

**City of Grayling, Michigan**

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**BASIC FINANCIAL STATEMENTS**

**June 30, 2016**

**CITY OF GRAYLING, MICHIGAN**

ORGANIZATION

**MEMBERS OF THE CITY COUNCIL**

MAYOR

KARL SCHREINER

MAYOR PRO TEM

HEIDI FARMER

COUNCILPERSON

KARL DEVRIES

COUNCILPERSON

ROGER MOSHIER

COUNCILPERSON

JAY MERTES

**APPOINTED OFFICERS**

CITY MANAGER

DOUG BAUM

CLERK/TREASURER

LISA K. JOHNSON

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA  
JON D. SWANSON, CPA

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**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

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

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, of the City of Grayling, Michigan, (the "City") as of and for the year ending June 30, 2016, 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.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Grayling Housing Commission, a component unit of the City of Grayling, Michigan, which represents 100 percent, 100 percent, and 100 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Grayling Housing Commission, is based solely on the report of the other auditors. 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.

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

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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Grayling, Michigan, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 12, pages 41 and 42, and pages 43 through 48 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 and other auditors 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 of Grayling, Michigan's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016 on our consideration of the City of Grayling, Michigan's internal control over financial reporting and on 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 of Grayling, Michigan's internal control over financial reporting and compliance.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

December 5, 2016

## **Management's Discussion and Analysis**

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As management of the City of Grayling, 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, 2016. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The assets of the City's primary government exceeded its liabilities at the close of the most recent fiscal year by \$11,910,462 (net position). Of this amount, \$1,204,658 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total changes in net position decreased by \$52,578.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,044,638 an increase of \$56,727 in comparison with the prior year. 29% of the ending fund balances, or \$881,644 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$637,135 or 83% of the total general fund expenditures, not including transfers out.
- The City's total debt not including the component units' activities increased by \$275,438 during the current fiscal year. New debt issued during the current fiscal year amounted to \$448,912.

### 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 five components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) other information.

**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 and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government'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 including major and local street maintenance, community and economic development, and recreation and culture activities. The business-type activities of the City include sewer and water operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Housing Commission for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. Complete financial statements for the component unit are separately issued and available by request at City Hall.

**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 a government's near-term financing requirements.

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

The City maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General, Major Street, Local Street, Public Safety, and Income Tax Funds, which are considered to be major funds. Data from the other 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 or schedules have been provided herein to demonstrate compliance with those budgets.

**Proprietary funds.** The City maintains one type 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.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water funds, of which both are considered major funds of the City.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City has one fiduciary fund.

**Notes to 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.

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI). RSI includes this management discussion and analysis, along with the schedules of funding progress and employer contributions for the City's defined benefit pension plan and budgetary comparison schedules.

**Other information.** The combining fund financial statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

**Government-wide Financial Analysis**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$11,910,462 at the close of fiscal year 2016.

A portion of the City's net position reflects unrestricted net position which is available for future operations while a significant portion of the net position is invested in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's net 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 cannot themselves be used to liquidate these liabilities.

**City of Grayling  
Condensed Statement of Net Position**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current Assets	\$ 3,248,584	\$ 3,222,845	\$ 1,056,108	\$ 1,142,935	\$ 4,304,692	\$ 4,365,780
Capital Assets	6,251,607	5,650,464	5,045,916	5,253,445	11,297,523	10,903,909
<b>Total Assets</b>	<b>9,500,191</b>	<b>8,873,309</b>	<b>6,102,024</b>	<b>6,396,380</b>	<b>15,602,215</b>	<b>15,269,689</b>
Deferred Outflows of Resources	\$ 346,788	\$ 99,074	\$ 25,341	\$ 12,811	\$ 372,129	\$ 111,885
Current Liabilities	\$ 296,292	\$ 267,080	\$ 39,870	\$ 23,046	\$ 336,162	\$ 290,126
Noncurrent Liabilities	2,567,869	1,899,002	1,131,167	1,229,406	3,699,036	3,128,408
<b>Total Liabilities</b>	<b>2,864,161</b>	<b>2,166,082</b>	<b>1,171,037</b>	<b>1,252,452</b>	<b>4,035,198</b>	<b>3,418,534</b>
Deferred Inflows of Resources	\$ 27,249	\$ -	\$ 1,435	\$ -	\$ 28,684	\$ -
Net Position						
Net Investment in Capital Assets	5,347,695	5,140,464	4,005,916	4,098,445	9,353,611	9,238,909
Restricted	1,352,193	1,330,083	-	-	1,352,193	1,330,083
Unrestricted	255,681	335,754	948,977	1,058,294	1,204,658	1,394,048
<b>Total Net Position</b>	<b>\$ 6,955,569</b>	<b>\$ 6,806,301</b>	<b>\$ 4,954,893</b>	<b>\$ 5,156,739</b>	<b>\$ 11,910,462</b>	<b>\$ 11,963,040</b>

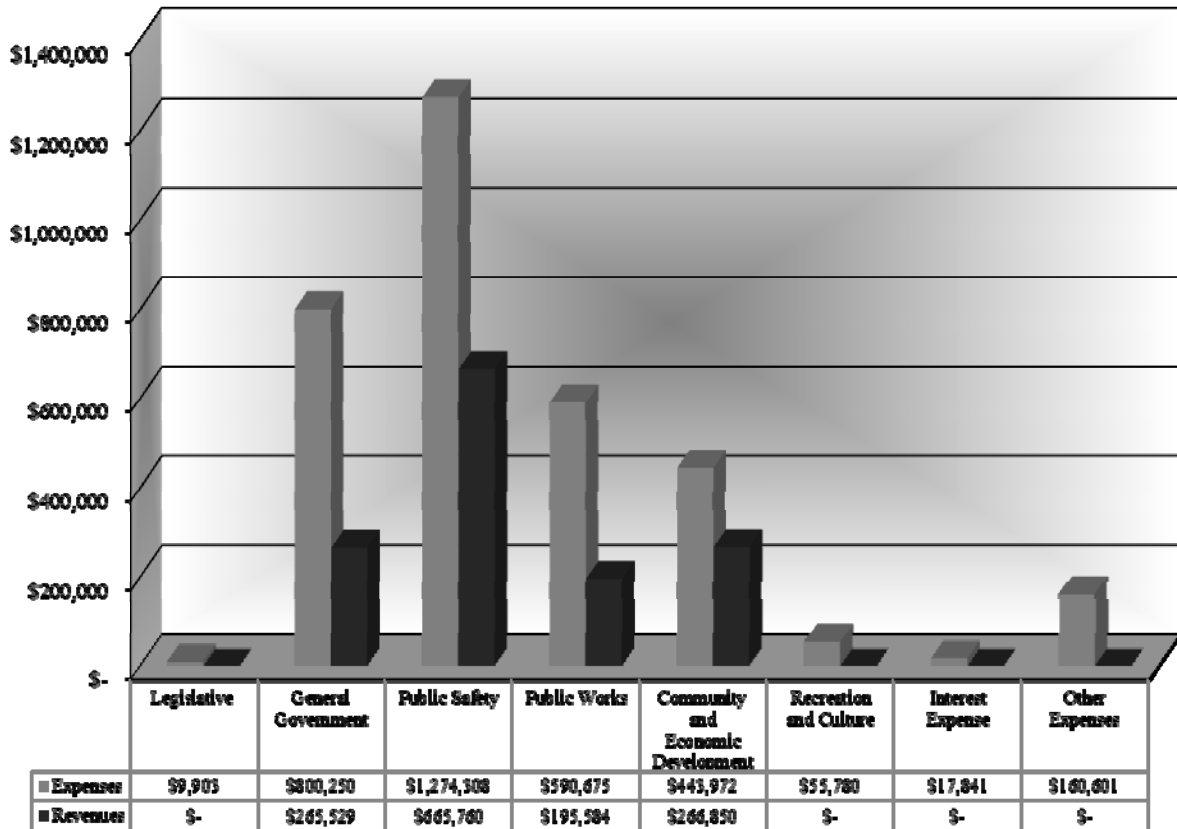
Net position of the City decreased by \$52,578 for the year ended June 30, 2016. The governmental activities increased in net position by \$149,268 primarily the result of an increase in charges for services and grant income. Business-type activities net position decreased by \$201,846. This indicates that the revenue from charges to users was slightly less than costs of offering water and sewer utilities to City residents (including depreciation on infrastructure assets which does not require cash outlay).

