

City of Grayling, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2015

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

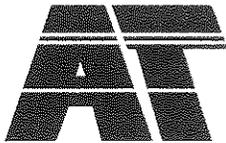
LISA K. JOHNSON

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER AICPA
DIVISION FOR CPA FIRMS
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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, as of and for the year ending June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2015, 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 42 and 43, and pages 44 through 49 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 October 29, 2015 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 & Co PLC

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

October 29, 2015

Management's Discussion and Analysis

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, 2014. 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 \$11,963,040 (net position). Of this amount, \$1,394,048 (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 \$39,246.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,987,911 an increase of \$428,789 in comparison with the prior year. 23% of the ending fund balances, or \$682,470 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 \$682,470 or 88% of the total general fund expenditures, not including transfers out.
- The City's total debt not including the component units' activities decreased by \$85,440 during the current fiscal year. No significant new debt was issued this year.

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 \$11,963,040 at the close of fiscal year 2015.

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	
	2015	2014	2015	2014	2015	2014
Current Assets	\$ 3,222,845	\$ 2,921,688	\$ 1,142,935	\$ 1,219,321	\$ 4,365,780	\$ 4,141,009
Capital Assets	5,650,464	6,028,511	5,253,445	5,460,757	10,903,909	11,489,268
Total Assets	8,873,309	8,950,199	6,396,380	6,680,078	15,269,689	15,630,277
Deferred Outflows of Resources	\$ 99,074	\$ -	\$ 12,811	\$ -	\$ 111,885	\$ -
Current Liabilities	\$ 267,080	\$ 372,373	\$ 23,046	\$ 150,845	\$ 290,126	\$ 523,218
Noncurrent Liabilities	1,899,002	511,517	1,229,406	1,231,000	3,128,408	1,742,517
Total Liabilities	2,166,082	883,890	1,252,452	1,381,845	3,418,534	2,265,735
Net Position						
Net Investment in Capital Assets	5,140,464	5,498,511	4,098,445	4,180,757	9,238,909	9,679,268
Restricted	1,330,083	1,314,956	-	-	1,330,083	1,314,956
Unrestricted	335,754	1,252,842	1,058,294	1,117,476	1,394,048	2,370,318
Total Net Position	\$ 6,806,301	\$ 8,066,309	\$ 5,156,739	\$ 5,298,233	\$ 11,963,040	\$ 13,364,542

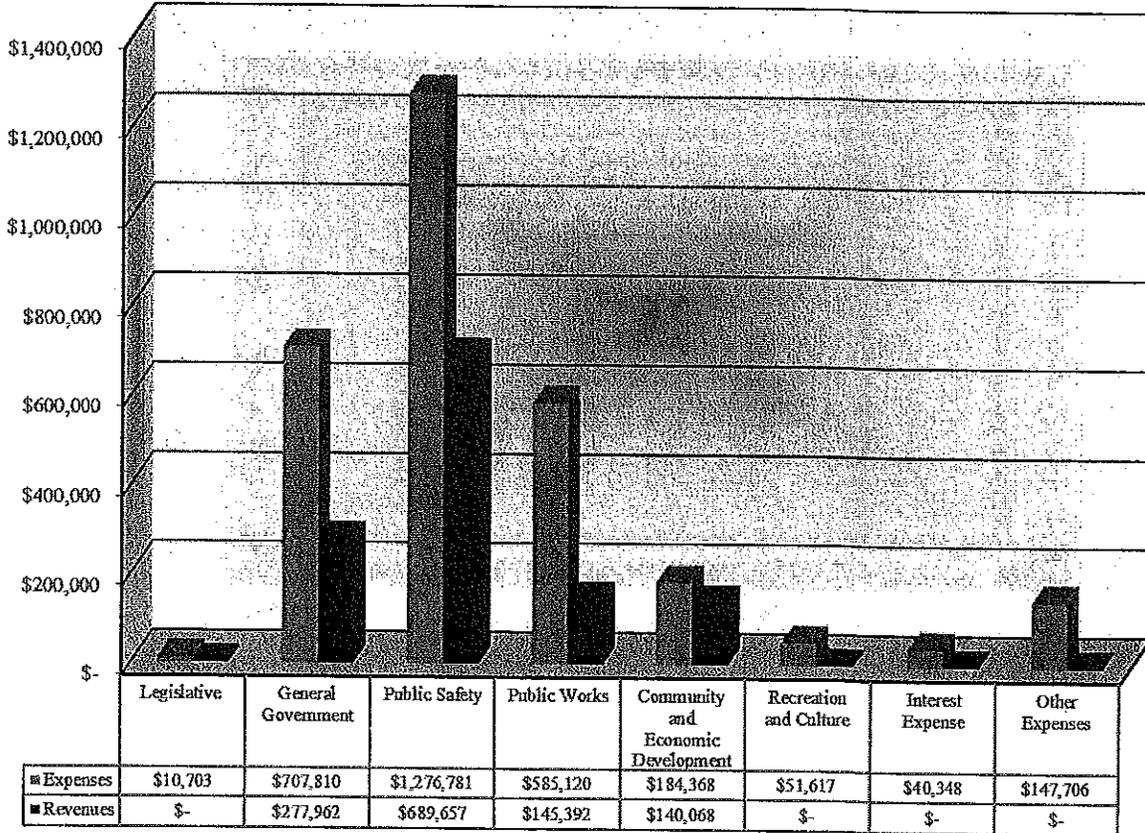
Net position of the City decreased by \$39,246 for the year ended June 30, 2015. The governmental activities increased in net position by \$34,135 primarily the result of an increase in charges for services and grant income. Business-type activities net position decreased by \$73,381. This indicates 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

