2018	225,000	160,148	675,000	91,897
2019-2023	940,000	704,455	2,250,000	121,968
2024-2028	800,000	548,825	-	-
2029-2033	1,150,000	333,250	-	-
2034-2036	750,000	68,250	-	-
	<u>\$ 4,700,000</u>	<u>\$ 2,532,112</u>	<u>\$ 5,310,000</u>	<u>\$ 791,684</u>

Total interest expense for the primary government for the year ending June 30, 2013, was \$451,781.

### Defeased Debt

During 2013, the City issued the 2013 General Obligation Limited Tax Refunding Bonds (refunding bonds) in the amount of \$630,000 and \$1,335,000 to partially refund the 2003 General Obligation Limited Tax Bonds in the governmental activities and the 1999 Revenue Bonds in the Sewer Fund, respectively (refunded bonds). The proceeds from the refunding of \$600,000 and \$1,270,000 were placed into an escrow account for the purpose of generating resources to repay the 2003 General Obligation Limited Tax Bonds and the 1999 Revenue Bonds, respectively, at the next call date. In addition the remaining proceeds were used to pay bond issuance costs of \$30,000 and \$65,000 in the governmental activities and the Sewer Fund, respectively. The refundings resulted in an economic gain of \$58,000 and \$168,000 for the governmental activities and the Sewer fund, respectively. Finally, the refundings resulted in cash flow savings of approximately \$68,000 and \$147,000 for the governmental activities and the Sewer fund, respectively. As a result, the bonds are considered defeased and the liabilities have been removed from the City's statement of net position.

# CITY OF GAYLORD

## Notes to Financial Statements

### 10. BENEFIT PLANS

#### Defined Benefit Pension Plan

*Plan Description.* The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan ("MERS"), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

*Funding Policy.* The City is required to contribute at an actuarially determined rate; the current rate for the general non-union rate is 18.25% and the general public works rate is 18.15% of covered payroll. The police plan was closed to new members and the actuarially determined contribution was \$10,121 per month. Employees covered by the police union are required to contribute 3% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

*Annual Pension Cost.* For the year ended June 30, 2013, the City's annual MERS pension cost of \$330,123 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2010, actuarial valuation using the entry age actuarial cost method. The significant actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected annual salary increases of 1.0%, and (c) an inflationary rate of 3-4%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012, the date of the last actuarial valuation, was 27 years.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	\$ 349,607	100%	\$ -
6/30/2012	343,296	100%	-
6/30/2013	330,123	100%	-

# CITY OF GAYLORD

## Notes to Financial Statements

### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Under-funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/12	\$ 7,908,052	\$ 11,135,277	\$ 3,227,225	71%	\$ 1,438,466	224%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

## 11. OTHER POSTEMPLOYMENT BENEFITS

*Plan Description.* The City of Gaylord administers a single employer defined benefit healthcare plan established by the City Council. In addition to the retirement benefits described in Note 10, the City provides a portion of the annual premium for health insurance benefits to certain retirees, which are advance funded on a discretionary basis. In accordance with City policy, eligible retirees receive healthcare benefits until death. At June 30, 2011, the date of the last plan valuation, the City's healthcare plan covered thirty-nine members (thirty-one active plan members and eight retirees receiving benefits).

*Funding Policy.* The contribution requirements of Plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually by City Council. For the year ended June 30, 2013, the City contributed \$14,370 to the Plan, all of which was to fund current year benefits.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 54,811
Interest on net OPEB obligation	4,342
Adjustment to annual required contribution	<u>(5,216)</u>
Net OPEB cost	53,937
Contributions made	<u>(14,370)</u>
Increase in net OPEB obligation	39,567
Net OPEB obligation, beginning of year	<u>108,553</u>
Net OPEB obligation, end of year	<u>\$ 148,120</u>

# CITY OF GAYLORD

## Notes to Financial Statements

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Three-Year Trend Information			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 57,895	36%	\$ 73,794
2012	54,607	33%	108,553
2013	53,937	27%	148,120

*Funded Status and Funding Progress.* As of June 30, 2011, the actuarial accrued liability for benefits was \$739,026, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,946,562 and the ratio of the UAAL to the covered payroll was 38%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefit obligations.

*Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees*—Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 58.

*Mortality*—Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2006 United States Life Tables for Males and Females were used.

*Turnover*—Non-group-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate*—The expected rate of increase in healthcare insurance premiums of 10% was based on projections by City management.

