

CITY OF GLADSTONE, MICHIGAN

**BASIC FINANCIAL STATEMENTS
with Supplemental Information**

MARCH 31, 2019

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"A Regional Firm Within the Upper Peninsula of Michigan"

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of the
City Commission
City of Gladstone, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Gladstone'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 Gladstone Housing Commission, which represents 100% of the assets, net position and revenues of the discretely presented component units. Those financial statements were audited by another auditor whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Gladstone Housing Commission, are based on the reports of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan, as of March 31, 2019, 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.

Emphasis of Matter-Change in Accounting Principle

As described in Note Q to the basic financial statements, during the year ended March 31, 2019, the City adopted the new accounting guidance of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which establishes accounting and financial reporting standards for postemployment benefits other than pensions provided to employees of governmental employers through postemployment benefit plans. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedules of net pension/OPEB liability and related ratios for the retirement system and other post-employment benefits, and the schedules of employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the 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 Gladstone's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of operating statistics are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor 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 and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The utility funds schedule of operating statistics has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2019, on our consideration of the City of Gladstone’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 solely 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 effectiveness of the City of Gladstone’s 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 Gladstone’s internal control over financial reporting and compliance.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Escanaba, Michigan

September 29, 2019

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Gladstone's financial performance provides an overview of the City's financial activities for the fiscal year ending March 31, 2019. Please read it in conjunction with the City's financial statements, which begin on page 16.

FINANCIAL HIGHLIGHTS

- The City's net position was reported at \$18,081,941. Net position increased \$955,627 from March 31, 2018, excluding the impact of the prior period adjustment. Net position for our business-type activities was \$11,250,589, an increase of \$66,498 from 2018 (before prior period adjustment), while net position in our governmental activities was \$6,831,352, an increase of \$889,129 (before prior period adjustment).
- The City's expenses for the year totaled \$10,430,714, an increase of \$511,004 over 2018. Revenue from all sources was \$11,386,341, an increase of \$982,678 from 2018.
- In the City's business-type activities, total revenues were \$6,439,809, an increase of 0.7% over the previous year. Business-type activity revenues decreased as a percentage of total revenues at 36% for 2019 compared to 61% for 2018.
- In 2018, the City received \$164,401 from the Dr. Mary Cretens Trust which was budgeted for expenditure in the 2019 fiscal year. In 2019, the City received \$159,003 from the Trust which was budgeted for expenditure in the 2020 fiscal year.
- The General Fund finished the year with an increase in fund balance of \$27,291 and an ending fund balance of \$911,121. This was after revenues of \$3,055,165 compared to \$2,708,325 in 2018, and expenditures of \$3,470,740 compared to expenditures of \$3,221,334 in 2018, exclusive of other financing sources and uses.

USING THIS REPORT

This annual report consists of financial statements. The Statement of Net Position and Statement of Activities (on pages 16 and 17) provide information about the activities of the City as a whole and present a longer term view of the City's finances. Fund financial statements start on page 18. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

Reporting the City as a whole

Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins on page 7. One of the most important questions asked about a city's finances is "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net position* and changes in them. You can think of the City's net position as, the difference between assets and liabilities, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation and general administration. Property taxes, state shared revenues, charges for services and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Electrical Departments, Solid Waste, Harbor and Economic Development Corporation are reported here.

The City's financial statements include the Gladstone Housing Commission, a legally separate component unit. A separately audited financial statement is available for the Housing Commission from their administrative offices.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's Major Funds begins on page 11. The fund financial statements begin on page 18 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that the Commission is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City’s services are reported in governmental funds which focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City’s general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other City programs and activities – such as the Equipment Fund, Retirement System Fund, and Employee Health Care Fund.

The City as a Trustee

The City is the trustee, *or fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City’s fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 28. We exclude these funds from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The City as a Whole

The City's combined net position increased by \$955,627.

Table 1
Net Position

	Governmental Activities		Business-Type Activities	
	2019	2018	2019	2018
Current and other assets	\$ 3,521,427	\$ 3,351,442	\$ 6,450,165	\$ 6,191,993
Capital assets (net)	8,388,062	8,052,486	7,898,449	8,049,589
Total Assets	<u>\$11,909,489</u>	<u>\$11,403,928</u>	<u>\$ 14,348,614</u>	<u>\$ 14,241,582</u>
Deferred outflows	\$ 738,947	\$ 138,897	\$ 313,904	\$ 57,286
Long-term debt outstanding	\$ 187,621	\$ 191,500	\$ 525,715	\$ 580,718
Other liabilities	5,405,883	5,479,905	2,807,324	2,646,301
Total Liabilities	<u>\$ 5,593,504</u>	<u>\$ 5,671,405</u>	<u>\$ 3,333,039</u>	<u>\$ 3,227,019</u>
Deferred inflows	\$ 223,580	\$ 155,696	\$ 78,890	\$ 43,563
Net Position:				
Net investment in				
capital assets	\$ 8,325,442	\$ 7,985,987	\$ 7,372,731	\$ 7,468,871
Restricted:				
Expendable	1,019,227	826,843	39,727	-
Nonexpendable	273,744	272,496	-	-
Unrestricted	(2,787,061)	(3,369,602)	3,838,131	3,559,415
Total net position	<u>\$ 6,831,352</u>	<u>\$ 5,715,724</u>	<u>\$ 11,250,589</u>	<u>\$ 11,028,286</u>

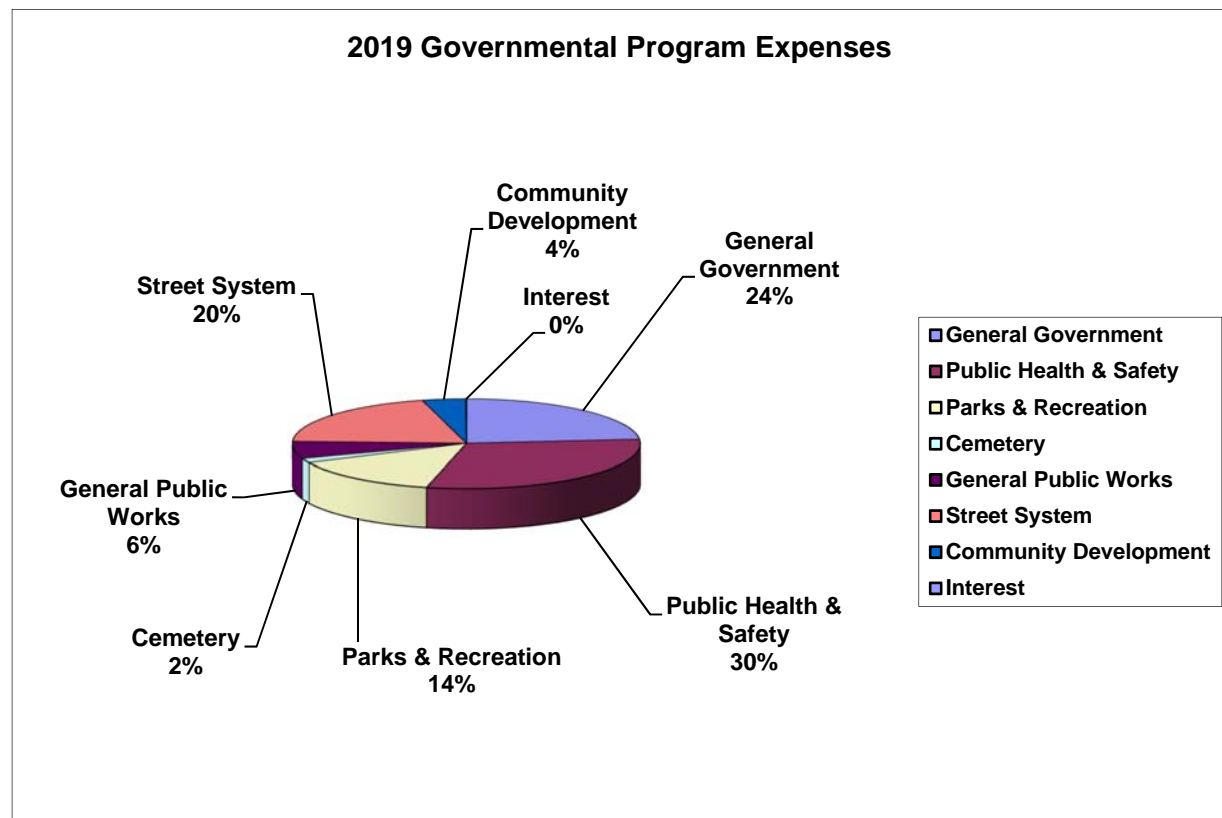
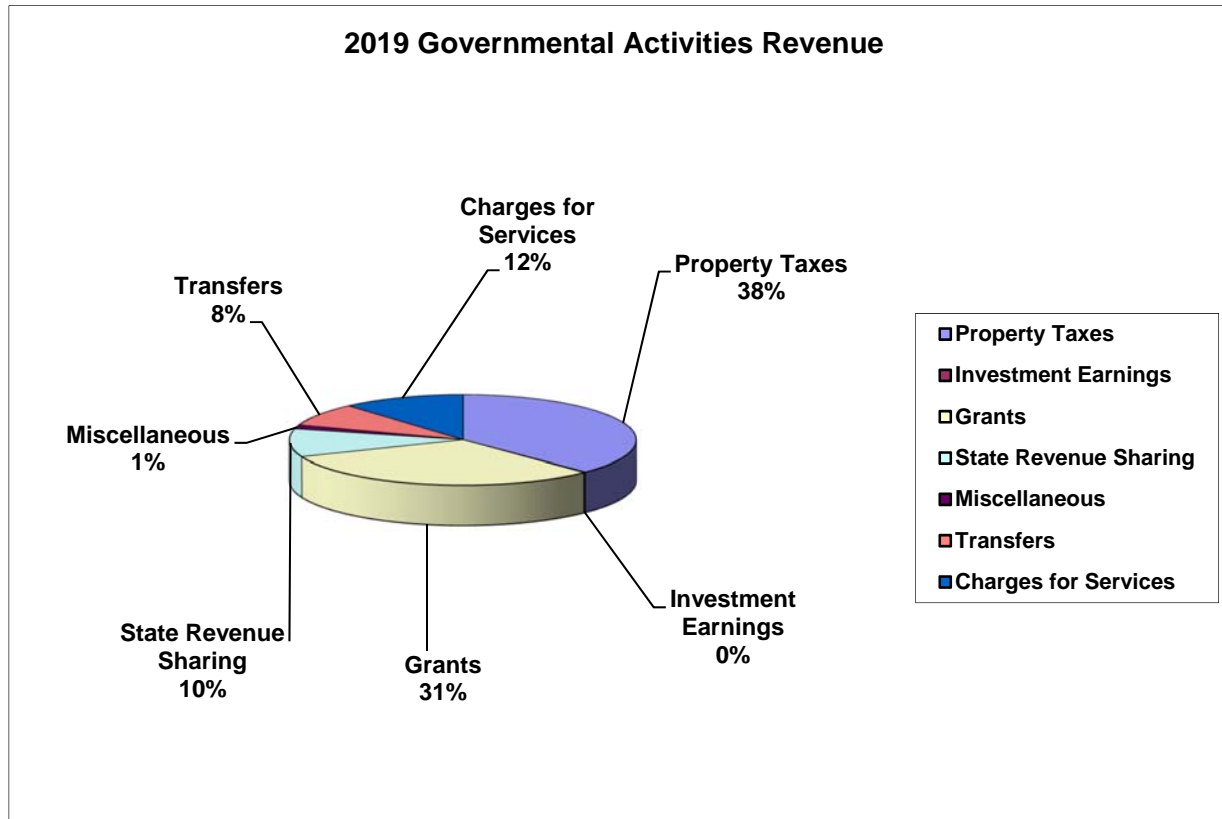
Net position of the City's governmental activities stood at \$6,831,352, up from \$5,715,724 in 2018 before prior period adjustment (+20%). Total of the governmental activities' assets increased by 4%, and total liabilities decreased by 1%. The ratio of assets to liabilities increased slightly from 2.01 in 2018 to 2.13 in 2019.