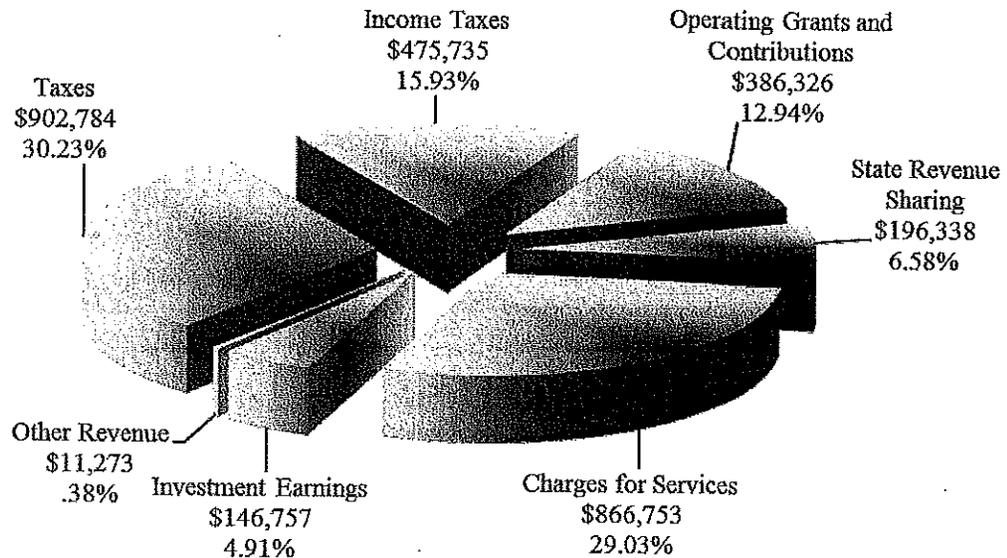
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program Revenues						
Charges for Services	\$ 866,753	\$ 815,488	\$ 627,450	\$ 610,469	\$ 1,494,203	\$ 1,425,957
Operating Grants and Contributions	386,326	376,903	-	-	386,326	376,903
General Revenues						
Property Taxes	902,784	937,147	-	-	902,784	937,147
Income Taxes	475,735	450,999	-	-	475,735	450,999
State Shared Revenues	196,338	191,047	-	-	196,338	191,047
Investment Earnings	146,757	140,001	790	420	147,547	140,421
Other Revenue	11,273	11,908	8,655	20	19,928	11,928
Total Revenues	2,985,966	2,923,493	636,895	610,909	3,622,861	3,534,402
Program Expenses						
Legislative	10,703	12,700	-	-	10,703	12,700
General Government	707,810	700,864	-	-	707,810	700,864
Public Safety	1,276,781	1,215,984	-	-	1,276,781	1,215,984
Public Works	585,120	874,731	-	-	585,120	874,731
Community and Economic Development	184,368	62,513	-	-	184,368	62,513
Recreation and Culture	51,617	58,526	-	-	51,617	58,526
Interest Expense	40,348	25,407	-	-	40,348	25,407
Other Expenses	147,706	142,839	-	-	147,706	142,839
Sewer	-	-	401,123	318,357	401,123	318,357
Water	-	-	256,531	217,231	256,531	217,231
Total Expenses	3,004,453	3,093,564	657,654	535,588	3,662,107	3,629,152
Changes in Net Position Before Transfers	(18,487)	(170,071)	(20,759)	75,321	(39,246)	(94,750)
Transfers	52,622	199,818	(52,622)	(199,818)	-	-
Changes in Net Position	34,135	29,747	(73,381)	(124,497)	(39,246)	(94,750)
Net Position - Beginning	8,066,309	8,036,562	5,298,233	5,422,730	13,364,542	13,459,292
Prior Period Adjustment	(1,294,143)	-	(68,113)	-	(1,362,256)	-
Net Position - Beginning (Restated)	6,772,166	8,036,562	5,230,120	5,422,730	12,002,286	13,459,292
Net Position - Ending	\$ 6,806,301	\$ 8,066,309	\$ 5,156,739	\$ 5,298,233	\$ 11,963,040	\$ 13,364,542

Governmental activities. Governmental activities increased the City's net position by \$34,135.

Expenses and Program Revenues – Governmental Activities

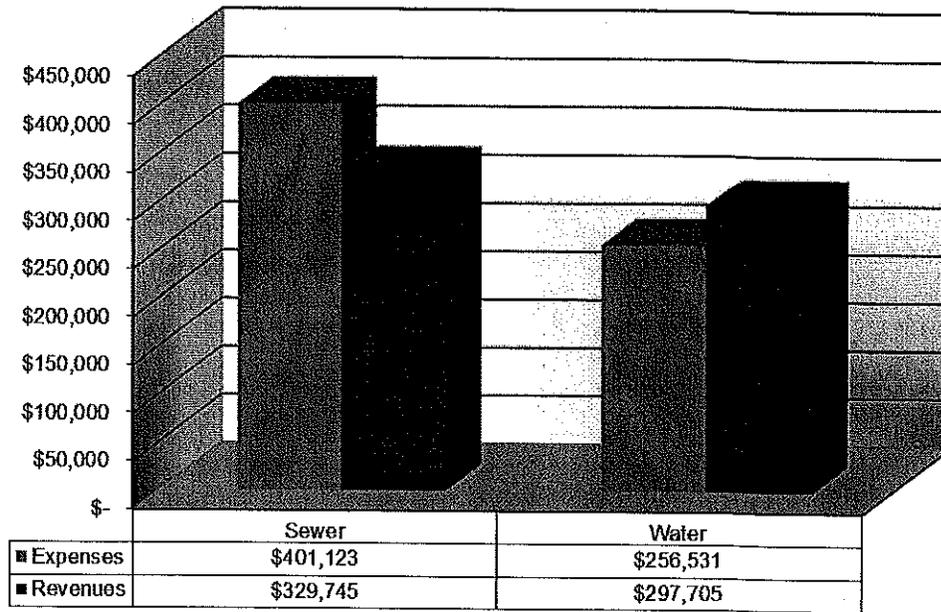


Revenues by Source – Governmental Activities



Business-type activities. Business-type activities decreased the City's net position by \$73,381.

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 \$2,987,911, an increase of \$428,789 in comparison with the prior year. Of the total fund balance, \$2,305,441 or 77% is either restricted, nonspendable, assigned, or committed by the City Council. The remaining \$682,470 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 \$682,470. The fund balance of the City's general fund increased by \$96,351 during fiscal year 2015.

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 \$4,598,773 and \$557,966, respectively. The sewer fund had a decrease in net position for the year of \$101,220 and the water fund has an increase of \$27,839. 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 under budget by \$71,581 while expenditures were under budget by \$52,455.

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, 2015, amount to \$10,903,909 (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	
	2015	2014	2015	2014	2015	2014
Land	\$ 451,190	\$ 451,190	\$ -	\$ -	\$ 451,190	\$ 451,190
Buildings	1,600,364	1,678,127	-	-	1,600,364	1,678,127
Equipment	1,059,654	1,222,402	-	-	1,059,654	1,222,402
Infrastructure	2,539,256	2,676,792	5,253,445	5,460,757	7,792,701	8,137,549
Total Capital Assets, Net	\$ 5,650,464	\$ 6,028,511	\$ 5,253,445	\$ 5,460,757	\$ 10,903,909	\$ 11,489,268

Long-term debt. At the end of the current fiscal year, the city had total debt outstanding of \$1,695,286. Of this amount, \$540,286 was debt of governmental activities and \$1,155,000 was debt of business-type activities.

