

City of Gaylord,
Michigan



Fiscal Year Ended
June 30,
2015

Financial
Statements

CITY OF GAYLORD, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

December 14, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 of Gaylord, Michigan, as of June 30, 2015, 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.

Implementation of GASB Statement No. 68

As described in Note 15, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in the current year. Accordingly, beginning net position of governmental activities, each proprietary fund, and business-type activities were restated. Our opinion is not modified with respect to this matter.

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 for the pension and other postemployment benefits plans, as 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 14, 2015, on our consideration of the City of Gaylord, Michigan'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, flowing style.

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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, 2015. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The City implemented GASB Statement No. 68 in the current year. In addition to expanded disclosure requirements, the City is required to report its net pension liability on the statement of net position. This change has resulted in a decrease in beginning net position for the governmental activities of \$2,955,076 and a decrease in business-type activities of \$1,255,920.
- The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$23,570,316 (net position). The City ended the year with an unrestricted deficit of \$1,830,674.
- The City's total net position increased by \$276,233.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,379,357, an increase of \$275,789 in comparison with the prior year. Approximately 31%, or \$729,000, is available for spending at the City's discretion (unassigned fund balance).
- The major asset acquisitions were investments in the City's street and sidewalk system.

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, deferred outflows of resources, and liabilities, with the residual 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, and culture and recreation. 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.

CITY OF GAYLORD, MICHIGAN

Management's Discussion and Analysis

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.

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 Special Revenue Fund, and Major Streets Special Revenue Fund, all 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 fund's 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 is limited to this management's discussion and analysis and the schedules of MERS pension and other postemployment benefits plans immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

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 \$23,570,000 at the close of fiscal year 2015.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 3,132,446	\$ 3,120,130	\$ 1,611,105	\$ 1,316,831	\$ 4,743,551	\$ 4,436,961
Capital assets, net	13,839,757	14,139,284	18,855,126	19,298,778	32,694,883	33,438,062
Total assets	16,972,203	17,259,414	20,466,231	20,615,609	37,438,434	37,875,023
Deferred outflows of resources						
Deferred pension amounts	200,436	-	85,187	-	285,623	-
Liabilities						
Long-term liabilities	4,513,571	4,794,778	4,210,709	4,800,210	8,724,280	9,594,988
Current and other liabilities	520,535	546,389	237,728	228,567	758,263	774,956
Net pension liability	3,278,024	-	1,393,174	-	4,671,198	-
Total liabilities	8,312,130	5,341,167	5,841,611	5,028,777	14,153,741	10,369,944
Net position						
Net investment						
in capital assets	9,187,450	9,516,681	14,690,126	14,553,778	23,877,576	24,070,459
Restricted	1,052,474	914,871	470,940	388,018	1,523,414	1,302,889
Unrestricted (deficit)	(1,379,415)	1,486,695	(451,259)	645,036	(1,830,674)	2,131,731
Total net position	\$ 8,860,509	\$ 11,918,247	\$ 14,709,807	\$ 15,586,832	\$ 23,570,316	\$ 27,505,079

Approximately \$23,878,000 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 highways and streets, debt service, perpetual care and capital improvements represent approximately \$1,523,000 of total net position. The remaining deficit balance of approximately \$1,831,000 from the unrestricted net position is due to the recording of the net pension liability.

The City's net position increased approximately \$276,000 during the current fiscal year.

CITY OF GAYLORD, MICHIGAN

Management's Discussion and Analysis

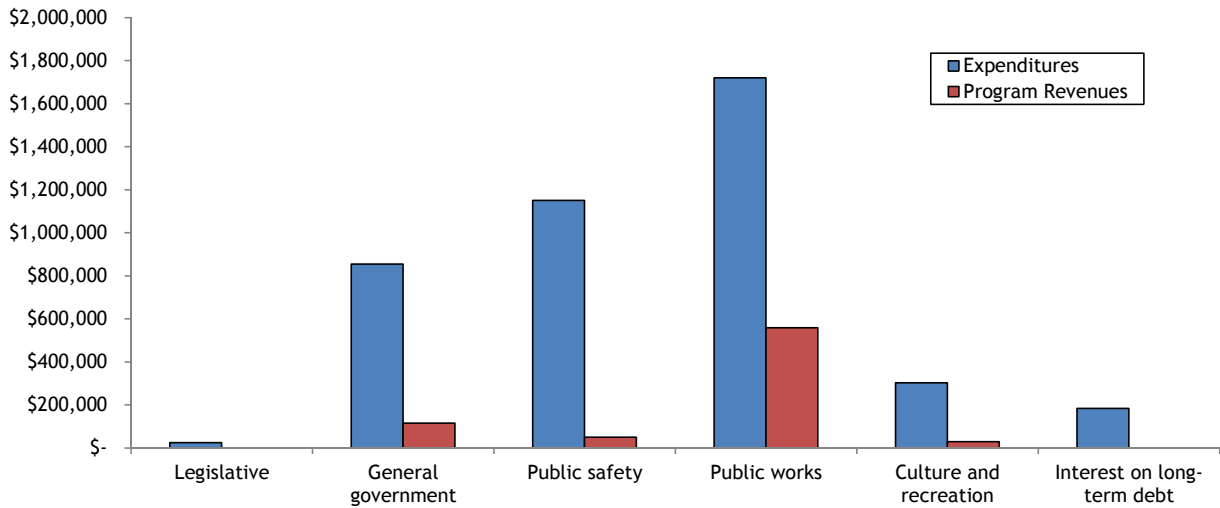
	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 62,559	\$ 37,035	\$ 1,935,941	\$ 1,852,586	\$ 1,998,500	\$ 1,889,621
Operating grants	692,489	655,816	-	-	692,489	655,816
Capital grants	-	529,242	-	-	-	529,242
General revenues:						
Property taxes	3,281,914	3,442,239	472,396	513,948	3,754,310	3,956,187
State shared revenues	306,958	301,780	-	-	306,958	301,780
Miscellaneous revenue	-	-	422	1,227	422	1,227
Interest earnings	3,251	12,166	-	-	3,251	12,166
Total revenues	4,347,171	4,978,278	2,408,759	2,367,761	6,755,930	7,346,039
Expenses						
Legislative	24,666	26,787	-	-	24,666	26,787
General government	854,173	767,769	-	-	854,173	767,769
Public safety	1,149,970	1,078,044	-	-	1,149,970	1,078,044
Public works	1,719,765	1,835,587	-	-	1,719,765	1,835,587
Culture and recreation	303,328	235,843	-	-	303,328	235,843
Water	-	-	611,855	599,569	611,855	599,569
Sewer	-	-	1,631,574	1,627,352	1,631,574	1,627,352
Interest						
on long-term debt	184,366	193,195	-	-	184,366	193,195
Total expenses	4,236,268	4,137,225	2,243,429	2,226,921	6,479,697	6,364,146
Change in net position, before transfers	110,903	841,053	165,330	140,840	276,233	981,893
Transfers	(213,565)	(235,650)	213,565	235,650	-	-
Change in net position	(102,662)	605,403	378,895	376,490	276,233	981,893
Net position, beginning of year	11,918,247	11,312,844	15,586,832	15,210,342	27,505,079	26,523,186
Restatement for implementation of GASB 68	(2,955,076)	-	(1,255,920)	-	(4,210,996)	-
Net position, end of year	\$ 8,860,509	\$ 11,918,247	\$ 14,709,807	\$ 15,586,832	\$ 23,570,316	\$ 27,505,079