Net position in our business-type activities stood at \$11,250,589, up from \$11,028,286 in 2018 (+2%). Total assets increased to \$14,348,614 from \$14,241,582 in 2018, and liabilities increased to \$3,333,039 from \$3,227,019 in 2018. Unrestricted net position increased to \$3,838,131 from \$3,559,415, while the amount invested in capital assets (net of related debt) decreased slightly to \$7,372,731 from \$7,468,871 in 2018. There was \$39,727 in restricted net position for the Economic Development Corporation Fund.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities	
	2019	2018	2019	2018
Revenues:				
Program Revenues:				
Charges for services	\$ 618,501	\$ 420,140	\$ 6,340,299	\$ 6,348,007
Operating grants	1,238,708	764,120	-	-
Capital grants	263,965	162,064	28,317	33,966
General Revenues:				
Property taxes	2,025,608	1,877,862	-	-
State revenue sharing	539,822	521,350	-	-
Unrestricted grants	174,829	217,814	-	-
Unrestricted investment earnings	10,441	6,853	59,131	55,956
Miscellaneous	73,408	38,161	-	-
Total Revenues	<u>4,945,282</u>	<u>4,008,364</u>	<u>6,427,747</u>	<u>6,437,929</u>
Program Expenses:				
General government	1,060,424	631,247	-	-
Public health & safety	1,357,399	1,207,635	-	-
Parks & recreation	641,178	654,010	-	-
Cemetery	71,486	80,679	-	-
General public works	277,812	83,802	-	-
Street system	910,871	671,394	-	-
Community development	181,797	317,369	-	-
Interest on long-term debt	2,839	-	-	-
Electric	-	-	3,991,994	4,292,189
Wastewater	-	-	820,897	796,112
Water	-	-	653,962	758,851
Solid waste	-	-	370,545	351,497
Harbor	-	-	73,519	64,847
Economic development	-	-	15,991	10,078
Total Expenses	<u>4,503,806</u>	<u>3,646,136</u>	<u>5,926,908</u>	<u>6,273,574</u>
Excess (deficiency) before transfers and contributions	441,476	362,228	500,839	164,355
Transfers	446,403	390,628	(446,403)	(390,628)
Contributions to permanent fund	1,250	2,300	-	-
Gain/loss on sale of fixed assets	-	-	12,062	(44,930)
Increase (decrease) in net position	<u>889,129</u>	<u>755,156</u>	<u>66,498</u>	<u>(271,203)</u>
Net position - beginning	5,715,724	4,432,188	11,028,286	11,827,869
Prior period adjustment	226,499	528,380	155,805	(528,380)
Net position - beginning, as restated	<u>5,942,223</u>	<u>4,960,568</u>	<u>11,184,091</u>	<u>11,299,489</u>
Net position - ending	<u>\$ 6,831,352</u>	<u>\$ 5,715,724</u>	<u>\$ 11,250,589</u>	<u>\$ 11,028,286</u>

Governmental Activities



The City's total revenues were \$11,386,341, up from \$10,403,663 in 2018. The cost of all programs and services was \$10,430,714, up from \$9,919,710 in 2018. For 2019, there was an overall excess of revenues over expenses of \$955,627, compared to \$483,953 in 2018.

Governmental Activities

Revenues for the City's governmental activities totaled \$4,946,532, up 12.4% from \$4,401,292 in 2018. Expenses increased by 23.5% or \$857,670 in 2019 as compared to 2018.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

**Table 3
Government Activities**

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Public health & safety	\$ 1,357,399	\$ 1,207,635	\$ 1,303,482	\$ 1,179,343
Street systems	910,871	671,394	63,694	(91,037)
Parks & recreation	641,178	654,010	165,193	251,478
Community development	181,797	317,369	114,468	303,859
General government	1,060,424	631,247	941,857	539,238
Totals	<u>\$ 4,151,669</u>	<u>\$ 3,481,655</u>	<u>\$ 2,588,694</u>	<u>\$ 2,182,881</u>

Business-Type Activities

Revenues for the City's business-type activities totaled \$6,439,809 up from \$6,392,999 in 2018 (+0.7%). Business-type activity expenses decreased by \$346,666 (+5.5%).

THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 18) reported a combined fund balance of \$2,208,553, an increase of \$132,962 from 2018. The combined increase in fund balance, in large part, comes from the street funds and the downtown development fund doing minimal projects in the current year. The Public Works department has downsized through attrition but will have to continue to pay the legacy costs for retiree health insurance.

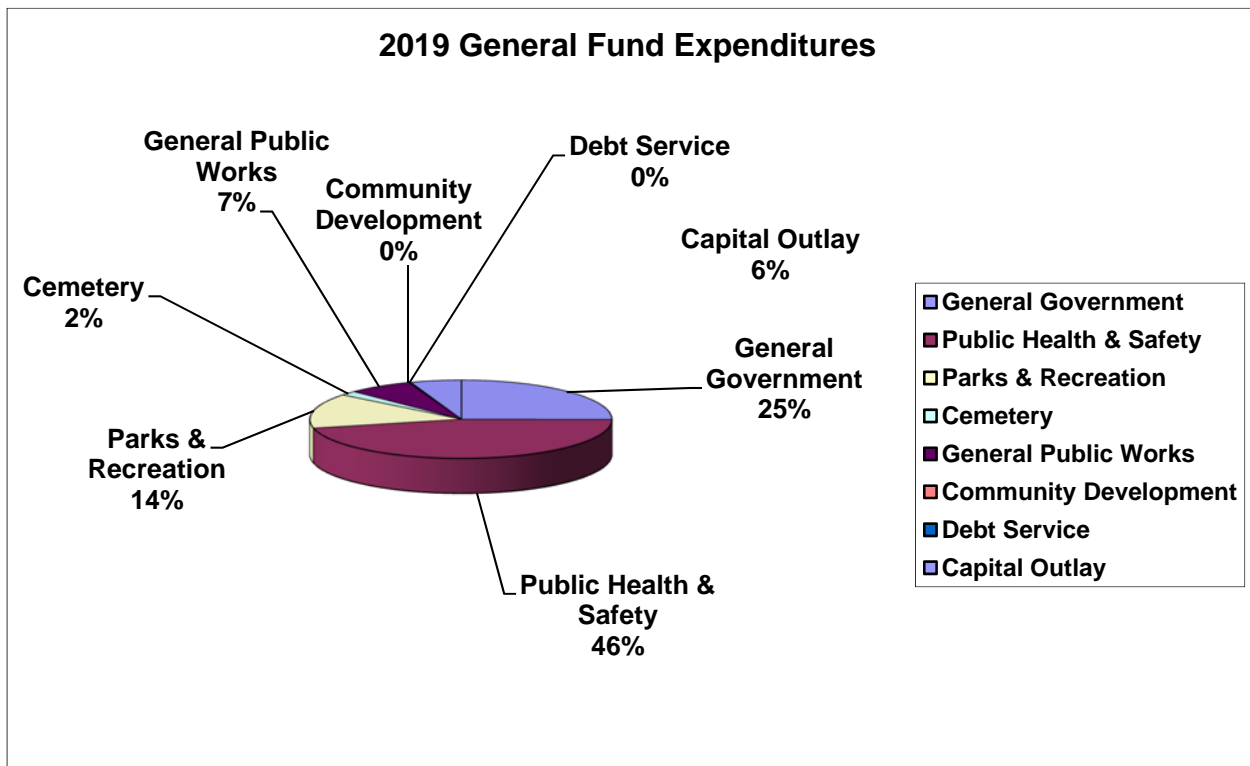
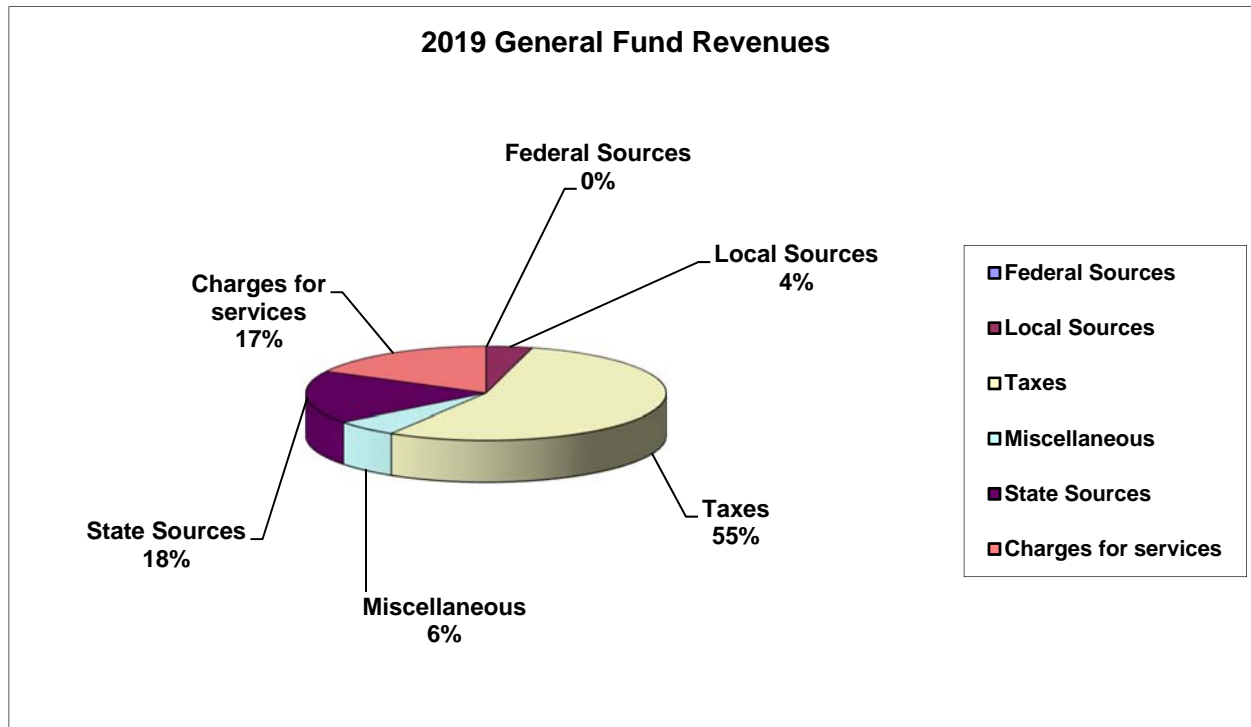
General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenditures. Revenues were more than the amended budget by \$2,843. The final revenue number of \$3,055,165 was 0.1% higher than the revised revenue estimate of \$3,052,322. The final revenue amount was comparable to revised estimates. The final revenue number when compared to the 2018 fiscal year was \$346,840 more than 2018. The contributing factors were increases in miscellaneous revenue donations and charges for services.

