

City of Gaylord,
Michigan



Fiscal Year Ended
June 30, 2017

Financial
Statements

CITY OF GAYLORD, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

December 11, 2017

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, 2017, 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, 2017, 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.

Restatement of Beginning Net Position

As described in Note 17 to the financial statements, the beginning net position of the business-type activities and the Sewer Fund, were restated to correct errors presented in the prior year financial statements that improperly expensed capital related items that management has determined should have been capitalized and depreciated once in service. Our opinion is not modified with respect to this matter.

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 11, 2017, 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 cursive script that reads "Rehmann Lobarr LLC". The signature is written in black ink and is centered on the page.

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, 2017. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$26,563,000 (net position). The City ended the year with a deficit in unrestricted net position of approximately \$1,671,000.
- The City's total net position increased by approximately \$1,563,000.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$3,203,000, a decrease of approximately \$33,000 in comparison with the prior year. Approximately 48%, or \$1,529,000, is available for spending at the City's discretion (unassigned fund balance).

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 basic financial statements themselves.

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

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the residual between these 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. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

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

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

CITY OF GAYLORD, MICHIGAN

Management's Discussion and Analysis

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Municipal Streets 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. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the 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 own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information includes this management's discussion and analysis and the schedules for the City's pension and other postemployment benefits plans.

The *combining and individual fund financial 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 and deferred outflows of resources exceeded liabilities and deferred inflow of resources by approximately \$26,563,000 at the close of fiscal year 2017.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 4,366,715	\$ 3,826,729	\$ 2,183,438	\$ 1,782,579	\$ 6,550,153	\$ 5,609,308
Capital assets, net	15,101,311	14,117,523	18,377,472	18,652,224	33,478,783	32,769,747
Total assets	19,468,026	17,944,252	20,560,910	20,434,803	40,028,936	38,379,055
Deferred outflows of resources	780,476	1,147,482	717,821	389,582	1,498,297	1,537,064
Liabilities						
Long-term debt	4,402,699	4,641,216	2,978,617	3,626,873	7,381,316	8,268,089
Current and other liabilities	5,078,607	4,834,578	2,042,996	1,724,191	7,121,603	6,558,769
Total liabilities	9,481,306	9,475,794	5,021,613	5,351,064	14,502,919	14,826,858
Deferred inflows of resources	39,813	64,164	421,121	24,969	460,934	89,133
Net position						
Net investment in capital assets	10,892,320	9,631,241	15,433,472	15,055,224	26,325,792	24,686,465
Restricted	1,371,696	1,322,243	536,806	612,108	1,908,502	1,934,351
Unrestricted (deficit)	(1,536,633)	(1,401,708)	(134,281)	(218,980)	(1,670,914)	(1,620,688)
Total net position	\$ 10,727,383	\$ 9,551,776	\$ 15,835,997	\$ 15,448,352	\$ 26,563,380	\$ 25,000,128

Approximately \$26,326,000 of the City's net position reflects its net investment in capital assets (e.g., land, buildings, water and sewer systems, equipment and vehicles) net of related debt. 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 \$1,909,000 of total net position. The unrestricted deficit is approximately \$1,671,000 in unrestricted net position is due mainly to the inclusion of the net pension liability, related to the implementation of GASB 68 in fiscal year 2015.

CITY OF GAYLORD, MICHIGAN

Management's Discussion and Analysis

The City's net position increased approximately \$1,563,000 during the current fiscal year.

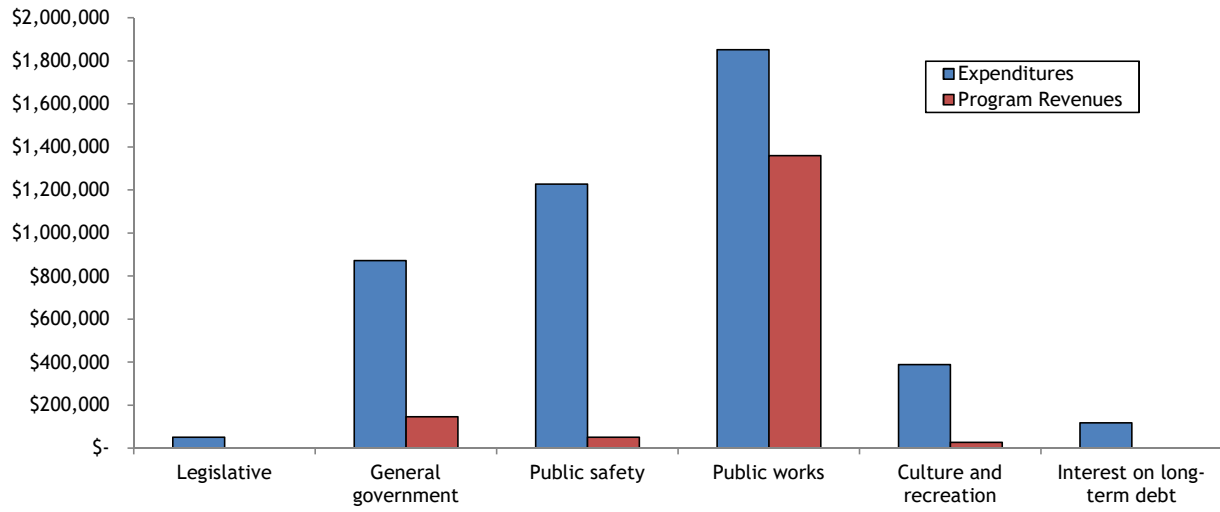
	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program revenues						
Charges for services	\$ 103,937	\$ 97,229	\$ 2,256,888	\$ 2,006,604	\$ 2,360,825	\$ 2,103,833
Operating grants	986,719	908,787	-	-	986,719	908,787
Capital grants	899,927	555,369	-	-	899,927	555,369
General revenues						
Property taxes	3,381,047	3,553,783	434,491	413,442	3,815,538	3,967,225
State shared revenues	476,793	624,221	-	-	476,793	624,221
Miscellaneous revenue	-	-	-	58,464	-	58,464
Development contributions	-	-	230,168	-	230,168	-
Interest earnings	7,410	2,733	-	-	7,410	2,733
Total revenues	5,855,833	5,742,122	2,921,547	2,478,510	8,777,380	8,220,632
Expenses						
Legislative	50,550	35,608	-	-	50,550	35,608
General government	871,368	978,230	-	-	871,368	978,230
Public safety	1,226,863	1,362,289	-	-	1,226,863	1,362,289
Public works	1,851,462	1,949,389	-	-	1,851,462	1,949,389
Culture and recreation	387,901	324,086	-	-	387,901	324,086
Water	-	-	703,016	1,154,478	703,016	1,154,478
Sewer	-	-	2,005,179	878,133	2,005,179	878,133
Interest						
on long-term debt	117,789	108,607	-	-	117,789	108,607
Total expenses	4,505,933	4,758,209	2,708,195	2,032,611	7,214,128	6,790,820
Change in net position, before transfers	1,349,900	983,913	213,352	445,899	1,563,252	1,429,812
Transfers	(174,293)	(292,646)	174,293	292,646	-	-
Change in net position	1,175,607	691,267	387,645	738,545	1,563,252	1,429,812
Net position:						
Beginning of year	9,551,776	8,860,509	15,448,352	14,709,807	25,000,128	23,570,316
End of Year	\$ 10,727,383	\$ 9,551,776	\$ 15,835,997	\$ 15,448,352	\$ 26,563,380	\$ 25,000,128

Governmental Activities. In comparison to fiscal year 2016, the increase was primarily primarily attributable to revenues increasing approximately \$114,000 and the reduction of total expenses in the amount of \$252,000. The increase in total revenues of approximately \$114,000 is primarily attributable to an increase in capital operating grants. The City had approximately \$900,000 of capital operating grants compared to \$555,000 in fiscal year 2016. The primary purpose of the City's governmental activities capital grants during fiscal year 2017 was for multiple ongoing road construction projects. This increase was offset by a decrease in property taxes and state shared revenue, in the amount of approximately \$173,000 and \$147,000, respectively. The remaining increase of approximately \$89,000 in revenues was attributable to increases across interest, operating grants, and charges for services. In comparison to the prior year, pension expense for the net pension liability decreased by approximately \$370,000, which is primarily attributable to the allocation of the pension liability. The expense was offset by small increases in public safety wages and interest expense.