CITY OF GAYLORD, MICHIGAN

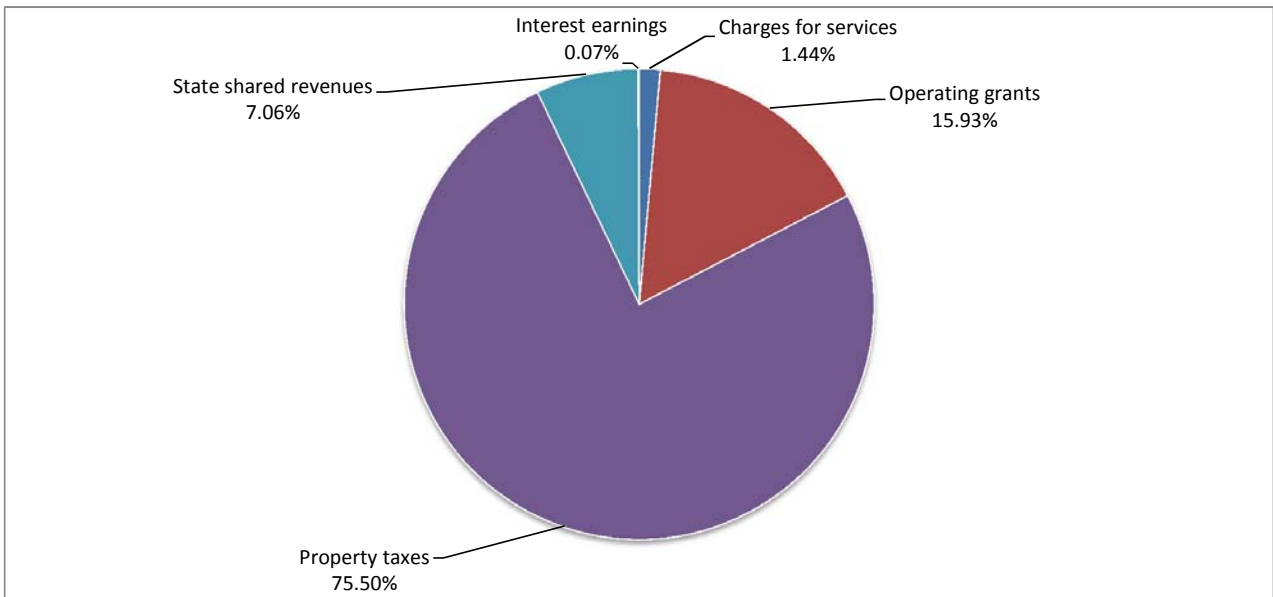
Management's Discussion and Analysis

Governmental Activities. Governmental activities decreased the City's net position by approximately \$136,500. Public works expenses decreased approximately \$115,800 compared to prior year, which is related to reduction in the scope of the annual street improvement project during the fiscal year as well as reduction in Department of Public Works personnel and general operation costs of the department. Transfers decreased approximately \$22,100 which is a result of reduction in capital assets for water and sewer departments funded by the Municipal Street Fund and transferred to each respective upon completion. Property tax revenue decreased approximately \$160,300 which is related to the increase of outstanding collectable personal property taxes in the previous fiscal year and reduction of debt millage levied. Capital grants revenue decreased due to no grants being award in the fiscal year for construction projects.

Expenditures and Program Revenues - Governmental Activities



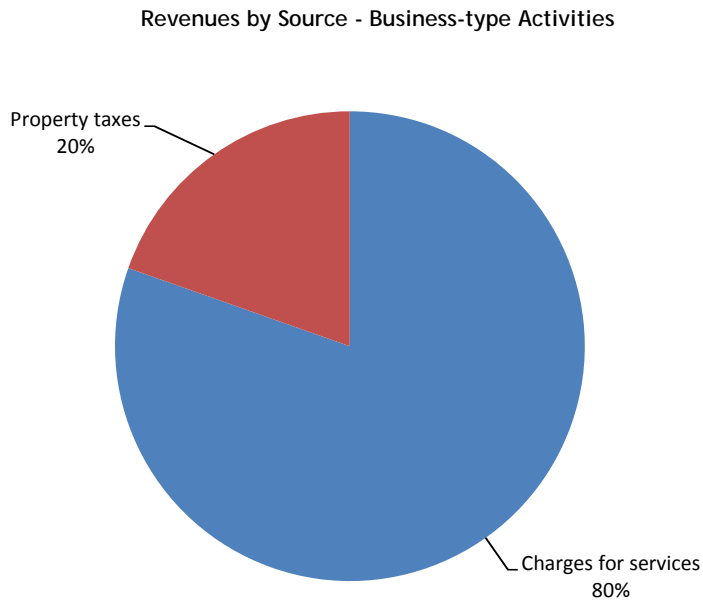
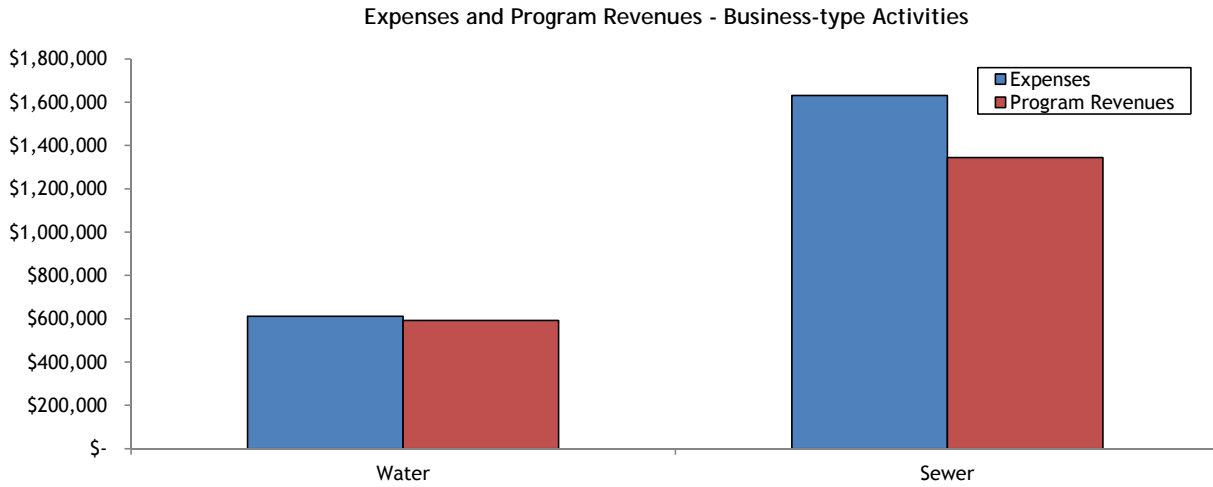
Revenues by Source - Governmental Activities



CITY OF GAYLORD, MICHIGAN

Management's Discussion and Analysis

Business-type Activities. Business-type activities increased the City's net position by approximately \$379,000 which was the result of an increase in utility rate income and capital assets funded by the Municipal Street Fund and transferred to business-type activities upon completion.



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 \$296,000 from approximately \$904,000 to approximately \$1,200,000 during 2015. This increase was substantially due to the City's constant monitoring of personnel and operating costs as well as reduction in interfund receivables/payables.

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 increase in net position of approximately \$104,000 and the Sewer Fund had an increase in net position of approximately \$276,000. The increase in both the Water Fund and Sewer Fund is mainly attributable to transfers in capital assets funded by the Municipal Street Fund in the fiscal year.

General Fund Budgetary Highlights

The actual revenues were approximately \$92,000 above budget which was mainly due to increase of actual property tax revenue over budget. Expenditure fluctuations from budget resulted mainly from reduction in General Government, Public Safety and Public Works expenses. Overall, total expenditures were under budget by approximately \$80,000.