**City of Grayling  
Condensed Statement of Changes in Net Position**

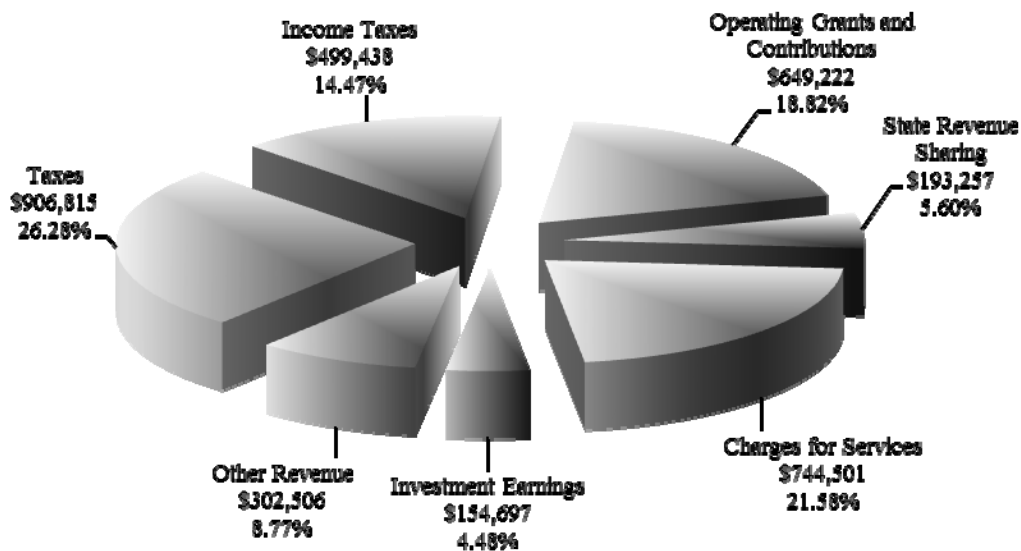
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Revenues						
Charges for Services	\$ 744,501	\$ 866,753	\$ 708,934	\$ 627,450	\$ 1,453,435	\$ 1,494,203
Operating Grants and Contributions	649,222	386,326	-	-	649,222	386,326
General Revenues						
Property Taxes	906,815	902,784	-	-	906,815	902,784
Income Taxes	499,438	475,735	-	-	499,438	475,735
State Shared Revenues	193,257	196,338	-	-	193,257	196,338
Investment Earnings	154,697	146,757	1,160	790	155,857	147,547
Other Revenue	302,506	11,273	1,105	8,655	303,611	19,928
<b>Total Revenues</b>	<b>3,450,436</b>	<b>2,985,966</b>	<b>711,199</b>	<b>636,895</b>	<b>4,161,635</b>	<b>3,622,861</b>
Program Expenses						
Legislative	9,903	10,703	-	-	9,903	10,703
General Government	800,250	707,810	-	-	800,250	707,810
Public Safety	1,274,308	1,276,781	-	-	1,274,308	1,276,781
Public Works	590,675	585,120	-	-	590,675	585,120
Community and Economic Development	443,972	184,368	-	-	443,972	184,368
Recreation and Culture	55,780	51,617	-	-	55,780	51,617
Interest Expense	17,841	40,348	-	-	17,841	40,348
Other Expenses	160,601	147,706	-	-	160,601	147,706
Sewer	-	-	469,843	401,123	469,843	401,123
Water	-	-	391,040	256,531	391,040	256,531
<b>Total Expenses</b>	<b>3,353,330</b>	<b>3,004,453</b>	<b>860,883</b>	<b>657,654</b>	<b>4,214,213</b>	<b>3,662,107</b>
Changes in Net Position Before Transfers	97,106	(18,487)	(149,684)	(20,759)	(52,578)	(39,246)
Transfers	52,162	52,622	(52,162)	(52,622)	-	-
<b>Changes in Net Position</b>	<b>149,268</b>	<b>34,135</b>	<b>(201,846)</b>	<b>(73,381)</b>	<b>(52,578)</b>	<b>(39,246)</b>
Net Position - Beginning	6,806,301	8,066,309	5,156,739	5,298,233	11,963,040	13,364,542
Prior Period Adjustment	-	(1,294,143)	-	(68,113)	-	(1,362,256)
<b>Net Position - Beginning (Restated)</b>	<b>6,806,301</b>	<b>6,772,166</b>	<b>5,156,739</b>	<b>5,230,120</b>	<b>11,963,040</b>	<b>12,002,286</b>
<b>Net Position - Ending</b>	<b>\$ 6,955,569</b>	<b>\$ 6,806,301</b>	<b>\$ 4,954,893</b>	<b>\$ 5,156,739</b>	<b>\$ 11,910,462</b>	<b>\$ 11,963,040</b>

**Governmental activities.** Governmental activities increased the City’s net position by \$149,268.

**Expenses and Program Revenues – Governmental Activities**

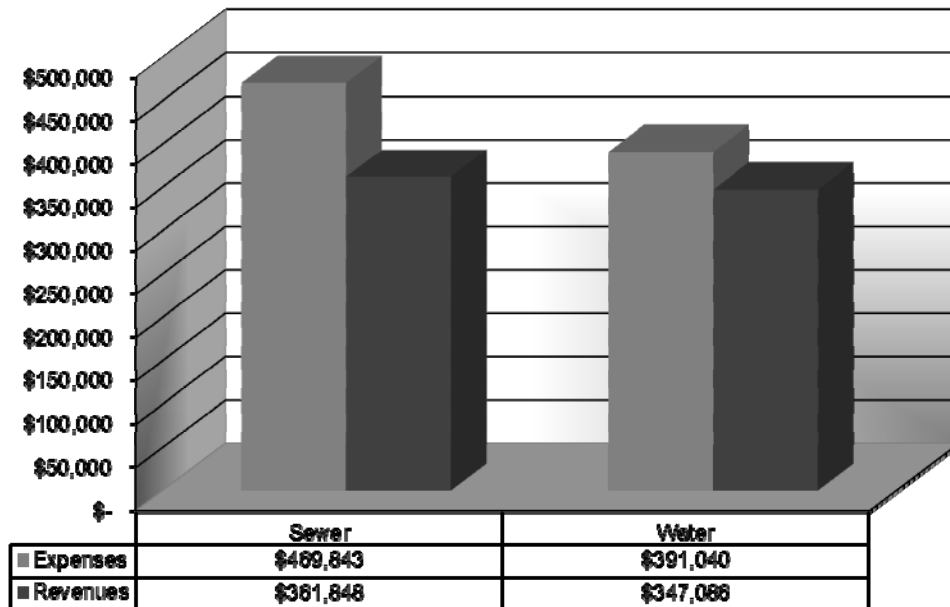


**Revenues by Source – Governmental Activities**



**Business-type activities.** Business-type activities decreased the City’s net position by \$201,846.

**Expenses and Revenues – Business-type Activities**



Substantially all revenues for the business-type activities resulted from charges for services.

**Financial Analysis of the Government’s Funds**

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

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

As of the end of the current year, the City’s governmental funds reported combined ending fund balances of \$3,044,638, an increase of \$56,727 in comparison with the prior year. Of the total fund balance, \$2,162,994 or 71% is either restricted, nonspendable, assigned, or committed by the City Council. The remaining \$881,644 constitutes unassigned fund balance, which is available for spending at the City’s discretion.

The General Fund is the primary operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$637,135. The fund balance of the City’s general fund decreased by \$40,401 during fiscal year 2016.

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

Unrestricted net position of the sewer and water funds at the end of the year amounted to \$817,199 and \$131,778, respectively. The sewer fund had a decrease in net position for the year of \$134,711 and the water fund had a decrease of \$67,135. Other factors concerning the finances of these funds have already been addressed in the discussion of the City’s business-type activities.

**General Fund Budgetary Highlights**

The City is required by State law to adopt an operating budget for its general fund and special revenue funds prior to the commencement of the fiscal year. During the year, as more information on funding sources and uses becomes available, the City Council amends the budget to reflect the changing circumstances. The following items describe significant variations between the original budget and the final amended budget. Revenues were over budget by \$25,112 while expenditures were under budget by \$60,706.

**Capital Asset and Debt Administration**

**Capital assets.** The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2016, amount to \$11,297,523 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and infrastructure.

Major capital asset events during the current fiscal year included the following:

- General government land purchases of two downtown parking lots and new plow truck.

**City of Grayling  
Capital Assets**  
(net of depreciation, where applicable)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 451,190	\$ 451,190	\$ -	\$ -	\$ 451,190	\$ 451,190
Buildings	1,522,601	1,600,364	-	-	1,522,601	1,600,364
Equipment	1,761,277	1,059,654	-	-	1,761,277	1,059,654
Infrastructure	2,516,539	2,539,256	5,045,916	5,253,445	7,562,455	7,792,701
Total Capital Assets, Net	<u>\$ 6,251,607</u>	<u>\$ 5,650,464</u>	<u>\$ 5,045,916</u>	<u>\$ 5,253,445</u>	<u>\$ 11,297,523</u>	<u>\$ 10,903,909</u>



**Long-term debt.** At the end of the current fiscal year, the city had total debt outstanding of \$1,970,724. Of this amount, \$930,724 was debt of governmental activities and \$1,040,000 was debt of business-type activities.

**City of Grayling  
Long-term Debt**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Bonds and notes payable	\$ 903,912	\$ 510,000	\$ 1,040,000	\$ 1,155,000	\$ 1,943,912	\$ 1,665,000
Compensated absences	26,812	30,286	-	-	26,812	30,286
Total long-term debt	<u>\$ 930,724</u>	<u>\$ 540,286</u>	<u>\$ 1,040,000</u>	<u>\$ 1,155,000</u>	<u>\$ 1,970,724</u>	<u>\$ 1,695,286</u>

The City’s total debt increased by \$275,438 during the current fiscal year.

**Economic Factors and Next Year’s Budgets and Rates**

The following factors were considered in preparing the City’s budget for the 2016-2017 fiscal year:

- Anticipated reduction in State Revenue Sharing
- Anticipated reduction in taxable values with corresponding decrease in property tax revenues.

**Request for Information**

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, 1020 City Boulevard, Grayling, P.O. Box 549, Grayling, Michigan, 49738.