**City of Grayling
Long-term Debt**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Bonds and notes payable	\$ 510,000	\$ 530,000	\$ 1,155,000	\$ 1,280,000	\$ 1,665,000	\$ 1,810,000
Compensated absences	30,286	26,517	-	-	30,286	26,517
Total long-term debt	\$ 540,286	\$ 556,517	\$ 1,155,000	\$ 1,280,000	\$ 1,695,286	\$ 1,836,517

The City's total debt decreased by \$141,231 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 2015-2016 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.

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Basic Financial Statements

City of Grayling, Michigan

**Statement of Net Position
June 30, 2015**

	Primary Government		Totals	Component Unit
	Governmental Activities	Business-type Activities		Housing Commission 3/31/2015
ASSETS:				
Cash and Equivalents	\$ 3,039,864	\$ 940,974	\$ 3,980,838	\$ 477,689
Investments	-	-	-	56,719
Receivables	150,733	159,722	310,455	778
Inventory	-	42,239	42,239	2,475
Prepaid Items	32,248	-	32,248	15,430
Capital Assets (Not Depreciated)	451,190	-	451,190	88,873
Capital Assets (Net of Accumulated Depreciation)	5,199,274	5,253,445	10,452,719	589,869
TOTAL ASSETS	8,873,309	6,396,380	15,269,689	1,231,833
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Investment Experience and Contributions	99,074	5,214	104,288	-
Bond Refunding Loss	-	7,597	7,597	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 99,074	\$ 12,811	\$ 111,885	\$ -
LIABILITIES:				
Accounts Payable	\$ 36,968	\$ 3,885	\$ 40,853	\$ 21,582
Accrued Liabilities	15,496	2,183	17,679	42,172
Accrued Interest Payable	7,497	16,977	24,474	-
Unearned Revenue	152,119	-	152,119	4,529
Bonds Payable - Due within one year	55,000	-	55,000	-
Bonds Payable - Due in more than one year	455,000	1,155,000	1,610,000	-
Net Pension Obligation - Due in more than one year	1,413,716	74,407	1,488,123	-
Compensated Absences - Due in more than one year	30,286	-	30,286	17,281
TOTAL LIABILITIES	2,166,082	1,252,452	3,418,534	85,564
NET POSITION:				
Net Investment in Capital Assets	5,140,464	4,098,445	9,238,909	678,742
Restricted	1,330,083	-	1,330,083	7,227
Unrestricted	335,754	1,058,294	1,394,048	460,300
TOTAL NET POSITION	\$ 6,806,301	\$ 5,156,739	\$ 11,963,040	\$ 1,146,269

Statement of Activities
For the Year Ended June 30, 2015

	Net (Expense) Revenue and Changes in Net Position						Component Unit (3/31/2015)
	Program Revenues		Primary Government		Total		
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities			
	Expenses						
Governmental Activities:							
Legislative							
General Government	\$ 10,703	\$ -	\$ (10,703)	\$ -	\$ (10,703)	\$ -	
Public Safety	707,810	226,708	(429,848)	-	(429,848)	-	
Public Works	1,276,781	568,881	(587,124)	-	(587,124)	-	
Community and Economic Development	585,120	145,392	(439,728)	-	(439,728)	-	
Recreation and Culture	184,368	71,164	(44,300)	-	(44,300)	-	
Interest Expense	51,617	-	(51,617)	-	(51,617)	-	
Other Expenses	40,348	-	(40,348)	-	(40,348)	-	
Other Expenses	147,706	-	(147,706)	-	(147,706)	-	
Total Governmental Activities	<u>3,004,453</u>	<u>866,753</u>	<u>(1,751,374)</u>	<u>-</u>	<u>(1,751,374)</u>	<u>-</u>	
Business-type activities:							
Sewer	401,123	329,745	-	(71,378)	(71,378)	-	
Water	256,531	297,705	-	41,174	41,174	-	
Total Business-type Activities	<u>657,654</u>	<u>627,450</u>	<u>-</u>	<u>(30,204)</u>	<u>(30,204)</u>	<u>-</u>	
Total Primary Government	<u>\$ 3,662,107</u>	<u>\$ 1,494,203</u>	<u>\$ (1,751,374)</u>	<u>\$ (30,204)</u>	<u>(1,781,578)</u>	<u>-</u>	
Component Unit:							
Housing Commission (3/31/2015)	\$ 1,108,487	\$ 290,752	\$ 584,599			(233,136)	
Total Component Units	<u>1,108,487</u>	<u>290,752</u>	<u>584,599</u>			<u>(233,136)</u>	
Total	<u>\$ 4,770,594</u>	<u>\$ 1,784,955</u>	<u>\$ 970,925</u>				
General Revenues and Transfers:							
Property Taxes			902,784		902,784		
Income Taxes			475,735		475,735		
State Shared Revenue			196,338		196,338		
Investment Earnings			146,757	790	147,547	292	
Transfers			52,622	(52,622)	-	-	
Other Revenue			11,273	8,655	19,928	46,163	
Total General Revenues and Transfers			<u>1,785,509</u>	<u>(43,177)</u>	<u>1,742,332</u>	<u>46,455</u>	
Changes in Net Position			<u>34,135</u>	<u>(73,381)</u>	<u>(39,246)</u>	<u>(186,681)</u>	
Net Position - Beginning			<u>8,066,309</u>	<u>5,298,233</u>	<u>13,364,542</u>	<u>1,332,950</u>	
Prior Period Adjustment			<u>(1,294,143)</u>	<u>(68,113)</u>	<u>(1,362,256)</u>	<u>-</u>	
Net Position - Beginning (Restated)			<u>6,772,166</u>	<u>5,230,120</u>	<u>12,002,286</u>	<u>-</u>	
Net Position - Ending			<u>\$ 6,806,301</u>	<u>\$ 5,156,739</u>	<u>\$ 11,963,040</u>	<u>\$ 1,146,269</u>	