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	
	2015	2014	2015	2014	2015	2014
Land	\$ 1,231,573	\$ 1,231,573	\$ 414,080	\$ 414,080	\$ 1,645,653	\$ 1,645,653
Construction-in-progress	79,000	30,050	-	-	79,000	30,050
Buildings and improvements	4,249,321	4,384,713	1,040,204	1,040,204	5,289,525	5,424,917
Office furnishings	5,792	7,080	-	-	5,792	7,080
Tools and equipment	200,981	239,278	-	-	200,981	239,278
Vehicles	159,827	64,395	-	-	159,827	64,395
Roads and sidewalks	7,913,263	8,182,195	-	-	7,913,263	8,182,195
Water and sewer system	-	-	17,400,842	17,844,494	17,400,842	17,844,494
Total capital assets, net	\$ 13,839,757	\$ 14,139,284	\$ 18,855,126	\$ 19,298,778	\$ 32,694,883	\$ 33,438,062

Additional information on the City's capital assets can be found in Note 6 to the financial statements.

CITY OF GAYLORD, MICHIGAN

Management's Discussion and Analysis

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.

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Bonds payable	\$ 4,085,000	\$ 4,290,000	\$ 4,165,000	\$ 4,745,000	\$ 8,250,000	\$ 9,035,000
Installment debt	289,835	332,603	-	-	289,835	332,603
Compensated absences	138,736	172,175	45,709	55,210	184,445	227,385
Total	\$ 4,513,571	\$ 4,794,778	\$ 4,210,709	\$ 4,800,210	\$ 8,724,280	\$ 9,594,988

Additional information on the City's long-term debt can be found in Note 9 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The 2016 budget projects less than a 1% decrease in taxable property values as well as decreases 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 2016 budget reflects a levy of 1.25 mill on the taxable value of real property to assist in financing essential services (police and fire) in the City. This levy is expected to generate approximately \$180,000 over the fiscal year. In addition, in November 2013, the street millage levy of 4.1513 mills was approved by City voters for a term of ten years and in November 2014, a county-wide road millage was passed of which will generate approximately \$170,000 for the City and 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. Existing debt issues continued to be reviewed and refinanced when it is found costs savings may occur. In late summer 2015 two existing debt issues were refinanced. A special assessment debt issue for the development of a shopping center is the only new debt issues planned or being considered in 2016.

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

CITY OF GAYLORD, MICHIGAN

Statement of Net Position

June 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	
Assets				
Cash and cash equivalents	\$ 1,566,831	\$ 1,008,723	\$ 2,575,554	\$ 28,688
Receivables, net	550,972	131,442	682,414	735
Due from component unit	7,831	-	7,831	-
Other assets	555,161	-	555,161	-
Restricted cash	297,143	470,940	768,083	-
Restricted investments	154,508	-	154,508	-
Capital assets not being depreciated	1,310,573	414,080	1,724,653	-
Capital assets being depreciated, net	12,529,184	18,441,046	30,970,230	523,441
Total assets	16,972,203	20,466,231	37,438,434	552,864
Deferred outflows of resources				
Deferred pension amounts	200,436	85,187	285,623	-
Liabilities				
Accounts payable and accrued liabilities	262,325	237,728	500,053	10,949
Due to primary government	-	-	-	7,831
Long-term liabilities:				
Due within one year	223,385	610,000	833,385	-
Due in more than one year	4,290,186	3,600,709	7,890,895	-
Net pension liability	3,278,024	1,393,174	4,671,198	-
Net other postemployment benefit obligation	258,210	-	258,210	-
Total liabilities	8,312,130	5,841,611	14,153,741	18,780
Net position				
Net investment in capital assets	9,187,450	14,690,126	23,877,576	523,441
Restricted for:				
Highways and streets	522,375	-	522,375	-
Debt service	77,198	-	77,198	-
Capital improvements	-	470,940	470,940	-
Investments	154,508	-	154,508	-
Nonexpendable perpetual care	298,393	-	298,393	-
Unrestricted (deficit)	(1,379,415)	(451,259)	(1,830,674)	10,643
Total net position	\$ 8,860,509	\$ 14,709,807	\$ 23,570,316	\$ 534,084

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

CITY OF GAYLORD, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2015

Functions / Programs	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 24,666	\$ -	\$ -	\$ -	\$ (24,666)
General government	854,173	26,055	90,211	-	(737,907)
Public safety	1,149,970	29,956	20,470	-	(1,099,544)
Public works	1,719,765	6,548	552,548	-	(1,160,669)
Culture and recreation	303,328	-	29,260	-	(274,068)
Interest expense - unallocated	184,366	-	-	-	(184,366)
Total governmental activities	4,236,268	62,559	692,489	-	(3,481,220)
Business-type activities:					
Water	611,855	591,399	-	-	(20,456)
Sewer	1,631,574	1,344,542	-	-	(287,032)
Total business-type activities	2,243,429	1,935,941	-	-	(307,488)
Total primary government	\$ 6,479,697	\$ 1,998,500	\$ 692,489	\$ -	\$ (3,788,708)
Component unit	\$ 177,876	\$ -	\$ -	\$ -	\$ (177,876)

Continued...

CITY OF GAYLORD, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net expense	\$ (3,481,220)	\$ (307,488)	\$ (3,788,708)	\$ (177,876)
General revenues:				
Property taxes:				
General operating	3,281,914	-	3,281,914	-
Debt	-	472,396	472,396	136,130
State shared revenues	306,958	-	306,958	-
Interest earnings	3,251	-	3,251	14
Miscellaneous revenue	-	422	422	25,505
Transfers - internal activities	(213,565)	213,565	-	-
Total general revenues and transfers	3,378,558	686,383	4,064,941	161,649
Change in net position	(102,662)	378,895	276,233	(16,227)
Net position, beginning of year, as restated	8,963,171	14,330,912	23,294,083	550,311
Net position, end of year	\$ 8,860,509	\$ 14,709,807	\$ 23,570,316	\$ 534,084

Concluded

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

CITY OF GAYLORD, MICHIGAN

Balance Sheet Governmental Funds June 30, 2015

	General Fund	Municipal Streets	Major Streets	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 755,574	\$ 134,259	\$ 302,915	\$ 178,952	\$ 1,371,700
Accounts receivable	-	-	-	35,075	35,075
Due from other governmental units	294,304	-	43,809	15,882	353,995
Special assessment receivable	-	-	-	155,900	155,900
Due from other funds	154,616	-	-	-	154,616
Due from component unit	7,831	-	-	-	7,831
Inventories	66,655	-	-	-	66,655
Real estate held for sale	250,000	-	-	238,506	488,506
Restricted cash	-	-	-	297,143	297,143
Restricted investments	154,508	-	-	-	154,508
Total assets	\$ 1,683,488	\$ 134,259	\$ 346,724	\$ 921,458	\$ 3,085,929
Liabilities					
Accounts payable	\$ 84,453	\$ 8,275	\$ 6,118	\$ 42,505	\$ 141,351
Accrued liabilities	55,256	-	772	821	56,849
Due to other funds	236,274	-	-	5,852	242,126
Negative equity in cash and cash equivalents	-	-	-	2,636	2,636
Total liabilities	375,983	8,275	6,890	51,814	442,962
Deferred inflow of resources					
Unavailable revenues	107,710	-	-	155,900	263,610
Fund balances					
Nonspendable:					
Inventories	66,655	-	-	-	66,655
Perpetual care	-	-	-	298,393	298,393
Restricted:					
Highways and streets	-	125,984	339,834	56,557	522,375
Wastewater and sewer water asset management	-	-	-	-	-
Debt service	-	-	-	120,288	120,288
Investments	154,508	-	-	-	154,508
Assigned - real estate held for sale	250,000	-	-	238,506	488,506
Unassigned	728,632	-	-	-	728,632
Total fund balances	1,199,795	125,984	339,834	713,744	2,379,357
Total liabilities, deferred inflow of resources and fund balances	\$ 1,683,488	\$ 134,259	\$ 346,724	\$ 921,458	\$ 3,085,929

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

CITY OF GAYLORD, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2015

Fund balances - total governmental funds \$ 2,379,357

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	1,310,573
Capital assets being depreciated, net	12,529,184
Capital assets not being depreciated, reported in internal services funds	(11,590)
Capital assets being depreciated, net, reported in internal services funds	(289,629)

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	263,610
Personal property tax receivables, net	6,003

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	165,553
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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	(130,917)
Installment debt and bonds payable	(4,260,000)
Net other postemployment benefit obligation	(258,210)
Accrued interest on bonds payable	(43,090)

Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds.