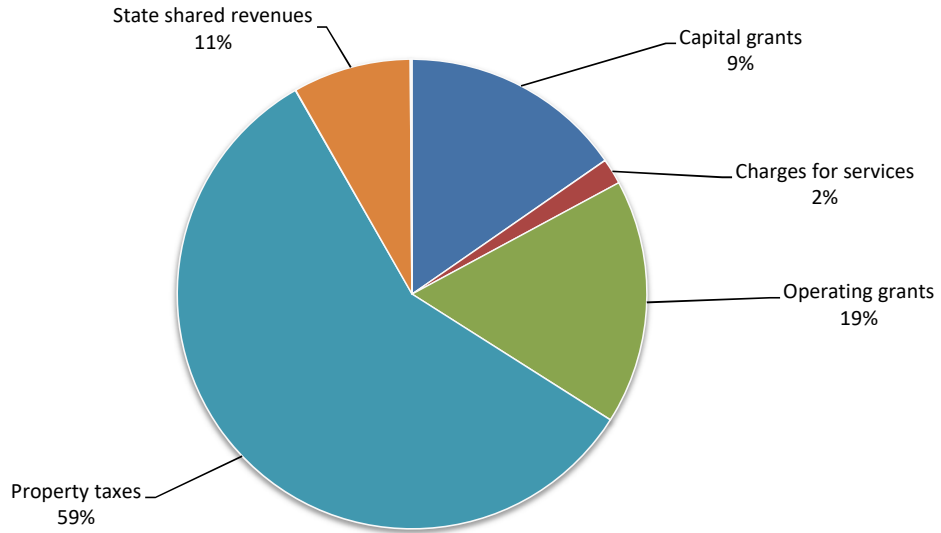
CITY OF GAYLORD, MICHIGAN

Management's Discussion and Analysis

Fiscal 2017 Expenditures and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities

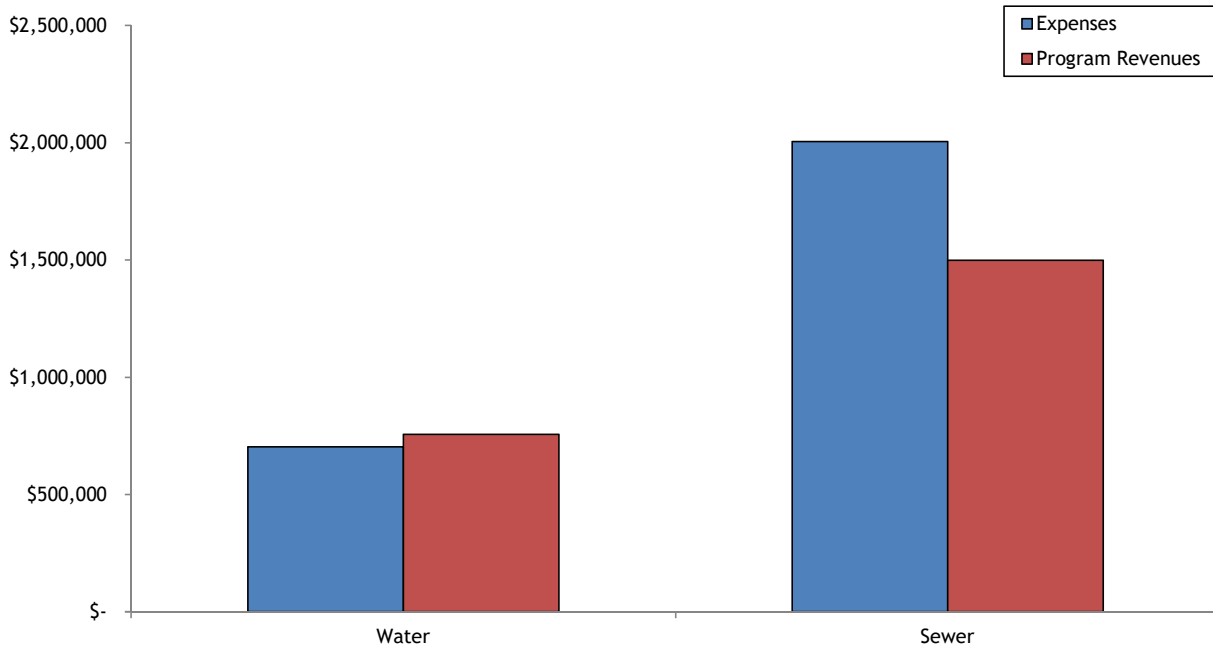


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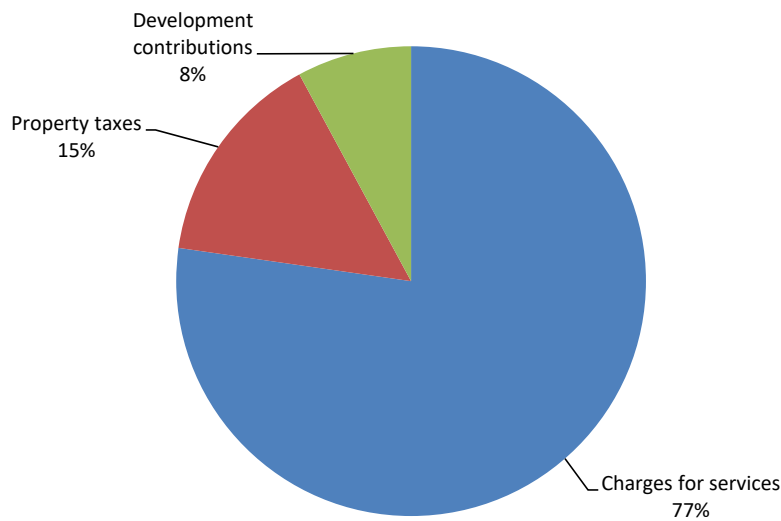
Management's Discussion and Analysis

Business-type Activities. Business-type activities increased the City's net position by approximately \$388,000 which was the result of an increase in utility rate income and a developer agreement entered into by the City and Shoppes on Main, LLC. Sewer expenses increased by approximately \$1,127,000. This increase was attributable to an allocation change of pension expense for the sewer fund, an increase in equipment rental rates, and an increase in employee wages. The Water fund expenses decreased by approximately \$451,000. Fluctuations are primarily related to the allocation of the net pension liability.

Fiscal 2017 Expenses and Program Revenues - Business-type Activities



Fiscal 2017 Revenues by Source - Business-type Activities



CITY OF GAYLORD, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the City'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 financial statements are 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 decreased from approximately \$1,620,000 to approximately \$1,586,000, in fiscal year 2017. This decrease in fund balance of approximately \$35,000 was substantially due to an increase in the number of capital projects during the 2017 fiscal year.

The Municipal Streets Special Revenue Fund is a street repair millage fund, collecting a levy dedicated to supporting reconstruction and rebuilding city streets. Public works expenditures in the Municipal Street Special Revenue Fund exceeded revenues by approximately \$186,000. The decrease in fund balance was attributable to a decrease in federal revenues which the City had initially anticipated in receiving related to the Dickerson Road project. The City offset this decrease in federal revenues through an increase in local contributions and transfer in from other funds. See the City's original and final budget amounts, compared with actual amounts which is provided in the basic financial statements.

The Major Streets Special Revenue Fund accounts for the operations of the City's major street maintenance department. The Major Streets fund balance increased from approximately \$336,000 to approximately \$397,000, from fiscal 2016 to fiscal 2017, respectively. This increase of approximately \$61,000 was primarily attributable to the City utilizing revenues more efficiently to maintain local streets.

General Fund Budgetary Highlights

Generally, as additional information became known during the fiscal year, budget amendments were made as deemed necessary. A statement showing the City's original and final budget amounts, compared with actual amounts is provided in the basic financial statements. Significant differences are as follows:

- Total revenues were approximately \$270,000 above budget which was mainly due to the City receiving local stabilization payments for lost property tax revenue that the City had not considered in its 2017 fiscal year budget, as well as, the City had initially budgeted less in state shared revenues than what was actually received.
- During the 2017 fiscal year, the City amended the original budget to reflect an anticipated increase in total expenditures. The difference between the total expenditures of the original and the final budget was approximately \$351,000. This increase was primarily attributable to an anticipated increase in employee wages, construction costs, and equipment rentals. However, the final budget to actual were under budget by approximately \$233,000, mainly because anticipated costs were less.
- The City's transfers out differed from actual to amended by approximately \$239,000, which is primarily due to unanticipated construction costs.

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.