**Balance Sheet
Governmental Funds
June 30, 2015**

	General	Major Street	Local Street	Public Safety	Income Tax Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 649,298	\$ 129,130	\$ 58,706	\$ 191,003	\$ 1,281,338	\$ 730,389	\$ 3,039,864
Accounts Receivable	32,693	-	-	-	82	9,737	42,512
Special Assessments Receivable	-	-	-	-	-	30,351	30,351
Due from Other Funds	-	-	-	-	-	9,994	9,994
Due from Governmental Units	20,828	18,143	8,207	30,692	-	-	77,870
Prepaid Items	32,126	-	-	-	-	122	32,248
TOTAL ASSETS	\$ 734,945	\$ 147,273	\$ 66,913	\$ 221,695	\$ 1,281,420	\$ 780,593	\$ 3,232,839
LIABILITIES:							
Accounts Payable	\$ 15,865	\$ 1,941	\$ 832	\$ 12,548	\$ -	\$ 5,782	\$ 36,968
Accrued Liabilities	4,484	276	216	9,133	145	1,242	15,496
Due to Other Funds	-	-	-	-	9,994	-	9,994
Unearned Revenue	-	-	-	-	152,119	30,351	182,470
TOTAL LIABILITIES	20,349	2,217	1,048	21,681	162,258	37,375	244,928
FUND BALANCES:							
Nonspendable	32,126	-	-	-	-	122	32,248
Restricted	-	145,056	65,865	-	1,119,162	-	1,330,083
Committed	-	-	-	-	-	245,589	245,589
Assigned	-	-	-	200,014	-	497,507	697,521
Unassigned	682,470	-	-	-	-	-	682,470
TOTAL FUND BALANCES	714,596	145,056	65,865	200,014	1,119,162	743,218	2,987,911
TOTAL LIABILITIES AND FUND BALANCES	\$ 734,945	\$ 147,273	\$ 66,913	\$ 221,695	\$ 1,281,420	\$ 780,593	

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

Capital assets used by governmental activities	5,650,464
Bonds Payable	(510,000)
Compensated Absences	(30,286)
Deferred Outflows	99,074
Net Pension Obligation	(1,413,716)
Accrued Interest Expense	(7,497)
Special Assessments	30,351
Net position of governmental activities	\$ 6,806,301

Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2015

	General	Major Street	Local Street	Public Safety	Income Tax Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:							
Taxes							
Income Taxes	\$ 902,784	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 902,784
Licenses and Permits	2,665	-	-	473	475,735	-	475,735
Federal Revenues	-	-	-	-	-	68,904	3,138
State Revenues	196,338	100,164	45,228	7,727	-	-	349,457
Local Revenues	-	-	-	113,050	-	48,588	161,638
Charges for Services	205,451	-	-	566,171	-	42,529	814,151
Interest and Rentals	5,171	-	-	148	7,263	134,175	146,757
Other Revenue	887	-	-	2,237	-	75,640	78,764
TOTAL REVENUES	1,313,296	100,164	45,228	689,806	482,998	369,836	3,001,328
EXPENDITURES:							
Legislative							
General Government	10,703	-	-	-	-	-	10,703
Public Safety	409,013	-	-	-	85,578	172,121	666,712
Public Works	10,994	-	-	1,119,368	-	-	1,130,362
Community and Economic Development	202,403	96,105	62,065	-	-	-	360,573
Recreation and Culture	-	-	-	-	-	184,368	184,368
Other Expenditures	3,078	-	-	-	-	3,078	3,078
Debt Service	139,132	-	-	-	-	88,371	139,132
Capital Outlay	-	-	-	12,127	-	54,755	66,882
TOTAL EXPENDITURES	775,323	96,105	62,065	1,131,495	85,578	499,595	2,650,161
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	537,973	4,059	(16,837)	(441,689)	397,420	(129,759)	351,167
OTHER FINANCING SOURCES (USES):							
Bond Proceeds	-	-	-	-	-	510,000	510,000
Debt Paid in refunding	-	-	-	-	-	(485,000)	(485,000)
Operating Transfers In	277,185	86,154	95,946	485,758	-	256,055	1,201,098
Operating Transfers Out	(718,807)	(36,678)	(38,648)	-	(322,107)	(32,236)	(1,148,476)
TOTAL OTHER FINANCING SOURCES (USES)	(441,622)	49,476	57,298	485,758	(322,107)	248,819	77,622
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES							
FUND BALANCES, JULY 1	96,351	53,535	40,461	44,069	75,313	119,060	428,789
FUND BALANCES, JUNE 30	618,245	91,521	25,404	155,945	1,043,849	624,158	2,559,122
FUND BALANCES, JUNE 30	\$ 714,596	\$ 145,056	\$ 65,865	\$ 200,014	\$ 1,119,162	\$ 743,218	\$ 2,987,911

**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, 2015**

Net changes in fund balances - total governmental funds \$ 428,789

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 depreciation of (\$436,335) was more than capital outlay of \$58,288 in the current period. (378,047)

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. (15,362)

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	45,000
Principal paid in refunding	485,000
Bond Proceeds	(510,000)

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	(3,769)
Pension Obligation	(20,499)
Accrued Interest	<u>3,023</u>

Changes in net position of governmental activities \$ 34,135

**Statement of Net Position
Proprietary Funds
June 30, 2015**

	Business - type Activities		
	Enterprise Funds		Total Business-type Funds
	Sewer	Water	
ASSETS:			
Cash and Equivalents	\$ 809,911	\$ 131,063	\$ 940,974
Accounts Receivable	79,895	69,850	149,745
Special Assessments Receivable	5,957	4,020	9,977
Inventory	5,705	36,534	42,239
Capital Assets (Net of Accumulated Depreciation)	4,415,776	837,669	5,253,445
TOTAL ASSETS	5,317,244	1,079,136	6,396,380
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Investment Experience and Contributions	2,085	3,129	5,214
Loss on Bond Refunding	4,483	3,114	7,597
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 6,568	\$ 6,243	\$ 12,811
LIABILITIES:			
Accounts Payable	\$ 1,255	\$ 2,630	\$ 3,885
Accrued Liabilities	1,195	988	2,183
Accrued Interest Payable	10,016	6,961	16,977
Net Pension Obligation - Due in more than one year	29,763	44,644	74,407
Bonds Payable - Due in more than one year	682,810	472,190	1,155,000
TOTAL LIABILITIES	725,039	527,413	1,252,452
NET POSITION:			
Net Investment in Capital Assets	3,732,966	365,479	4,098,445
Unrestricted	865,807	192,487	1,058,294
TOTAL NET POSITION	\$ 4,598,773	\$ 557,966	\$ 5,156,739