Net pension liability	(2,982,714)
Deferred outflows related to the net pension liability	182,379

Net position of governmental activities \$ 8,860,509

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, 2015

	General Fund	Municipal Streets	Major Streets	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes and penalties	\$ 2,326,249	\$ 710,747	\$ -	\$ 274,563	\$ 3,311,559
Special assessments	-	-	-	76,548	76,548
Charges for services	56,011	-	-	-	56,011
State revenue	322,951	-	317,513	213,040	853,504
Local revenue	29,260	-	-	-	29,260
Interest	3,251	-	-	-	3,251
Miscellaneous	94,688	5,006	61	7,750	107,505
Total revenues	2,832,410	715,753	317,574	571,901	4,437,638
Expenditures					
Current:					
Legislative	24,666	-	-	-	24,666
General government	490,484	-	-	-	490,484
Public safety	1,134,010	-	-	-	1,134,010
Public works	352,201	565,298	266,668	272,389	1,456,556
Culture and recreation	42,916	-	-	-	42,916
Other	329,660	-	-	1,603	331,263
Debt service:					
Principal	15,000	-	-	205,000	220,000
Interest and fiscal charges	12,960	-	-	174,729	187,689
Total expenditures	2,401,897	565,298	266,668	653,721	3,887,584
Revenues over (under) expenditures	430,513	150,455	50,906	(81,820)	550,054
Other financing sources (uses)					
Transfers in	37,833	-	-	172,331	210,164
Transfers out	(172,331)	(312,098)	-	-	(484,429)
Total other financing sources (uses)	(134,498)	(312,098)	-	172,331	(274,265)
Net change in fund balances	296,015	(161,643)	50,906	90,511	275,789
Fund balances, beginning of year	903,780	287,627	288,928	623,233	2,103,568
Fund balances, end of year	\$ 1,199,795	\$ 125,984	\$ 339,834	\$ 713,744	\$ 2,379,357

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, 2015

Net change in fund balances - total governmental funds \$ 275,789

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	596,031
Depreciation expense	(925,374)

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	(70,000)
Increase in delinquent personal property taxes	1,357
Due from other governmental units	(31,002)

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	220,000
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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	3,323
Change in the accrual of compensated absences	34,241
Change in the net pension liability and related deferred amounts	(111,474)
Change in net other postemployment benefits obligation	(52,436)

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	(43,117)
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Change in net position of governmental activities	\$ (102,662)
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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 Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes and penalties	\$ 2,229,008	\$ 2,229,008	\$ 2,326,249	\$ 97,241
Charges for services	43,650	43,650	56,011	12,361
State revenue	325,064	325,064	322,951	(2,113)
Local revenue	20,350	20,350	29,260	8,910
Interest	1,000	1,000	3,251	2,251
Miscellaneous	121,033	121,033	94,688	(26,345)
Total revenues	2,740,105	2,740,105	2,832,410	92,305
Expenditures				
Current:				
Legislative	27,550	27,550	24,666	(2,884)
General government	509,345	509,345	490,484	(18,861)
Public safety	1,168,595	1,168,595	1,134,010	(34,585)
Public works	383,240	383,240	352,201	(31,039)
Culture and recreation	41,750	41,750	42,916	1,166
Other	327,815	327,815	329,660	1,845
Debt service:				
Principal	15,000	15,000	15,000	-
Interest	8,760	8,760	12,960	4,200
Total expenditures	2,482,055	2,482,055	2,401,897	(80,158)
Revenues over expenditures	258,050	258,050	430,513	172,463
Other financing sources (uses)				
Transfers in	-	-	37,833	37,833
Transfers out	(182,850)	(182,850)	(172,331)	(10,519)
Total other financing sources (uses)	(182,850)	(182,850)	(134,498)	48,352
Net change in fund balance	75,200	75,200	296,015	220,815
Fund balance, beginning of year	903,780	903,780	903,780	-
Fund balance, end of year	\$ 978,980	\$ 978,980	\$ 1,199,795	\$ 220,815

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

CITY OF GAYLORD, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - Municipal Streets Special Revenue Fund
 For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes and penalties	\$ 694,500	\$ 694,500	\$ 710,747	\$ 16,247
Miscellaneous	-	-	5,006	5,006
Total revenues	694,500	694,500	715,753	21,253
Expenditures				
Current:				
Public works	787,175	787,175	565,298	(221,877)
Revenues over (under) expenditures	(92,675)	(92,675)	150,455	243,130
Other financing uses				
Transfers out	-	-	(312,098)	312,098
Net change in fund balance	(92,675)	(92,675)	(161,643)	(68,968)
Fund balance, beginning of year	287,627	287,627	287,627	-
Fund balance, end of year	\$ 194,952	\$ 194,952	\$ 125,984	\$ (68,968)

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

CITY OF GAYLORD, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - Major Streets Special Revenue Fund
 For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	\$ 336,341	\$ 336,341	\$ 317,513	\$ (18,828)
Miscellaneous	95,214	95,214	61	(95,153)
Total revenues	431,555	431,555	317,574	(113,981)
Expenditures				
Current:				
Public works	323,167	323,167	266,668	(56,499)
Revenues over (under) expenditures	108,388	108,388	50,906	(57,482)
Other financing sources				
Transfers in	11,425	11,425	-	11,425
Net change in fund balance	108,388	108,388	50,906	(57,482)
Fund balance, beginning of year	288,928	288,928	288,928	-
Fund balance, end of year	\$ 397,316	\$ 397,316	\$ 339,834	\$ (57,482)

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

CITY OF GAYLORD, MICHIGAN

Statement of Net Position

Proprietary Funds

June 30, 2015

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents	\$ 183,759	\$ 824,964	\$ 1,008,723	\$ 197,767
Accounts receivable	37,653	93,789	131,442	-
Due from other funds	-	-	-	87,510
Total current assets	221,412	918,753	1,140,165	285,277
Noncurrent assets:				
Restricted cash	163,372	307,568	470,940	-
Capital assets not being depreciated	33,100	380,980	414,080	11,590
Capital assets being depreciated, net	4,537,739	13,903,307	18,441,046	289,629
Total noncurrent assets	4,734,211	14,591,855	19,326,066	301,219
Total assets	4,955,623	15,510,608	20,466,231	586,496
Deferred outflows of resources				
Deferred pension amounts	34,044	51,143	85,187	18,057
Liabilities				
Current liabilities:				
Accounts payable	67,447	120,060	187,507	17,398
Accrued liabilities	4,413	45,808	50,221	3,638
Current portion of bonds payable	-	610,000	610,000	-
Current portion of capital lease payable	-	-	-	28,385
Total current liabilities	71,860	775,868	847,728	49,421
Noncurrent liabilities:				
Bonds payable, net of current portion	-	3,555,000	3,555,000	-
Capital lease payable, net of current portion	-	-	-	86,450
Net pension liability	556,767	836,407	1,393,174	295,310
Compensated absences	12,799	32,910	45,709	7,819
Total noncurrent liabilities	569,566	4,424,317	4,993,883	389,579
Total liabilities	641,426	5,200,185	5,841,611	439,000
Net position				
Net investment in capital assets	4,570,839	10,119,287	14,690,126	301,219
Restricted for capital improvements	163,372	307,568	470,940	-
Unrestricted deficit	(385,970)	(65,289)	(451,259)	(135,666)
Total net position	\$ 4,348,241	\$ 10,361,566	\$ 14,709,807	\$ 165,553