Expenditures were less than the amended budget by \$361,330. The final expenditure number of \$3,470,740 was 9.4% lower than the revised expenditure estimates of \$3,832,070. Final expenditure numbers were less than budgeted primarily due to reduced expenses in public safety and city hall. The final expenditure number when compared to the 2018 fiscal year was \$249,406 more than 2018. The contributing factors were increased personnel costs.

The final expenditures exceeded revenues by \$415,575 for the year before transfers. Revenues exceed expenditures by \$27,291 after net transfers in of \$442,866. This resulted in an increase to the General Fund fund balance.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2019, the City had \$16,286,511, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was up from \$16,102,075 in 2018. (See table 4 below).

Table 4
Capital Assets at Year-End
(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities	
	2019	2018	2019	2018
Land	1,619,627	1,619,627	236,836	236,836
Construction in progress	362,129	286,834	20,861	62,948
Land Improvements	402,133	319,611	-	-
Buildings	1,509,232	1,486,034	714,073	647,485
Machinery & Equipment	1,091,144	1,131,625	807,620	837,728
Infrastructure - Road System	2,230,553	2,419,034	-	-
Infrastructure - Other	1,173,244	789,721	340,235	355,826
Distribution/Collection System	-	-	5,778,824	5,908,766
Total	8,388,062	8,052,486	7,898,449	8,049,589

DEBT

At year-end the City had \$713,339 in long-term liabilities, bonds and notes outstanding. This is a net decrease of \$83,789 in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt is well below the 10% limit.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Other liabilities	\$ 125,000	\$ 150,000	\$ -	\$ -	\$ 125,000	\$ 150,000
Notes payable	62,621	66,500	-	-	62,621	66,500
Revenue bonds and notes (backed by specific tax and fee revenues)	-	-	525,718	580,718	525,718	580,718
Totals	\$ 187,621	\$ 216,500	\$ 525,718	\$ 580,718	\$ 713,339	\$ 797,218

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials will consider many factors when setting the fiscal year budget and fees that will be charged for business type activities. One of those factors is the economy. Most Michigan municipalities, including Gladstone are still struggling with the State's outdated financial system; the cost of doing business is still increasing sometimes beyond our control. Gladstone takes pride in being the "year round playground" and we will endeavor to maintain the services currently offered to our residents in the most efficient, cost effective manner to continue to make our City the community of choice in the Upper Peninsula.

The two largest sources of revenue for the General Fund, taxes and state shared revenue. The City has had development to increase the tax base but state shared revenue is expected to remain flat or receive a slight increase. In the General Fund, we have been able to attain the commission directed fund balance new target of 20 to 30% of expenditures. This target was recently passed with the new Fund Balance Policy approved at the 10/23/2017 regular Commission Meeting. From \$30,000 negative fund balance in 2009 to a positive unassigned fund balance of \$537,306 says a great deal for the General Fund. The City strives to continue to deliver the same level of service our residents expect. This is where thinking outside the box is key. We continue to rely on staff and citizen input to provide ideas and opportunities for better and more efficient services.

The Major Street and Local Street Funds continue to be a concern. Over the past couple years, the Act 51 revenue has been slightly increasing but isn't back to where it was a number of years ago. This is why special assessments are necessary to maintain the roads we have.

Business type activities budgets saw minimal to no rate increases. With these rate increases the city strives to maintain quality, yet affordable services to our community. The city will continually monitor costs, however, it appears that certain business type activities accounts are not yet producing enough cash to adequately plan for long-term maintenance projects. We will plan for these projects mindful of maintaining an affordable rate structure for our residents and businesses.

MISSION STATEMENT

We are a caring community with a passion for providing the highest quality of life by embracing innovative ideas while maintaining a hometown atmosphere.

VISION STATEMENT

The City of Gladstone will be the community of choice in the Upper Great Lakes that provides four seasons of recreational activities in a safe, progressive community.

GUIDING PRINCIPALS

We value.....

Integrity: Honesty and openness in our commitments.

Fiscal Responsibility: Providing responsible stewardship of the City's assets and resources.

Teamwork: Working collaboratively to build and maintain productive relationships.

Quality of Life: Providing services that support our small town values and close-knit community.

Innovation: Continually improving our community by being progressive and innovative.

Fair and equitable practice: Promoting respect and equal consideration to residents, businesses and visitors.

Timely, efficient and responsive services: Meeting our resident's and customer's needs in a prompt, professional and courteous manner.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Gladstone City Hall, 1100 Delta Ave, Gladstone, Michigan, 49837.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
March 31, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,582,906	\$ 4,105,990	\$ 6,688,896	\$ 485,267
Receivables :				
Accounts	22,136	-	22,136	2,691
Utilities	-	1,179,408	1,179,408	-
Special assessments	43,006	-	43,006	-
Miscellaneous	41,458	21,093	62,551	207
Due from other governmental units	320,880	-	320,880	-
Prepaid items	37,944	18,918	56,862	28,966
Inventory	15,134	202,625	217,759	-
Total current assets	<u>3,063,464</u>	<u>5,528,034</u>	<u>8,591,498</u>	<u>517,131</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	682,527	-	682,527	-
Investments	-	697,567	697,567	242,505
Internal balances	(224,564)	224,564	-	-
Capital assets, net of accumulated depreciation	8,388,062	7,898,449	16,286,511	657,686
Total noncurrent assets	<u>8,846,025</u>	<u>8,820,580</u>	<u>17,666,605</u>	<u>900,191</u>
Total assets	<u>\$ 11,909,489</u>	<u>\$ 14,348,614</u>	<u>\$ 26,258,103</u>	<u>\$ 1,417,322</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - pension plan	\$ 738,881	\$ 313,873	\$ 1,052,754	\$ -
Deferred outflow - OPEB	66	31	97	-
Total deferred outflows of resources	<u>\$ 738,947</u>	<u>\$ 313,904</u>	<u>\$ 1,052,851</u>	<u>\$ -</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 57,956	\$ 372,819	\$ 430,775	\$ 33,204
Accrued payroll	51,952	23,124	75,076	7,814
Customer deposits	-	82,766	82,766	9,741
Unearned revenue	20,392	19,715	40,107	23
Other liabilities	25,537	-	25,537	9,759
Compensated absences	34,044	25,226	59,270	5,068
Bonds payable	-	55,000	55,000	-
Notes payable	4,044	-	4,044	-
Total current liabilities	<u>193,925</u>	<u>578,650</u>	<u>772,575</u>	<u>65,609</u>
Noncurrent liabilities:				
Compensated absences	136,174	100,903	237,077	2,761
OPEB obligation	274,275	130,262	404,537	-
Net pension liability	4,830,553	2,052,506	6,883,059	-
Bonds payable	-	470,718	470,718	-
Notes payable	58,577	-	58,577	-
Other liabilities	100,000	-	100,000	-
Total noncurrent liabilities	<u>5,399,579</u>	<u>2,754,389</u>	<u>8,153,968</u>	<u>2,761</u>
Total liabilities	<u>\$ 5,593,504</u>	<u>\$ 3,333,039</u>	<u>\$ 8,926,543</u>	<u>\$ 68,370</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue - special assessments	\$ 38,168	\$ -	\$ 38,168	\$ -
Deferred inflow - pension plan	185,412	78,890	264,302	-
Total deferred inflows of resources	<u>\$ 223,580</u>	<u>\$ 78,890</u>	<u>\$ 302,470</u>	<u>\$ -</u>
NET POSITION				
Net investment in capital assets	\$ 8,325,442	\$ 7,372,731	\$ 15,698,173	\$ 657,686
Restricted for:				
Expendable	1,019,227	39,727	1,058,954	-
Nonexpendable	273,744	-	273,744	-
Unrestricted	(2,787,061)	3,838,131	1,051,070	691,266
Total net position	<u>\$ 6,831,352</u>	<u>\$ 11,250,589</u>	<u>\$ 18,081,941</u>	<u>\$ 1,348,952</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2019

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component Unit Housing Commission
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 1,060,424	\$ 110,762	\$ 7,805	\$ -	\$ (941,857)	\$ -	\$ (941,857)	\$ -
Public health and safety	1,357,399	26,223	554	27,140	(1,303,482)	-	(1,303,482)	-
Parks and recreation	641,178	230,933	8,227	236,825	(165,193)	-	(165,193)	-
Cemetery	71,486	43,575	-	-	(27,911)	-	(27,911)	-
General public works	277,812	193,072	321,552	-	236,812	-	236,812	-
Street system	910,871	12,516	834,661	-	(63,694)	-	(63,694)	-
Community development	181,797	1,420	65,909	-	(114,468)	-	(114,468)	-
Interest on long-term debt	2,839	-	-	-	(2,839)	-	(2,839)	-
Total governmental activities	<u>4,503,806</u>	<u>618,501</u>	<u>1,238,708</u>	<u>263,965</u>	<u>(2,382,632)</u>	<u>-</u>	<u>(2,382,632)</u>	<u>-</u>
Business-type activities:								
Electric utility	3,991,994	4,016,911	-	(385)	-	24,532	24,532	-
Waste water utility	820,897	953,195	-	21,972	-	154,270	154,270	-
Water utility	653,962	852,888	-	6,730	-	205,656	205,656	-
Solid waste	370,545	454,801	-	-	-	84,256	84,256	-
Harbor	73,519	62,504	-	-	-	(11,015)	(11,015)	-
Economic development	15,991	-	-	-	-	(15,991)	(15,991)	-
Total business-type activities	<u>5,926,908</u>	<u>6,340,299</u>	<u>-</u>	<u>28,317</u>	<u>-</u>	<u>441,708</u>	<u>441,708</u>	<u>-</u>
Total primary government	<u>\$ 10,430,714</u>	<u>\$ 6,958,800</u>	<u>\$ 1,238,708</u>	<u>\$ 292,282</u>	<u>(2,382,632)</u>	<u>441,708</u>	<u>(1,940,924)</u>	<u>-</u>
Component unit:								
Housing commission	<u>\$ 636,099</u>	<u>\$ 358,259</u>	<u>\$ 188,823</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(89,017)</u>
General revenues:								
Property taxes					2,025,608	-	2,025,608	-
State revenue sharing					539,822	-	539,822	-
Grants and contributions not restricted to specific programs					174,829	-	174,829	-
Contributions to permanent fund					1,250	-	1,250	-
Unrestricted investment earnings					10,441	59,131	69,572	2,174
Miscellaneous					73,408	-	73,408	1,665
Gain (loss) on disposal of fixed assets					-	12,062	12,062	(274)
Transfers					446,403	(446,403)	-	-
Total general revenues and transfers					<u>3,271,761</u>	<u>(375,210)</u>	<u>2,896,551</u>	<u>3,565</u>
Changes in net position					<u>889,129</u>	<u>66,498</u>	<u>955,627</u>	<u>(85,452)</u>
Net position - beginning					5,715,724	11,028,286	16,744,010	1,434,404
Prior period adjustment					226,499	155,805	382,304	-
Net position - beginning, restated					<u>5,942,223</u>	<u>11,184,091</u>	<u>17,126,314</u>	<u>1,434,404</u>
Net position - ending					<u>\$ 6,831,352</u>	<u>\$ 11,250,589</u>	<u>\$ 18,081,941</u>	<u>\$ 1,348,952</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2019**