**Statement of Revenues, Expenses, and
Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2015**

	Business - type Activities		
	Enterprise Funds		Total Business-type Funds
	Sewer	Water	
OPERATING REVENUES:			
Charges for Services	\$ 320,636	\$ 293,685	\$ 614,321
Special Assessments	9,109	4,020	13,129
Other Revenue	1,008	7,647	8,655
Total Operating Revenues	<u>330,753</u>	<u>305,352</u>	<u>636,105</u>
OPERATING EXPENSES:			
Administrative Services	144,317	146,206	290,523
Supplies	5,352	12,442	17,794
Contractual and Other	15,252	4,928	20,180
Utilities	53,041	19,950	72,991
Repair and Maintenance	4,238	-	4,238
Depreciation Expense	155,371	52,158	207,529
Total Operating Expenses	<u>377,571</u>	<u>235,684</u>	<u>613,255</u>
OPERATING INCOME (LOSS)	<u>(46,818)</u>	<u>69,668</u>	<u>22,850</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	790	-	790
Bond Issuance Costs	(18,528)	(12,876)	(31,404)
Interest Expense	(5,024)	(7,971)	(12,995)
Total Non-Operating Revenues (Expenses)	<u>(22,762)</u>	<u>(20,847)</u>	<u>(43,609)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(69,580)</u>	<u>48,821</u>	<u>(20,759)</u>
OTHER FINANCIAL SOURCES (USES):			
Operating Transfers Out	<u>(31,640)</u>	<u>(20,982)</u>	<u>(52,622)</u>
CHANGES IN NET POSITION	<u>(101,220)</u>	<u>27,839</u>	<u>(73,381)</u>
NET POSITION, JULY 1	4,727,238	570,995	5,298,233
Prior Period Adjustment	<u>(27,245)</u>	<u>(40,868)</u>	<u>(68,113)</u>
NET POSITION, JULY 1 (Restated)	<u>4,699,993</u>	<u>530,127</u>	<u>5,230,120</u>
NET POSITION, JUNE 30	<u>\$ 4,598,773</u>	<u>\$ 557,966</u>	<u>\$ 5,156,739</u>

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

	Business-type Activities		
	Enterprise Funds		Total Business-type Funds
	Sewer	Water	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 335,556	\$ 300,526	\$ 636,082
Payments to Suppliers	(113,605)	(91,550)	(205,155)
Payments to Employees	(142,690)	(144,570)	(287,260)
Net Cash Provided (Used) by Operating Activities	<u>79,261</u>	<u>64,406</u>	<u>143,667</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers Out	(31,640)	(20,982)	(52,622)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(31,640)</u>	<u>(20,982)</u>	<u>(52,622)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital Purchases	(217)	-	(217)
Bond Issuance Costs	(18,528)	(12,876)	(31,404)
Proceeds from Issuing Refunding Bonds	682,810	472,190	1,155,000
Principal Paid on Capital Debt	(758,200)	(521,800)	(1,280,000)
Interest Paid on Capital Debt	(5,024)	(7,971)	(12,995)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(99,159)</u>	<u>(70,457)</u>	<u>(169,616)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Income	790	-	790
Net Cash Provided (Used) by Investing Activities	<u>790</u>	<u>-</u>	<u>790</u>
Net Increase (Decrease) in Cash and Equivalents	(50,748)	(27,033)	(77,781)
Balances - Beginning of the Year	860,659	158,096	1,018,755
Balances - End of the Year	<u>\$ 809,911</u>	<u>\$ 131,063</u>	<u>\$ 940,974</u>
Reconciliation of Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (46,818)	\$ 69,668	\$ 22,850
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Pension Costs	432	648	1,080
Bond Amortization	(4,483)	(3,115)	(7,598)
Depreciation Expense	155,371	52,158	207,529
(Increase) Decrease in Assets:			
Accounts Receivable	10,760	(806)	9,954
Special Assessments Receivable	(5,957)	(4,020)	(9,977)
Inventory	254	(1,626)	(1,372)
Increase (Decrease) in Liabilities:			
Accounts Payable	(12,110)	(36,850)	(48,960)
Accrued Liabilities	1,195	988	2,183
Accrued Interest Payable	(19,383)	(12,639)	(32,022)
Net Cash Provided (Used) by Operating Activities	<u>\$ 79,261</u>	<u>\$ 64,406</u>	<u>\$ 143,667</u>

**Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2015**

	<u>Agency Fund</u>
ASSETS:	
Cash and Equivalents - Unrestricted	\$ 4,003
TOTAL ASSETS	<u>\$ 4,003</u>
LIABILITIES:	
Undistributed Receipts	\$ 4,003
TOTAL LIABILITIES	<u>\$ 4,003</u>

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Notes to Financial Statements

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 is governed by a five-member board appointed by the City Manager. The Commission's fiscal year end is March 31, 2015. A complete financial statement of the Housing 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, 2015 net of estimated refunds.

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 \$32,248 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 \$145,056 and \$65,865 for major and local streets funds respectively, and \$1,119,162 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 \$245,589 in fund balance for municipal holdings.
- **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 public safety, cemetery, DDA, and capital improvements in the amount of \$200,014, \$335,586, \$48,631, and \$113,290 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.

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	\$ 3,039,864	\$ 940,974	\$ 3,980,838	\$ 4,003	\$ 477,689
Total	<u>\$ 3,039,864</u>	<u>\$ 940,974</u>	<u>\$ 3,980,838</u>	<u>\$ 4,003</u>	<u>\$ 477,689</u>

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Component Units
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 3,980,638	\$ 4,003	\$ 477,689
Petty Cash and Cash on Hand	200	-	-
Total	\$ 3,980,838	\$ 4,003	\$ 477,689

Investments:

Description	Fair Value	Less Than 1	1 - 5	Rating
Certificates of Deposit	\$ 56,719	\$ 56,719	-	Unrated
Total Investments	\$ 56,719	\$ 56,719	-	

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, \$2,091,170 of the City's bank balance of \$4,047,674 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 \$56,719 in investments all are in the name of the Housing Commission, and none in the name of the agent.