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

CITY OF GAYLORD, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Operating revenues				
Sales and charges for services	\$ 591,399	\$ 1,344,542	\$ 1,935,941	\$ -
Equipment rental	-	-	-	339,503
Total operating revenues	591,399	1,344,542	1,935,941	339,503
Operating expenses				
Personnel services	271,276	446,789	718,065	162,816
Contracted services	56,572	133,647	190,219	-
Supplies and repairs	41,189	57,172	98,361	198,182
Equipment rental	36,078	28,935	65,013	27
Utilities	79,093	151,457	230,550	-
Depreciation	117,077	638,673	755,750	61,457
Miscellaneous	10,570	23,963	34,533	30,016
Total operating expenses	611,855	1,480,636	2,092,491	452,498
Operating loss	(20,456)	(136,094)	(156,550)	(112,995)
Nonoperating revenue (expenses)				
Taxes and penalties	-	472,396	472,396	-
Miscellaneous revenue	422	-	422	9,178
Interest expense	-	(150,938)	(150,938)	-
Total nonoperating revenue (expenses)	422	321,458	321,880	9,178
Net income (loss) before transfers	(20,034)	185,364	165,330	(103,817)
Transfers				
Transfers in	143,906	168,192	312,098	60,700
Transfers out	(20,673)	(77,860)	(98,533)	-
Total transfers	123,233	90,332	213,565	60,700
Change in net position	103,199	275,696	378,895	(43,117)
Net position, beginning of year, as restated	4,245,042	10,085,870	14,330,912	208,670
Net position, end of year	\$ 4,348,241	\$ 10,361,566	\$ 14,709,807	\$ 165,553

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

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CITY OF GAYLORD, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Cash flows from operating activities				
Cash collected from customers	\$ 579,099	\$ 1,340,835	\$ 1,919,934	\$ -
Cash collected from other funds	-	-	-	339,503
Cash paid for employee wages and benefits	(263,518)	(411,981)	(675,499)	(150,977)
Cash paid for other operating and administrative expenses	(229,675)	(379,840)	(609,515)	(54,984)
Net cash provided by operating activities	85,906	549,014	634,920	133,542
Cash flows from noncapital financing activities				
Taxes and penalties	-	472,396	472,396	-
Transfers in	143,906	168,192	312,098	60,700
Transfers out	(20,673)	(77,860)	(98,533)	-
Other receipts	422	-	422	9,178
Net cash provided by noncapital financing activities	123,655	562,728	686,383	69,878
Cash flows from capital and related financing activities				
Interest paid on long-term debt	-	(150,938)	(150,938)	-
Principal paid on long-term debt	-	(580,000)	(580,000)	(27,768)
Purchase of capital assets	(143,906)	(168,192)	(312,098)	(91,273)
Net cash used in capital and related financing activities	(143,906)	(899,130)	(1,043,036)	(119,041)
Net increase in cash and cash equivalents	65,655	212,612	278,267	84,379
Cash and cash equivalents, beginning of year	281,476	919,920	1,201,396	113,388
Cash and cash equivalents, including restricted cash, end of year	347,131	1,132,532	1,479,663	197,767
Less restricted cash, end of year	163,372	307,568	470,940	-
Cash and cash equivalents, end of year	\$ 183,759	\$ 824,964	\$ 1,008,723	\$ 197,767

Continued...

CITY OF GAYLORD, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Cash flows from operating activities				
Operating loss	\$ (20,456)	\$ (136,094)	\$ (156,550)	\$ (112,995)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation	117,077	638,673	755,750	61,457
Changes in operating assets and liabilities:				
Accounts receivable	(12,300)	(3,707)	(16,007)	-
Due from other funds	-	-	-	200,000
Accounts payable	(4,457)	18,373	13,916	(27,244)
Accrued liabilities	(1,716)	(3,039)	(4,755)	485
Net pension liability and related deferred amounts	20,808	31,259	52,067	11,037
Compensated absences	(13,050)	3,549	(9,501)	802
Net cash provided by operating activities	<u>\$ 85,906</u>	<u>\$ 549,014</u>	<u>\$ 634,920</u>	<u>\$ 133,542</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, 2015

Assets	
Cash and cash equivalents	\$ 179,881
Due from other funds	<u>10,698</u>
Total assets	<u>\$ 190,579</u>
Liabilities	
Due to governmental entities	<u>\$ 190,579</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF GAYLORD, MICHIGAN

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, Michigan* (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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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.

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.

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, MICHIGAN

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 outflows of resources, 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, MICHIGAN

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 \$26,705 at June 30, 2015.

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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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.

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, tools and equipment	3-20
Vehicles	3-10
Water and sewer system	40-75
Roads and sidewalks	15-25

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided to its pension plan. More detailed information can be found in Note 10.

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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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 and other long-term receivables from other governmental units. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

Fund balances

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.

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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

Pensions

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

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.
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 activity 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. There were no budget amendments for fiscal year 2015.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

3. ACCOUNTABILITY AND BUDGETARY COMPLIANCE

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 activity level basis for all governmental funds, which is the legal level of control. During the year ended June 30, 2015 the City had expenditures in excess of the amounts budgeted as follows:

	Final Budget	Actual Expenditures	Unfavorable Variance
General Fund			
General government:			
Professional services	\$ 16,000	\$ 18,083	\$ 2,083
Assessor	90,150	94,652	4,502
Treasurer	30,850	32,989	2,139
Other city property	81,000	101,007	20,007
Cemetery	75,400	80,102	4,702
Planning	4,105	7,824	3,719
Culture and recreation:			
Park maintenance and construction	41,750	42,916	1,166
Other expenditures:			
General administration	42,740	68,157	25,417
Administrative supplies	32,000	34,407	2,407
Debt service:			
Interest	8,760	12,960	4,200
Municipal Streets Fund			
Transfers out	-	312,098	312,098

Deficit Fund Balance / Net Position

At June 30, 2015, the City reported unrestricted deficit/net position in the Water, Sewer, and Internal Service Funds of \$385,970, \$65,289, and \$135,666, respectively. However, total net position was positive for each of these funds.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2015:

	Primary Government	Fiduciary Fund	Component Unit	Totals
Statement of Net Position				
Cash and cash equivalents	\$ 2,575,554	\$ -	\$ 28,688	\$ 2,604,242
Restricted cash	768,083	-	-	768,083
Restricted investments	154,508	-	-	154,508
Statement of Fiduciary Assets and Liabilities				
Cash and cash equivalents	-	179,881	-	179,881
Total	\$ 3,498,145	\$ 179,881	\$ 28,688	\$ 3,706,714
Deposits and investments				
Bank deposits:				
Checking and savings accounts				\$ 3,551,806
Investments:				
External investment pool				154,508
Cash on hand				400
Total				\$ 3,706,714

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, \$3,095,218 of the City's total bank deposits of \$3,374,464 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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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.
- 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, 2015:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable	\$ 41,077	\$ 131,442	\$ 735
Due from other governmental units	353,995	-	-
Special assessment receivable:			
Due within one year	70,000	-	-
Due after one year	85,900	-	-
	<u>\$ 550,972</u>	<u>\$ 131,442</u>	<u>\$ 735</u>

Governmental funds report unavailable revenue in connection with receivables 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, \$107,710 was recorded as unavailable revenue in the General Fund and \$155,900 was recorded as unavailable revenue in the Edelweiss Special Assessment Fund and is unavailable to liquidate liabilities of the current period.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

6. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government was as follows for the year ended June 30, 2015:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 1,231,573	\$ -	\$ -	\$ -	\$ 1,231,573
Construction-in-progress	30,050	79,000	-	(30,050)	79,000
	<u>1,261,623</u>	<u>79,000</u>	<u>-</u>	<u>(30,050)</u>	<u>1,310,573</u>
Capital assets, being depreciated:					
Buildings and improvements	5,672,054	-	-	-	5,672,054
Office furnishings	262,875	-	-	-	262,875
Tools and equipment	1,027,477	-	-	-	1,027,477
Vehicles	1,449,613	140,858	-	-	1,590,471
Roads and sidewalks	18,562,458	467,446	-	30,050	19,059,954
	<u>26,974,477</u>	<u>608,304</u>	<u>-</u>	<u>30,050</u>	<u>27,612,831</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,287,341)	(135,392)	-	-	(1,422,733)
Office furnishings	(255,795)	(1,288)	-	-	(257,083)
Tools and equipment	(788,199)	(38,297)	-	-	(826,496)
Vehicles	(1,385,218)	(45,426)	-	-	(1,430,644)
Roads and sidewalks	(10,380,263)	(766,428)	-	-	(11,146,691)
	<u>(14,096,816)</u>	<u>(986,831)</u>	<u>-</u>	<u>-</u>	<u>(15,083,647)</u>
Total capital assets being depreciated, net	<u>12,877,661</u>	<u>(378,527)</u>	<u>-</u>	<u>30,050</u>	<u>12,529,184</u>
Governmental activities capital assets, net	<u>\$ 14,139,284</u>	<u>\$ (299,527)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,839,757</u>

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 414,080	\$ -	\$ -	\$ -	\$ 414,080
Capital assets, being depreciated:					
Buildings & equipment	1,844,760	-	-	-	1,844,760
Water and sewer system	29,475,747	312,098	-	-	29,787,845
	<u>31,320,507</u>	<u>312,098</u>	<u>-</u>	<u>-</u>	<u>31,632,605</u>
Less accumulated depreciation for:					
Buildings & equipment	(804,556)	-	-	-	(804,556)
Water and sewer system	(11,631,253)	(755,750)	-	-	(12,387,003)
	<u>(12,435,809)</u>	<u>(755,750)</u>	<u>-</u>	<u>-</u>	<u>(13,191,559)</u>
Total capital assets being depreciated, net	<u>18,884,698</u>	<u>(443,652)</u>	<u>-</u>	<u>-</u>	<u>18,441,046</u>
Business-type activities capital assets, net	<u>\$ 19,298,778</u>	<u>\$ (443,652)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,855,126</u>

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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

Capital asset activity for the DDA component unit was as follow for the year ended June 30, 2015:

	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	(199,630)	(31,452)	-	-	(231,082)
Capital assets, net	<u>\$ 554,893</u>	<u>\$ (31,452)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 523,441</u>

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

Governmental activities		
General government		\$ 163,347
Public works		712,152
Culture and recreation		49,875
Capital assets held by the City's internal service fund are charged to the various functions based on their usage of the assets		<u>61,457</u>
		<u>\$ 986,831</u>
Business-type activities		
Water		\$ 117,077
Sewer		<u>638,673</u>
		<u>\$ 755,750</u>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The composition of accounts payable and accrued liabilities is as follows at June 30, 2015:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 158,748	\$ 187,507	\$ 9,946
Accrued liabilities	<u>103,577</u>	<u>50,221</u>	<u>1,003</u>
Total accounts payable and accrued liabilities	<u>\$ 262,325</u>	<u>\$ 237,728</u>	<u>\$ 10,949</u>

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

8. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2015, was as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 154,616	\$ 236,274
Nonmajor governmental funds	-	5,852
Internal Service Fund	87,510	-
	<u>\$ 242,126</u>	<u>\$ 242,126</u>

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, 2015:

	Transfers In	Transfers Out
General Fund	\$ 37,833	\$ 172,331
Municipal Streets Fund	-	312,098
Nonmajor governmental funds	172,331	-
Water Fund	143,906	20,673
Sewer Fund	168,192	77,860
Internal Service Funds	60,700	-
	<u>\$ 582,962</u>	<u>\$ 582,962</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, MICHIGAN

Notes to Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Installment debt					
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.	\$ 190,000	\$ -	\$ (15,000)	\$ 175,000	\$ 15,000
2014 Capital Lease, payable in monthly installments of \$2,552, including interest at 2.20%, final payment due June 2019.	142,603	-	(27,768)	114,835	28,385
Total installment debt	332,603	-	(42,768)	289,835	43,385
Bonded debt					
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.					
	620,000	-	(60,000)	560,000	55,000
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.					
	3,450,000	-	(75,000)	3,375,000	75,000

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
2003 Special Assessment Limited Tax Bonds, payable in annual installments ranging from \$50,000 to \$70,000, interest is charged semi-annually ranging from 3.20% to 3.70%; final payment due October 2017.	\$ 220,000	\$ -	\$ (70,000)	\$ 150,000	\$ 50,000
Total bonded debt	4,290,000	-	(205,000)	4,085,000	180,000
Total installment and bonded debt	4,622,603	-	(247,768)	4,374,835	223,385
Accrued compensated absences	172,175	128,915	(162,354)	138,736	-
Total governmental activities	\$ 4,794,778	\$ 128,915	\$ (410,122)	\$ 4,513,571	\$ 223,385
Business-type Activities					
General Obligation Unlimited Tax Refunding Bonds, Series 2005, payable in annual installments ranging from \$405,000 to \$570,000, interest is charged semi-annually ranging from 3.72% to 4.24%; final payment due October 2019.	\$ 2,970,000	\$ -	\$ (425,000)	\$ 2,545,000	\$ 445,000
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.	1,175,000	-	(155,000)	1,020,000	165,000

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
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	\$ -
Total bonded debt	4,745,000	-	(580,000)	4,165,000	610,000
Accrued compensated absences	55,210	37,276	(46,777)	45,709	-
Total business-type activities	\$ 4,800,210	\$ 37,276	\$ (626,777)	\$ 4,210,709	\$ 610,000

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
2016	\$ 223,385	\$ 177,649	\$ 610,000	\$ 135,938
2017	229,018	168,306	630,000	114,846
2018	254,662	161,113	675,000	91,897
2019	202,770	153,710	725,000	67,096
2020	175,000	147,516	745,000	40,991
2021-2025	840,000	642,687	780,000	13,881
2026-2030	950,000	472,675	-	-
2031-2035	1,250,000	227,125	-	-
2036	250,000	11,375	-	-
	\$ 4,374,835	\$ 2,162,156	\$ 4,165,000	\$ 464,649

Total interest expense for the primary government for the year ending June 30, 2015, was \$335,304.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

10. DEFINED BENEFIT PENSION PLAN

General Information About the Plan

Plan Description. The City participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 or 5 year period) and multipliers ranging from 1.0% to 2.0%. Participants are considered to be fully vested in the plan after 6 or 10 years, depending on division/bargaining unit. Normal retirement age is 60 with early retirement at age 50 with 25 years of service, or age 55 with 15 years of service, depending on the division/bargaining unit. The employer may establish contribution rates to be paid by its covered employees. Employees of the Police department are required to contribute 3%.