## **Basic Financial Statements**

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Statement of Net Position  
June 30, 2016

	Primary Government		Totals	Component Unit
	Governmental Activities	Business-type Activities		Housing Commission 3/31/2016
<b>ASSETS:</b>				
Cash and Equivalents	\$ 3,079,681	\$ 820,817	\$ 3,900,498	\$ 494,168
Investments	-	-	-	56,781
Receivables	138,238	196,036	334,274	797
Inventory	-	39,255	39,255	-
Prepaid Items	30,665	-	30,665	18,575
Capital Assets (Not Depreciated)	451,190	-	451,190	88,873
Capital Assets (Net of Accumulated Depreciation)	5,800,417	5,045,916	10,846,333	560,923
<b>TOTAL ASSETS</b>	<b>9,500,191</b>	<b>6,102,024</b>	<b>15,602,215</b>	<b>1,220,117</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Pension Investment Experience and Contributions	346,788	18,250	365,038	3,159
Bond Refunding Loss	-	7,091	7,091	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>346,788</b>	<b>25,341</b>	<b>372,129</b>	<b>3,159</b>
<b>LIABILITIES:</b>				
Accounts Payable	24,173	31,136	55,309	31,403
Accrued Liabilities	19,712	8,734	28,446	49,312
Accrued Interest Payable	11,152	-	11,152	-
Unearned Revenue	146,570	-	146,570	3,190
Bonds Payable - Due within one year	55,000	-	55,000	-
Capital Lease - Due within one year	39,685	-	39,685	-
Bonds Payable - Due in more than one year	400,000	1,040,000	1,440,000	-
Capital Lease - Due in more than one year	409,227	-	409,227	-
Net Pension Obligation - Due in more than one year	1,731,830	91,167	1,822,997	319,485
Compensated Absences - Due in more than one year	26,812	-	26,812	22,168
<b>TOTAL LIABILITIES</b>	<b>2,864,161</b>	<b>1,171,037</b>	<b>4,035,198</b>	<b>425,558</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Pension Investment Returns and Experience	27,249	1,435	28,684	-
<b>NET POSITION:</b>				
Net Investment in Capital Assets	5,347,695	4,005,916	9,353,611	649,796
Restricted	1,352,193	-	1,352,193	1,502
Unrestricted	255,681	948,977	1,204,658	146,420
<b>TOTAL NET POSITION</b>	<b>\$ 6,955,569</b>	<b>\$ 4,954,893</b>	<b>\$ 11,910,462</b>	<b>\$ 797,718</b>

Statement of Activities  
For the Year Ended June 30, 2016

Primary Government Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Component Unit (3/31/2016)
		Charges for Services	Operating Grants and Contributions	Primary Government		Total	
				Governmental Activities	Business-type Activities		
<b>Governmental Activities:</b>							
Legislative	\$ 9,903	\$ -	\$ -	\$ (9,903)	\$ -	\$ (9,903)	\$ -
General Government	800,250	200,068	65,461	(534,721)	-	(534,721)	-
Public Safety	1,274,308	535,033	130,727	(608,548)	-	(608,548)	-
Public Works	590,675	-	195,584	(395,091)	-	(395,091)	-
Community and Economic Development	443,972	9,400	257,450	(177,122)	-	(177,122)	-
Recreation and Culture	55,780	-	-	(55,780)	-	(55,780)	-
Interest Expense	17,841	-	-	(17,841)	-	(17,841)	-
Other Expenses	160,601	-	-	(160,601)	-	(160,601)	-
Total Governmental Activities	3,353,330	744,501	649,222	(1,959,607)	-	(1,959,607)	-
<b>Business-type activities:</b>							
Sewer	469,843	361,848	-	-	(107,995)	(107,995)	-
Water	391,040	347,086	-	-	(43,954)	(43,954)	-
Total Business-type Activities	860,883	708,934	-	-	(151,949)	(151,949)	-
Total Primary Government	4,214,213	1,453,435	649,222	(1,959,607)	(151,949)	(2,111,556)	-
<b>Component Unit:</b>							
Housing Commission (3/31/2016)	1,022,485	302,437	645,364				(74,684)
Total Component Units	1,022,485	302,437	645,364				(74,684)
Total	\$ 5,236,698	\$ 1,755,872	\$ 1,294,586				
<b>General Revenues and Transfers:</b>							
Property Taxes				906,815	-	906,815	-
Income Taxes				499,438	-	499,438	-
State Shared Revenue				193,257	-	193,257	-
Investment Earnings				154,697	1,160	155,857	251
Transfers				52,162	(52,162)	-	-
Fraud Recovery				-	-	-	5,164
Other Revenue				302,506	1,105	303,611	37,044
<b>Total General Revenues and Transfers</b>				2,108,875	(49,897)	2,058,978	42,459
Changes in Net Position				149,268	(201,846)	(52,578)	(32,225)
Net Position - Beginning				6,806,301	5,156,739	11,963,040	1,146,269
Prior Period Adjustment				-	-	-	(316,326)
Net Position - Beginning (Restated)				6,806,301	5,156,739	11,963,040	829,943
<b>Net Position - Ending</b>				\$ 6,955,569	\$ 4,954,893	\$ 11,910,462	\$ 797,718

See accompanying notes to financial statements.

# City of Grayling, Michigan

## Balance Sheet Governmental Funds June 30, 2016

	General	Major Street	Local Street	Public Safety	Income Tax Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>							
Cash and Equivalents - Unrestricted	\$ 603,154	\$ 184,230	\$ 89,016	\$ 250,680	\$ 1,199,417	\$ 753,184	\$ 3,079,681
Accounts Receivable	35,589	21,313	9,618	30,692	-	9,718	106,930
Special Assessments Receivable	-	-	-	-	-	13,491	13,491
Due from Governmental Units	17,817	-	-	-	-	-	17,817
Prepaid Items	30,543	-	-	-	-	122	30,665
<b>TOTAL ASSETS</b>	<b>\$ 687,103</b>	<b>\$ 205,543</b>	<b>\$ 98,634</b>	<b>\$ 281,372</b>	<b>\$ 1,199,417</b>	<b>\$ 776,515</b>	<b>\$ 3,248,584</b>
<b>LIABILITIES:</b>							
Accounts Payable	\$ 5,024	\$ 2,532	\$ 828	\$ 6,642	\$ 134	\$ 9,013	\$ 24,173
Accrued Liabilities	7,884	272	212	9,221	853	1,270	19,712
Unearned Revenue	-	-	-	-	146,570	13,491	160,061
<b>TOTAL LIABILITIES</b>	<b>12,908</b>	<b>2,804</b>	<b>1,040</b>	<b>15,863</b>	<b>147,557</b>	<b>23,774</b>	<b>203,946</b>
<b>FUND BALANCES:</b>							
Nonspendable	30,543	-	-	-	-	122	30,665
Restricted	-	202,739	97,594	-	1,051,860	-	1,352,193
Committed	6,517	-	-	21,000	-	285,234	312,751
Assigned	-	-	-	-	-	467,385	467,385
Unassigned	637,135	-	-	244,509	-	-	881,644
<b>TOTAL FUND BALANCES</b>	<b>674,195</b>	<b>202,739</b>	<b>97,594</b>	<b>265,509</b>	<b>1,051,860</b>	<b>752,741</b>	<b>3,044,638</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 687,103</b>	<b>\$ 205,543</b>	<b>\$ 98,634</b>	<b>\$ 281,372</b>	<b>\$ 1,199,417</b>	<b>\$ 776,515</b>	

**Reconciliation to amounts reported for governmental activities in the statement of net position:**

Capital assets used by governmental activities	6,251,607
Bonds payable and capital leases	(903,912)
Compensated Absences	(26,812)
Deferred Outflows	346,788
Deferred Inflows	(27,249)
Net Pension Obligation	(1,731,830)
Accrued Interest Expense	(11,152)
Special Assessments	13,491
<b>Net position of governmental activities</b>	<b>\$ 6,955,569</b>

**Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Governmental Funds  
For the Year Ended June 30, 2016**

	General	Major Street	Local Street	Public Safety	Income Tax Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>							
Property Taxes	\$ 906,815	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 906,815
Income Taxes	-	-	-	-	499,438	-	499,438
Licenses and Permits	17,711	-	-	1,481	-	-	19,192
Federal Revenues	-	-	-	-	-	257,450	257,450
State Revenues	208,297	130,449	58,975	7,960	-	-	405,681
Local Revenues	-	-	-	122,767	-	38,870	161,637
Charges for Services	181,907	-	-	533,552	-	44,422	759,881
Interest and Rentals	10,059	-	-	4	6,072	138,562	154,697
Other Revenue	13,675	-	-	31,176	-	257,655	302,506
<b>TOTAL REVENUES</b>	<b>1,338,464</b>	<b>130,449</b>	<b>58,975</b>	<b>696,940</b>	<b>505,510</b>	<b>736,959</b>	<b>3,467,297</b>
<b>EXPENDITURES:</b>							
Legislative	9,903	-	-	-	-	-	9,903
General Government	404,372	-	-	-	118,988	198,003	721,363
Public Safety	11,582	-	-	1,078,009	-	-	1,089,591
Public Works	184,744	90,505	58,105	-	-	-	333,354
Community and Economic Development	-	-	-	-	-	443,972	443,972
Recreation and Culture	8,112	-	-	-	-	-	8,112
Other Expenditures	152,544	-	-	-	-	-	152,544
Debt Service	-	-	-	-	-	69,186	69,186
Capital Outlay	-	-	-	487,740	-	595,879	1,083,619
<b>TOTAL EXPENDITURES</b>	<b>771,257</b>	<b>90,505</b>	<b>58,105</b>	<b>1,565,749</b>	<b>118,988</b>	<b>1,307,040</b>	<b>3,911,644</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>567,207</b>	<b>39,944</b>	<b>870</b>	<b>(868,809)</b>	<b>386,522</b>	<b>(570,081)</b>	<b>(444,347)</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Debt Proceeds	-	-	-	448,912	-	-	448,912
Operating Transfers In	173,330	58,514	74,860	485,392	-	615,996	1,408,092
Operating Transfers Out	(780,938)	(40,775)	(44,001)	-	(453,824)	(36,392)	(1,355,930)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(607,608)</b>	<b>17,739</b>	<b>30,859</b>	<b>934,304</b>	<b>(453,824)</b>	<b>579,604</b>	<b>501,074</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>(40,401)</b>	<b>57,683</b>	<b>31,729</b>	<b>65,495</b>	<b>(67,302)</b>	<b>9,523</b>	<b>56,727</b>
<b>FUND BALANCES, JULY 1</b>	<b>714,596</b>	<b>145,056</b>	<b>65,865</b>	<b>200,014</b>	<b>1,119,162</b>	<b>743,218</b>	<b>2,987,911</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 674,195</b>	<b>\$ 202,739</b>	<b>\$ 97,594</b>	<b>\$ 265,509</b>	<b>\$ 1,051,860</b>	<b>\$ 752,741</b>	<b>\$ 3,044,638</b>

**Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balance of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2016**

Net changes in fund balances - total governmental funds	\$ 56,727
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$1,075,562 was more than depreciation of (\$468,303) in the current period.	607,259
Several capitalized assets were disposed of during the year. The difference between book carrying value and the related accumulated depreciation is not shown as an expense under the current financial resources measurement focus.	(6,116)
Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenue on the fund statements.	(16,860)
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments	55,000
Debt Proceeds	(448,912)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:	
Compensated Absences	3,472
Pension Obligation	(97,647)
Accrued Interest	<u>(3,655)</u>
Changes in net position of governmental activities	<u>\$ 149,268</u>

**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2016**

	Business - type Activities		
	Enterprise Funds		Total Business-type Funds
	Sewer	Water	
<b>ASSETS:</b>			
Cash and Equivalents	\$ 762,636	\$ 58,181	\$ 820,817
Accounts Receivable	95,112	100,463	195,575
Special Assessments Receivable	457	4	461
Inventory	6,736	32,519	39,255
Capital Assets (Net of Accumulated Depreciation)	4,260,673	785,243	5,045,916
<b>TOTAL ASSETS</b>	<b>5,125,614</b>	<b>976,410</b>	<b>6,102,024</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Investment Experience and Contributions	7,300	10,950	18,250
Loss on Bond Refunding	4,184	2,907	7,091
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>11,484</b>	<b>13,857</b>	<b>25,341</b>
<b>LIABILITIES:</b>			
Accounts Payable	17,107	14,029	31,136
Accrued Liabilities	5,078	3,656	8,734
Net Pension Obligation - Due in more than one year	36,467	54,700	91,167
Bonds Payable - Due in more than one year	613,810	426,190	1,040,000
<b>TOTAL LIABILITIES</b>	<b>672,462</b>	<b>498,575</b>	<b>1,171,037</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pension Investment Returns	574	861	1,435
<b>NET POSITION:</b>			
Net Investment in Capital Assets	3,646,863	359,053	4,005,916
Unrestricted	817,199	131,778	948,977
<b>TOTAL NET POSITION</b>	<b>\$ 4,464,062</b>	<b>\$ 490,831</b>	<b>\$ 4,954,893</b>



**Statement of Revenues, Expenses, and  
Changes in Net Position - Proprietary Funds  
For the Year Ended June 30, 2016**

	Business - type Activities		
	Enterprise		Total Business-type Funds
	Funds		
	Sewer	Water	
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 345,282	\$ 334,987	\$ 680,269
Special Assessments	16,566	12,099	28,665
Other Revenue	135	970	1,105
Total Operating Revenues	<u>361,983</u>	<u>348,056</u>	<u>710,039</u>
<b>OPERATING EXPENSES:</b>			
Administrative Services	192,110	237,634	429,744
Supplies	6,483	19,182	25,665
Contractual and Other	15,891	7,367	23,258
Utilities	47,248	25,977	73,225
Repair and Maintenance	27,850	32,402	60,252
Amortization Expense	298	208	506
Depreciation Expense	155,371	52,158	207,529
Total Operating Expenses	<u>445,251</u>	<u>374,928</u>	<u>820,179</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(83,268)</u>	<u>(26,872)</u>	<u>(110,140)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Investment Earnings	1,160	-	1,160
Interest Expense	(24,592)	(16,112)	(40,704)
Total Non-Operating Revenues (Expenses)	<u>(23,432)</u>	<u>(16,112)</u>	<u>(39,544)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(106,700)</u>	<u>(42,984)</u>	<u>(149,684)</u>
<b>OTHER FINANCIAL SOURCES (USES):</b>			
Operating Transfers Out	<u>(28,011)</u>	<u>(24,151)</u>	<u>(52,162)</u>
<b>CHANGES IN NET POSITION</b>	<u>(134,711)</u>	<u>(67,135)</u>	<u>(201,846)</u>
NET POSITION, JULY 1	<u>4,598,773</u>	<u>557,966</u>	<u>5,156,739</u>
<b>NET POSITION, JUNE 30</b>	<u>\$ 4,464,062</u>	<u>\$ 490,831</u>	<u>\$ 4,954,893</u>

**Statement of Cash Flows  
Proprietary Fund Types  
For the Year Ended June 30, 2016**

	Business-type Activities		
	Enterprise Funds		Total Business-type Funds
	Sewer	Water	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from Customers	\$ 352,266	\$ 321,459	\$ 673,725
Payments to Suppliers	(82,651)	(69,514)	(152,165)
Payments to Employees	(186,430)	(231,603)	(418,033)
Net Cash Provided (Used) by Operating Activities	<u>83,185</u>	<u>20,342</u>	<u>103,527</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers Out	<u>(28,011)</u>	<u>(24,151)</u>	<u>(52,162)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(28,011)</u>	<u>(24,151)</u>	<u>(52,162)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Principal Paid on Capital Debt	(69,000)	(46,000)	(115,000)
Interest Paid on Capital Debt	<u>(34,609)</u>	<u>(23,073)</u>	<u>(57,682)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(103,609)</u>	<u>(69,073)</u>	<u>(172,682)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest Income	<u>1,160</u>	<u>-</u>	<u>1,160</u>
Net Cash Provided (Used) by Investing Activities	<u>1,160</u>	<u>-</u>	<u>1,160</u>
Net Increase (Decrease) in Cash and Equivalents	(47,275)	(72,882)	(120,157)
Balances - Beginning of the Year	<u>809,911</u>	<u>131,063</u>	<u>940,974</u>
Balances - End of the Year	<u>\$ 762,636</u>	<u>\$ 58,181</u>	<u>\$ 820,817</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Operating Income (Loss)	\$ (83,268)	\$ (26,872)	\$ (110,140)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Pension Costs	1,797	3,363	5,160
Bond Amortization	298	208	506
Depreciation Expense	155,371	52,158	207,529
(Increase) Decrease in Assets:			
Accounts Receivable	(15,217)	(30,613)	(45,830)
Special Assessments Receivable	5,500	4,016	9,516
Inventory	(1,031)	4,015	2,984
Increase (Decrease) in Liabilities:			
Accounts Payable	15,852	11,399	27,251
Accrued Liabilities	<u>3,883</u>	<u>2,668</u>	<u>6,551</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 83,185</u>	<u>\$ 20,342</u>	<u>\$ 103,527</u>

**Statement of Fiduciary Net Position  
Fiduciary Fund  
June 30, 2016**

	<u>Agency Fund</u>
<b>ASSETS:</b>	
Cash and Equivalents - Unrestricted	\$ <u>8,350</u>
 TOTAL ASSETS	 \$ <u><u>8,350</u></u>
 <b>LIABILITIES:</b>	
Undistributed Receipts	\$ <u>8,350</u>
 TOTAL LIABILITIES	 \$ <u><u>8,350</u></u>

## **Notes to Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Grayling (the “City”) is directed by a City Council elected by the community at large. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, cemetery, sanitation, culture and recreation, public improvements, planning and zoning, and general administrative services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14 and Statement No. 61, regarding the definition of the reporting entity.

GASB 14 and 61 provides that the primary basis for determining whether outside agencies and organizations should be considered component units of the City and included in the City’s financial statements if there is financial accountability. Financial accountability has been defined as follows: a primary government has substantive authority to appoint a voting majority of the component unit’s board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The City’s only component unit is the Grayling Housing Commission.

***Discretely Presented Component Units***

The Grayling Housing Commission (the “Commission”) is governed by a five-member board appointed by the City Manager. The Commission’s fiscal year end is March 31, 2016. A complete financial statement of the Commission can be obtained from the Executive Director, City of Grayling Housing Commission, 308 Lawndale Drive, Grayling, Michigan 49738.

***Shared Services***

The City provides fire and cemetery services to the Township of Grayling (the “Township”) based on contractual agreements. The Township pays a quarterly fixed fee to the City. Any profit or loss on the fire operations are retained by the City.

**B. 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 support.

Likewise, the *primary government* is reported separately from the legally separate *component units* 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*.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 proprietary funds are reported as separate columns in the fund financial statements.

**Fund Financial Statements.** The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental 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 required to be accounted for in another fund.

The *Major Streets Fund* accounts for the use of motor fuel taxes which are restricted by State statutes for major street and highway purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street and highway purposes.