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.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- 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>
Governmental Activities:				
<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	3,729,618	34,838	(22,280)	3,742,176
Infrastructure	<u>9,550,841</u>	<u>23,450</u>	<u>-</u>	<u>9,574,291</u>
Subtotal	<u>16,057,297</u>	<u>58,288</u>	<u>(22,280)</u>	<u>16,093,305</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(1,098,711)	(77,763)	-	(1,176,474)
Equipment	(2,507,216)	(197,586)	22,280	(2,682,522)
Infrastructure	(6,874,049)	(160,986)	-	(7,035,035)
Subtotal	(10,479,976)	(436,335)	22,280	(10,894,031)
Net capital assets being depreciated	5,577,321	(378,047)	-	5,199,274
Capital Assets – Net	<u>\$ 6,028,511</u>	<u>\$ (378,047)</u>	<u>\$ -</u>	<u>\$ 5,650,464</u>

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

Governmental Activities

General Government	\$ 33,006
Public Safety	136,880
Public Works	217,910
Recreation and Culture	48,539

**Total Depreciation Expense -
Governmental Activities**

\$ 436,335

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Sewer Infrastructure	\$ 7,878,227	\$ -	\$ 267	\$ 7,878,494
Water Infrastructure	2,139,878	-	-	2,139,878
Subtotal	10,018,105	-	267	10,018,372
<i>Less accumulated depreciation for:</i>				
Sewer Infrastructure	(3,307,079)	(155,371)	-	(3,462,450)
Water Infrastructure	(1,250,269)	(52,158)	(50)	(1,302,477)
Subtotal	(4,557,348)	(207,529)	(50)	(4,764,927)
Capital Assets – Net	<u>\$ 5,460,757</u>	<u>\$ (207,529)</u>	<u>\$ 217</u>	<u>\$ 5,253,445</u>

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

Business-type Activities

Sewer	\$ 155,371
Water	52,158

**Total Depreciation Expense -
Business-type Activities**

\$ 207,529

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Component Unit – Housing Commission:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 88,873	\$ -	\$ -	\$ 88,873
<i>Capital assets being depreciated:</i>				
Buildings	2,592,578	-	-	2,592,578
Furniture and Equipment - Dwellings	70,767	-	(5,527)	65,240
Furniture and Equipment - Administration	183,936	-	-	183,936
Subtotal	2,847,281	-	(5,527)	2,841,754
Less Accumulated Depreciation	(2,162,323)	(95,089)	5,527	(2,251,885)
Net capital assets being depreciated	684,958	(95,089)	-	589,869
Capital Assets – Net	\$ 773,831	\$ (95,089)	\$ -	\$ 678,742

Depreciation expense was charged to public works in the amount of \$95,089.

NOTE 5 - INTERFUND TRANSFERS

The County reports interfund balances between some of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position for governmental funds and proprietary funds.

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
	Income Tax
Nonmajor Governmental	\$ 9,994

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

NOTE 5 - INTERFUND TRANSFERS (Continued)

		TRANSFERS IN					
		General	Major Streets	Local Streets	Public Safety	Nonmajor Governmental	Total
TRANSFERS OUT	General	\$ -	\$ 86,154	\$ 95,946	\$ 485,758	\$ 50,949	\$ 718,807
	Major Streets	36,678	-	-	-	-	36,678
	Local Streets	38,648	-	-	-	-	38,648
	Income Tax	117,001	-	-	-	205,106	322,107
	Nonmajor Governmental	32,236	-	-	-	-	32,236
	Sewer	31,640	-	-	-	-	31,640
	Water	20,982	-	-	-	-	20,982
	Total	\$ 277,185	\$ 86,154	\$ 95,946	\$ 485,758	\$ 256,055	\$ 1,201,098

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:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
\$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	\$ -	\$ 510,000	\$ 55,000
\$900,000 General Obligation Bonds due in annual installments of \$40,000 to \$75,000 through August 2022, interest at 4.1% to 5%.	530,000	-	530,000	-	-
Compensated absences	26,517	3,769	-	30,286	-
Total Governmental Activities - Long-term Debt	556,517	513,769	530,000	540,286	55,000

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
\$1,155,000 General Obligation Refunding Bonds, due in annual installments of \$60,000 to \$95,000 through July 2030, interest at 2.94%.	\$ -	\$ 1,155,000	\$ -	\$ 1,155,000	\$ -
\$1,140,000 Water and Sewer Bonds, due in annual installments of \$25,000 to \$65,000 through July 2030, interest at 5%.	761,000	-	761,000	-	-
\$777,000 Water and Sewer Bonds, due in annual installments of \$18,000 to \$455,000 through July 2030, interest at 5%.	519,000	-	519,000	-	-
Total Business-type Activities – Long-term Debt	<u>1,280,000</u>	<u>1,155,000</u>	<u>1,280,000</u>	<u>1,155,000</u>	<u>-</u>
Total Long-term Debt	<u>\$ 1,836,517</u>	<u>\$ 1,668,769</u>	<u>\$ 1,810,000</u>	<u>\$ 1,695,286</u>	<u>\$ 55,000</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>
2016	\$ 55,000	\$ 14,186	\$ -	\$ 33,957
2017	55,000	12,569	60,000	33,075
2018	60,000	10,878	65,000	31,238
2019	65,000	9,041	65,000	29,327
2020	65,000	7,130	70,000	27,342
2021-2025	210,000	9,556	370,000	105,106
2026-2030	-	-	430,000	46,306
2031	-	-	95,000	1,397
Total	<u>\$ 510,000</u>	<u>\$ 63,360</u>	<u>\$ 1,155,000</u>	<u>\$ 307,748</u>

Component Unit – Housing Commission

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated absences	\$ 26,899	\$ 981	\$ 10,599	\$ 17,281

NOTE 7 - 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, 2014.

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.

01 - GnrI Emplys: Closed to new hires

	<u>2014 Valuation</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 years
Employee Contributions	0%
DC Plan for Hew Hires:	6/30/2003
Act 88:	No

02 - Police: Closed to new hires

	<u>2014 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/20
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 years
Employee Contributions	0%
RS50% Percentage:	50%
DC Pan for New Hires:	6/30/2003
Act 88:	No

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

10 - Housing Comm: Closed to new hires

	<u>2014 Valuation</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 50/15
Final Average Compensation:	5 years
Employee Contributions:	0%
DC Plan for New Hires::	7/1/2003
Act 88:	No

11 - Non Union Adm: Closed to new hires

	<u>2014 Valuation</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 years
Employee Contributions:	0%
DC Plan for New Hires:	6/30/2003
Act 88:	No

12 - Manager: Closed to new hires

	<u>2014 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	3 years
Employee Contributions:	0%
DC Plan for New Hires:	7/1/2013
Act 88:	Yes (Adopted 4/1/2009)

Employees Covered by Benefit Terms

At June 30, 2015, 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	3
Active employees	<u>7</u>
	30

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

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, 2015 is as follows:

General Employee	\$ 3,751
Police	\$ 4,447
Housing	\$ 1,135
Non-Union Admin	\$ 3,319
Manager	\$ 907

Net Pension Liability

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

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

Inflation	3.0 to 4.0 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	8.0 percent

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

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

The actuarial assumptions used in 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:

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

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.