Employees Covered by Benefit Terms. At December 31, 2014, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	27
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>27</u>
Total membership	<u><u>56</u></u>

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

Contributions. The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions are expressed as a percentage of payroll for open divisions and as a fixed monthly amount for closed divisions as summarized in the following table:

Division	Plan Type	Status	Employer Contribution Rate	Employee Contribution Rate
General Non-Union	Defined Benefit	Closed	\$ 4,830	0%
Police General	Defined Benefit	Closed	13,180	3%
Public Works	Defined Benefit	Closed	9,664	0%
Police General	Defined Benefit	Open	13.25%	3%
Non-Union	Hybrid	Open	5.72%	0%

Net Pension Liability. The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3% to 4%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016 respectively)
Investment rate of return	8.25%, net of investment expense and including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate
Global equity	57.5%	5.02%	2.89%
Global fixed income	20.0%	2.18%	0.44%
Real assets	12.5%	4.23%	0.53%
Diversifying strategies	<u>10.0%</u>	6.56%	0.65%
	<u>100.0%</u>		
Inflation			3.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.25%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.25% for 2014. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pensions plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2013	\$ 12,132,000	\$ 7,751,785	\$ 4,380,215
Changes for the year:			
Service cost	162,364	-	162,364
Interest	977,409	-	977,409
Employer contributions	-	342,617	(342,617)
Employee contributions	-	39,794	(39,794)
Net investment income	-	484,113	(484,113)
Benefit payments, including refunds of employee contributions	(731,630)	(731,630)	-
Administrative expense	-	(17,734)	17,734
Net changes	408,143	117,160	290,983
Balances at December 31, 2014	\$ 12,540,143	\$ 7,868,945	\$ 4,671,198

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's net pension liability	\$ 6,040,211	\$ 4,671,198	\$ 3,509,618

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2015, the City recognized pension expense of \$521,382. The City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 112,218	\$ -	\$ 112,218
Contributions subsequent to the measurement date	173,405	-	173,405
Total	\$ 285,623	\$ -	\$ 285,623

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2016. Other amounts reported as deferred outflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ 28,054
2017	28,054
2018	28,054
2019	28,056
Total	\$ 112,218

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, 2014, the date of the last plan valuation, the City's healthcare plan covered thirty-three members (twenty-nine active plan members and four 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, 2015, the City contributed \$15,719 to the Plan, all of which was to fund current year benefits.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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	\$ 74,336
Interest on net OPEB obligation	206
Adjustment to annual required contribution	<u>(6,387)</u>
Net OPEB cost	68,155
Contributions made	<u>(15,719)</u>
Increase in net OPEB obligation	52,436
Net OPEB obligation, beginning of year	<u>205,774</u>
Net OPEB obligation, end of year	<u><u>\$ 258,210</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2015 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
2013	\$ 53,937	27%	\$ 148,120
2014	70,108	18%	205,774
2015	68,155	23%	258,210

Funded Status and Funding Progress. As of June 30, 2014, the date of the most recent valuation, the actuarial accrued liability for benefits was \$921,038, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,526,351 and the ratio of the UAAL to the covered payroll was 60%.

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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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.

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 0.10% 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, 2014, was thirty 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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

13. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2015 was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Capital assets:			
Capital assets not being depreciated	\$ 1,310,573	\$ 414,080	\$ -
Capital assets being depreciated, net	12,529,184	18,441,046	523,441
	<u>13,839,757</u>	<u>18,855,126</u>	<u>523,441</u>
Noncurrent liabilities:			
Due within one year	(223,385)	(610,000)	-
Due in more than one year	(4,290,186)	(3,600,709)	-
Add back: accrued compensated absences	(138,736)	45,709	-
	<u>(4,652,307)</u>	<u>(4,165,000)</u>	<u>-</u>
Net Investment in Capital Assets	<u>\$ 9,187,450</u>	<u>\$ 14,690,126</u>	<u>\$ 523,441</u>

14. SUBSEQUENT EVENTS

In October, 2015 the City paid \$17,148 for tax tribunal cases settled in July, 2015.

In September, 2015, the City entered into an installment purchase agreement with Chemical Bank in the amount of \$180,000 for a vehicle purchase for the Department of Public Works. The balance will be payable over a term of five years at the rate of 1.99% per annum with annual principal installments commencing in 2016.

In August, 2015, the City issued 2015 Unlimited Tax General Obligation Refunding Bonds. The purpose of the refunding was to advance refund the City's 1999 Wastewater System General Obligation Unlimited Tax Bonds, the City's General Obligation Unlimited Tax Refunding Bonds, Series 2005, the City's General Obligation Unlimited Tax Bonds, Series 2006, and to pay certain expenses relating to the issuance of the bonds. The refunding resulted in a savings of \$412,495.

15. RESTATEMENT

The City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities, the business-type activities, and the Internal Service fund was decreased by \$2,955,076, \$1,255,920, and \$266,216 respectively.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GAYLORD, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in City's Net Pension Liability and Related Ratios

	Year Ended June 30, 2015
Total pension liability	
Service cost	\$ 162,364
Interest	977,409
Benefit payments, including refunds of employee contributions	(731,630)
Net change in total pension liability	<u>408,143</u>
Total pension liability, beginning of year	<u>12,132,000</u>
Total pension liability, end of year	<u>12,540,143</u>
Plan fiduciary net position	
Employer contributions	342,617
Employee contributions	39,794
Net investment income	484,113
Benefit payments, including refunds of employee contributions	(731,630)
Administrative expense	(17,734)
Net change in plan fiduciary net position	<u>117,160</u>
Plan fiduciary net position, beginning of year	<u>7,751,785</u>
Plan fiduciary net position, end of year	<u>7,868,945</u>
City's net pension liability	<u>\$ 4,671,198</u>
Plan fiduciary net position as a percentage of total pension liability	62.8%
Covered-employee payroll	<u>\$ 1,368,817</u>
City's net pension liability as a percentage of covered-employee payroll	341.3%

Notes:

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF GAYLORD, MICHIGAN

Required Supplementary Information MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 12,540,143	\$ 7,868,945	\$ 4,671,198	62.8%	\$ 1,368,817	341.26%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF GAYLORD, MICHIGAN

Required Supplementary Information MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2015	\$ 346,804	\$ 346,804	\$ -	\$ 1,367,438	25.4%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date December 31, 2014
 Notes Actuarially determined contribution rates are calculated as of the June 30 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	24 years
Asset valuation method	10 year
Inflation	3.0% to 4.0%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.25%, net of investment expense and including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations.
Mortality	1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

CITY OF GAYLORD, MICHIGAN

Required Supplementary Information

Single-Employer Defined Benefit Other Postemployment Benefits Plan

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%
6/30/2014	-	921,038	921,038	0%	1,526,351	60%

Schedule of Employer Contributions Other Postemployment Benefits Plan		
Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2013	\$ 54,811	36%
2014	74,336	17%
2015	74,336	21%

* 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**

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CITY OF GAYLORD, MICHIGAN

Detailed Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2015

	Original Budget	Original and Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes and penalties	\$ 2,229,008	\$ 2,229,008	\$ 2,326,249	\$ 97,241
Charge for services	43,650	43,650	56,011	12,361
State revenue	325,064	325,064	322,951	(2,113)
Local revenue	20,350	20,350	29,260	8,910
Interest	1,000	1,000	3,251	2,251
Miscellaneous	121,033	121,033	94,688	(26,345)
Total revenues	2,740,105	2,740,105	2,832,410	92,305

Continued...

CITY OF GAYLORD, MICHIGAN

Detailed Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Legislative:				
City council	\$ 27,550	\$ 27,550	\$ 24,666	\$ (2,884)
General government:				
City manager	58,142	58,142	48,867	(9,275)
Elections	22,300	22,300	13,992	(8,308)
Professional services	16,000	16,000	18,083	2,083
Assessor	90,150	90,150	94,652	4,502
City attorney	42,000	42,000	40,427	(1,573)
Clerk	49,900	49,900	22,232	(27,668)
Board of review	2,345	2,345	1,999	(346)
Treasurer	30,850	30,850	32,989	2,139
Building and grounds	37,153	37,153	28,310	(8,843)
Other city property	81,000	81,000	101,007	20,007
Cemetery	75,400	75,400	80,102	4,702
Planning	4,105	4,105	7,824	3,719
Total general government	509,345	509,345	490,484	(18,861)
Public safety:				
Police department	1,107,270	1,107,270	1,072,685	(34,585)
Fire department	61,325	61,325	61,325	-
Total public safety	1,168,595	1,168,595	1,134,010	(34,585)
Public works:				
Public works	198,950	198,950	190,960	(7,990)
Sidewalk	16,040	16,040	11,961	(4,079)
Street lighting	89,950	89,950	89,522	(428)
Parking	78,300	78,300	59,758	(18,542)
Total public works	383,240	383,240	352,201	(31,039)

Continued...