	General	Major Streets	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and equivalents:					
Restricted	\$ 11,936	\$ -	\$ -	\$ 670,591	\$ 682,527
Unrestricted	896,184	199,672	-	344,934	1,440,790
Receivables:					
Accounts	10	-	22,126	-	22,136
Special assessments	-	30,033	-	12,973	43,006
Miscellaneous	39,949	-	-	-	39,949
Due from other governmental units	173,310	93,782	16,000	37,788	320,880
Due from other funds	24,726	-	-	23,985	48,711
Prepaid items	31,158	2,325	-	2,136	35,619
Inventory	15,134	-	-	-	15,134
Total assets	\$ 1,192,407	\$ 325,812	\$ 38,126	\$ 1,092,407	\$ 2,648,752
LIABILITIES					
Liabilities:					
Accounts payable	\$ 32,605	\$ -	\$ 13,346	\$ 11,686	\$ 57,637
Accrued payroll	45,555	2,372	54	2,209	50,190
Due to other funds	182,647	46,013	24,726	19,889	273,275
Unearned revenue	19,942	-	-	450	20,392
Other liabilities	537	-	-	-	537
Total liabilities	281,286	48,385	38,126	34,234	402,031
DEFERRED INFLOWS OF RESOURCES					
Unearned revenue - Special assessments	-	25,239	-	12,929	38,168
FUND BALANCES					
Nonspendable	46,292	2,325	-	275,880	324,497
Restricted	-	249,863	-	769,364	1,019,227
Committed	337,523	-	-	-	337,523
Assigned	-	-	-	-	-
Unassigned	527,306	-	-	-	527,306
Total fund balances	911,121	252,188	-	1,045,244	2,208,553
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,192,407	\$ 325,812	\$ 38,126	\$ 1,092,407	\$ 2,648,752

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
March 31, 2019

Total fund balances for governmental funds		\$ 2,208,553
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Capital assets	\$ 24,972,981	
Accumulated depreciation	<u>(16,584,919)</u>	
Total capital assets		8,388,062
Internal service funds are used by the City to charge the cost of pension and retiree healthcare costs to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
		1,143,869
Deferred outflow of resources related to recording of net pension liability.		
		738,881
Deferred outflow of resources related to recording of net OPEB liability.		
		66
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.		
Other liabilities	\$ (125,000)	
Notes payable	(62,621)	
OPEB obligation	(274,275)	
Net pension liability	(4,830,553)	
Compensated absences	<u>(170,218)</u>	(5,462,667)
Deferred inflow of resources related to recording of net pension liability.		
		<u>(185,412)</u>
Total net position of governmental activities		<u><u>\$ 6,831,352</u></u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2019

	General Fund	Major Streets	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	555,648	544,354	280,585	254,095	1,634,682
Local sources	126,590	6,041	207,453	231,598	571,682
Taxes	1,669,273	-	-	356,335	2,025,608
Charges for services	530,270	-	-	-	530,270
Interest income	5,162	1,011	-	4,267	10,440
Miscellaneous	168,222	3,873	-	1,755	173,850
Total revenues	<u>3,055,165</u>	<u>555,279</u>	<u>488,038</u>	<u>848,050</u>	<u>4,946,532</u>
EXPENDITURES:					
General government	872,270	-	285,823	-	1,158,093
Public health and safety	1,603,892	-	-	-	1,603,892
Parks and recreation	497,120	-	-	-	497,120
Cemetery	61,855	-	-	2	61,857
General public works	239,802	-	-	-	239,802
Street system	-	359,847	-	370,585	730,432
Community development	360	-	-	167,601	167,961
Capital outlay	188,723	-	620,541	53,417	862,681
Debt service:					
Principal	3,879	-	-	25,000	28,879
Interest and other charges	2,839	-	-	-	2,839
Total expenditures	<u>3,470,740</u>	<u>359,847</u>	<u>906,364</u>	<u>616,605</u>	<u>5,353,556</u>
Excess revenues (expenditures)	<u>(415,575)</u>	<u>195,432</u>	<u>(418,326)</u>	<u>231,445</u>	<u>(407,024)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	644,208	-	325,904	164,025	1,134,137
Transfers out	<u>(201,342)</u>	<u>(152,160)</u>	<u>-</u>	<u>(240,649)</u>	<u>(594,151)</u>
Total other financing sources (uses)	<u>442,866</u>	<u>(152,160)</u>	<u>325,904</u>	<u>(76,624)</u>	<u>539,986</u>
Net changes in fund balances	27,291	43,272	(92,422)	154,821	132,962
Fund balances - beginning	<u>883,830</u>	<u>208,916</u>	<u>92,422</u>	<u>890,423</u>	<u>2,075,591</u>
Fund balances - ending	<u>\$ 911,121</u>	<u>\$ 252,188</u>	<u>\$ -</u>	<u>\$ 1,045,244</u>	<u>\$ 2,208,553</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2019

Net changes in fund balances - total governmental funds \$ 132,962

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$862,681) exceeded depreciation expense (\$495,729) and net transfer of assets of (\$31,376) 335,576

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities. (93,583)

Internal service funds are used by the City to charge the cost of pension and retiree healthcare costs to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service funds is reported with governmental activities. 100,078

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Other liabilities	\$ 25,000	
Notes payable	3,879	
Compensated absences	(27,078)	
OPEB obligation	118,746	
Net pension liability	293,549	414,096

Changes in net position of governmental activities \$ 889,129

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
March 31, 2019

	Electric Utility	Waste Water Utility	Water Utility
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,127,903	\$ 684,253	\$ 723,190
Receivables:			
Utilities	712,451	206,950	169,679
Miscellaneous	7,426	6,980	3,637
Prepaid items	8,635	6,208	2,087
Inventory	202,625	-	-
Total current assets	3,059,040	904,391	898,593
Noncurrent assets:			
Investments	697,567	-	-
Due from other funds	224,564	-	-
Capital assets, net of accumulated depreciation	3,475,265	2,364,750	1,520,845
Total noncurrent assets	4,397,396	2,364,750	1,520,845
Total assets	\$ 7,456,436	\$ 3,269,141	\$ 2,419,438
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow - pension plan	\$ 169,700	\$ 48,312	\$ 82,390
Deferred outflow - OPEB	14	4	4
Total deferred outflows of resources	\$ 169,714	\$ 48,316	\$ 82,394
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 282,848	\$ 65,941	\$ 10,224
Accrued payroll	8,041	6,486	6,318
Customer deposits	82,766	-	-
Compensated absences	9,759	7,236	8,231
Unearned revenue	-	-	-
Bonds payable	-	55,000	-
Notes payable	-	-	-
Total current liabilities	383,414	134,663	24,773
Noncurrent liabilities:			
Compensated absences	39,035	28,944	32,924
OPEB obligation	59,467	16,991	16,991
Net pension liability	1,123,045	312,943	525,002
Bonds payable	-	470,718	-
Notes payable	-	-	-
Total noncurrent liabilities	1,221,547	829,596	574,917
Total liabilities	\$ 1,604,961	\$ 964,259	\$ 599,690
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow - pension plan	\$ 43,513	\$ 11,949	\$ 19,822
NET POSITION			
Net investment in capital assets	\$ 3,475,265	\$ 1,839,032	\$ 1,520,845
Restricted	-	-	-
Unrestricted	2,502,411	502,217	361,475
Total net position	\$ 5,977,676	\$ 2,341,249	\$ 1,882,320

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 570,644	\$ 4,105,990	\$ 1,142,116
90,328	1,179,408	-
3,050	21,093	1,509
1,988	18,918	2,325
-	202,625	-
<u>666,010</u>	<u>5,528,034</u>	<u>1,145,950</u>
-	697,567	-
-	224,564	-
537,589	7,898,449	-
<u>537,589</u>	<u>8,820,580</u>	<u>-</u>
<u>\$ 1,203,599</u>	<u>\$ 14,348,614</u>	<u>\$ 1,145,950</u>
\$ 13,471	\$ 313,873	\$ -
9	31	-
<u>\$ 13,480</u>	<u>\$ 313,904</u>	<u>\$ -</u>
\$ 13,806	\$ 372,819	\$ 319
2,279	23,124	1,762
-	82,766	-
-	25,226	-
19,715	19,715	-
-	55,000	-
-	-	-
<u>35,800</u>	<u>578,650</u>	<u>2,081</u>
-	100,903	-
36,813	130,262	-
91,516	2,052,506	-
-	470,718	-
-	-	-
<u>128,329</u>	<u>2,754,389</u>	<u>-</u>
<u>\$ 164,129</u>	<u>\$ 3,333,039</u>	<u>\$ 2,081</u>
<u>\$ 3,606</u>	<u>\$ 78,890</u>	<u>\$ -</u>
\$ 537,589	\$ 7,372,731	\$ -
39,727	39,727	-
<u>472,028</u>	<u>3,838,131</u>	<u>1,143,869</u>
<u>\$ 1,049,344</u>	<u>\$ 11,250,589</u>	<u>\$ 1,143,869</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended March 31, 2019

	Electric Utility	Waste Water Utility	Water Utility
OPERATING REVENUES:			
Charges for services	\$ 3,810,872	\$ 934,911	\$ 824,082
Miscellaneous	206,039	18,284	28,806
Total operating revenue	<u>4,016,911</u>	<u>953,195</u>	<u>852,888</u>
OPERATING EXPENSES:			
Salaries and fringes	913,766	425,510	344,654
Supplies	65,639	63,009	68,076
Contracted services	126,018	50,077	47,816
Repairs and maintenance	26,205	8,725	12,298
Utilities	100,320	44,744	46,093
Purchased power	2,362,087	-	-
Rent	21,885	4,725	4,240
Memberships and dues	6,531	4,079	1,068
Travel	2,780	159	191
Insurance	6,217	7,817	13,204
Education and training	32,182	4,162	4,875
Energy optimization program	69,930	-	-
Landfill tipping fees	-	127	-
Depreciation	203,942	128,120	100,227
Miscellaneous	54,492	70,653	11,220
Total operating expenses	<u>3,991,994</u>	<u>811,907</u>	<u>653,962</u>
Operating income (loss)	<u>24,917</u>	<u>141,288</u>	<u>198,926</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	50,601	3,163	3,385
Interest expense	-	(8,990)	-
Total nonoperating revenue (expense)	<u>50,601</u>	<u>(5,827)</u>	<u>3,385</u>
Income (loss) before transfers, contributions and special items	75,518	135,461	202,311
Gain/(loss) on asset disposal	14,916	613	(3,467)
Capital contributions	(385)	21,972	6,730
Transfer in	6,475	9,856	-
Transfer out	(203,428)	(105,353)	(79,646)
Equity Transfer	-	-	-
Change in net position	<u>(106,904)</u>	<u>62,549</u>	<u>125,928</u>
Total net position - beginning	6,034,153	2,194,350	1,682,622
Prior period adjustment	50,427	84,350	73,770
Total net position - beginning, restated	<u>6,084,580</u>	<u>2,278,700</u>	<u>1,756,392</u>
Total net position - ending	<u>\$ 5,977,676</u>	<u>\$ 2,341,249</u>	<u>\$ 1,882,320</u>

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 512,168	\$ 6,082,033	\$ 1,285,247
5,137	258,266	-
<u>517,305</u>	<u>6,340,299</u>	<u>1,285,247</u>
193,189	1,877,119	1,185,169
36,732	233,456	-
37,471	261,382	-
17,170	64,398	-
8,709	199,866	-
-	2,362,087	-
11,039	41,889	-
-	11,678	-
-	3,130	-
890	28,128	-
-	41,219	-
-	69,930	-
89,273	89,400	-
62,541	494,830	-
3,041	139,406	-
<u>460,055</u>	<u>5,917,918</u>	<u>1,185,169</u>
<u>57,250</u>	<u>422,381</u>	<u>100,078</u>
1,982	59,131	-
-	(8,990)	-
<u>1,982</u>	<u>50,141</u>	<u>-</u>
59,232	472,522	100,078
-	12,062	-
-	28,317	-
3,555	19,886	-
(77,862)	(466,289)	(93,583)
-	-	(225,031)
<u>(15,075)</u>	<u>66,498</u>	<u>(218,536)</u>
1,117,161	11,028,286	1,362,405
(52,742)	155,805	-
<u>1,064,419</u>	<u>11,184,091</u>	<u>1,362,405</u>
<u>\$ 1,049,344</u>	<u>\$ 11,250,589</u>	<u>\$ 1,143,869</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2019