# CITY OF GAYLORD

## Notes to Financial Statements

*Inflation rate*—The expected long-term inflation assumption of 2% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

*Payroll growth rate*—The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the City’s short-term investment portfolio, a discount rate of 4% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, was twenty-eight years.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

## 12. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, for which the City carries commercial insurance with minimal deductibles. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

## 13. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2013 was as follows:

	Governmental Activities	Business-type Activities	Component Unit
<b>Capital assets:</b>			
Capital assets not being depreciated	\$ 1,607,698	\$ 414,080	\$ -
Capital assets being depreciated, net	12,822,240	19,170,065	586,345
	<u>14,429,938</u>	<u>19,584,145</u>	<u>586,345</u>
<b>Noncurrent liabilities:</b>			
Due within one year	(220,000)	(565,000)	-
Due in more than one year	(4,642,559)	(4,803,213)	-
Add back: accrued compensated absences	162,559	58,213	-
	<u>(4,700,000)</u>	<u>(5,310,000)</u>	<u>-</u>
<b>Net Investment in Capital Assets</b>	<u>\$ 9,729,938</u>	<u>\$ 14,274,145</u>	<u>\$ 586,345</u>



## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GAYLORD

**Required Supplementary Information**

The following schedules of funding progress and schedules of employer contributions, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**1. MERS Defined Benefit Pension Plan**

**Schedule of Funding Progress  
MERS Defined Benefit Pension Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2007	\$ 5,768,458	\$ 7,936,952	\$ 2,168,494	73%	\$ 1,603,002	135%
12/31/2008	6,133,220	9,119,001	2,985,781	67%	1,827,768	163%
12/31/2009	6,542,666	9,083,409	2,540,743	72%	1,687,885	151%
12/31/2010	6,971,310	9,467,921	2,496,611	74%	1,581,382	158%
12/31/2011	7,502,288	10,399,939	2,897,651	72%	1,540,752	188%
12/31/2012	7,908,052	11,135,277	3,227,225	71%	1,438,466	224%

**Schedule of Employer Contributions  
MERS Defined Benefit Pension Plan**

Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2008	\$ 304,249	100%
2009	319,391	100%
2010	313,418	100%
2011	349,607	100%
2012	343,296	100%
2013	330,123	100%

CITY OF GAYLORD

2. Other Postemployment Benefits

Schedule of Funding Progress  
Other Postemployment Benefits Plan

* Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
6/30/2010	\$ -	\$ 793,851	\$ 793,851	0%	\$ 1,886,371	42%
6/30/2011	-	739,026	739,026	0%	1,946,562	38%

Schedule of Employer Contributions  
Other Postemployment Benefits Plan

Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2010	\$ 57,895	36%
2011	54,811	33%
2012	54,811	36%
2013	54,811	26%

\* A plan of this size is not required to be valued each year. Additional years of data will be included in future years as revised valuations are necessary.



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

# CITY OF GAYLORD

## Detailed Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2013

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>			
Taxes and penalties	\$ 2,004,000	\$ 2,143,338	\$ 139,338
Charge for services	58,150	40,317	(17,833)
State revenue	274,150	322,221	48,071
Local revenue	20,550	11,982	(8,568)
Interest	1,000	1,957	957
Miscellaneous	214,933	134,417	(80,516)
<b>Total revenues</b>	<b>\$ 2,572,783</b>	<b>\$ 2,654,232</b>	<b>\$ 81,449</b>

Continued...

# CITY OF GAYLORD

## Detailed Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2013

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
<b>Expenditures</b>			
<b>Legislative:</b>			
City council	\$ 38,800	\$ 28,901	\$ (9,899)
<b>General government:</b>			
City manager	64,100	52,655	(11,445)
Elections	15,264	16,268	1,004
Professional services	16,000	18,808	2,808
Assessor	81,930	85,603	3,673
City attorney	45,000	39,755	(5,245)
Clerk	54,170	42,917	(11,253)
Board of review	2,830	2,290	(540)
Treasurer	28,800	29,655	855
Building and grounds	71,850	64,123	(7,727)
Other city property	68,750	52,257	(16,493)
Cemetery	67,270	71,068	3,798
Planning	4,450	877	(3,573)
Zoning	-	130	130
<b>Total general government</b>	<b>520,414</b>	<b>476,406</b>	<b>(44,008)</b>
<b>Public safety:</b>			
Police department	1,034,200	1,008,012	(26,188)
Fire department	63,223	63,245	22
<b>Total public safety</b>	<b>1,097,423</b>	<b>1,071,257</b>	<b>(26,166)</b>
<b>Public works:</b>			
Public works	207,550	184,198	(23,352)
Sidewalk	17,825	6,213	(11,612)
Street lighting	99,000	93,584	(5,416)
Parking	77,400	66,370	(11,030)
<b>Total public works</b>	<b>401,775</b>	<b>350,365</b>	<b>(51,410)</b>

Continued...