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2013	\$ 3,807,031	\$ 2,377,407	\$ 1,429,624
Service cost	35,362	-	35,362
Interest on total pension liability	303,335	-	303,335
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer contributions	-	138,108	(138,108)
Employee contributions	-	-	-
Net investment income	-	147,472	(147,472)
Benefit payments, including employee refunds	(295,844)	(295,844)	-
Administrative expense	-	(5,382)	5,382
Net changes	42,853	(15,646)	58,499
Balances as of December 31, 2014	\$ 3,849,884	\$ 2,361,761	\$ 1,488,123

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's net pension liability	\$383,375	\$-	\$(328,061)

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

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

For the year ended June 30, 2015, the City recognized pension expense of \$163,058. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	33,548	-
Contributions subsequent to the measurement date	70,740	-
Total	\$ 104,288	\$ -

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

<u>Year Ended June 30:</u>	
2016	\$ 8,387
2017	8,387
2018	8,387
2019	8,387

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**Annual Pension Cost**

For the year ended June 30, 2015, the City's annual pension cost of \$134,470 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2014 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year, compounded annually based on inflation, (c) and additional project salary increases of 0.0% to 8.4% per year depending on age, attributable to merit, longevity, and promotional pay increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014, the date of the last actuarial valuation, was 27 years.

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.

As established by the City Council and governed by Federal Regulations the City made the required 11% contribution. Contributions for the year totaled \$91,920 for the employees that participate in this plan. There are no contribution requirements for employees of the City of Grayling.

NOTE 8 - 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 9 - 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.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Beginning net position as previously reported at June 30, 2014	\$ 8,066,309	\$ 5,298,233
Prior period adjustment – implementation of GASB 68: Net pension liability (measurement date) and Contributions to beginning of fiscal year	<u>(1,294,143)</u>	<u>(68,113)</u>
Net position as restated, July 1, 2014	<u>\$ 6,772,166</u>	<u>\$ 5,230,120</u>

Required Supplementary Information

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended June 30, 2015**

	<u>2015</u>
Total pension liability	
Service cost	\$ 35,362
Interest	303,335
Difference between expected and actual experience	-
Benefit payments, including refund of member contributions	<u>(295,844)</u>
Net change in total pension liability	42,853
Total pension liability - beginning	<u>3,807,031</u>
Total pension liability - ending	<u><u>\$ 3,849,884</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 138,108
Contributions - employee	-
Net investment income	147,472
Benefit payments, including refunds of member contributions	(295,844)
Administrative expense	<u>(5,382)</u>
Net change in plan fiduciary net position	(15,646)
Plan fiduciary net position - beginning	<u>2,377,407</u>
Plan fiduciary net position - ending	<u><u>\$ 2,361,761</u></u>
City's net pension liability - ending	<u><u>\$ 1,488,123</u></u>
Plan fiduciary net position as a percentage of the total pension liability	89%
Covered - employee payroll	\$ 375,240
City's net pension liability as a percentage of covered-employee payroll	397%
Annual money-weighted rate of return, net of investment expense	6%

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended June 30, 2015**

	<u>2015</u>
Actuarially determined contribution	\$ 138,108
Contributions in relation to the actuarially determined contribution	<u>138,108</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered - employee payroll	\$ 375,240
Contributions as a percentage of covered-employee payroll	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, closed
Remaining amortization period	26 years
Asset valuation method	5-years smoothed market
Inflation	4.50%
Salary increases	4.5%, average, including inflation
Investment rate of return	8.00%
Retirement age	In the 2014 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Assumptions were based on the 1994 Group Annuity Mortality Table - Blended 50% Male / 50% Female

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 927,841	\$ 927,841	\$ 902,784	\$ (25,057)
Licenses and Permits	3,000	3,000	2,665	(335)
State Revenues	201,367	201,367	196,338	(5,029)
Charges for Services	203,176	205,230	205,451	221
Interest and Rentals	2,000	5,200	5,171	(29)
Other Revenue	42,239	42,239	887	(41,352)
TOTAL REVENUES	1,379,623	1,384,877	1,313,296	(71,581)
EXPENDITURES:				
Legislative:				
City Commission	13,285	13,695	10,703	2,992
General Government:				
City Manager	133,199	133,199	123,648	9,551
Clerk/Treasurer	116,608	116,608	106,267	10,341
Administrative Services	175,847	178,584	179,098	(514)
Total General Government	425,654	428,391	409,013	19,378
Public Safety:				
Planning & Zoning	13,502	13,502	10,994	2,508
Total Public Safety	13,502	13,502	10,994	2,508
Public Works:				
Department of Public Works	221,490	221,490	202,403	19,087
Recreation and Culture:				
Parks	5,700	5,700	3,078	2,622
Other Expenditures	145,000	145,000	139,132	5,868
TOTAL EXPENDITURES	824,631	827,778	775,323	52,455

Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		(Negative)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	554,992	557,099	537,973	(19,126)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	163,815	163,815	277,185	113,370
Operating Transfers Out	(718,807)	(718,807)	(718,807)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ 2,107	96,351	\$ 94,244
FUND BALANCE, JULY 1			618,245	
FUND BALANCE, JUNE 30			\$ 714,596	

**Required Supplementary Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Revenues	\$ 96,835	\$ 96,835	\$ 100,164	\$ 3,329
TOTAL REVENUES	<u>96,835</u>	<u>96,835</u>	<u>100,164</u>	<u>3,329</u>
EXPENDITURES:				
Public Works	135,667	135,667	96,105	39,562
TOTAL EXPENDITURES	<u>135,667</u>	<u>135,667</u>	<u>96,105</u>	<u>39,562</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(38,832)</u>	<u>(38,832)</u>	<u>4,059</u>	<u>42,891</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	86,154	86,154	86,154	-
Operating Transfers Out	<u>(47,322)</u>	<u>(47,322)</u>	<u>(36,678)</u>	<u>10,644</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>38,832</u>	<u>38,832</u>	<u>49,476</u>	<u>10,644</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	53,535	<u>\$ 53,535</u>
FUND BALANCE, JULY 1			<u>91,521</u>	
FUND BALANCE, JUNE 30			<u>\$ 145,056</u>	