CITY OF GAYLORD, MICHIGAN

Management's Discussion and Analysis

	Capital Assets (Net of Depreciation, Where Applicable)					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,266,573	\$ 1,231,573	\$ 414,080	\$ 414,080	\$ 1,680,653	\$ 1,645,653
Construction-in-progress	1,802,128	158,619	559,338	247,542	2,361,466	406,161
Buildings and improvements	4,064,532	4,114,172	1,330,292	1,201,537	5,394,824	5,315,709
Office furnishings	14,489	15,774	-	-	14,489	15,774
Tools and equipment	366,543	337,875	-	-	366,543	337,875
Vehicles	60,470	133,035	-	-	60,470	133,035
Roads and sidewalks	7,526,576	8,126,475	-	-	7,526,576	8,126,475
Water and sewer system	-	-	16,073,762	16,789,065	16,073,762	16,789,065
Total capital assets, net	\$ 15,101,311	\$ 14,117,523	\$ 18,377,472	\$ 18,652,224	\$ 33,478,783	\$ 32,769,747

The major asset acquisitions were the Dickerson Road Project, Shoppes on Main Street project, and the Sewer mapping system. Additional information on the City's capital assets can be found in Note 7 to the financial statements.

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

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Bonds payable	\$ 3,872,197	\$ 4,067,312	\$ 2,944,000	\$ 3,597,000	\$ 6,816,197	\$ 7,664,312
Other installment debt	336,794	418,970	-	-	336,794	418,970
Accrued compensated absences	193,708	154,934	34,617	29,873	228,325	184,807
Total	\$ 4,402,699	\$ 4,641,216	\$ 2,978,617	\$ 3,626,873	\$ 7,381,316	\$ 8,268,089

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

Economic Factors and Next Year's Budget and Rates

The fiscal 2018 budget projects less than a 1% increase 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. New development in the area has helped increase the taxable values. The City added its first new hotel in over 20 years this past Spring and anticipates the opening of the second next spring. The fiscal 2018 budget reflects a levy of 1.75 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 \$250,000 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. There are no new debt issues planned or being considered in 2018.

Requests for Information

This financial report is designed to provide a general overview 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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	
Assets				
Cash and cash equivalents	\$ 2,870,265	\$ 1,170,358	\$ 4,040,623	\$ 49,518
Receivables, net	417,435	476,274	893,709	-
Other assets	616,013	-	616,013	-
Restricted cash	306,293	536,806	843,099	-
Restricted investments	156,709	-	156,709	-
Capital assets not being depreciated	3,068,701	973,418	4,042,119	-
Capital assets being depreciated, net	12,032,610	17,404,054	29,436,664	460,537
Total assets	19,468,026	20,560,910	40,028,936	510,055
Deferred outflows of resources				
Deferred loss on bond refunding	138,255	-	138,255	-
Deferred pension amounts	642,221	717,821	1,360,042	-
Total deferred outflows of resources	780,476	717,821	1,498,297	-
Liabilities				
Accounts payable and accrued liabilities	666,737	86,956	753,693	13,001
Long-term debt:				
Due within one year	302,935	693,000	995,935	-
Due in more than one year	4,099,764	2,285,617	6,385,381	-
Net pension liability	3,971,507	1,956,040	5,927,547	-
Net other postemployment benefit obligation	332,477	-	332,477	-
Total liabilities	9,481,306	5,021,613	14,502,919	13,001
Deferred inflows of resources				
Deferred pension amounts	39,813	421,121	460,934	-
Net position				
Net investment in capital assets	10,892,320	15,433,472	26,325,792	460,537
Restricted for:				
Highways and streets	600,801	-	600,801	-
Debt service	198,608	-	198,608	-
Capital improvements	27,188	536,806	563,994	-
Nonexpendable perpetual care	306,593	-	306,593	-
Nonexpendable real estate held for sale	238,506	-	238,506	-
Unrestricted (deficit)	(1,536,633)	(134,281)	(1,670,914)	36,517
Total net position	\$ 10,727,383	\$ 15,835,997	\$ 26,563,380	\$ 497,054

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

CITY OF GAYLORD, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 50,550	\$ -	\$ -	\$ -	\$ (50,550)
General government	871,368	27,210	118,717	-	(725,441)
Public safety	1,226,863	5,952	44,513	-	(1,176,398)
Public works	1,851,462	70,775	797,101	491,517	(492,069)
Culture and recreation	387,901	-	26,388	-	(361,513)
Other	-	-	-	408,410	408,410
Interest on long-term debt	117,789	-	-	-	(117,789)
Total governmental activities	<u>4,505,933</u>	<u>103,937</u>	<u>986,719</u>	<u>899,927</u>	<u>(2,515,350)</u>
Business-type activities:					
Water	703,016	757,421	-	-	54,405
Sewer	2,005,179	1,499,467	-	-	(505,712)
Total business-type activities	<u>2,708,195</u>	<u>2,256,888</u>	<u>-</u>	<u>-</u>	<u>(451,307)</u>
Total primary government	<u>\$ 7,214,128</u>	<u>\$ 2,360,825</u>	<u>\$ 986,719</u>	<u>\$ 899,927</u>	<u>\$ (2,966,657)</u>
Component unit	<u>\$ 187,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (187,966)</u>

continued...

CITY OF GAYLORD, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net expense	\$ (2,515,350)	\$ (451,307)	\$ (2,966,657)	\$ (187,966)
General revenues:				
Property taxes:				
General operating	3,381,047	-	3,381,047	-
Debt	-	434,491	434,491	126,836
State shared revenues	476,793	-	476,793	-
Interest earnings	7,410	-	7,410	10
Miscellaneous revenue	-	-	-	55,620
Development contributions	-	230,168	230,168	-
Transfers - internal activities	(174,293)	174,293	-	-
Total general revenues and transfers	3,690,957	838,952	4,529,909	182,466
Change in net position	1,175,607	387,645	1,563,252	(5,500)
Net position, beginning of year, as restated	9,551,776	15,448,352	25,000,128	502,554
Net position, end of year	\$ 10,727,383	\$ 15,835,997	\$ 26,563,380	\$ 497,054

concluded

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

CITY OF GAYLORD, MICHIGAN

Balance Sheet Governmental Funds June 30, 2017

	General Fund	Municipal Streets	Major Streets	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,279,222	\$ 531,285	\$ 327,396	\$ 461,433	\$ 2,599,336
Accounts receivable	-	-	-	62,548	62,548
Accounts receivable - delinquent taxes	12,125	-	-	-	12,125
Due from other governmental units	199,976	-	60,368	20,293	280,637
Special assessment receivable	-	-	-	50,000	50,000
Due from other funds	-	-	10,111	-	10,111
Inventories	28,917	-	-	-	28,917
Real estate held for sale	240,704	-	-	346,392	587,096
Restricted cash	-	-	-	306,293	306,293
Restricted investments	156,709	-	-	-	156,709
Total assets	\$ 1,917,653	\$ 531,285	\$ 397,875	\$ 1,246,959	\$ 4,093,772
Liabilities					
Accounts payable	\$ 144,425	\$ 318,253	\$ 57	\$ 69,164	\$ 531,899
Accrued liabilities	95,005	-	943	2,465	98,413
Due to other funds	-	-	-	10,111	10,111
Total liabilities	239,430	318,253	1,000	81,740	640,423
Deferred inflow of resources					
Unavailable revenues	92,663	-	-	157,886	250,549
Fund balances					
Nonspendable:					
Inventories	28,917	-	-	-	28,917
Perpetual care	-	-	-	306,593	306,593
Real estate held for sale	240,704	-	-	238,506	479,210
Restricted:					
Highways and streets	-	-	396,875	203,926	600,801
Capital improvements	-	-	-	27,188	27,188
Debt service	-	-	-	231,120	231,120
Unassigned	1,315,939	213,032	-	-	1,528,971
Total fund balances	1,585,560	213,032	396,875	1,007,333	3,202,800
Total liabilities, deferred inflow of resources and fund balances	\$ 1,917,653	\$ 531,285	\$ 397,875	\$ 1,246,959	\$ 4,093,772

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, 2017

Fund balances - total governmental funds \$ 3,202,800

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 funds.

Capital assets not being depreciated	3,068,701
Capital assets being depreciated, net	12,032,610
Capital assets not being depreciated, reported in internal services funds	(11,590)
Capital assets being depreciated, net, reported in internal services funds	(394,936)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows of resources in the governmental funds and, therefore, are not included in fund balance.