	Electric Utility	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 3,855,207	\$ 962,856	\$ 805,735
Cash receipts from interfund services provided	-	-	14,286
Payments to suppliers	(2,614,821)	(242,061)	(204,079)
Payments for wages and related benefits	(1,008,459)	(453,443)	(391,002)
Other receipts (payments)	206,039	18,284	28,806
Net cash provided (used) by operating activities	<u>437,966</u>	<u>285,636</u>	<u>253,746</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(196,953)	(95,497)	(79,646)
Cash received (paid) on customer deposits	(7,463)	-	-
Net cash provided (used) by noncapital financing activities	<u>(204,416)</u>	<u>(95,497)</u>	<u>(79,646)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	(151,147)	(62,435)	(171,195)
Principal paid on debt instruments	-	(55,000)	-
Interest paid on debt instruments	-	(8,990)	-
Proceeds from sale of capital assets	30,001	613	38,620
Capital contributions	(385)	21,972	6,730
Net cash provided (used) by capital and related financing activities	<u>(121,531)</u>	<u>(103,840)</u>	<u>(125,845)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net transfers from/(to) investments	(21,696)	-	-
Interest earnings	50,601	3,163	3,385
Net cash provided (used) by investing activities	<u>28,905</u>	<u>3,163</u>	<u>3,385</u>
Net increase (decrease) in cash and equivalents	140,924	89,462	51,640
Cash and equivalents, beginning of year	<u>1,986,979</u>	<u>594,791</u>	<u>671,550</u>
Cash and equivalents, end of year	<u>\$ 2,127,903</u>	<u>\$ 684,253</u>	<u>\$ 723,190</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 24,917	\$ 141,288	\$ 198,926
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	203,942	128,120	100,227
Changes in assets and liabilities:			
(Increase) decrease in receivables	44,335	27,945	(18,347)
(Increase) decrease in due from other funds	-	-	14,286
(Increase) decrease in prepaid items	(533)	(920)	656
(Increase) decrease in inventory	(6,950)	-	-
(Increase) decrease in deferred outflows	(138,776)	(39,468)	(67,366)
Increase (decrease) in accounts payable	266,948	17,136	4,346
Increase (decrease) in accrued payroll	(2,774)	(1,439)	(6,052)
Increase (decrease) in net OPEB liability	(25,731)	(7,351)	(7,351)
Increase (decrease) in net pension liability	52,231	15,206	26,373
Increase (decrease) in unearned revenue	-	-	-
Increase (decrease) in deferred inflows	20,357	5,119	8,048
Net cash provided by operating activities	<u>\$ 437,966</u>	<u>\$ 285,636</u>	<u>\$ 253,746</u>

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 510,680	\$ 6,134,478	\$ -
-	14,286	1,284,828
(199,361)	(3,260,322)	6,086
(214,134)	(2,067,038)	(1,185,299)
5,137	258,266	-
<u>102,322</u>	<u>1,079,670</u>	<u>105,615</u>
(74,307)	(446,403)	(93,583)
-	(7,463)	-
<u>(74,307)</u>	<u>(453,866)</u>	<u>(93,583)</u>
(16,084)	(400,861)	-
-	(55,000)	-
-	(8,990)	-
-	69,234	-
-	28,317	-
<u>(16,084)</u>	<u>(367,300)</u>	<u>-</u>
-	(21,696)	-
1,982	59,131	-
<u>1,982</u>	<u>37,435</u>	<u>-</u>
13,913	295,939	12,032
<u>556,731</u>	<u>3,810,051</u>	<u>1,130,084</u>
<u>\$ 570,644</u>	<u>\$ 4,105,990</u>	<u>\$ 1,142,116</u>
\$ 57,250	\$ 422,381	\$ 100,078
62,541	494,830	-
(1,488)	52,445	(1,509)
-	14,286	-
479	(318)	1,090
-	(6,950)	15,134
(11,008)	(256,618)	-
(535)	287,895	(9,048)
163	(10,102)	(130)
(15,929)	(56,362)	-
4,026	97,836	-
5,020	5,020	-
1,803	35,327	-
<u>\$ 102,322</u>	<u>\$ 1,079,670</u>	<u>\$ 105,615</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
March 31, 2019

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 753,976
Receivables:	
Delinquent taxes	109,912
Total assets	\$ 863,888
LIABILITIES	
Due to other governmental units	\$ 863,888

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) REPORTING ENTITY

The City of Gladstone was incorporated March 1, 1889 under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services. As required by generally accepted accounting principles, these financial statements present the City of Gladstone (the primary government) and its component unit, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, and accordingly, data from these units are combined with data of the City. Each discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the City. All blended and discretely presented component units have a March 31 year end.

Component Units – A component unit of a governmental entity is a legally separate entity for which the primary government is considered to be financially accountable and for which the nature and significance of the relationship with the primary government is such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. In conformity with accounting principles generally accepted in the United States of America, the financial statements of the Gladstone Housing Commission are reported as a discretely presented component unit in a separate column to emphasize that they are legally separate from the City.

Gladstone Housing Commission – The Housing Commission was formed by the City of Gladstone under Public Act 18 of 1933 for the purpose of providing safe and affordable housing for low income and elderly individuals. The City Commission appoints the board members to the Housing Commission; however, the City does not provide any financial assistance to the Housing Commission. The Housing Commission issues separately audited financial statements which can be obtained from the Gladstone Housing Commission at 217 Dakota Avenue, Gladstone, MI 49837.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following entities are not included because the City does not exercise oversight responsibility or they are autonomous governmental units.

Gladstone Area Schools – provides education services to the community.

Gladstone Area Public Library – provides library services to the community.

Gladstone Senior Citizens Non-Profit Corporation – provides recreational activities for the elderly.

Joint Venture – The City of Gladstone is a participant with Delta County, the City of Escanaba, and local townships in a joint venture to provide for a landfill, the Delta Solid Waste Management Authority. The Authority is governed by a seven person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities, and one member of the Delta County Board of Commissioners. Complete financial statements for the Delta Solid Waste Management Authority can be obtained directly from Delta Solid Waste Management Authority. See Note M for additional information.

Delta Solid Waste Management Authority
5701 19th Avenue North
Escanaba, MI 49829

The accounting policies of the City of Gladstone conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

1. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
2. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds either in accordance with the above criteria:

The General Fund which is described below.

The Major Streets Fund accounts for the maintenance and construction of the major street system.

The Capital Projects Fund accounts for the activities related to capital expenditures of the City.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City reports the following as major enterprise funds in accordance with the above criteria:

The Electric Utility Fund accounts for electric services provided to the citizens of the City of Gladstone.

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Gladstone.

The Water Utility Fund accounts for water services provided to the citizens of the City of Gladstone.

The funds of the City are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue 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.

Debt Service Funds – Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The City has no debt service funds in the current year.

Capital Projects Fund – Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Fund – The Cemetery Perpetual Care Fund is the City's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Funds

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

Internal Service Funds – The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. In the government-wide financial statements, the City has three internal service funds that are included with the governmental activities. The Equipment Fund accounts for equipment usage activity used by various City departments. During year ended March 31, 2019, the Equipment Fund was consolidated with the Public Works Department in the General Fund. The Retirement System and Employee Health Care Funds account for retiree pension and other postemployment benefit costs incurred by various City departments.

Fiduciary Funds

Agency Fund - The Tax Fund is the City's only agency fund and is used to account for the collections and payments of amounts received by the City in an agency capacity for governmental units assessing a property tax on property within the City limits. An agency fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net position.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. 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.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION/FUND BALANCE

- a. Cash Equivalents and Investments – Cash and investments are segregated on the statement of net position. Cash deposits consist of demand and time deposits with financial institutions and are reported at carrying amount which is fair value. Investments are stated at cost or amortized cost which approximates market value. For the purpose of the statement of cash flows, the City considers all highly liquid investments with maturities of less than three months or where there is no loss of principal upon early withdrawal, as cash equivalents.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. The City has not recorded an allowance for uncollectable accounts as the City does not anticipate any material uncollectable accounts.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Inventory – Materials inventory in the Electric Utility Fund and the General Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Prior to April 1, 2001, governmental funds' infrastructure asset, the major and local street systems, was not capitalized. These assets have been valued at estimated historical cost.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25 – 50 years
Machinery and equipment	3 – 20 years
Infrastructure	10 – 50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

- f. Restricted Assets – Restricted assets include cash and equivalents which have been reserved for the principal portion of the Cemetery Perpetual Care Fund non-expendable cash.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- i. Unearned Revenues – In the government-wide statements and proprietary fund financial statements unearned revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements unearned revenue is recognized when revenue is unearned or unavailable. The City has reported unearned revenue of \$19,942 in the General Fund, \$450 in the Downtown Development Fund, and \$19,715 in the Harbor Fund for prepaid service revenue. These amounts have been deemed measurable, but not currently available.

- j. Deferred Outflows of Resources - In addition to assets, the statement of net position and/or balance sheet 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 City has pension related items that qualify for reporting in this category.

- k. Deferred Inflows of Resources - In addition to liabilities, the statement of net position and/or 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/fund balance 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 other state grants related to Public Act 252 as well as pension related items that qualify for reporting in this category.

- l. Equity Classification

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- 1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted – All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Fund Balance Classifications – The governmental fund financial statements present fund balance based 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 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.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use.

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. The intent can be expressed by the City through the budgetary process and this classification also includes the remaining positive fund balance for all governmental funds.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unassigned – This classification includes the residual fund balance of 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.

It is a goal of the City to achieve and maintain an unassigned fund balance in the General Fund equal to 20% to 30% of expenditures. 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.

(5) REVENUES AND EXPENDITURES/EXPENSES

Revenues

Government-Wide Statements

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include 1) charges to customers or applicants for goods or services, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments, and interest earnings.

Fund Statements

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is generally the City's policy to use restricted resources first.

Expenses/Expenditures

Government-Wide Statements

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Statements

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. 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 reports as nonoperating revenues and expenses.

Other Financing Sources (Uses)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

(6) OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting

The development and adoption of the City's budget is based upon requirements as set forth in both the City Charter and Act 2, Public Acts of 1968 of the State of Michigan, the "Uniform Budgeting and Accounting Act." Act 2, Public Acts of 1968 of the State of Michigan requires a formal budget for all funds except Internal Service, Enterprise or Public Improvements/Building and Site Funds, which require an "informational summary" in lieu of a formal budget. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to February 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to April 1, a public hearing is held to allow for public comment on the proposed budget and then the budget is legally enacted through passage of an ordinance.
- c. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Commission.
- d. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Commission in March. Individual amendments were material in relation to the original appropriations which were amended.
- e. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Taxes

Property taxes levied attach as an enforceable lien on property. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District, the Community College and the County. Collections and remittances for all taxes are accounted for in the Tax (Agency) Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables, with the exception of delinquent City taxes purchased by the County Treasurer, which are recognized as revenue in the year levied regardless of when the tax settlement is received from the County Treasurer, which is typically within 90 days of year-end.