The *Public Safety Fund* accounts for operation of the City's Public Safety activities.

The *Income Tax Fund* accounts for proceeds from the City income tax collections. These collections are restricted for capital improvements.

The City reports the following major enterprise funds:

The *Sewer and Water Funds* account for the activities of the City's sewage disposal and treatment and water distribution systems.

Additionally, the City reports the following fund types:

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

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

**Agency Funds.** These funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the City holds for others in an agency capacity (such as taxes collected for other governments).

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued).**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when a payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Income taxes are not considered earned until January 1 of each year, which is the end of the taxable year. All other revenue items are considered to be measurable and available only when cash is received by the City.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise 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.

Restricted net position is 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.

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance:**

***Cash and Equivalents and Investments***

The City's cash and 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.

Investments are stated at fair market value.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Receivables and Payables***

All receivables are reported at their gross value. The City has not established an allowance for uncollectible accounts since, in the opinion of management, the amount is not significant.

***Interfund Activities***

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

***Property Taxes***

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City’s own property taxes and taxes billed on behalf of the school district (State Education Tax) within the City limits. Real property taxes not collected as of March 1 are returned to the County for collection, which advances the City 100% for the delinquent report property taxes. Collection of delinquent property taxes remains the responsibility of the City Treasurer.

Property taxes are levied in July of each year and are recognized as revenue in that year.

***Income Taxes***

The City has a local income tax for city residents, business, and individuals working in the City. Income taxes receivable represents estimated income taxes for wages and profits through June 30, 2016 net of estimated refunds.

***Inventories***

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption. The cost is recorded as an expense as inventory items are consumed.

***Capital Assets***

Capital assets, which include land, building, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Buildings	40-60 years
Water and sewer infrastructure	50-75 year
Infrastructure	10-30 years
Equipment	5-7 years

***Compensated Absences***

Vacation days for the City’s salaried and some hourly employees are determined by the City’s personnel policies. The remaining hourly employees are determined by the union agreement between the City and the employee’s union. The liability for this amount is included in the government-wide and proprietary fund financial statements. A liability for this amount is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

***Long-Term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

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

***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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has pension items that qualify for reporting in this category.

***Deferred Inflows of Resources***

In addition to liabilities, the statement of net position and governmental funds balance sheet 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 City has no items that qualify for reporting in this category.

***Fund Balance Classification***

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable**: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year. The City has \$30,665 in Nonspendable fund balance.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has restricted \$202,739 and \$97,594 for major and local streets funds respectively, and \$1,296,250 for the income tax fund.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City. These amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City has committed \$6,517, \$21,000, and \$285,234 for the General, Public Safety, and Municipal Holdings funds, respectively.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned fund balance for cemetery, DDA, and capital improvements in the amount of \$313,910, \$32,225, and \$121,250 respectively.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

***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 Pension Plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by MERS. 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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

***Budgetary Information***

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. 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 lapses on June 30. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through a resolution passed by the City Council.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the City Council. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The City does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the City Council during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Excess of Expenditures over Budget – For the year ended June 30, 2016, expenditures exceeded the final budget of the Public Safety Fund by \$426,105.

**NOTE 3 - CASH AND EQUIVALENTS AND INVESTMENTS**

At year end, the City’s deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>
Cash and Equivalents - Unrestricted	\$ 3,079,681	\$ 820,817	\$ 3,900,498	\$ 8,350	\$ 494,168
Total	<u>\$ 3,079,681</u>	<u>\$ 820,817</u>	<u>\$ 3,900,498</u>	<u>\$ 8,350</u>	<u>\$ 494,168</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 3,900,298	\$ 8,350	\$ 494,168
Petty Cash and Cash on Hand	<u>200</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,900,498</u>	<u>\$ 8,350</u>	<u>\$ 494,168</u>

Investments:

<u>Description</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>Rating</u>
Certificates of Deposit	\$ 921,920	\$ 666,727	\$ 255,193	Unrated
Total Investments	<u>\$ 921,920</u>	<u>\$ 666,727</u>	<u>\$ 255,193</u>	

**Investment and Deposit Risk**

*Interest rate risk.* The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. Credit quality ratings of future money funds were not available from the financial institutions or are unrated.

*Custodial deposit credit risk.* Custodial deposit 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, \$2,536,861 of the City’s bank balance of \$4,121,620 was exposed to credit risk because it was uninsured and uncollateralized.

*Custodial investment credit risk.* Custodial investments credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the City’s \$56,781 in investments all are in the name of the Housing Commission, and none in the name of the agent.

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

Statutory Authority:

An act (PA 152) to amend 1943 PA 20, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers’ acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 451,190	\$ -	\$ -	\$ 451,190
<i>Capital assets being depreciated:</i>				
Buildings	2,776,838	-	-	2,776,838
Equipment	3,742,176	932,735	(672,914)	4,001,997
Infrastructure	<u>9,574,291</u>	<u>142,827</u>	<u>-</u>	<u>9,717,118</u>
Subtotal	<u>16,093,305</u>	<u>1,075,562</u>	<u>(672,914)</u>	<u>16,495,953</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(1,176,474)	(77,763)	-	(1,254,237)
Equipment	(2,682,522)	(224,996)	666,798	(2,240,720)
Infrastructure	<u>(7,035,035)</u>	<u>(165,544)</u>	<u>-</u>	<u>(7,200,579)</u>
Subtotal	<u>(10,894,031)</u>	<u>(468,303)</u>	<u>666,798</u>	<u>(10,695,536)</u>
Net capital assets being depreciated	<u>5,199,274</u>	<u>607,259</u>	<u>(6,116)</u>	<u>5,800,417</u>
Capital Assets – Net	<u>\$ 5,650,464</u>	<u>\$ 607,259</u>	<u>\$ (6,116)</u>	<u>\$ 6,251,607</u>

Depreciation expense was charged to functions/programs of the governmental activities as follows:

<b>Governmental Activities</b>		
General Government		\$ 36,282
Public Safety		151,916
Public Works		232,437
Recreation and Culture		<u>47,668</u>
<b>Total Depreciation Expense - Governmental Activities</b>		<b><u>\$ 468,303</u></b>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balances</u>
<b>Business-type Activities:</b>				
<i>Capital assets being depreciated:</i>				
Sewer Infrastructure	\$ 7,878,494	\$ -	\$ (11,000)	\$ 7,867,494
Water Infrastructure	<u>2,139,878</u>	<u>-</u>	<u>-</u>	<u>2,139,878</u>
Subtotal	<u>10,018,372</u>	<u>-</u>	<u>(11,000)</u>	<u>10,007,372</u>
<i>Less accumulated depreciation for:</i>				
Sewer Infrastructure	(3,462,450)	(155,371)	11,000	(3,606,821)
Water Infrastructure	<u>(1,302,477)</u>	<u>(52,158)</u>	<u>-</u>	<u>(1,354,635)</u>
Subtotal	<u>(4,764,927)</u>	<u>(207,529)</u>	<u>11,000</u>	<u>(4,961,456)</u>
Capital Assets – Net	<u>\$ 5,253,445</u>	<u>\$ (207,529)</u>	<u>\$ -</u>	<u>\$ 5,045,916</u>

**NOTE 4 - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the business-type activities as follows:

<b>Business-type Activities</b>		
Sewer		\$ 155,371
Water		<u>52,158</u>
<b>Total Depreciation Expense - Business-type Activities</b>		<b><u>\$ 207,529</u></b>

	<u>Beginning Balances 3/31/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances 3/31/16</u>
<b>Component Unit – Housing Commission:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 88,873	\$ -	\$ -	\$ 88,873
<i>Capital assets being depreciated:</i>				
Buildings	2,622,144	-	-	2,622,144
Furniture and Equipment - Dwellings	65,240	-	-	65,240
Furniture and Equipment - Administration	<u>183,936</u>	<u>-</u>	<u>-</u>	<u>183,936</u>
Subtotal	<u>2,871,320</u>	<u>-</u>	<u>-</u>	<u>2,871,320</u>
Less Accumulated Depreciation	<u>(2,250,600)</u>	<u>(59,797)</u>	<u>-</u>	<u>(2,310,397)</u>
Net capital assets being depreciated	<u>620,720</u>	<u>(59,797)</u>	<u>-</u>	<u>560,923</u>
Capital Assets – Net	<u>\$ 709,593</u>	<u>\$ (59,797)</u>	<u>\$ -</u>	<u>\$ 649,796</u>

Depreciation expense was charged to City Housing Commission in the amount of \$59,797.

**NOTE 5 - INTERFUND TRANSFERS**

1	<b>TRANSFERS IN</b>					
<b>TRANSFERS OUT</b>	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Public Safety</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
General	\$ -	\$ 58,514	\$ 74,860	\$ 485,392	\$ 162,172	\$ 780,938
Major Streets	40,775	-	-	-	-	40,775
Local Streets	44,001	-	-	-	-	44,001
Income Tax	-	-	-	-	453,824	453,824
Nonmajor Governmental	36,392	-	-	-	-	36,392
Sewer	28,011	-	-	-	-	28,011
Water	<u>24,151</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,151</u>
Total	<u>\$ 173,330</u>	<u>\$ 58,514</u>	<u>\$ 74,860</u>	<u>\$ 485,392</u>	<u>\$ 615,996</u>	<u>\$ 1,408,092</u>

**NOTE 5 - INTERFUND TRANSFERS (Continued)**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to 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.