# CITY OF GAYLORD

## Detailed Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2013

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)			
Culture and recreation:			
Park maintenance and construction	\$ 42,030	\$ 41,928	\$ (102)
Other expenditures:			
General administration	60,150	51,541	(8,609)
Administrative supplies	20,000	30,589	10,589
Community promotion	153,700	196,294	42,594
Insurance and bonds	15,700	10,714	(4,986)
Other	25,000	36,211	11,211
Total other expenditures	274,550	325,349	50,799
Debt service:			
Principal	15,000	15,000	-
Interest	10,200	10,194	(6)
Total debt service	25,200	25,194	(6)
Total expenditures	2,400,192	2,319,400	(80,792)
Revenues over (under) expenditures	172,591	334,832	(162,241)
Other financing sources (uses)			
Transfers in	-	149,935	149,935
Transfers out	(130,516)	(208,290)	77,774
Total other financing sources (uses)	(130,516)	(58,355)	(72,161)
Net change in fund balance	42,075	276,477	(234,402)
Fund balance, beginning of year	123,137	123,137	-
Fund balance, end of year	\$ 165,212	\$ 399,614	\$ (234,402)

Concluded

# CITY OF GAYLORD

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2013

	Special Revenue Fund	Debt Service Funds		
	Local Streets (203)	Edelweiss Special Assessment (394)	Edelweiss (395)	Mankowski Road (330)
<b>Assets</b>				
Cash and cash equivalents	\$ 28,084	\$ 3,220	\$ -	\$ 6,081
Due from other governmental units	13,549	-	-	-
Special assessment receivable	-	295,900	-	-
Due from other funds	-	-	-	-
Real estate held for sale	-	-	-	-
Restricted cash	-	-	-	-
<b>Total assets</b>	<b>\$ 41,633</b>	<b>\$ 299,120</b>	<b>\$ -</b>	<b>\$ 6,081</b>
<b>Liabilities</b>				
Accounts payable	\$ 2,319	\$ -	\$ -	\$ -
Accrued liabilities	931	-	-	-
Due to other funds	-	225	-	-
<b>Total liabilities</b>	<b>3,250</b>	<b>225</b>	<b>-</b>	<b>-</b>
<b>Deferred inflow of resources</b>				
Unavailable revenue	-	295,900	-	-
<b>Fund balances</b>				
Nonspendable - perpetual care	-	-	-	-
Restricted				
Highways and streets	38,383	-	-	-
Debt service	-	2,995	-	6,081
Assigned - real estate held for sale	-	-	-	-
<b>Total fund balances</b>	<b>38,383</b>	<b>2,995</b>	<b>-</b>	<b>6,081</b>
<b>Total liabilities, deferred inflow of resources and fund balances</b>	<b>\$ 41,633</b>	<b>\$ 299,120</b>	<b>\$ -</b>	<b>\$ 6,081</b>

Debt Service Funds			Capital Project Fund		
Old 27 (318)	Industrial Park (302)	City Hall (315)	IDC (415)	Permanent Fund (711)	Total
\$ -	\$ 4,314	\$ 43,238	\$ -	\$ -	\$ 84,937
-	-	-	-	350	13,899
-	-	-	-	-	295,900
-	-	134	-	-	134
-	-	-	238,506	-	238,506
-	-	-	-	285,543	285,543
<u>\$ -</u>	<u>\$ 4,314</u>	<u>\$ 43,372</u>	<u>\$ 238,506</u>	<u>\$ 285,893</u>	<u>\$ 918,919</u>
\$ -	\$ -	\$ 235	\$ -	\$ -	\$ 2,554
-	-	-	-	-	931
-	-	16,772	-	-	16,997
-	-	17,007	-	-	20,482
-	-	-	-	-	295,900
-	-	-	-	285,893	285,893
-	-	-	-	-	38,383
-	4,314	26,365	-	-	39,755
-	-	-	238,506	-	238,506
-	4,314	26,365	238,506	285,893	602,537
<u>\$ -</u>	<u>\$ 4,314</u>	<u>\$ 43,372</u>	<u>\$ 238,506</u>	<u>\$ 285,893</u>	<u>\$ 918,919</u>