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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS

The composition of cash and equivalents as reported in the government-wide Statement of Net Position is presented below:

Imprest Cash		\$ 1,425
Deposits:		
Checking accounts	\$7,794,800	
Savings	125,957	
Certificate of Deposit	<u>203,217</u>	<u>8,123,974</u>
Total cash and equivalents		<u><u>\$8,125,399</u></u>
Government-wide Statement of Net Position Presentation:		
Unrestricted	\$6,688,896	
Restricted	<u>682,527</u>	<u>\$7,371,423</u>
Statement of Fiduciary Net Position		<u>753,976</u>
Total cash and equivalents		<u><u>\$8,125,399</u></u>
Investments:		
U.S. government agency securities		\$ 249,593
Upper Peninsula Public Power Agency		<u>447,974</u>
Total investments		<u><u>\$ 697,567</u></u>

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance 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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the 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 either 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 all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

All deposits are carried at cost and are in accordance with statutory authority. The Governmental Accounting Standards Board (GASB) Statement No. 40 risk disclosures for the City's cash deposits and investments are as follows:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 600,658	\$ 600,658
Uninsured	<u>7,655,767</u>	<u>7,524,741</u>
Total	<u>\$ 8,256,425</u>	<u>\$ 8,125,399</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As noted in the preceding table, the City has \$7,655,767 of bank deposits that were uninsured and uncollateralized.

Custodial Credit Risk of Investments

Custodial 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 collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government agency securities	\$ 249,593	Counter party

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities. At year end, the specific maturities of investments are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Maturities</u>
U.S. government agency securities		
Federal Home Loan Mortgage Corp	\$ 249,593	3/30/2021

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the City's investment policy limit the investment in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$ 249,593	AA+	S & P

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Cash has been restricted within the listed funds as follows:

1. The General Fund in the amount of \$4,250 for donations related to a hover craft and \$7,687 for donations related to a disc golf course.
2. The Cemetery Perpetual Care Fund in the amount of \$273,744 for cemetery care as required by the nature of the fund.
3. The Mary Cretens Trust Fund in the amount of \$396,847 for community maintenance and improvements as required by the nature of the fund.

Investment in Upper Peninsula Public Power Agency

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City has contributed cash and equipment as part of its investment in UPPPA. Neither UPPPA or ATC are publicly traded companies, therefore, the investment is non-risk categorized and the City is at risk for the underlying value of the issuer, including all related risks. At March 31, 2019 the value of the investment was \$447,974 and was based upon the value as reported in UPPPA's December 31, 2018 audit, which the City feels approximates market value given the annual return on this investment.

Fair Value Measurement

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

The City has Treasury bonds classified in Level 1 that are valued using prices quoted in active markets for those securities. The City’s investment in UPPPA is classified in Level 3 based on the City’s proportional investment held.

NOTE C – PROPERTY TAXES

(1) Tax information:

Assessment Date December 31
Taxes payable July 10
Taxes Delinquent March 1 following date payable

Penalties for delinquency – The following charges are added to unpaid taxes:

On August 15, a 4% penalty is added.

Commencing March 1, interest is added to all unpaid taxes at the rate of 1% per month. Delinquent real property taxes are acquired by the Treasurer of Delta County. An additional 4% collection fee is added to the balance owing at the time.

Lien on property – Unpaid taxes, together with all charges thereon, become a continuing lien on property assessed. The general tax law of the State provides that delinquent real estate taxes be sold at public auction in July or November of the second year following the year of tax levy.

(2) Schedule of State Equalized Valuation and Taxable Values:

<u>Year</u>	<u>Real</u>	<u>Personal</u>	<u>Total</u>
1980	\$ 22,818,556	\$ 1,416,900	\$ 24,235,456
1981	23,717,233	1,402,900	25,120,133
1982	25,591,300	1,416,100	27,007,400
1983	26,259,100	1,735,400	27,994,500
1984	26,456,400	1,886,300	28,342,700
1985	27,148,200	2,128,500	29,276,700
1986	28,189,600	2,339,400	30,529,000
1987	28,523,700	2,300,100	30,823,800
1988	28,897,200	3,542,000	32,439,200
1989	29,348,900	3,564,000	32,912,900
1990	30,052,800	3,928,000	33,980,800
1991	32,466,100	4,025,000	36,491,100

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE C – PROPERTY TAXES (continued)

Schedule of State Equalized Valuation and Taxable Values (continued):

<u>Year</u>	<u>Real</u>	<u>Personal</u>	<u>Total</u>
1992	35,490,200	4,653,700	40,143,900
1993	34,997,900	4,170,900	39,168,800
1994	37,978,900	4,598,000	42,576,900
1995	40,146,600	4,840,200	44,986,800
1996	44,252,300	5,614,100	49,866,400
1997	44,731,000	5,547,450	50,278,450
1998	48,702,846	6,544,900	55,247,746
1999	52,246,500	7,261,900	59,508,400
2000	56,966,800	7,003,200	63,970,000
2001	61,646,100	6,894,200	68,540,300
2002	65,730,220	7,074,246	72,804,466
2003	69,954,964	7,532,830	77,487,794
2004	73,303,100	6,376,000	79,679,100
2005	77,310,900	6,341,200	83,652,100
2006	82,438,553	6,280,247	88,718,800
2007	85,949,610	6,439,250	92,388,860
2008	88,547,733	5,930,894	94,478,627
2009	91,044,442	5,546,476	96,590,918
2010	91,709,532	5,325,444	97,034,976
2011	89,049,581	6,938,949	95,988,530
2012	92,552,022	6,252,741	98,804,763
2013	94,803,405	6,911,937	101,715,342
2014	95,117,711	8,423,595	103,541,306
2015	94,312,251	11,278,862	105,591,113
2016	93,470,914	12,684,877	106,155,791
2017	95,022,933	12,478,411	107,501,344
2018	100,807,552	13,633,954	114,441,506

Note: Pursuant to Proposal A, assessed property taxes are levied based upon taxable values beginning in 1995.

The State of Michigan, beginning in 1967, required that taxes be levied on state equalized valuations rather than on assessed valuation. The valuations for the years 1961 through 1966, inclusive, are City assessed valuations, the year 1967 are state equalized valuations, and the year 1968 are City assessed valuations. In 1968, the City was allowed to assess on City valuations because they were almost equal to that of State equalized valuations.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE C – PROPERTY TAXES (continued)

(3) Annual tax rates (per \$1,000 valuation):

<u>Year</u>	<u>City Tax</u>	<u>School *</u>	<u>Schools</u>			<u>Total Local Taxes</u>	<u>Community College</u>	<u>County Taxes</u>	<u>I.S.D.</u>	<u>Total</u>
			<u>Non-Homestead</u>	<u>State</u>	<u>Debt</u>					
1961	14.7300	17.0000	-	-	-	31.7300	-	7.9300	-	39.6600
1962	14.7400	23.6000	-	-	-	38.3400	-	7.9500	-	46.2900
1963	14.7700	23.3900	-	-	-	38.1600	1.1410	10.1550	0.1140	49.5700
1964	15.9100	23.1200	-	-	-	39.0300	1.1400	8.1600	0.0800	48.4100
1965	15.9300	24.2300	-	-	-	40.1600	1.1400	8.2300	0.1000	49.6300
1966	15.9000	24.8600	-	-	-	40.7600	1.1400	8.2100	0.6900	50.8000
1967	14.0600	21.8000	-	-	-	35.8600	1.0000	6.2000	0.6000	43.6600
1968	14.0000	23.3000	-	-	-	37.3000	2.5000	5.2000	0.6000	45.6000
1969	15.0000	21.8000	-	-	-	36.8000	2.5000	5.2000	1.1100	45.6100
1970	17.0000	19.8000	-	-	-	36.8000	2.5000	5.9000	1.1460	46.3460
1971	17.0000	22.0000	-	-	-	39.0000	2.5000	5.9000	2.2200	49.6200
1972	17.0000	21.3000	-	-	-	38.3000	2.5000	6.2000	2.6500	49.6500
1973	17.0000	27.1000	-	-	-	44.1000	2.5000	5.0000	2.7000	54.3000
1974	16.0000	24.1000	-	-	-	40.1000	2.5000	5.0000	2.7000	50.3000
1975	17.0000	23.7000	-	-	-	40.7000	2.5000	5.4500	2.6500	51.3000
1976	17.0000	27.2000	-	-	-	44.2000	2.5000	5.4500	2.6500	54.8000
1977	17.0000	27.2800	-	-	-	44.2800	2.5000	5.4500	2.6500	54.8800
1978	17.0000	16.7300	-	-	-	33.7300	2.5000	5.4500	2.6500	44.3300
1979	17.0000	27.6000	-	-	-	44.6000	2.5000	5.4500	2.6500	55.2000
1980	17.0000	30.1200	-	-	-	47.1200	2.5000	5.4500	2.6500	57.7200
1981	17.0000	32.4800	-	-	-	49.4800	2.5000	5.4500	2.6500	60.0800
1982	16.9900	31.2800	-	-	-	48.2700	2.5000	5.2000	2.6500	58.6200
1983	16.9371	21.2800	-	-	-	38.2171	2.5000	5.0844	2.6500	48.4515
1984	16.8867	31.6129	-	-	-	48.4996	2.5000	5.4500	2.6500	59.0996
1985	17.0000	33.8496	-	-	-	50.8496	2.5000	5.4500	2.6500	61.4496
1986	17.0000	33.4659	-	-	-	50.4659	2.5000	5.4500	2.6500	61.0659
1987	17.0000	33.2594	-	-	-	50.2594	2.5000	6.1000	2.6500	61.5094
1988	17.0000	33.2732	-	-	-	50.2732	2.5000	5.4500	2.6500	60.8732
1989	17.0000	37.5654	-	-	-	54.5654	2.5000	6.1000	2.6500	65.8154
1990	17.0000	37.5452	-	-	-	54.5452	2.5000	7.0500	2.6500	66.7452
1991	17.0000	37.0772	-	-	-	54.0772	2.5000	7.1000	2.6500	66.3272
1992	17.0000	37.0522	-	-	-	54.0522	2.5000	7.1000	2.6500	66.3022
1993	16.6575	35.6443	-	-	-	52.3018	2.4055	7.0873	2.5501	64.3447
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	53.7508
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	3.2735	7.0483	2.5124	54.6508
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	3.3735	7.0483	2.5124	54.2748

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE C – PROPERTY TAXES (continued)

Annual tax rates (per \$1,000 valuation) (continued):

<u>Year</u>	<u>City Tax</u>	<u>School *</u>	<u>Schools</u>			<u>Total Local Taxes</u>	<u>Community College</u>	<u>County Taxes</u>	<u>I.S.D.</u>	<u>Total</u>
			<u>Non-Homestead</u>	<u>State</u>	<u>Debt</u>					
1997	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1998	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1999	16.1065	-	18.0000	6.0000	8.5600	48.6665	3.3600	7.0107	2.4917	61.5289
2000	15.9180	-	18.0000	6.0000	8.5600	48.4780	3.3585	6.6319	2.4807	60.9491
2001	15.6744	-	18.0000	6.0000	8.5600	48.2344	3.3511	6.6112	2.4695	60.6662
2002	15.6680	-	18.0000	6.0000	8.5600	48.2280	3.3506	6.6097	2.4596	60.6479
2003	15.6303	-	18.0000	5.0000	8.5600	47.1903	3.5000	6.5719	2.4375	59.6997
2004	15.6303	-	18.0000	6.0000	8.5600	48.1903	3.5000	6.5455	2.4191	60.6549
2005	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2006	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2007	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5225	7.5897	2.3854	61.5597
2008	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5149	7.5897	2.3851	61.5518
2009	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5109	7.4397	2.3851	61.3978
2010	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5111	7.4317	2.3851	61.3900
2011	15.5021	-	17.5669	6.0000	7.0000	46.0690	3.3076	7.6317	2.3851	59.3934
2012	13.6785	-	17.5669	6.0000	6.6500	43.8954	3.3076	7.6317	2.3851	57.2198
2013	13.6785	-	18.0000	6.0000	6.6500	44.3285	3.3076	7.4317	2.3851	57.4529
2014	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.4317	2.3851	59.2165
2015	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.3317	2.3851	59.1165
2016	13.6785	-	18.0000	6.0000	6.3000	43.9785	3.3076	7.6317	2.3851	57.3029
2017	15.4897	-	18.0000	6.0000	6.2000	45.6897	3.3076	8.1667	2.3851	59.5491
2018	15.4897	-	18.0000	6.0000	6.2000	45.6897	3.3076	8.7167	2.3851	60.0991

* From 1961 to 1993, the school millage was applied to all properties and included the debt millage.