Required Supplementary Information
 Budgetary Comparison Schedule
 Local Street Fund
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Revenues	\$ 43,834	\$ 43,834	\$ 45,228	\$ 1,394
TOTAL REVENUES	43,834	43,834	45,228	1,394
EXPENDITURES:				
Public Works	89,095	89,095	62,065	27,030
TOTAL EXPENDITURES	89,095	89,095	62,065	27,030
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(45,261)	(45,261)	(16,837)	28,424
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	95,946	95,946	95,946	-
Operating Transfers Out	(50,685)	(50,685)	(38,648)	12,037
TOTAL OTHER FINANCING SOURCES (USES)	45,261	45,261	57,298	12,037
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	40,461	\$ 40,461
FUND BALANCE, JULY 1			25,404	
FUND BALANCE, JUNE 30			\$ 65,865	

**Budgetary Comparison Schedule
Public Safety
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Revenues	\$ 600	\$ 7,059	\$ 7,727	\$ 668
Licenses and Permits	500	500	473	(27)
Local Revenues	122,767	122,767	113,050	(9,717)
Charges for Services	536,363	537,048	566,171	29,123
Interest and Rentals	-	-	148	148
Other	2,710	2,710	2,237	(473)
TOTAL REVENUES	<u>662,940</u>	<u>670,084</u>	<u>689,806</u>	<u>19,722</u>
EXPENDITURES:				
Public Works	1,126,984	1,126,984	1,119,368	7,616
Capital Outlay	21,714	21,714	12,127	9,587
TOTAL EXPENDITURES	<u>1,148,698</u>	<u>1,148,698</u>	<u>1,131,495</u>	<u>17,203</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(485,758)</u>	<u>(478,614)</u>	<u>(441,689)</u>	<u>36,925</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	485,758	485,758	485,758	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ 7,144</u>	<u>44,069</u>	<u>\$ 36,925</u>
FUND BALANCE, JULY 1			<u>155,945</u>	
FUND BALANCE, JUNE 30			<u>\$ 200,014</u>	

Required Supplementary Information
 Budgetary Comparison Schedule
 Income Tax Fund
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Income Taxes	\$ 450,000	\$ 450,000	\$ 475,735	\$ 25,735
Interest and Rentals	-	9,500	7,263	(2,237)
TOTAL REVENUES	450,000	459,500	482,998	23,498
EXPENDITURES:				
General Government	89,412	89,412	85,578	3,834
TOTAL EXPENDITURES	89,412	89,412	85,578	3,834
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	360,588	370,088	397,420	27,332
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(360,588)	(360,588)	(322,107)	38,481
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ 9,500	75,313	\$ 65,813
FUND BALANCE, JULY 1			1,043,849	
FUND BALANCE, JUNE 30			\$ 1,119,162	

Other Information

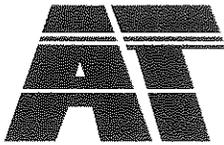
**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015**

	Special Revenue Funds				Downtown Development Authority	Capital Improvements	Capital Project Fund	Total
	Cemetery	Façade	Municipal Holdings					
ASSETS:								
Cash and Equivalents - Unrestricted	\$ 326,965	\$ -	\$ 246,932	\$ 51,074	\$ 105,418	\$ 730,389		
Accounts Receivable	9,718	-	19	-	-	9,737		
Prepaid Items	122	-	-	-	-	122		
Due from Other Fund	-	-	-	-	9,994	9,994		
Special Assessments Receivable	-	-	-	30,351	-	30,351		
TOTAL ASSETS	\$ 336,805	\$ -	\$ 246,951	\$ 81,425	\$ 115,412	\$ 780,593		
LIABILITIES:								
Accounts Payable	483	-	1,183	1,994	2,122	5,782		
Accrued Liabilities	614	-	179	449	-	1,242		
Unearned Revenue	-	-	-	30,351	-	30,351		
TOTAL LIABILITIES	1,097	-	1,362	32,794	2,122	37,375		
FUND BALANCES:								
Nonspendable	122	-	-	-	-	122		
Committed	-	-	245,589	-	-	245,589		
Assigned	335,586	-	-	48,631	113,290	497,507		
TOTAL FUND BALANCES	335,708	-	245,589	48,631	113,290	743,218		
TOTAL LIABILITIES AND FUND BALANCES	\$ 336,805	\$ -	\$ 246,951	\$ 81,425	\$ 115,412	\$ 780,593		

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

	Special Revenue Funds				Downtown		Capital	Total
	Cemetery	Facade	Municipal Holdings	Development Authority	Capital Improvements	Project Fund		
REVENUES:								
Local Revenues	\$ 48,588	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,588
Federal Revenue	-	68,904	-	-	-	-	-	68,904
Charges for Services	21,257	-	-	21,272	-	-	-	42,529
Interest and Rentals	2,457	-	131,718	-	-	-	-	134,175
Other Revenue	860	41,677	-	23,577	-	9,526	-	75,640
TOTAL REVENUES	73,162	110,581	131,718	44,849	9,526	-	-	369,836
EXPENDITURES:								
General Government	70,043	-	102,078	-	-	-	-	172,121
Community and Economic Development	-	110,581	-	73,787	-	-	-	184,368
Debt Service	-	-	88,371	-	-	-	-	88,371
Capital Outlay	-	-	-	-	-	54,735	-	54,735
TOTAL EXPENDITURES	70,043	110,581	190,449	73,787	54,735	-	-	499,595
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,119	-	(58,731)	(28,938)	(45,209)	-	-	(129,759)
OTHER FINANCING SOURCES (USES):								
Bond Proceeds	-	-	510,000	-	-	-	-	510,000
Debt Paid in Refunding	-	-	(485,000)	-	-	-	-	(485,000)
Operating Transfers In	38,869	-	100,371	62,080	54,735	-	-	256,055
Operating Transfers Out	(6,400)	-	(10,474)	(15,362)	-	-	-	(32,236)
TOTAL OTHER FINANCING SOURCES (USES)	32,469	-	114,897	46,718	54,735	-	-	248,819
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	35,588	-	56,166	17,780	9,526	-	-	119,060
FUND BALANCES, JULY 1	300,120	-	189,423	30,851	103,764	-	-	624,158
FUND BALANCES, JUNE 30	\$ 335,708	\$ -	\$ 245,589	\$ 48,631	\$ 113,290	\$ -	\$ -	\$ 743,218

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

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, 2015, 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 October 29, 2015. 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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency, listed as 2015-001.

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 no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

City of Grayling, Michigan's Response to Findings

The City of Grayling, Michigan's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City of Grayling, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

October 29, 2015

Internal Control Over Financial Reporting

Significant Deficiencies

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

Finding 2015-001

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

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