# CITY OF GAYLORD

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended June 30, 2013

	Special Revenue Fund	Debt Service Funds		
	Local Streets (203)	Edelweiss Special Assessment (394)	Edelweiss (395)	Mankowski Road (330)
<b>Revenues</b>				
Taxes and penalties	\$ -	\$ -	\$ -	\$ -
Special assessments	-	75,900	-	2,878
State revenues	101,042	-	-	-
Interest	-	11,065	-	176
Miscellaneous	1,943	-	-	-
<b>Total revenues</b>	<b>102,985</b>	<b>86,965</b>	<b>-</b>	<b>3,054</b>
<b>Expenditures</b>				
Current:				
Public works	178,787	-	-	-
Other	-	225	250	200
Debt service:				
Principal	-	70,000	75,000	10,000
Bond issuance costs	-	-	-	-
Interest and fiscal charges	-	11,045	1,163	253
<b>Total expenditures</b>	<b>178,787</b>	<b>81,270</b>	<b>76,413</b>	<b>10,453</b>
<b>Revenues over (under) expenditures</b>	<b>(75,802)</b>	<b>5,695</b>	<b>(76,413)</b>	<b>(7,399)</b>
<b>Other financing sources (uses)</b>				
Transfers in	80,000	-	76,413	10,253
Transfers out	-	(53,118)	-	-
Bond proceeds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>80,000</b>	<b>(53,118)</b>	<b>76,413</b>	<b>10,253</b>
<b>Change in fund balances</b>	<b>4,198</b>	<b>(47,423)</b>	<b>-</b>	<b>2,854</b>
<b>Fund balances, beginning of year</b>	<b>34,185</b>	<b>50,418</b>	<b>-</b>	<b>3,227</b>
<b>Fund balances, end of year</b>	<b>\$ 38,383</b>	<b>\$ 2,995</b>	<b>\$ -</b>	<b>\$ 6,081</b>



Debt Service Funds			Capital Project Fund		
Old 27 (318)	Industrial Park (302)	City Hall (315)	IDC (415)	Permanent Fund (711)	Total
\$ -	\$ -	\$ 237,280	\$ -	\$ -	\$ 237,280
-	-	-	-	-	78,778
-	-	-	-	-	101,042
20	1	37	-	75	11,374
-	1,871	-	-	4,952	8,766
<u>20</u>	<u>1,872</u>	<u>237,317</u>	<u>-</u>	<u>5,027</u>	<u>437,240</u>
-	-	-	-	-	178,787
(1)	225	320	-	-	1,219
-	50,000	75,000	-	-	280,000
-	30,000	-	-	-	30,000
-	33,129	164,100	-	-	209,690
<u>(1)</u>	<u>113,354</u>	<u>239,420</u>	<u>-</u>	<u>-</u>	<u>699,696</u>
<u>21</u>	<u>(111,482)</u>	<u>(2,103)</u>	<u>-</u>	<u>5,027</u>	<u>(262,456)</u>
-	81,625	-	-	100	248,391
(58,985)	-	-	-	-	(112,103)
-	630,000	-	-	-	630,000
-	(600,000)	-	-	-	(600,000)
<u>(58,985)</u>	<u>111,625</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>166,288</u>
<u>(58,964)</u>	<u>143</u>	<u>(2,103)</u>	<u>-</u>	<u>5,127</u>	<u>(96,168)</u>
<u>58,964</u>	<u>4,171</u>	<u>28,468</u>	<u>238,506</u>	<u>280,766</u>	<u>698,705</u>
<u>\$ -</u>	<u>\$ 4,314</u>	<u>\$ 26,365</u>	<u>\$ 238,506</u>	<u>\$ 285,893</u>	<u>\$ 602,537</u>



# CITY OF GAYLORD

## Combining Balance Sheet

Downtown Development Authority Component Unit

June 30, 2013

	General Downtown	TIF	Total
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 34,365	\$ 34,365
Accounts receivable	-	285,275	285,275
Due from primary government	-	358	358
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 319,998</b>	<b>\$ 319,998</b>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 165,820	\$ 165,820
Accrued liabilities	-	167	167
Due to primary government	-	122,671	122,671
<b>Total liabilities</b>	<b>-</b>	<b>288,658</b>	<b>288,658</b>
<b>Fund balances</b>			
Unassigned	-	31,340	31,340
<b>Total liabilities and fund balances</b>	<b>\$ -</b>	<b>\$ 319,998</b>	<b>\$ 319,998</b>

# CITY OF GAYLORD

## Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
Downtown Development Authority Component Unit  
June 30, 2013

Fund balances - total governmental funds \$ 31,340

Amounts reported for the *component unit* in the statement of net position  
are different because:

Capital assets used in the component unit are not financial resources  
and therefore are not reported in the fund statement.