(4) City's Share of Current Property Taxes – The City's share of current real and personal property taxes for the year ended March 31, 2019 were as follows:

General Fund \$ 1,669,273 and the DDA Fund capture from the summer and winter levy's was \$356,335 .

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE D – CAPITAL ASSETS

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended March 31, 2019, was as follows:

Governmental activities:

Capital assets not being depreciated:

Land	\$ 1,619,627	\$ -	\$ -	\$ 1,619,627
Construction in progress	286,834	305,388	230,093	362,129
Total non-depreciable capital assets	<u>1,906,461</u>	<u>305,388</u>	<u>230,093</u>	<u>1,981,756</u>

Capital assets being depreciated:

Land improvements	567,071	105,156	99,778	572,449
Buildings	3,487,513	34,566	(50,670)	3,572,749
Machinery and equipment	3,283,527	98,275	125,182	3,256,620
Infrastructure-road system	13,510,454	28,417	-	13,538,871
Infrastructure-other	1,587,906	290,879	(171,751)	2,050,536
Total depreciable capital assets	<u>22,436,471</u>	<u>557,293</u>	<u>2,539</u>	<u>22,991,225</u>
Total capital assets	<u>24,342,932</u>	<u>862,681</u>	<u>232,632</u>	<u>24,972,981</u>

Less accumulated depreciation:

Land improvements	247,460	25,555	102,699	170,316
Buildings	2,001,479	66,788	4,750	2,063,517
Machinery and equipment	2,151,902	107,381	93,807	2,165,476
Infrastructure-road system	11,091,420	216,898	-	11,308,318
Infrastructure-other	798,185	79,107	-	877,292
Total accumulated depreciation	<u>16,290,446</u>	<u>495,729</u>	<u>201,256</u>	<u>16,584,919</u>

Net depreciable capital assets	<u>6,146,025</u>	<u>61,564</u>	<u>(198,717)</u>	<u>6,406,306</u>
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Governmental activities capital assets, net	<u>\$ 8,052,486</u>	<u>\$ 366,952</u>	<u>\$ 31,376</u>	<u>\$ 8,388,062</u>
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CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE D – CAPITAL ASSETS (continued)

	<u>Balance at</u> <u>April 1, 2018</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Disposals</u>	<u>Balance at</u> <u>March 31, 2019</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 236,836	\$ -	\$ -	\$ 236,836
Construction in progress	62,948	-	42,087	20,861
Total non-depreciable capital assets	<u>299,784</u>	<u>-</u>	<u>42,087</u>	<u>257,697</u>
Capital assets being depreciated:				
Buildings	1,125,879	112,692	-	1,238,571
Machinery and equipment	1,801,643	161,043	56,374	1,906,312
Infrastructure - other	485,287	7,084	10,945	481,426
Distribution/collection system	17,169,761	120,042	21,500	17,268,303
Total depreciable capital assets	<u>20,582,570</u>	<u>400,861</u>	<u>88,819</u>	<u>20,894,612</u>
Total capital assets	<u>20,882,354</u>	<u>400,861</u>	<u>130,906</u>	<u>21,152,309</u>
Less accumulated depreciation:				
Buildings	478,394	46,104	-	524,498
Machinery and equipment	1,003,914	136,067	41,289	1,098,692
Infrastructure - other	129,461	22,675	10,945	141,191
Distribution/collection system	11,220,995	289,984	21,500	11,489,479
Total accumulated depreciation	<u>12,832,764</u>	<u>494,830</u>	<u>73,734</u>	<u>13,253,860</u>
Net depreciable capital assets	<u>7,749,806</u>	<u>(93,969)</u>	<u>15,085</u>	<u>7,640,752</u>
Business-type activities capital assets, net	<u>\$ 8,049,590</u>	<u>\$ (93,969)</u>	<u>\$ 57,172</u>	<u>\$ 7,898,449</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE D – CAPITAL ASSETS (continued)

Depreciation expense was charged to the following activities:

Governmental activities:	
General government	\$ 13,113
Public health and safety	59,965
Parks and recreation	132,302
Cemetery	9,629
Public works	45,981
Street system	220,903
Community development	<u>13,836</u>
Total governmental activities depreciation expense	<u>\$ 495,729</u>
Business-type activities:	
Electric	\$ 203,942
Waste water	128,120
Water	100,227
Solid waste	37,696
Harbor	23,385
Development	<u>1,460</u>
Total business-type activities depreciation expense	<u>\$ 494,830</u>

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$2,000 or more as of March 31, 2002.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE E – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2019:

Type of Debt	Balance April 1, 2018	Additions	Deductions	Balance March 31, 2019	Amounts Due Within One Year
Governmental Activities:					
Note - Backhoe	\$ 66,500	\$ -	\$ 3,879	\$ 62,621	\$ 4,044
Other liabilities	150,000	-	25,000	125,000	25,000
Compensated absences	<u>143,140</u>	<u>164,373</u>	<u>137,295</u>	<u>170,218</u>	<u>34,044</u>
Total governmental long-term debt	<u>\$ 359,640</u>	<u>\$ 164,373</u>	<u>\$ 166,174</u>	<u>\$ 357,839</u>	<u>\$ 63,088</u>

Type of Debt	Balance April 1, 2018	Additions	Deductions	Balance March 31, 2019	Amounts Due Within One Year
Business-type Activities:					
2006 Sludge Storage bond	\$ 580,718	\$ -	\$ 55,000	\$ 525,718	\$ 55,000
Compensated absences	<u>136,676</u>	<u>80,691</u>	<u>91,238</u>	<u>126,129</u>	<u>25,226</u>
Total business-type long-term debt	<u>\$ 717,394</u>	<u>\$ 80,691</u>	<u>\$ 146,238</u>	<u>\$ 651,847</u>	<u>\$ 80,226</u>

Debt service requirements on long-term debt at March 31, 2019 are as follows:

For the Year Ending March 31,	Governmental Activities				Business-type Activities	
	Notes Payable		Other Liabilities		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 4,044	\$ 2,674	\$ 25,000	\$ -	\$ 55,000	\$ 8,543
2021	4,216	2,502	25,000	-	55,000	7,649
2022	4,395	2,323	25,000	-	55,000	6,755
2023	4,582	2,136	25,000	-	60,000	5,862
2024	45,384	1,941	25,000	-	60,000	4,887
2025-2028	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240,718</u>	<u>9,797</u>
	<u>\$ 62,621</u>	<u>\$ 11,576</u>	<u>\$ 125,000</u>	<u>\$ -</u>	<u>\$ 525,718</u>	<u>\$ 43,493</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE E – LONG-TERM DEBT (continued)

Governmental Activities:

As of March 31, 2019, the long-term debt of governmental activities consists of the following:

Notes Payable – On October 4, 2017, the City entered into an installment note payable agreement to purchase a backhoe. The note is payable in six annual installments of \$6,718 through October 2023 at an interest rate of 4.25095% with a balloon payment of \$40,880 in October 2023.

Other Liabilities – On June 12, 2017, the City entered into an agreement to pay a local business \$25,000 annually for six years in lieu of a formal Brownfield project.

Business-type Activities:

As of March 31, 2019, the long-term debt of business-type activities consists of the following:

Bonds Payable:

2006 Sewage Disposal System Bonds – On December 14, 2006, the City issued sewage disposal system revenue bond series 2006 for the purpose of constructing a sludge storage tank for the waste water department. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$1,090,718 and have an interest rate of 1.625%. Interest payments are due and payable each April 1 and October 1. Principal payments are due each October 1 with the final principal payment due no later than October 1, 2027. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

NOTE F – VESTED EMPLOYEE BENEFITS

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations become vested as a result of employee age and years of employment. Compensated absences in the amount of \$170,218 are reported under governmental activities and \$126,129 is reported under business-type activities in the Statement of Net Position. For governmental activities, compensated absences are liquidated by the fund the employee's regular payroll is charged to.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE G – INTERFUND BALANCES AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund receivables represent short-term borrowings between funds. The balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. The City has also classified \$224,564 as noncurrent assets and liabilities in the Statement of Net Position due to the individual funds inability to repay these amounts. Individual fund interfund receivables and payable balances at March 31, 2019 are as follows:

<u>Fund</u>	Interfund Receivable	<u>Fund</u>	Interfund Payable
General Fund	\$ 24,726	General Fund	\$ 182,647
Local Roads	23,985	Capital Projects	24,726
Electric Fund	<u>224,564</u>	Major Street Fund	46,013
		Local Street Fund	<u>19,889</u>
Total	<u>\$ 273,275</u>	Total	<u>\$ 273,275</u>

Financial Statement Presentation:

Governmental Funds	\$ 48,711	Governmental Funds	\$ 273,275
Enterprise Funds	<u>224,564</u>	Enterprise Funds	<u>-</u>
	<u>\$ 273,275</u>		<u>\$ 273,275</u>

The interfund receivables of \$224,564 are not expected to be repaid within the next fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE G – INTERFUND BALANCES AND TRANSFERS (continued)

The transfers to and from the various funds are made to account for budgetary authorizations and/or provide funding for operations as needed. Interfund transfers for the year ended March 31, 2019 were as follows:

	TRANSFERS IN						Total
	General	Capital Projects	Nonmajor Govern.	Electric	Waste Water	Nonmajor Enterprise	
General	\$ -	\$ 119,287	\$ 72,025	\$ 6,475	\$ -	\$ 3,555	\$ 201,342
Major Street	-	60,160	92,000	-	-	-	152,160
Nonmajor Govern.	203,572	37,077	-	-	-	-	240,649
Electric	188,428	15,000	-	-	-	-	203,428
Waste Water	47,973	57,380	-	-	-	-	105,353
Water	42,646	37,000	-	-	-	-	79,646
Nonmajor Enter.	68,006	-	-	-	9,856	-	77,862
Internal Service	93,583	-	-	-	-	-	93,583
Total	\$ 644,208	\$ 325,904	\$ 164,025	\$ 6,475	\$ 9,856	\$ 3,555	\$ 1,154,023

TRANSFERS (OUT)

The Equipment Fund was closed during the current year with all assets and liabilities being transferred to the General Fund.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE H – RETIREMENT PLANS

MUNICIPAL EMPLOYEE’S RETIREMENT SYSTEM

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 2.5% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2018.