Unavailable revenue	142,663
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Internal service funds are used by management to charge the costs of certain equipment maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

	138,034
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Compensated absences	(165,616)
Installment debt and bonds payable	(4,012,197)
Net other postemployment benefit obligation	(332,477)
Accrued interest on bonds payable	(32,512)

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	(3,605,344)
Deferred outflows related to the net pension liability	583,009
Deferred inflows related to the net pension liability	(36,142)
Deferred outflows related to the bond refunding	138,255

Net position of governmental activities \$ 10,727,383

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, 2017

	General Fund	Municipal Streets	Major Streets	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes and penalties	\$ 2,344,294	\$ 841,013	\$ -	\$ 262,119	\$ 3,447,426
Special assessments	-	-	-	58,650	58,650
Charges for services	33,162	-	-	-	33,162
State revenue	494,750	-	382,585	413,426	1,290,761
Local revenue	26,388	282,551	-	-	308,939
Interest	7,410	-	-	-	7,410
Miscellaneous	145,273	204,056	-	3,400	352,729
Total revenues	3,051,277	1,327,620	382,585	737,595	5,499,077
Expenditures					
Current:					
Legislative	50,550	-	-	-	50,550
General government	549,201	-	-	-	549,201
Public safety	1,257,611	-	-	-	1,257,611
Public works	403,513	1,813,096	292,029	162,734	2,671,372
Culture and recreation	108,423	-	-	-	108,423
Other	372,455	-	-	-	372,455
Debt service:					
Principal	20,000	-	-	185,000	205,000
Interest and fiscal charges	7,200	-	-	136,166	143,366
Total expenditures	2,768,953	1,813,096	292,029	483,900	5,357,978
Revenues over (under) expenditures	282,324	(485,476)	90,556	253,695	141,099
Other financing sources (uses)					
Transfers in	37,833	299,603	-	184,980	522,416
Transfers out	(354,913)	-	(30,000)	(311,796)	(696,709)
Total other financing sources (uses)	(317,080)	299,603	(30,000)	(126,816)	(174,293)
Net change in fund balances	(34,756)	(185,873)	60,556	126,879	(33,194)
Fund balances, beginning of year	1,620,316	398,905	336,319	880,454	3,235,994
Fund balances, end of year	\$ 1,585,560	\$ 213,032	\$ 396,875	\$ 1,007,333	\$ 3,202,800

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, 2017

Net change in fund balances - total governmental funds \$ (33,194)

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	1,983,210
Depreciation expense	(963,603)

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	(43,775)
Current year collections on Act 425 agreements	(10,479)

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	205,000
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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	24,416
Change in the accrual of compensated absences	(18,896)
Change in the net pension liability and related deferred amounts	57,719
Change in net other postemployment benefits obligation	(32,021)

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	7,230
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Change in net position of governmental activities	\$ 1,175,607
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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, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes and penalties	\$ 2,200,279	\$ 2,200,279	\$ 2,344,294	\$ 144,015
Charges for services	23,950	23,950	33,162	9,212
State revenue	402,215	402,215	494,750	92,535
Local revenue	35,211	35,211	26,388	(8,823)
Interest	1,200	1,200	7,410	6,210
Miscellaneous	118,333	118,333	145,273	26,940
Total revenues	2,781,188	2,781,188	3,051,277	270,089
Expenditures				
Current:				
Legislative	40,150	51,100	50,550	(550)
General government	493,985	598,256	549,201	(49,055)
Public safety	1,212,099	1,297,851	1,257,611	(40,240)
Public works	426,152	499,847	403,513	(96,334)
Culture and recreation	72,277	112,132	108,423	(3,709)
Other	379,635	415,939	372,455	(43,484)
Debt service:				
Principal	20,000	20,000	20,000	-
Interest	7,200	7,200	7,200	-
Total expenditures	2,651,498	3,002,325	2,768,953	(233,372)
Revenues over (under) expenditures	129,690	(221,137)	282,324	503,461
Other financing sources (uses)				
Transfers in	-	-	37,833	37,833
Transfers out	(115,980)	(115,980)	(354,913)	238,933
Total other financing sources (uses)	(115,980)	(115,980)	(317,080)	(201,100)
Net change in fund balance	13,710	(337,117)	(34,756)	302,361
Fund balance, beginning of year	1,620,316	1,620,316	1,620,316	-
Fund balance, end of year	\$ 1,634,026	\$ 1,283,199	\$ 1,585,560	\$ 302,361

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, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes and penalties	\$ 840,577	\$ 840,577	\$ 841,013	\$ 436
Federal revenue	691,242	691,242	-	(691,242)
Local revenue	60,000	60,000	282,551	222,551
Miscellaneous	248,598	248,598	204,056	(44,542)
Total revenues	1,840,417	1,840,417	1,327,620	(512,797)
Expenditures				
Current:				
Public works	1,998,508	1,998,508	1,813,096	(185,412)
Revenues under expenditures	(158,091)	(158,091)	(485,476)	(327,385)
Other financing sources				
Transfers in	-	-	299,603	299,603
Net change in fund balance	(158,091)	(158,091)	(185,873)	(27,782)
Fund balance, beginning of year	398,905	398,905	398,905	-
Fund balance, end of year	\$ 240,814	\$ 240,814	\$ 213,032	\$ 27,782

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, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	\$ 405,385	\$ 405,385	\$ 382,585	\$ (22,800)
Expenditures				
Current:				
Public works	<u>374,605</u>	<u>398,150</u>	<u>292,029</u>	<u>(106,121)</u>
Revenues over expenditures	30,780	7,235	90,556	83,321
Other financing uses				
Transfers out	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
Net change in fund balance	780	(22,765)	60,556	83,321
Fund balance, beginning of year	<u>336,319</u>	<u>336,319</u>	<u>336,319</u>	<u>-</u>
Fund balance, end of year	<u>\$ 337,099</u>	<u>\$ 313,554</u>	<u>\$ 396,875</u>	<u>\$ 83,321</u>

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

CITY OF GAYLORD, MICHIGAN

Statement of Net Position

Proprietary Funds

June 30, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents	\$ 173,886	\$ 996,472	\$ 1,170,358	\$ 270,929
Accounts receivable	81,726	165,072	246,798	-
Advance to developer	6,750	13,705	20,455	-
Total current assets	262,362	1,175,249	1,437,611	270,929
Noncurrent assets:				
Restricted cash	198,662	338,144	536,806	-
Advance to developer	68,977	140,044	209,021	-
Capital assets not being depreciated	33,100	940,318	973,418	11,590
Capital assets being depreciated, net	4,563,285	12,840,769	17,404,054	394,936
Total noncurrent assets	4,864,024	14,259,275	19,123,299	406,526
Total assets	5,126,386	15,434,524	20,560,910	677,455
Deferred outflows of resources				
Deferred pension amounts	107,130	610,691	717,821	59,212
Liabilities				
Current liabilities:				
Accounts payable	17,693	38,395	56,088	15,351
Accrued liabilities	10,195	20,673	30,868	6,729
Current portion of bonds payable	-	693,000	693,000	-
Current portion of capital lease payable	-	-	-	62,820
Total current liabilities	27,888	752,068	779,956	84,900
Noncurrent liabilities:				
Bonds payable, net of current portion	-	2,251,000	2,251,000	-
Capital lease payable, net of current portion	-	-	-	133,974
Net pension liability	662,484	1,293,556	1,956,040	366,163
Compensated absences	14,665	19,952	34,617	9,925
Total noncurrent liabilities	677,149	3,564,508	4,241,657	510,062
Total liabilities	705,037	4,316,576	5,021,613	594,962
Deferred inflows of resources				
Deferred pension amounts	408,153	12,968	421,121	3,671
Net position				
Net investment in capital assets	4,596,385	10,837,087	15,433,472	406,526
Restricted for capital improvements	198,662	338,144	536,806	-
Unrestricted (deficit)	(674,721)	540,440	(134,281)	(268,492)
Total net position	\$ 4,120,326	\$ 11,715,671	\$ 15,835,997	\$ 138,034