Capital assets, net 586,345

Net position of the component unit \$ 617,685

# CITY OF GAYLORD

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances Downtown Development Authority Component Unit For the Year Ended June 30, 2013

	General Downtown	TIF	Total
<b>Revenues</b>			
Taxes and penalties	\$ -	\$ 190,040	\$ 190,040
Federal revenue	-	220,839	220,839
Interest	-	13	13
Miscellaneous	1	207,541	207,542
<b>Total revenues</b>	<b>1</b>	<b>618,433</b>	<b>618,434</b>
<b>Expenditures</b>			
Current:			
Culture and recreation	-	452,606	452,606
<b>Revenues over (under) expenditures</b>	<b>1</b>	<b>165,827</b>	<b>165,828</b>
<b>Other financing sources (uses)</b>			
Transfers in	1,147	-	1,147
Transfers out	-	(1,147)	(1,147)
<b>Total other financing sources (uses)</b>	<b>1,147</b>	<b>(1,147)</b>	<b>-</b>
<b>Change in fund balances</b>	<b>1,148</b>	<b>164,680</b>	<b>165,828</b>
<b>Fund balances (deficit), beginning of year</b>	<b>(1,148)</b>	<b>(133,340)</b>	<b>(134,488)</b>
<b>Fund balances, end of year</b>	<b>\$ -</b>	<b>\$ 31,340</b>	<b>\$ 31,340</b>

# CITY OF GAYLORD

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
Downtown Development Authority Component Unit  
For the Year Ended June 30, 2013

Net change in fund balances - component unit	\$ 165,828
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Amounts reported for the *component unit* 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 is allocated over their  
estimated useful lives and reported as depreciation expense.

Depreciation expense	<u>(31,452)</u>
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Change in net position of component unit	<u><u>\$ 134,376</u></u>
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## INTERNAL CONTROL AND COMPLIANCE

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

December 5, 2013

City Council  
City of Gaylord  
Gaylord, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Gaylord* (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 5, 2013.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-FS-01 and -02 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013-FS-03 to be a significant deficiency.

**Compliance and Other Matters**

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

We noted certain other matters that we reported to management of the City in a separate letter dated December 5, 2013.

**City of Gaylord’s Response to Findings**

The City’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

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



## CITY OF GAYLORD, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended June 30, 2013

2013-FS-01 - Management is unable to produce financial statements, including budgets, in accordance with accounting principles generally accepted in the United States of America.

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. All governmental units are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP") . This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition. As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Cause. This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Effect. As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation. When feasible, the City should consider training internal accounting personnel to prepare the financial statements.

View of Responsible Officials. The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.



## CITY OF GAYLORD, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended June 30, 2013

2013-FS-02 - Recording, processing and summarizing accounting data

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. All governmental units are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

Condition. As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the City has placed reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Cause. This condition was caused by the City's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Effect: As a result of this condition, the City lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation. The City should record all journal entries necessary to arrive at a reasonably adjusted trial balance prior to generating trial balances to be used for preparation of year-end financial statements.

View of Responsible Officials. The City will continue its efforts to record all known adjustments in order to provide a reasonably adjusted trial balance for the purposes of audit.

## CITY OF GAYLORD, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended June 30, 2013

#### 2013-FS-03 - Lack of segregation of duties in the accounting function

**Finding Type.** Significant Deficiency in Internal Control over Financial Reporting.

**Criteria.** All governments are required to establish an internal control structure with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the City's management. Adequate segregation of duties as it relates to the cash cycle of a municipality requires separation of the management function, the custody of assets function and the accounting function.

**Condition.** The small size of the City's accounting staff does not allow for adequate separation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting for those assets in the area of cash receipts and cash disbursements. Further, certain employees holding management positions also collect or disburse cash or account for the transactions of the City.

**Cause.** As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within the accounting function.

**Effect.** As a result of this condition, the City's current system of internal control has no safeguards in place to ensure that fraud or abuse is being prevented, specifically in the transactions of the cash cycle. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

**Recommendation.** While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls as much as possible by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or the City Council.

**View of Responsible Officials:** To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the City Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.