**NOTE 6 - LONG-TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. City contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
\$510,000 General Obligation Refunding Bonds, due in annual installments of \$55,000 to \$75,000 through August 2022, interest at 2.94%.	\$ 510,000	\$ -	\$ 55,000	\$ 455,000	\$ 55,000
Compensated absences	<u>30,284</u>	<u>-</u>	<u>3,472</u>	<u>26,812</u>	<u>-</u>
Total Governmental Activities - Long-term Debt	<u>540,284</u>	<u>-</u>	<u>58,472</u>	<u>481,812</u>	<u>55,000</u>
<b>Business-type Activities</b>					
\$1,155,000 General Obligation Refunding Bonds, due in annual installments of \$60,000 to \$95,000 through July 2030, interest at 2.94%.	<u>\$ 1,155,000</u>	<u>\$ -</u>	<u>\$ 115,000</u>	<u>\$ 1,040,000</u>	<u>\$ 10,000</u>
Total Business-type Activities - Long-term Debt	<u>1,155,000</u>	<u>-</u>	<u>115,000</u>	<u>1,040,000</u>	<u>10,000</u>
Total Long-term Debt	<u>\$ 1,695,284</u>	<u>\$ -</u>	<u>\$ 173,472</u>	<u>\$ 1,521,812</u>	<u>\$ 65,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 55,000	\$ 12,569	\$ 10,000	\$ 15,141
2018	60,000	10,878	65,000	29,327
2019	65,000	9,041	70,000	27,342
2020	65,000	7,130	70,000	25,284
2021	65,000	5,219	70,000	23,226
2022-2026	145,000	4,337	395,000	82,688
2027-2031	<u>-</u>	<u>-</u>	<u>360,000</u>	<u>21,608</u>
Total	<u>\$ 455,000</u>	<u>\$ 49,174</u>	<u>\$ 1,040,000</u>	<u>\$ 224,616</u>



**NOTE 6 - LONG-TERM DEBT (Continued)**

**Component Unit – Housing Commission**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated absences	\$ 17,281	\$ 10,316	\$ 5,429	\$ 22,168

**NOTE 7 - LEASE**

Capital Lease

The City has entered into capital lease agreement for equipment which will become property of the city at the end of the lease or if a purchase option has been exercised prior to that time. The stated interest rate of this lease is 2.71%. The future minimum lease obligation and the net present value is as follows:

<u>Year Ended June 30</u>	
2017	\$ 51,850
2018	51,850
2019	51,850
2020	51,850
2021	51,850
2022-2025	<u>259,250</u>
Total Minimum Lease Payments	518,500
Less: Amount Representing Interest	<u>(69,588)</u>
Present Value	<u>\$ 448,912</u>

**NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

*Primary Government and Grayling Housing Commission*

Description of Plan and Plan Assets

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.25% and 2.5% for employees times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2015.

**NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

General Information about the Pension Plan

*Plan Description.* The employer’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. 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. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

<b>01 – Gnr1 Empls: Closed to new hires</b>	
	<b>2015 Valuation</b>
<b>Benefit Multiplier:</b>	2.00% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	-
<b>Early Retirement (Reduced):</b>	50/25 55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	0%
<b>DC Plan for Hew Hires:</b>	6/30/2003
<b>Act 88:</b>	Yes (Adopted 4/27/2009)
<b>02 – Police: Closed to new hires</b>	
	<b>2015 Valuation</b>
<b>Benefit Multiplier:</b>	2.25% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/20
<b>Early Retirement (Reduced):</b>	50/25 55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	0%
<b>RS50% Percentage:</b>	50%
<b>DC Pan for New Hires:</b>	6/30/2003
<b>Act 88:</b>	Yes (Adopted 4/27/2009)
<b>10 – Housing Comm: Closed to new hires</b>	
	<b>2015 Valuation</b>
<b>Benefit Multiplier:</b>	2.00% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	-
<b>Early Retirement (Reduced):</b>	50/25 50/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions:</b>	0%
<b>DC Plan for New Hires::</b>	7/1/2003
<b>Act 88:</b>	Yes (Adopted 4/27/2009)

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

<b>11 – Non Union Adm: Closed to new hires</b>	
	<u><b>2015 Valuation</b></u>
<b>Benefit Multiplier:</b>	2.00% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	-
<b>Early Retirement (Reduced):</b>	50/25 55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions:</b>	0%
<b>DC Plan for New Hires:</b>	6/30/2003
<b>Act 88:</b>	Yes (Adopted 4/27/2009)

<b>12 – Manager: Closed to new hires</b>	
	<u><b>2015 Valuation</b></u>
<b>Benefit Multiplier:</b>	2.50% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	-
<b>Early Retirement (Reduced):</b>	50/25 55/15
<b>Final Average Compensation:</b>	3 years
<b>Employee Contributions:</b>	0%
<b>DC Plan for New Hires:</b>	7/1/2013
<b>Act 88:</b>	Yes (Adopted 4/1/2009)

Employees Covered by Benefit Terms

At June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>6</u>
	30

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City’s competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The City is required to contribute at an actuarially determined rate.

The monthly contribution rate at June 30, 2016 is as follows:

General Employee	\$ 5,812
Police	\$ 5,562
Housing	\$ 1,873
Non-Union Admin	\$ 5,548
Manager	\$ 1,381

**NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 to 4.0 percent
Salary increases	2.0 percent, average, including inflation
Investment rate of return	7.75 percent

Although no specific price inflation assumptions are needed for the valuation, the 2.0% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 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
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

*Discount Rate.* The discount rate used to measure the total pension liability is 8.25% for 2014 and will be 8.0% in 2015 and thereafter. 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 pension 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.

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<b>Balances at December 31, 2014</b>	\$ 3,849,884	\$ 2,361,761	\$ 1,488,123
Service cost	29,259	-	29,259
Interest on total pension liability	296,866	-	296,866
Changes in benefits	-	-	-
Difference between expected and actual experience	(57,367)	-	(57,367)
Changes in assumptions	170,917	-	170,917
Employer contributions	-	152,454	(152,454)
Employee contributions	-	-	-
Net investment income	-	(33,340)	33,340
Benefit payments, including employee refunds	(307,380)	(307,380)	-
Administrative expense	-	(5,037)	5,037
Other changes	9,276	-	9,276
<b>Net changes</b>	<b>141,571</b>	<b>(193,303)</b>	<b>334,874</b>
<b>Balances as of December 31, 2015</b>	<b>\$ 3,991,455</b>	<b>\$ 2,168,458</b>	<b>\$ 1,822,997</b>

*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-percentage-point lower (7.00%) or 1-percentage-point 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	\$2,232,360	\$1,822,997	\$1,474,248

*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued MERS financial report.

**NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2016, the City recognized pension expense of \$266,579. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ -	\$ 28,684
Changes in assumptions	85,459	-
Net difference between projected and actual earnings on pension plan investments	197,865	-
Contributions subsequent to the measurement date	81,714	-
 Total	 <u>\$ 365,038</u>	 <u>\$ 28,684</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

Year Ended June 30:	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
2016	\$ 137,023	\$ 28,684
2017	51,564	-
2018	51,564	-
2019	43,173	-

**Defined Contribution Plan**

The City provides pension benefits for certain employees as designated by City Council through a defined contribution plan. The Plan is managed by the Michigan Employees Retirement System. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As of July 1, 2004, employees are eligible to participate from the date of employment. The City's contributions for each employee (and interest allocated to each employee's account) are fully vested after four years.

In 2003, all existing employees were given the choice of converting from the defined benefit plan to the defined contribution plan. Those employees who elected to convert, along with all new hires after July 1, 2004, are participants only in the defined contribution plan.

**NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

As established by the City Council and governed by Federal Regulations the City made the required 11% contribution. Contributions for the year totaled \$100,332 for the employees that participate in this plan. There are no contribution requirements for employees of the City of Grayling.

**NOTE 9 - RISK MANAGEMENT**

The City is exposed to various risks of losses related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The city belongs to the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently cooperating as a common risk management and insurance program for various municipalities throughout the state. The City pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the City could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

**NOTE 10 - ADVANCE REFUNDING:**

During 2015, the City advance refunded its Water Supply and Sewer Disposal System Revenue Bonds, Series 1991 A and B in August 2014 and the 2003 A General Limited Tax Bonds in February 2015, resulting in an interest savings over the remaining life of the bonds of over \$248,242. The new 2014 General Obligation Limited Tax refunding bond, in the amount of \$1,665,000 will mature in 2030.