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, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Operating revenues				
Sales and charges for services	\$ 757,421	\$ 1,499,467	\$ 2,256,888	\$ -
Equipment rental	-	-	-	442,394
Total operating revenues	757,421	1,499,467	2,256,888	442,394
Operating expenses				
Personnel services	317,458	848,022	1,165,480	200,665
Contracted services	74,092	155,945	230,037	-
Supplies and repairs	29,827	61,335	91,162	142,243
Equipment rental	34,919	42,382	77,301	-
Utilities	75,241	144,234	219,475	-
Depreciation	126,878	630,951	757,829	73,085
Miscellaneous	44,601	58,965	103,566	21,771
Total operating expenses	703,016	1,941,834	2,644,850	437,764
Operating (loss) income	54,405	(442,367)	(387,962)	4,630
Nonoperating revenue (expenses)				
Taxes and penalties	-	434,491	434,491	-
Miscellaneous revenue	-	-	-	2,600
Development contributions	76,419	153,749	230,168	-
Interest expense	-	(63,345)	(63,345)	-
Total nonoperating revenue	76,419	524,895	601,314	2,600
Income before transfers	130,824	82,528	213,352	7,230
Transfers in	-	311,796	311,796	-
Transfers out	(60,364)	(77,139)	(137,503)	-
Change in net position	70,460	317,185	387,645	7,230
Net position, beginning of year, as restated	4,049,866	11,398,486	15,448,352	130,804
Net position, end of year	\$ 4,120,326	\$ 11,715,671	\$ 15,835,997	\$ 138,034

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, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Cash flows from operating activities				
Cash collected from customers	\$ 719,611	\$ 1,432,138	\$ 2,151,749	\$ -
Cash collected from other funds	-	-	-	529,904
Cash paid for employee wages and benefits	(258,293)	(527,624)	(785,917)	(163,316)
Cash paid for operating and administrative expenses	(267,456)	(442,186)	(709,642)	(161,577)
Net cash provided by operating activities	193,862	462,328	656,190	205,011
Cash flows from noncapital financing activities				
Taxes and penalties	-	434,491	434,491	-
Transfers out	(60,364)	(77,139)	(137,503)	-
Other receipts	692	-	692	2,600
Net cash provided by noncapital financing activities	(59,672)	357,352	297,680	2,600
Cash flows from capital and related financing activities				
Interest paid on long-term debt	-	(86,345)	(86,345)	-
Principal paid on long-term debt	-	(630,000)	(630,000)	(62,176)
Purchase of capital assets	(74,131)	(97,150)	(171,281)	(37,266)
Net cash used in capital and related financing activities	(74,131)	(813,495)	(887,626)	(99,442)
Net change in cash and cash equivalents	60,059	6,185	66,244	108,169
Cash and cash equivalents, beginning of year	312,489	1,328,431	1,640,920	162,760
Cash and cash equivalents, including restricted cash, end of year	372,548	1,334,616	1,707,164	270,929
Less restricted cash, end of year	198,662	338,144	536,806	-
Cash and cash equivalents, end of year	\$ 173,886	\$ 996,472	\$ 1,170,358	\$ 270,929

continued...

CITY OF GAYLORD, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 54,405	\$ (442,367)	\$ (387,962)	\$ 4,630
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	126,878	630,951	757,829	73,085
Changes in operating assets and liabilities that (used) provided cash:				
Accounts receivable	(37,810)	(67,329)	(105,139)	-
Due from other funds	-	-	-	87,510
Accounts payable	2,108	33,105	35,213	2,299
Accrued liabilities	4,687	8,054	12,741	2,479
Net pension liability and related deferred amounts	41,450	297,314	338,764	33,297
Compensated absences	2,144	2,600	4,744	1,711
Net cash provided by operating activities	\$ 193,862	\$ 462,328	\$ 656,190	\$ 205,011

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, 2017

Assets

Cash and cash equivalents

\$ 12,754

Liabilities

Due to governmental entities

\$ 12,754

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, interest and related costs.

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).

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

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, deferred outflows of resources, liabilities, deferred inflows of resources, and equity

Deposits and investments

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

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

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

Investments consist of the City's share in an external investment pool and are carried at amortized cost (which approximates 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 \$30,268 at June 30, 2017.

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). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advance to developer

The City entered into a long-term borrowing arrangement between Shoppes on Main, LLC. A portion of this advance is not expected to be collected in one year. The advance receivable is reported on the statement of net position of the business-type activities and Enterprise Fund. See Note 6 for further detail.

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 acquisition cost 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 a deferred loss on bond refunding and for changes in expected and actual investment returns, assumptions, and benefits provided to its pension plan.

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. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line basis. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expense when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 assessment, delinquent personal property taxes, and other long-term receivables from other governmental units. The City also reports deferred inflows of resources related to the pension plan. 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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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.

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. Managements significant estimates are as follows:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The amount reported for land held for resale is based on historical cost at the time ownership was transferred to the City. Management believes the carrying amounts of these assets are fully recoverable.

2. BUDGETARY INFORMATION

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

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

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through a resolution passed by the City Council.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets are adopted at the 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.

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, 2016 the City had expenditures in excess of the amounts budgeted as follows:

	Final Budget	Actual Expenditures	Unfavorable Variance
General Fund			
Assessor	\$ 68,087	\$ 68,128	\$ 41
Transfers out	115,980	354,913	238,933

4. DEFICIT FUND EQUITY

Deficit Fund Balance / Net Position

At June 30, 2017, the City reported deficit unrestricted net positions in the water enterprise fund and internal service fund of \$674,721 and \$268,492, respectively. However, total net position was positive for each of these funds.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

5. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2017:

	Primary Government	Component Unit	Totals
Statement of Net Position			
Cash and cash equivalents	\$ 4,040,623	\$ 49,518	\$ 4,090,141
Restricted cash	843,099	-	843,099
Restricted investments	156,709	-	156,709
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents	12,754	-	12,754
Total	\$ 5,053,185	\$ 49,518	\$ 5,102,703
Deposits and investments			
Bank deposits:			
Checking and savings accounts			\$ 4,945,594
Investments:			
External investment pool			156,709
Cash on hand			400
Total			\$ 5,102,703

Investment and deposit risk

Fair Value Measurements. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs - other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable and are based on estimates and assumptions. The City's investment in the external investment pool includes Level 2 inputs.

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. The City's investment in an external investment pool has no stated maturity.

Credit risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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, \$4,641,666 of the City's total bank deposits of \$4,941,349 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.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

6. RECEIVABLES

The composition of receivables is as follows as of June 30, 2017:

	Governmental Activities	Business-type Activities
Accounts receivable	\$ 74,673	\$ 246,798
Personal property taxes	12,125	-
Due from other governmental units	280,637	-
Special assessment, current	50,000	-
Advance to developer:		
Current portion	-	20,455
Noncurrent portion	-	209,021
	<u>\$ 417,435</u>	<u>\$ 476,274</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, \$92,663 was recorded as unavailable revenue in the general fund and \$50,000 was recorded as unavailable revenue in the Edelweiss Special Assessment Fund and is unavailable to liquidate liabilities of the current period.

During fiscal year 2017, the City entered into a long-term borrowing arrangement between Shoppes on Main, LLC, in the amount of \$229,476. Agreement is due in annual installments of approximately \$25,611, including interest at 2.25%; final payment to be received in fiscal year 2027.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

7. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government was as follows for the year ended June 30, 2017:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 1,231,573	\$ 35,000	\$ -	\$ -	\$ 1,266,573
Construction-in-progress	158,619	1,845,366	-	(201,857)	1,802,128
	<u>1,390,192</u>	<u>1,880,366</u>	<u>-</u>	<u>(201,857)</u>	<u>3,068,701</u>
Capital assets, being depreciated:					
Buildings and improvements	5,672,054	84,350	-	-	5,756,404
Office furnishings	274,145	-	-	-	274,145
Tools and equipment	1,199,997	55,760	-	-	1,255,757
Vehicles	1,645,006	-	-	-	1,645,006
Roads and sidewalks	20,083,773	-	-	201,857	20,285,630
	<u>28,874,975</u>	<u>140,110</u>	<u>-</u>	<u>201,857</u>	<u>29,216,942</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,557,882)	(133,990)	-	-	(1,691,872)
Office furnishings	(258,371)	(1,285)	-	-	(259,656)
Tools and equipment	(862,122)	(27,092)	-	-	(889,214)
Vehicles	(1,511,971)	(72,565)	-	-	(1,584,536)
Roads and sidewalks	(11,957,298)	(801,756)	-	-	(12,759,054)
	<u>(16,147,644)</u>	<u>(1,036,688)</u>	<u>-</u>	<u>-</u>	<u>(17,184,332)</u>
Total capital assets being depreciated, net	<u>12,727,331</u>	<u>(896,578)</u>	<u>-</u>	<u>201,857</u>	<u>12,032,610</u>
Governmental activities capital assets, net	<u>\$ 14,117,523</u>	<u>\$ 983,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,101,311</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
Construction-in-progress	247,542	311,796	-	-	559,338
	<u>661,622</u>	<u>311,796</u>	<u>-</u>	<u>-</u>	<u>973,418</u>
Capital assets, being depreciated:					
Buildings & equipment	2,051,658	171,281	-	-	2,222,939
Water and sewer system	29,897,804	-	-	-	29,897,804
	<u>31,949,462</u>	<u>171,281</u>	<u>-</u>	<u>-</u>	<u>32,120,743</u>
Less accumulated depreciation for:					
Buildings & equipment	(850,121)	(42,526)	-	-	(892,647)
Water and sewer system	(13,108,739)	(715,303)	-	-	(13,824,042)
	<u>(13,958,860)</u>	<u>(757,829)</u>	<u>-</u>	<u>-</u>	<u>(14,716,689)</u>
Total capital assets being depreciated, net	<u>17,990,602</u>	<u>(586,548)</u>	<u>-</u>	<u>-</u>	<u>17,404,054</u>
Business-type activities capital assets, net	<u>\$ 18,652,224</u>	<u>\$ (274,752)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,377,472</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.

Capital asset activity for the DDA component unit was as follows for the year ended June 30, 2017:

	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	(262,534)	(31,452)	-	-	(293,986)
Capital assets, net	<u>\$ 491,989</u>	<u>\$ (31,452)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 460,537</u>

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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

Governmental activities	
General government	\$ 165,916
Public works	758,184
Culture and recreation	39,503
Internal service funds	<u>73,085</u>
Total depreciation expense - governmental activities	<u>\$ 1,036,688</u>
Business-type activities	
Water	\$ 126,878
Sewer	<u>630,951</u>
Total depreciation expense - business-type activities	<u>\$ 757,829</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The composition of accounts payable and accrued liabilities is as follows at June 30, 2017:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 547,250	\$ 30,868	\$ 11,349
Accrued liabilities	86,975	56,088	1,652
Accrued interest	<u>32,512</u>	<u>-</u>	<u>-</u>
Total accounts payable and accrued liabilities	<u>\$ 666,737</u>	<u>\$ 86,956</u>	<u>\$ 13,001</u>

9. INTERFUND TRANSFERS

Interfund transfers consisted of the following for the year ended June 30, 2017:

	Transfers In	Transfers Out
General Fund	\$ 37,833	\$ 354,913
Municipal Streets Fund	299,603	-
Major Streets Fund	-	30,000
Nonmajor governmental funds	184,980	311,796
Water Fund	-	60,364
Sewer Fund	<u>311,796</u>	<u>77,139</u>
	<u>\$ 834,212</u>	<u>\$ 834,212</u>

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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.

10. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonded debt					
2013 General Obligation Limited Tax Refunding Bond, payable in annual installments ranging from \$55,000 to \$70,000, interest is charged semi-annually at 2.09%; final payment due October 2022.	\$ 505,000	\$ -	\$ (55,000)	\$ 450,000	\$ 80,000
2003 Special Assessment Limited Tax Bonds, payable in annual installments of \$50,000, interest is charged semi-annually ranging from 3.60% to 3.70%; final payment due October 2017.	100,000	-	(50,000)	50,000	50,000
2015 Unlimited Tax General Obligation Refunding Bonds, payable in annual installments ranging from \$80,000 to \$245,000, interest is charged semi-annually ranging from 2% to 4%; final payment due June 2036.	3,260,000	-	(80,000)	3,180,000	80,000
Premium on bond issuance	202,312	-	(10,115)	192,197	10,115
Total bonded debt	4,067,312	-	(195,115)	3,872,197	220,115

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Other Installment debt					
Act 99 Installment Purchase Agreement due in annual principal installments ranging from \$20,000 to \$25,000; interest is charged annually at a rate of 4.80%; final payment due October 2022.	\$ 160,000	\$ -	\$ (20,000)	\$ 140,000	\$ 20,000
2014 Capital lease payable due monthly installments of \$2,552, including interest at 2.20%; final payment due June 2019.	86,450	-	(29,018)	57,432	29,662
2015 Equipment installment purchase, payable in annual principal installments of approximately \$34,504; interest is charged annually at a rate of 1.99%; final payment due June 2021.	172,520	-	(33,158)	139,362	33,158
Total other installment debt	418,970	-	(82,176)	336,794	82,820
Total bonded and other installment debt	4,486,282	-	(277,291)	4,208,991	302,935
Accrued compensated absences	154,934	163,709	(124,935)	193,708	-
Total governmental activities	\$ 4,641,216	\$ 163,709	\$ (402,226)	\$ 4,402,699	\$ 302,935

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type Activities					
2013 General Obligation Limited Tax Refunding Bond payable in annual installments ranging from \$165,000 to \$185,000; interest is charged semi-annually at 2.09%; final payment due October 2020.	\$ 855,000	\$ -	\$ (165,000)	\$ 690,000	\$ 165,000
2015 Unlimited Tax General Obligation Refunding Bonds, payable in annual installments ranging from \$465,000 to \$550,000; interest is charged semi-annually ranging from 2.00% to 3.00%; final payment due June 2020.	2,065,000	-	(465,000)	1,600,000	505,000
2015 Unlimited Tax General Obligation Refunding Bonds; interest is charged semi-annually ranging from 2.00% to 4.00%; final one time principal payment due June 2021.	585,000	-	-	585,000	-
Premium on bond issuance	92,000	-	(23,000)	69,000	23,000
Total bonded debt	3,597,000	-	(653,000)	2,944,000	693,000
Accrued compensated absences	29,873	31,363	(26,619)	34,617	-
Total business-type activities	\$ 3,626,873	\$ 31,363	\$ (679,619)	\$ 2,978,617	\$ 693,000

Accrued compensated absences are generally liquidated by the General Fund for all governmental activities and the water and sewer enterprise funds for business-type activities.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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
2018	\$ 302,935	\$ 139,722	\$ 693,000	\$ 70,672
2019	252,390	132,420	737,999	51,421
2020	219,620	126,401	748,000	31,391
2021	247,312	120,322	765,001	10,656
2022	205,116	113,420	-	-
2022-2026	845,580	478,457	-	-
2027-2031	1,135,580	294,025	-	-
2032-2036	1,000,458	69,087	-	-
	<u>\$ 4,208,991</u>	<u>\$ 1,473,854</u>	<u>\$ 2,944,000</u>	<u>\$ 164,140</u>

Total interest expense for the primary government for the year ending June 30, 2017, was \$181,134.

11. CAPITAL LEASES

The City has entered into lease agreements for financing the purchase of a john deer loader and dump truck at a cost of approximately \$165,000 and \$173,000, respectively. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

	Principal	Interest
2018	\$	66,532
2019		64,641
2020		35,877
2021		37,882
Total		<u>204,932</u>
Less amount representing interest		<u>(8,138)</u>
Present Value	\$	<u>196,794</u>

Amortization expense of the john deer loader and dump truck are included as depreciation expense, in the amount of approximately \$11,000 and \$17,000, respectively.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

12. 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 year period) and multipliers ranging from 1.0% to 3.0%. Participants are considered to be fully vested in the plan after 6 or 8 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, 2016, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	30
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>28</u>
 Total membership	 <u><u>60</u></u>

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	\$ 7,265	0%
Police	Defined Benefit	Closed	\$ 16,502	3%
General				
Public Works	Defined Benefit	Closed	\$ 10,443	0%
Police hired after 7/1/10	Defined Benefit	Open	12.82%	3%
General				
Non-Union	Hybrid	Open	5.18%	0%

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

Net Pension Liability. The City's net pension liability was measured as of December 31, 2016, 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, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.5%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% male and 50% female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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%	0.51%
Diversifying strategies	10.0%	6.56%	0.66%
	<u>100.0%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u><u>8.00%</u></u>

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

Discount Rate. The discount rate used to measure the total pension liability is 8.0% for 2016 (down from 8.25% in 2015). 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.