CITY OF GAYLORD, MICHIGAN

Detailed Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)				
Culture and recreation:				
Park maintenance and construction	\$ 41,750	\$ 41,750	\$ 42,916	\$ 1,166
Other expenditures:				
General administration	42,740	42,740	68,157	25,417
Administrative supplies	32,000	32,000	34,407	2,407
Community promotion	202,575	202,575	196,952	(5,623)
Insurance and bonds	20,500	20,500	14,423	(6,077)
Fringe benefits	30,000	30,000	15,721	(14,279)
Total other expenditures	327,815	327,815	329,660	1,845
Debt service:				
Principal	15,000	15,000	15,000	-
Interest	8,760	8,760	12,960	4,200
Total debt service	23,760	23,760	27,960	4,200
Total expenditures	2,482,055	2,482,055	2,401,897	(80,158)
Revenues over expenditures	258,050	258,050	430,513	172,463
Other financing sources (uses)				
Transfers in	-	-	37,833	37,833
Transfers out	(182,850)	(182,850)	(172,331)	(10,519)
Total other financing sources (uses)	(182,850)	(182,850)	(134,498)	48,352
Net change in fund balance	75,200	75,200	296,015	220,815
Fund balance, beginning of year	903,780	903,780	903,780	-
Fund balance, end of year	\$ 978,980	\$ 978,980	\$ 1,199,795	\$ 220,815

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CITY OF GAYLORD, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2015

	Special Revenue Funds		Debt Service Funds			
	Local Streets (203)	SAW (211)	Edelweiss Special Assessment (394)	Mankowski Road (330)	Industrial Park (302)	City Hall (315)
Assets						
Cash and cash equivalents	\$ 52,812	\$ -	\$ 1,995	\$ 6,081	\$ 10,166	\$ 107,898
Accounts receivable	-	33,825	-	-	-	-
Due from other governmental units	15,882	-	-	-	-	-
Special assessment receivable	-	-	155,900	-	-	-
Real estate held for sale	-	-	-	-	-	-
Restricted cash	-	-	-	-	-	-
Total assets	\$ 68,694	\$ 33,825	\$ 157,895	\$ 6,081	\$ 10,166	\$ 107,898
Liabilities						
Accounts payable	\$ 11,316	\$ 31,189	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	821	-	-	-	-	-
Due to other funds	-	-	-	-	5,852	-
Negative equity in cash and cash equivalents	-	2,636	-	-	-	-
Total liabilities	12,137	33,825	-	-	5,852	-
Deferred inflow of resources						
Unavailable revenue	-	-	155,900	-	-	-
Fund balances						
Nonspendable - perpetual care	-	-	-	-	-	-
Restricted:						
Highways and streets	56,557	-	-	-	-	-
Debt service	-	-	1,995	6,081	4,314	107,898
Assigned - real estate held for sale	-	-	-	-	-	-
Total fund balances	56,557	-	1,995	6,081	4,314	107,898
Total liabilities, deferred inflow of resources and fund balances	\$ 68,694	\$ 33,825	\$ 157,895	\$ 6,081	\$ 10,166	\$ 107,898

Capital Project Fund		
IDC (415)	Permanent Fund (711)	Total
\$ -	\$ -	\$ 178,952
-	1,250	35,075
-	-	15,882
-	-	155,900
238,506	-	238,506
-	297,143	297,143
<u>\$ 238,506</u>	<u>\$ 298,393</u>	<u>\$ 921,458</u>

\$ -	\$ -	\$ 42,505
-	-	821
-	-	5,852
-	-	2,636
-	-	51,814
-	-	155,900
-	298,393	298,393
-	-	56,557
-	-	120,288
238,506	-	238,506
<u>238,506</u>	<u>298,393</u>	<u>713,744</u>
<u>\$ 238,506</u>	<u>\$ 298,393</u>	<u>\$ 921,458</u>

CITY OF GAYLORD, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2015

	Special Revenue Funds		Debt Service Funds			
	Local Streets (203)	SAW (211)	Edelweiss Special Assessment (394)	Mankowski Road (330)	Industrial Park (302)	City Hall (315)
Revenues						
Taxes and penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 274,563
Special assessments	-	-	76,548	-	-	-
State revenues	109,563	103,477	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total revenues	109,563	103,477	76,548	-	-	274,563
Expenditures						
Current:						
Public works	168,912	103,477	-	-	-	-
Other	-	-	775	-	-	828
Debt service:						
Principal	-	-	70,000	-	60,000	75,000
Interest and fiscal charges	-	-	6,548	-	12,331	155,850
Total expenditures	168,912	103,477	77,323	-	72,331	231,678
Revenues over (under) expenditures	(59,349)	-	(775)	-	(72,331)	42,885
Other financing sources						
Transfers in	100,000	-	-	-	72,331	-
Net change in fund balances	40,651	-	(775)	-	-	42,885
Fund balances, beginning of year	15,906	-	2,770	6,081	4,314	65,013
Fund balances, end of year	<u>\$ 56,557</u>	<u>\$ -</u>	<u>\$ 1,995</u>	<u>\$ 6,081</u>	<u>\$ 4,314</u>	<u>\$ 107,898</u>



Capital Project Fund		
IDC (415)	Permanent Fund (711)	Total
\$ -	\$ -	\$ 274,563
-	-	76,548
-	-	213,040
-	7,750	7,750
-	7,750	571,901
-	-	272,389
-	-	1,603
-	-	205,000
-	-	174,729
-	-	653,721
-	7,750	(81,820)
-	-	172,331
-	7,750	90,511
238,506	290,643	623,233
<u>\$ 238,506</u>	<u>\$ 298,393</u>	<u>\$ 713,744</u>

CITY OF GAYLORD, MICHIGAN

Balance Sheet

Downtown Development Authority Component Unit

June 30, 2015

Assets

Cash and cash equivalents	\$	28,688
Accounts receivable		<u>735</u>

Total assets

	\$	<u><u>29,423</u></u>
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Liabilities

Accounts payable	\$	9,946
Accrued liabilities		1,003
Due to primary government		<u>7,831</u>

Total liabilities

	18,780
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Fund balance

Unassigned		<u>10,643</u>
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Total liabilities and fund balance

	\$	<u><u>29,423</u></u>
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CITY OF GAYLORD, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
Downtown Development Authority Component Unit
June 30, 2015

Fund balance \$ 10,643

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

523,441

Net position of the component unit

\$ 534,084

CITY OF GAYLORD, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance Downtown Development Authority Component Unit For the Year Ended June 30, 2015

Revenues	
Taxes and penalties	\$ 136,130
Interest	14
Miscellaneous	<u>25,505</u>
Total revenues	161,649
Expenditures	
Current:	
Culture and recreation	<u>146,424</u>
Change in fund balance	15,225
Fund balance (deficit), beginning of year	<u>(4,582)</u>
Fund balance, end of year	<u><u>\$ 10,643</u></u>

CITY OF GAYLORD, MICHIGAN

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, 2015

Change in fund balance - component unit	\$ 15,225
Amounts reported for the <i>component unit</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	<u>(31,452)</u>
Change in net position of component unit	<u>\$ (16,227)</u>

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 14, 2015

City Council
City of Gaylord, Michigan
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, Michigan* (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 14, 2015.

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 2015-001 and -002 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 2015-003 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*.

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, 2015

2015-001 - Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America. (Repeat finding)

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. The City's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided the City accepts responsibility for the financial statements and that it is disclosed as part of the report on internal control and compliance in accordance with *Government Auditing Standards*. Therefore, no specific corrective action is required at this time.

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, 2015

2015-002 - Recording, processing and summarizing accounting data. (Repeat finding)

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, 2015

2015-003 - Lack of segregation of duties in the accounting function. (Repeat finding)

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.