## **Required Supplementary Information**

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**Employee Retirement and Benefit Systems**

**Schedule of Funding Progress**

**For the Year Ended June 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>Total pension liability</b>		
Service cost	\$ 29,259	\$ 35,362
Interest	296,866	303,335
Difference between expected and actual experience	(57,367)	-
Changes in actuarial assumptions	170,917	-
Benefit payments, including refund of member contributions	(307,380)	(295,844)
Other Changes	9,276	-
	<u>141,571</u>	<u>42,853</u>
<b>Net change in total pension liability</b>		
	141,571	42,853
<b>Total pension liability - beginning</b>	<u>3,849,884</u>	<u>3,807,031</u>
<b>Total pension liability - ending</b>	<u><u>\$ 3,991,455</u></u>	<u><u>\$ 3,849,884</u></u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 152,454	\$ 138,108
Contributions - employee	-	-
Net investment income	(33,340)	147,472
Benefit payments, including refunds of member contributions	(307,380)	(295,844)
Administrative expense	(5,037)	(5,382)
	<u>(193,303)</u>	<u>(15,646)</u>
<b>Net change in plan fiduciary net position</b>		
	(193,303)	(15,646)
<b>Plan fiduciary net position - beginning</b>	<u>2,361,761</u>	<u>2,377,407</u>
<b>Plan fiduciary net position - ending</b>	<u><u>\$ 2,168,458</u></u>	<u><u>\$ 2,361,761</u></u>
<b>City's net pension liability - ending</b>	<u><u>\$ 1,822,997</u></u>	<u><u>\$ 1,488,123</u></u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	54%	61%
<b>Covered - employee payroll</b>	\$ 312,938	\$ 375,240
<b>City's net pension liability as a percentage of covered-employee payroll</b>	583%	397%
<b>Annual money-weighted rate of return, net of investment expense</b>	6%	6%

**Employee Retirement and Benefit Systems  
Schedule of Funding Progress  
For the Year Ended June 30, 2016**

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 152,454	\$ 138,108
Contributions in relation to the actuarially determined contribution	<u>152,454</u>	<u>138,108</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 312,938	\$ 375,240
Contributions as a percentage of covered-employee payroll	49%	37%

**Notes to Schedule:**

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	24 years
Asset valuation method	5-years smoothed market
Inflation	3.0 - 4.0%
Salary increases	2.0%, average, including inflation
Investment rate of return	7.75%
Retirement age	60
Mortality	Mortality rates were based on the 1994 Group Annuity Mortality Table of 50% Male and 50% Female blend.

**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 882,564	\$ 885,064	\$ 906,815	\$ 21,751
Licenses and Permits	13,500	16,500	17,711	1,211
State Revenues	207,472	214,845	208,297	(6,548)
Charges for Services	180,043	181,043	181,907	864
Interest and Rentals	6,500	9,200	10,059	859
Other Revenue	1,700	6,700	13,675	6,975
<b>TOTAL REVENUES</b>	<b>1,291,779</b>	<b>1,313,352</b>	<b>1,338,464</b>	<b>25,112</b>
<b>EXPENDITURES:</b>				
Legislative:				
City Commission	13,335	13,335	9,903	3,432
General Government:				
City Manager	130,042	135,242	134,822	420
Clerk/Treasurer	118,216	119,416	115,223	4,193
Administrative Services	161,407	162,526	154,327	8,199
<b>Total General Government</b>	<b>409,665</b>	<b>417,184</b>	<b>404,372</b>	<b>12,812</b>
Public Safety:				
Planning & Zoning	13,893	15,993	11,582	4,411
<b>Total Public Safety</b>	<b>13,893</b>	<b>15,993</b>	<b>11,582</b>	<b>4,411</b>
Public Works:				
Department of Public Works	217,951	223,951	184,744	39,207
Recreation and Culture:				
Parks	9,500	9,500	8,112	1,388
Other Expenditures	146,500	152,000	152,544	(544)
<b>TOTAL EXPENDITURES</b>	<b>810,844</b>	<b>831,963</b>	<b>771,257</b>	<b>60,706</b>

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	480,935	481,389	567,207	85,818
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	182,754	182,754	173,330	(9,424)
Operating Transfers Out	<u>(669,716)</u>	<u>(663,716)</u>	<u>(780,938)</u>	<u>(117,222)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (6,027)</u>	<u>\$ 427</u>	(40,401)	<u>\$ (40,828)</u>
FUND BALANCE, JULY 1			<u>714,596</u>	
FUND BALANCE, JUNE 30			<u>\$ 674,195</u>	

**Required Supplementary Information  
Budgetary Comparison Schedule  
Major Street Fund  
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Revenues	\$ 96,835	\$ 119,035	\$ 130,449	\$ 11,414
TOTAL REVENUES	96,835	119,035	130,449	11,414
EXPENDITURES:				
Public Works	108,026	108,167	90,505	17,662
TOTAL EXPENDITURES	108,026	108,167	90,505	17,662
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(11,191)	10,868	39,944	29,076
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	58,514	58,514	58,514	-
Operating Transfers Out	(47,322)	(47,322)	(40,775)	6,547
TOTAL OTHER FINANCING SOURCES (USES)	11,192	11,192	17,739	6,547
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 1	\$ 22,060	57,683	\$ 35,623
FUND BALANCE, JULY 1			145,056	
FUND BALANCE, JUNE 30			\$ 202,739	

**Required Supplementary Information  
Budgetary Comparison Schedule  
Local Street Fund  
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Revenues	\$ 43,834	\$ 57,434	\$ 58,975	\$ 1,541
TOTAL REVENUES	43,834	57,434	58,975	1,541
EXPENDITURES:				
Public Works	68,009	68,150	58,105	10,045
TOTAL EXPENDITURES	68,009	68,150	58,105	10,045
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(24,175)	(10,716)	870	11,586
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	74,860	74,860	74,860	-
Operating Transfers Out	(50,685)	(50,685)	(44,001)	6,684
TOTAL OTHER FINANCING SOURCES (USES)	24,175	24,175	30,859	6,684
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ 13,459	31,729	\$ 18,270
FUND BALANCE, JULY 1			65,865	
FUND BALANCE, JUNE 30			\$ 97,594	

**Budgetary Comparison Schedule  
Public Safety Fund  
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
State Revenues	\$ 1,600	\$ 7,600	\$ 7,960	\$ 360
Licenses and Permits	500	1,300	1,481	181
Local Revenues	122,767	122,767	122,767	-
Charges for Services	538,363	538,363	533,552	(4,811)
Interest and Rentals	-	-	4	4
Other	610	610	31,176	30,566
<b>TOTAL REVENUES</b>	<b>663,840</b>	<b>670,640</b>	<b>696,940</b>	<b>26,300</b>
<b>EXPENDITURES:</b>				
Public Safety	1,108,335	1,109,217	1,078,009	31,208
Capital Outlay	30,427	30,427	487,740	(457,313)
<b>TOTAL EXPENDITURES</b>	<b>1,138,762</b>	<b>1,139,644</b>	<b>1,565,749</b>	<b>(426,105)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(474,922)</b>	<b>(469,004)</b>	<b>(868,809)</b>	<b>(399,805)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Debt Proceeds	-	-	448,912	448,912
Operating Transfers In	485,392	485,392	485,392	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>485,392</b>	<b>485,392</b>	<b>934,304</b>	<b>448,912</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ 10,470</b>	<b>\$ 16,388</b>	<b>65,495</b>	<b>\$ 49,107</b>
<b>FUND BALANCE, JULY 1</b>			<b>200,014</b>	
<b>FUND BALANCE, JUNE 30</b>			<b>\$ 265,509</b>	

**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Income Tax Fund**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Income Taxes	\$ 580,000	\$ 580,000	\$ 499,438	\$ (80,562)
Interest and Rentals	-	6,400	6,072	(328)
TOTAL REVENUES	580,000	586,400	505,510	(80,890)
EXPENDITURES:				
General Government	115,428	125,569	118,988	6,581
TOTAL EXPENDITURES	115,428	125,569	118,988	6,581
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	464,572	460,831	386,522	(74,309)
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(460,245)	(466,945)	(453,824)	13,121
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 4,327	\$ (6,114)	(67,302)	\$ (61,188)
FUND BALANCE, JULY 1			1,119,162	
FUND BALANCE, JUNE 30			\$ 1,051,860	



## **Other Information**

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**Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2016**

	Special Revenue Funds				Capital Project Fund	Total
	Cemetery	Façade	Municipal Holdings	Downtown Development Authority	Capital Improvements	
<b>ASSETS:</b>						
Cash and Equivalents - Unrestricted	\$ 305,640	\$ -	\$ 287,303	\$ 38,991	\$ 121,250	\$ 753,184
Accounts Receivable	9,718	-	-	-	-	9,718
Prepaid Items	122	-	-	-	-	122
Special Assessments Receivable	-	-	-	13,491	-	13,491
<b>TOTAL ASSETS</b>	<b>\$ 315,480</b>	<b>\$ -</b>	<b>\$ 287,303</b>	<b>\$ 52,482</b>	<b>\$ 121,250</b>	<b>\$ 776,515</b>
<b>LIABILITIES:</b>						
Accounts Payable	\$ 662	\$ -	\$ 1,884	\$ 6,467	\$ -	\$ 9,013
Accrued Liabilities	786	-	185	299	-	1,270
Unearned Revenue	-	-	-	13,491	-	13,491
<b>TOTAL LIABILITIES</b>	<b>1,448</b>	<b>-</b>	<b>2,069</b>	<b>20,257</b>	<b>-</b>	<b>23,774</b>
<b>FUND BALANCES:</b>						
Nonspendable	122	-	-	-	-	122
Committed	-	-	285,234	-	-	285,234
Assigned	313,910	-	-	32,225	121,250	467,385
<b>TOTAL FUND BALANCES</b>	<b>314,032</b>	<b>-</b>	<b>285,234</b>	<b>32,225</b>	<b>121,250</b>	<b>752,741</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 315,480</b>	<b>\$ -</b>	<b>\$ 287,303</b>	<b>\$ 52,482</b>	<b>\$ 121,250</b>	<b>\$ 776,515</b>

**Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended June 30, 2016**

	Special Revenue Funds				Capital Project Fund	Total
	Cemetery	Façade	Municipal Holdings	Downtown	Capital Improvements	
				Development Authority		
<b>REVENUES:</b>						
Local Revenues	\$ 38,870	\$ -	\$ -	\$ -	\$ -	\$ 38,870
Federal Revenue	-	257,450	-	-	-	257,450
Charges for Services	23,905	-	-	20,517	-	44,422
Interest and Rentals	2,543	-	136,019	-	-	138,562
Other Revenue	67	95,140	-	15,239	147,209	257,655
<b>TOTAL REVENUES</b>	<b>65,385</b>	<b>352,590</b>	<b>136,019</b>	<b>35,756</b>	<b>147,209</b>	<b>736,959</b>
<b>EXPENDITURES:</b>						
General Government	113,433	-	84,570	-	-	198,003
Community and Economic Development	-	352,590	-	91,382	-	443,972
Debt Service	-	-	69,186	-	-	69,186
Capital Outlay	4,770	-	-	-	591,109	595,879
<b>TOTAL EXPENDITURES</b>	<b>118,203</b>	<b>352,590</b>	<b>153,756</b>	<b>91,382</b>	<b>591,109</b>	<b>1,307,040</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(52,818)	-	(17,737)	(55,626)	(443,900)	(570,081)
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating Transfers In	38,870	-	69,186	56,080	451,860	615,996
Operating Transfers Out	(7,728)	-	(11,804)	(16,860)	-	(36,392)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>31,142</b>	<b>-</b>	<b>57,382</b>	<b>39,220</b>	<b>451,860</b>	<b>579,604</b>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(21,676)	-	39,645	(16,406)	7,960	9,523
FUND BALANCES, JULY 1	335,708	-	245,589	48,631	113,290	743,218
FUND BALANCES, JUNE 30	\$ 314,032	\$ -	\$ 285,234	\$ 32,225	\$ 121,250	\$ 752,741

# **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA  
JON D. SWANSON, CPA

**MEMBER AICPA  
DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S 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**

Honorable Mayor and Members  
of the City Council  
City of Grayling, 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, each major fund, and the aggregate remaining fund information of the City of Grayling, Michigan, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Grayling, Michigan's basic financial statements and have issued our report thereon dated December 5, 2016. Our report includes a reference to other auditors who audited the financial statements of the Grayling Housing Commission, as described in our report on the City of Grayling, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Grayling, Michigan'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 of Grayling, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Grayling, Michigan's internal control.

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. 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.

Honorable Mayor and Members  
of the City Council

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, listed as 2016-001 and 2016-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Grayling, Michigan'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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2016-002.

### **City of Grayling, Michigan's Response to Findings**

The City of Grayling, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Grayling, Michigan'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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

December 5, 2016

**Internal Control Over Financial Reporting**

*Significant Deficiencies*

**Preparation of the Financial Statements in Accordance  
with Generally Accepted Accounting Principles**

*Finding 2016-001*

*Condition:* Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 115 requires management to prepare annual audit statements in accordance with GASB Statement Number 34. (Audit report format)

*Criteria:* Internal controls should be in place to provide reasonable assurance to the City that management reports financial statements (with GASB Statement number 34 formats) necessary to monitor and report annual financial activity without auditor intervention.

*Effect:* The effect of this condition places a reliance on the independent auditor as part of the City's internal controls over financial reporting.

*Cause:* Change in application of auditing standards.

*Recommendation:* The City should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34.

*Management's Response – Corrective Action Plan:* The City will consider preparing the financial statements internally, contracting this process or continuing to utilize the external auditors for reporting based on the results of a cost benefit analysis.

- *Contact Person(s) Responsible for Correction:*  
Lisa Johnson, City Clerk/Treasurer

**Internal Control Over Financial Reporting and Compliance and Other Matters**

*Significant Deficiency – Noncompliance with State Statutes*

*Expenditures in Excess of Appropriations—Budgetary Funds*

*Finding 2016-002*

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

*Condition:* Our examination of procedures used by the City to adopt and maintain operating budgets for the City’s budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The City’s 2016 General Appropriations Act (budget) provided for expenditures of the General Fund, Major Street Fund, Local Street Fund, Public Safety Fund, and Income Tax Fund to be controlled to the Departmental and Fund level, respectively. As detailed, some actual 2016 expenditures exceeded the Council’s approved budget allocations for the general fund and the public safety fund.

During the fiscal year ended June 30, 2016, expenditures were incurred in excess of amounts appropriated in the amended budgets by certain functions for the General Fund and Public Safety Fund as listed on pages 43, 44, and 47 of the financial statements.

*Effect:* Condition’s violate State Statutes.

*Cause:* The City tries to estimate what year end expenditures will be at June 30, and prepares a budget amendment for Council in mid-June. Although administration tries to accurately anticipate where expenditures will come in at year-end, there are always a few areas where the needed budget amendment amount is underestimated. The factors that attributed to excess expenditures from the General Fund was the timing of transfers made to other funds. As for the Public Safety Fund, a Firetruck was purchased and there was oversight of the budgeting of both the loan proceeds and overall capital expenditure as actual debt payments don’t begin until the following fiscal year.

*Recommendation:* We recommend that the Council personnel responsible for administering the activities of the various funds of the City, develop budgetary control procedures for the General Fund and Public Safety Fund which will assure that expenditures do not exceed amounts authorized by function or fund level in the General Appropriations Act, or amendments thereof.

*Planned Corrective Action:* The City will continue to work closely with the responsible department heads to refine year end budget estimates.

- *Contact Person(s) Responsible for Correction:*  
Lisa Johnson, City Clerk/Treasurer





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**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Grayling, Michigan for the year ended June 30, 2016, and have issued our report thereon dated December 5, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information about our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated September 13, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Grayling. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Grayling's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on combining fund financial statements, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on September 13, 2016.

### **Significant Accounting Policies**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Grayling, Michigan are described in Note 1 to the financial statements. no new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$0.

The financial statement disclosures are neutral, consistent and clear.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### ***Disagreement with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated December 5, 2016.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### ***Comments and Recommendations***

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

### **Significant Journal Entries**

During our audit, it was determined that the City's records require significant journal entries to be performed to reconcile year end balances. We recommend that all year end entries be performed by the City in advance to audit procedures.

### **Water and Sewer Inventory**

During testing, it was noted that the physical inventory count was performed several months after the fiscal year end. It is recommended that the physical inventory count be performed on, or close to, the fiscal year end date.

## **Uniform Administrative Requirements**

During December 2013, the Office of Management and Budget released its final version of the “*Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.” The guidance is applicable to federal grants and cooperative agreements and provides a comprehensive consolidation and revision of OMB Circulars which currently govern Federal and some non-Federal entities. The guidance combines A-110 and A-102 into a single set of administrative rules, combines A-21, A-87 and A-122 into a single set of consolidated cost principles and revises the language of A-133. This publication is designed to provide a single document which will serve as a “one-stop shop” for financial assistance regulatory requirements for all awarding agencies. The new requirements will be effective and applicable for audits of years beginning on or after December 26, 2014.

## **Revisions Related to Single Audit Requirements**

The Office of Management and Budget set forth new consolidated audit standards for entities receiving Federal financial assistance awards and replaces OMB Circular A-133. The changes within the final guidance primarily combine the guidance in OMB A-133 and A-50 on audit follow-up. The guidance reflects a movement to focus these audits and oversight efforts on higher dollar, higher risk awards and focus oversight on improper payments, waste, fraud, and abuse.

Most significantly, the threshold triggering a single audit or program-specific audit requirements is increased to \$750,000 or more in annual Federal awards. These requirements apply equally to recipients and sub-recipients under Federal programs. The final guidelines incorporate an exception to these audit requirements for non-U.S.-based entities expending Federal awards.

Further, the final guidance increases the minimum threshold for reporting questioned costs from \$10,000 to \$25,000 to focus on the audit findings presenting the greatest risk. OMB believes this will eliminate smaller-dollar audit findings, which require utilization of resources for follow-up audits that are unlikely to indicate significant weaknesses in internal controls.

These changes necessitate a careful review and analysis of an organization’s current business practices. Although OMB has raised certain thresholds for audit and materiality, it has also improved mechanisms of oversight related to mandatory disclosures, pre-award review of risks, standards for financial and program management, sub-recipient monitoring, and remedies for noncompliance. The revisions are effective for audits of years beginning on or after December 26, 2014.

## **Fair Value of Investments**

The Governmental Accounting Standards Board has issued final guidance on accounting and financial reporting issues related to fair value measurements, which primarily apply to investments made by state and local governments. GASB Statement No. 72 – *Fair Value Measurement and Application* defines fair value and describes how fair value should be determined and recorded, what assets and liabilities should be measured by fair value and presented in the government’s statement of net position or balance sheet and required disclosures of fair value in the footnotes to the financial statements. Management should be aware of the requirements and valuation techniques as applicable to the governmental entity. The statement is effective for periods beginning after June 15, 2015.

### **Public Act 298 of 2012 “Performance Audit”**

Public Act 298 of 2012 allows the Department of Transportation to request the local agency (road commission, county, city or village expending Act 51 monies) to engage an auditor to conduct a “performance audit” of whether it has expended funds in compliance with Act 51 of 1951, as amended (Act 51). A “performance audit” is different in scope than a “financial audit”. A “performance audit” by definition is an independent examination of a program, function, operation or the management systems and procedures of a governmental entity to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources. All local agencies will be required to have a Performance Audit for periods beginning October 1, 2015. The performance audit under Public Act 298 of 2012 must be performed by an independent certified public accountant that is currently licensed to practice in the State of Michigan or by an employee of the Department of Transportation. We recommend the City arrange to either have an independent CPA or MDOT employee be engaged to perform this “Performance Audit”.

### **Other Matters**

We applied certain limited procedures to the management’s discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquires of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### **Conclusion**

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

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

December 5, 2016