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, 2015	\$ 13,408,905	\$ 7,393,248	\$ 6,015,657
Changes for the year:			
Service cost	159,037	-	159,037
Interest	1,045,787	-	1,045,787
Differences between expected and actual experience	99,338	-	99,338
Employer contributions	-	557,543	(557,543)
Employee contributions	-	16,505	(16,505)
Net investment income	-	834,706	(834,706)
Benefit payments, including refunds of employee contributions	(832,148)	(832,148)	-
Administrative expense	-	(16,482)	16,482
Net changes	472,014	560,124	(88,110)
Balances at December 31, 2016	\$ 13,880,919	\$ 7,953,372	\$ 5,927,547

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 8.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's net pension liability	\$ 7,464,994	\$ 5,927,547	\$ 4,625,892

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, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the City recognized pension expense of \$892,479. The City reported deferred outflows of resources and deferred inflows 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	\$ 301,718	\$ -	\$ 301,718
Difference between expected and actual experience	74,503	59,422	15,081
Changes in assumptions	292,320	-	292,320
Change in allocation	401,512	401,512	-
	<u>1,070,053</u>	<u>460,934</u>	<u>609,119</u>
Contributions subsequent to the measurement date	289,989	-	289,989
Total	<u>\$ 1,360,042</u>	<u>\$ 460,934</u>	<u>\$ 899,108</u>

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 in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	\$ 431,704	\$ 163,549
2019	431,706	163,549
2020	257,487	133,836
2021	(50,844)	-
Total	<u>\$ 1,070,053</u>	<u>\$ 460,934</u>

13. 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 11, 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, 2017, the date of the last plan valuation, the City's healthcare plan covered thirty-nine members (thirty-four active plan members and five retirees receiving benefits).

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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, 2017, the City contributed \$35,502 to the Plan, all of which was to fund current year benefits.

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

Annual required contribution	\$ 77,567
Interest on net OPEB obligation	300
Adjustment to annual required contribution	<u>(10,344)</u>
Net OPEB cost	67,523
Contributions made	<u>(35,502)</u>
Increase in net OPEB obligation	32,021
Net OPEB obligation, beginning of year	<u>300,456</u>
Net OPEB obligation, end of year	<u><u>\$ 332,477</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, 2017 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
2015	\$ 68,155	23%	\$ 258,210
2016	66,160	36%	300,456
2017	67,523	36%	332,477

Funded Status and Funding Progress. As of June 30, 2017, the date of the most recent valuation, the actuarial accrued liability for benefits was \$959,585, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,720,332 and the ratio of the UAAL to the covered payroll was 56%.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

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.

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, 2017, 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.

CITY OF GAYLORD, MICHIGAN

Notes to Financial Statements

14. 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.

15. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2017 was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Capital assets:			
Capital assets not being depreciated	\$ 3,068,701	\$ 973,418	\$ -
Capital assets being depreciated, net	12,032,610	17,404,054	460,537
	<u>15,101,311</u>	<u>18,377,472</u>	<u>460,537</u>
Long-term debt:			
Due within one year	(302,935)	(693,000)	-
Due in more than one year	(4,099,764)	(2,285,617)	-
Add back: accrued compensated absences	193,708	34,617	-
	<u>(4,208,991)</u>	<u>(2,944,000)</u>	<u>-</u>
Net investment in capital assets	<u>\$ 10,892,320</u>	<u>\$ 15,433,472</u>	<u>\$ 460,537</u>

16. COMMITMENTS

At June 30, 2017 the City had entered into two separate agreements related to the construction of local streets and a Wastewater and Stormwater Asset Management mapping system. The total cost of these commitments is approximately \$2,046,000, with approximately \$696,000 remaining uncompleted at the end of fiscal 2017.

17. RESTATEMENTS

During 2016, the City recognized expenses in the Sewer Fund that should have been capitalized. This correction increased the beginning net position of the Sewer Fund and business-type activities by \$247,542. As a result of this omission, the 2016 Sewer Fund change in net position and business-type activities change in net position, were both understated by \$247,542.

18. SUBSEQUENT EVENTS

In November 2017, the City entered into a construction contract for the Dickerson Road project. The City's cost of the project is estimated to be approximately \$353,000.



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		
	2017	2016	2015
Total pension liability			
Service cost	\$ 159,037	\$ 162,638	\$ 162,364
Interest	1,045,787	1,009,600	977,409
Differences between expected and actual experience	99,338	(118,844)	-
Changes of assumptions	-	584,640	-
Benefit payments, including refunds of employee contributions	(832,148)	(767,770)	(731,630)
Other changes	-	(1,502)	-
Net change in total pension liability	<u>472,014</u>	<u>868,762</u>	<u>408,143</u>
Total pension liability, beginning of year	<u>13,408,905</u>	<u>12,540,143</u>	<u>12,132,000</u>
Total pension liability, end of year	<u>13,880,919</u>	<u>13,408,905</u>	<u>12,540,143</u>
Plan fiduciary net position			
Employer contributions	557,543	407,452	342,617
Employee contributions	16,505	15,637	39,794
Net investment income (loss)	834,706	(114,048)	484,113
Benefit payments, including refunds of employee contributions	(832,148)	(767,770)	(731,630)
Administrative expense	(16,482)	(16,968)	(17,734)
Net change in plan fiduciary net position	<u>560,124</u>	<u>(475,697)</u>	<u>117,160</u>
Plan fiduciary net position, beginning of year	<u>7,393,248</u>	<u>7,868,945</u>	<u>7,751,785</u>
Plan fiduciary net position, end of year	<u>7,953,372</u>	<u>7,393,248</u>	<u>7,868,945</u>
City's net pension liability	<u>\$ 5,927,547</u>	<u>\$ 6,015,657</u>	<u>\$ 4,671,198</u>
Plan fiduciary net position as a percentage of total pension liability	57.3%	55.1%	62.8%
Covered payroll	<u>\$ 1,463,837</u>	<u>\$ 1,381,388</u>	<u>\$ 1,368,817</u>
City's net pension liability as a percentage of covered payroll	404.9%	435.5%	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 Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 12,540,143	\$ 7,868,945	\$ 4,671,198	62.8%	\$ 1,368,817	341.3%
2016	13,408,905	7,393,248	6,015,657	55.1%	1,381,388	435.5%
2017	13,880,919	7,953,372	5,927,547	57.3%	1,463,837	404.9%

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 Payroll	Contributions as Percentage of Covered Payroll
2015	\$ 346,804	\$ 346,804	\$ -	\$ 1,367,438	25.4%
2016	404,442	503,442	(99,000)	1,443,060	34.9%
2017	446,136	578,136	(132,000)	1,510,147	38.3%

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 Actuarially determined contribution rates are calculated as of the December 31 that is 18 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates (2017, based on the 12/31/2014 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	24 years
Asset valuation method	Open; 10-year market smoothed
Inflation	3.0% to 4.0%
Salary increases	4.5% in the long-term (2.0% and 3.0% for calendar years 2015 and 2016 respectively)
Investment rate of return	8.0%, net of investment and administrative expense 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)
6/30/2011	\$ -	\$ 739,026	\$ 739,026	0%	\$ 1,946,562	38%
6/30/2014	-	921,038	921,038	0%	1,526,351	60%
6/30/2017	-	959,585	959,585	0%	1,720,332	56%

Schedule of Employer Contributions Other Postemployment Benefits Plan		
Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2015	\$ 74,336	21%
2016	74,336	32%
2017	77,567	46%

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

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, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes and penalties	\$ 2,200,279	\$ 2,200,279	\$ 2,344,294	\$ 144,015
Charge for services	23,950	23,950	33,162	9,212
State revenue	402,215	402,215	494,750	92,535
Local revenue	35,211	35,211	26,388	(8,823)
Interest	1,200	1,200	7,410	6,210
Miscellaneous	118,333	118,333	145,273	26,940
Total revenues	2,781,188	2,781,188	3,051,277	270,089

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, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures				
Legislative:				
City council	\$ 40,150	\$ 51,100	\$ 50,550	\$ (550)
General government:				
City manager	64,890	65,660	60,702	(4,958)
Elections	20,500	22,000	13,438	(8,562)
Professional services	21,500	22,250	22,035	(215)
Assessor	50,000	68,087	68,128	41
Clerk	44,142	51,217	47,069	(4,148)
Board of review	2,380	2,380	2,307	(73)
Treasurer	36,910	40,959	38,795	(2,164)
Building and grounds	78,125	88,825	70,699	(18,126)
Other city property	83,746	134,946	128,219	(6,727)
Cemetery	91,792	101,932	97,809	(4,123)
Total general government	493,985	598,256	549,201	(49,055)
Public safety:				
Police department	1,149,316	1,235,068	1,194,828	(40,240)
Fire department	62,783	62,783	62,783	-
Total public safety	1,212,099	1,297,851	1,257,611	(40,240)
Public works:				
Public works	225,524	263,049	189,252	(73,797)
Sidewalk	25,036	32,536	23,122	(9,414)
Street lighting	94,624	98,574	91,018	(7,556)
Parking	80,968	105,688	100,121	(5,567)
Total public works	426,152	499,847	403,513	(96,334)

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, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)				
Culture and recreation:				
Park maintenance and construction	\$ 72,277	\$ 112,132	\$ 108,423	\$ (3,709)
Other expenditures:				
General administration	53,674	58,674	51,374	(7,300)
Administrative supplies	34,000	40,000	38,935	(1,065)
Community promotion	246,561	271,865	241,879	(29,986)
Insurance and bonds	16,000	16,000	14,986	(1,014)
Fringe benefits	29,400	29,400	25,281	(4,119)
Total other expenditures	379,635	415,939	372,455	(43,484)
Debt service:				
Principal	20,000	20,000	20,000	-
Interest	7,200	7,200	7,200	-
Total debt service	27,200	27,200	27,200	-
Total expenditures	2,651,498	3,002,325	2,768,953	(233,372)
Revenues over (under) expenditures	129,690	(221,137)	282,324	61,187
Other financing sources (uses)				
Transfers in	-	-	37,833	37,833
Transfers out	(115,980)	(115,980)	(354,913)	238,933
Total other financing sources (uses)	(115,980)	(115,980)	(317,080)	201,100
Net change in fund balance	13,710	(337,117)	(34,756)	302,361
Fund balance, beginning of year	1,620,316	1,620,316	1,620,316	-
Fund balance, end of year	\$ 1,634,026	\$ 1,283,199	\$ 1,585,560	\$ 302,361

concluded

CITY OF GAYLORD, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Special Revenue Funds		Debt Service Funds	
	Local Streets (203)	SAW (211)	Edelweiss Special Assessment (394)	Mankowski Road (330)
Assets				
Cash and cash equivalents	\$ 195,697	\$ 34,616	\$ 7,120	\$ 6,081
Accounts receivable	-	62,248	-	-
Due from other governmental units	20,293	-	-	-
Special assessment receivable	-	-	50,000	-
Real estate held for sale	-	-	-	-
Restricted cash	-	-	-	-
Total assets	\$ 215,990	\$ 96,864	\$ 57,120	\$ 6,081
Liabilities				
Accounts payable	\$ -	\$ 69,164	\$ -	\$ -
Accrued liabilities	1,953	512	-	-
Due to other funds	10,111	-	-	-
Total liabilities	12,064	69,676	-	-
Deferred inflow of resources				
Unavailable revenue	-	-	50,000	-
Fund balances				
Nonspendable - perpetual care	-	-	-	-
Nonspendable - real estate held for sale	-	-	-	-
Restricted:				
Highways and streets	203,926	-	-	-
Capital improvements	-	27,188	-	-
Debt service	-	-	7,120	6,081
Total fund balances	203,926	27,188	7,120	6,081
Total liabilities, deferred inflow of resources and fund balances	\$ 215,990	\$ 96,864	\$ 57,120	\$ 6,081



Debt Service Funds		Capital Project Fund		
Industrial Park (302)	City Hall (315)	Industrial Park Development (415)	Permanent Fund (711)	Total
\$ -	\$ 217,919	\$ -	\$ -	\$ 461,433
-	-	-	300	62,548
-	-	-	-	20,293
-	-	-	-	50,000
-	-	346,392	-	346,392
-	-	-	306,293	306,293
<u>\$ -</u>	<u>\$ 217,919</u>	<u>\$ 346,392</u>	<u>\$ 306,593</u>	<u>\$ 1,246,959</u>
\$ -	\$ -	\$ -	\$ -	\$ 69,164
-	-	-	-	2,465
-	-	-	-	10,111
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,740</u>
-	-	107,886	-	157,886
-	-	-	306,593	306,593
-	-	238,506	-	238,506
-	-	-	-	203,926
-	-	-	-	27,188
-	217,919	-	-	231,120
<u>-</u>	<u>217,919</u>	<u>238,506</u>	<u>306,593</u>	<u>1,007,333</u>
<u>\$ -</u>	<u>\$ 217,919</u>	<u>\$ 346,392</u>	<u>\$ 306,593</u>	<u>\$ 1,246,959</u>

CITY OF GAYLORD, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue Funds		Debt Service Funds	
	Local Streets (203)	SAW (211)	Edelweiss Special Assessment (394)	Mankowski Road (330)
Revenues				
Taxes and penalties	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	58,650	-
State revenues	125,965	287,461	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>125,965</u>	<u>287,461</u>	<u>58,650</u>	<u>-</u>
Expenditures				
Current:				
Public works	162,734	-	-	-
Debt service:				
Principal	-	-	50,000	-
Interest and fiscal charges	-	-	3,500	-
Total expenditures	<u>162,734</u>	<u>-</u>	<u>53,500</u>	<u>-</u>
Revenues over (under) expenditures	<u>(36,769)</u>	<u>287,461</u>	<u>5,150</u>	<u>-</u>
Other financing sources (uses)				
Transfers in	80,000	40,000	-	-
Transfers out	-	(311,796)	-	-
Total other financing sources (uses)	<u>80,000</u>	<u>(271,796)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>43,231</u>	<u>15,665</u>	<u>5,150</u>	<u>-</u>
Fund balances, beginning of year	<u>160,695</u>	<u>11,523</u>	<u>1,970</u>	<u>6,081</u>
Fund balances, end of year	<u>\$ 203,926</u>	<u>\$ 27,188</u>	<u>\$ 7,120</u>	<u>\$ 6,081</u>

Debt Service Funds		Capital Project Fund		Total
Industrial Park (302)	City Hall (315)	Industrial Park Development (415)	Permanent Fund (711)	
\$ -	\$ 262,119	\$ -	\$ -	\$ 262,119
-	-	-	-	58,650
-	-	-	-	413,426
-	-	-	3,400	3,400
-	262,119	-	3,400	737,595
-	-	-	-	162,734
55,000	80,000	-	-	185,000
9,980	122,686	-	-	136,166
64,980	202,686	-	-	483,900
(64,980)	59,433	-	3,400	253,695
64,980	-	-	-	184,980
-	-	-	-	(311,796)
64,980	-	-	-	(126,816)
-	59,433	-	3,400	126,879
-	158,486	238,506	303,193	880,454
\$ -	\$ 217,919	\$ 238,506	\$ 306,593	\$ 1,007,333

CITY OF GAYLORD, MICHIGAN

Balance Sheet

Downtown Development Authority Component Unit

June 30, 2017

Assets

Cash and cash equivalents	\$ 49,518
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Liabilities

Accounts payable	11,349
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Accrued liabilities	1,652
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Total liabilities

13,001

Fund balance

Unassigned	36,517
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Total liabilities and fund balance

	\$ 49,518
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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, 2017

Fund balance	\$ 36,517
Amounts reported for the <i>component unit</i> 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	<u>460,537</u>
Net position of the component unit	<u>\$ 497,054</u>

CITY OF GAYLORD, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance Downtown Development Authority Component Unit For the Year Ended June 30, 2017

Revenues	
Taxes and penalties	\$ 126,836
Interest	10
Miscellaneous	<u>55,620</u>
Total revenues	182,466
Expenditures	
Current:	
Culture and recreation	<u>156,514</u>
Change in fund balance	25,952
Fund balance, beginning of year	<u>10,565</u>
Fund balance, end of year	<u><u>\$ 62,469</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, 2017

Change in fund balance - component unit	\$ 25,952
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><u>\$ (5,500)</u></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 11, 2017

Honorable members of the City Council
of the City of Gaylord
Gaylord, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, 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, 2017, 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 11, 2017.

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 2017-001 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 2017-003 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, 2017

2017-001 - 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, 2017

2017-002 - 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. A prior period adjustment related to an accounting error was required for the 2017 fiscal year. Additionally, there were multiple necessary adjustments to ensure that the June 30, 2017, financial statements were materially stated.

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 audited 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, 2017

2017-003 - 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. 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.

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. While no instances of fraud were detected, the potential for fraud exists due to the lack of segregation of duties of internal controls.

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.