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.

	<u>Divisions - For the 2018 Valuation</u>			
	<u>01-General</u>	<u>02-Plc/Fire</u>	<u>10-General</u>	<u>20-Pub Safety</u>
	<u>Closed</u>	<u>Closed</u>	<u>Supervisor</u>	<u>Comm Officers</u>
	<u>Closed</u>	<u>Closed</u>	<u>Closed</u>	<u>Closed</u>
Benefit Multiplier:	2.5%-80% max	2.5%-80% max	2.5%-80% max	2.5%-80% max
Normal Retirement Age:	60	60	60	60
Vesting:	10 years	10 years	10 years	10 years
Early Retirement (unreduced):	55/25	25 and out	55/20, 25 and out	25 and out
Early Retirement (reduced):	50/25, 55/15	55/15	55/15	55/15
Final Average Compensation:	5 years	3 years	3 years	3 years
Employee Contributions:	1%	3%	0%	1%
DC Plan for New Hires:	1/1/1998	1/1/2009	1/1/1998	6/1/2015
Act 88:	No	No	No	No

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE H – RETIREMENT PLANS (continued)

Employees Covered by Benefit Terms

At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	41
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>7</u>
	51

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 contribution rate as a monthly dollar amount for the year ended March 31, 2019 was as follows:

01 - General	\$ 19,922
02 – Police/Fire	\$ 19,256
10 – General Supervisor	\$ 30,866
20 – Public Safety Comm. Officers	\$ 4,067

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.75 percent, in the long-term
Investment rate of return	7.75 percent, net of investment expenses, including inflation

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE H – RETIREMENT PLANS (continued)

Although no specific price inflation assumptions are needed for the valuation, the 2.50% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates were based on a blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables all with a 50 percent male and 50 percent female blend. For disabled retirees, the RP-2014 Disabled Retiree Mortality Table with a 50 percent male and 50 percent female blend is used to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study covering the period from 2009 through 2013.

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

Asset Class	Target Allocation	Target Allocation Gross Rate of Return	Long-Term Expected Real Rate of Return
Global Equity	55.5%	8.65%	3.41%
Global Fixed Income	18.5%	3.76%	0.23%
Real Assets	13.5%	9.72%	0.97%
Diversifying Strategies	12.5%	7.50%	0.63%

Discount Rate. The discount rate used to measure the total pension liability is 8.00% for 2018. 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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE H – RETIREMENT PLANS (continued)

Changes in the Net Pension Liability:

	Increases (Decreases)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances at December 31, 2017	\$ 13,191,890	\$ 6,636,712	\$ 6,555,178
Service cost	46,590	-	46,590
Interest on total pension liability	1,016,964	-	1,016,964
Changes in benefits	-	-	-
Difference between expected and actual experience	(44,558)	-	(44,558)
Changes in assumptions	-	-	-
Employer contributions	-	956,931	(956,931)
Employee contributions	-	6,601	(6,601)
Net investment income	-	(259,575)	259,575
Benefit payments, including employee refunds	(1,006,283)	(1,006,283)	-
Administrative expense	-	(12,842)	12,842
Other changes	-	-	-
Net changes	<u>12,713</u>	<u>(315,168)</u>	<u>327,881</u>
Balances as of December 31, 2018	<u>\$ 13,204,603</u>	<u>\$ 6,321,544</u>	<u>\$ 6,883,059</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.00% , as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease	Current	1% Increase
	7.00%	Discount Rate 8.00%	9.00%
City’s change in net pension liability at 12/31/18	\$1,252,244	\$-	(\$1,071,446)

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE H – RETIREMENT PLANS (continued)

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 March 31, 2019, the City recognized pension expense of \$659,859. At March 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	736,671	264,302
Contributions subsequent to the measurement date *	<u>316,083</u>	<u>-</u>
Total	<u>\$ 1,052,754</u>	<u>\$ 264,302</u>

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending March 31, 2020.

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

Year Ended March 31:

2020	\$ 163,336
2021	57,296
2022	94,079
2023	157,658

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE H – RETIREMENT PLANS (continued)

Annual Pension Cost

During the year ended March 31, 2019, the City's contributions totaling \$1,076,832 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2017. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 7.75 percent and annual salary increases of 3.75 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period ranges by division.

401 (A) RETIREMENT PLAN

During the year ended March 31, 1998, the City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by the International City/County Management Association. Employees who are hired after December 1, 1997, with the exception of the employees who are members of the POLC union, are eligible to participate in the plan, which requires the City to contribute 8% of the employee's gross wage to the plan. In fiscal year 2010, all new hires of the POLC union are also included in this retirement plan. In addition, if the employee contributes an additional 3% to the plan the City will match the employee contribution of 3%. All contributions are held and owned in the name of each employee.

<u>Year Ended</u> <u>March 31,</u>	<u>Number of</u> <u>Participants</u>	<u>City's</u> <u>Share</u>	<u>Employee's</u> <u>Share</u>
2015	26	\$130,467	\$ 35,710
2016	26	141,221	38,330
2017	26	146,864	39,688
2018	27	170,603	45,958
2019	31	187,837	52,500

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE I – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

Plan Description - The City provides certain employees with post retirement health benefits. These benefits were negotiated through union contracts for the P.O.L.C. and Teamsters union contracts and approved separately for the Supervisors group, a non-union group.

The P.O.L.C. contract requires the City to pay the monthly health insurance premium for employees who retired between April 1, 2001 and April 1, 2011 until the age of 65, or for 6 years, whichever is less. For P.O.L.C. members who retire after April 1, 2011 the City will pay the monthly premium for health insurance for 6 years or until the age of 65, whichever is less. Any increase in the monthly premiums after the date of retirement shall be borne by the City for years 1-5 and years 6-12 will be covered by the retired employee. The Teamsters contract does not provide a provision for post employment health benefits. The City has agreed to provide the Supervisors group with post employment health benefits for a period of 10 years or until the age of 65, whichever comes first for those employees hired prior to March 31, 2008. Supervisory employees hired after that date are not eligible for post employment health benefits. All premium increases during that period of time will be covered by the City.

Funding Policy – For the year ended March 31, 2019 the City has not established a Trust to fund the OPEB obligation. The City’s funding policy is to pay all premiums as they come due on a pay-as-you-go basis. Plan members are not required to make contributions to the Plan. Management of the Plan is vested with the City Commission.

Benefits Provided – The City established a retirement health savings account, to which it makes deposits of \$602.01 per month for eligible retirees. In addition, there are two retirees for which the City is paying \$100 per month for Medigap premiums. Lastly, there is one retiree and spouse for which the City is paying health insurance premiums.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	March 31, 2019
Inactive plan members receiving benefits	14
Covered spouse	1
Active plan members	-
Total members covered by the plan	<u><u>15</u></u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE I – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

Contributions - The Plan was established and is being funded under the authority of the City Council. Retiree healthcare costs are paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. In the current year, the City paid post employment healthcare premiums of \$190,987. There are no long-term contracts for contributions to the Plan. The Plan has no legally required reserves.

Net OPEB Liability

	Increases (Decreases)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at March 31, 2018	\$ 582,458	\$ 2,878	\$ 585,336
Service cost	-	-	-
Interest on total OPEB liability	16,021	-	16,021
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Contributions-employer	-	190,987	190,987
Employee contributions	-	-	-
Net investment income	-	80	80
Benefit payments, including employee refunds	(190,987)	(190,987)	(381,974)
Administrative expense	-	(4)	(4)
Net changes	(174,966)	76	(174,890)
Balances as of March 31, 2019	\$ 407,492	\$ 2,954	\$ 404,538

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE I – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year end March 31, 2019 the City recognized OPEB expenses of \$15,847. March 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	<u>98</u>	<u>-</u>
 Total	 <u><u>\$ 98</u></u>	 <u><u>\$ -</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows. Employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense.

Year Ended:

2020	\$	25
2021		25
2022		25
2023		23

Actuarial Assumptions - The total OPEB liability was determined by an actuarial valuation as of March 31, 2019. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	Included in investment rate of return
Healthcare cost trend rate	Medical Premiums
Pre-Medicare	8.50% graded down to 4.50% by 0.25% per year
Post-Medicare	7.00% graded down to 4.50% by 0.25% per year
Investment rate of return	7.05% Including inflation

Mortality rates were based on 2010 Public General and Public Safety, headcount-weighted, employee and healthy retiree with MP-2018 Mortality Improvement Scale.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE I – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense 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. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	64.6%	8.00%
Global Fixed Income	28.6%	5.50%
Real Assets	4.0%	6.20%
Diversifying Strategies	2.3%	2.75%
Cash	<u>0.5%</u>	0.50%
Total	100.0%	

The sum of each target allocation times its long-term expected rate is 7.05% including inflation.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.29 percent. The assets are not projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets the “depletion date”, 2019, projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability.

Investment Rate of Return - The long-term expected rate of return on OPEB plan investments was determined based on the nature and mix of current and expected plan investments and over the time period from when an employee is hired to when all benefits to the employee have been paid.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE I – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the net OPEB liability of the City, calculated using the discount rate of 3.29%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.29%) or 1-percentage-point higher (4.29%) than the current rate:

	1% Decrease (2.29%)	Current Discount Rate (3.29%)	1% Increase (4.29%)
Net OPEB liability at 3/31/19	\$404,538	\$404,538	\$404,538
City's change in net OPEB liability at 3/31/19	\$12,213	\$-	(\$11,480)
	<hr/> \$416,751	<hr/> \$404,538	<hr/> \$393,058

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate - The following presents the net OPEB liability of the City, calculated using the healthcare cost trend rate of 8.50% for Pre-Medicare and 7.50% for Post-Medicare, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.50%/6.50%) or 1-percentage-point higher (9.50%/8.50%) than the current rate:

	1% Decrease (7.50%/6.50%)	Current Healthcare Cost Trend Rate (8.50%/7.50%)	1% Increase (9.50%/8.50%)
Net OPEB liability at 3/31/19	\$404,538	\$404,538	\$404,538
City's change in net OPEB liability at 3/31/19	(\$4,345)	\$-	\$4,572
	<hr/> \$400,193	<hr/> \$404,538	<hr/> \$409,110

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the City Commission.

Rate of Return - For the year ended March 31, 2019, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 7.05 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE J – FUND BALANCE/RESTRICTED NET POSITION

As of March 31, 2019, fund balances are composed of the following:

	<u>General Fund</u>	<u>Major Streets</u>	<u>Nonmajor Funds</u>	<u>Total Funds</u>
Nonspendable:				
Prepaid items	\$ 31,158	\$ 2,325	\$ 2,136	\$ 35,619
Inventory	15,134	-	-	15,134
Permanent fund principal	-	-	273,744	273,744
Restricted for:				
Street system	-	249,863	83,723	333,586
Health & welfare	-	-	29,728	29,728
Community development	-	-	396,847	396,847
Downtown development	-	-	259,066	259,066
Committed to:				
Public safety	211,650	-	-	211,650
Facilities	20,000	-	-	20,000
Equipment replacement	100,873	-	-	100,873
Employee leave	5,000	-	-	5,000
Unassigned:	<u>527,306</u>	<u>-</u>	<u>-</u>	<u>527,306</u>
Total fund balance	<u>\$ 911,121</u>	<u>\$ 252,188</u>	<u>\$ 1,045,244</u>	<u>\$ 2,208,553</u>

Specific purposes of the nonmajor funds are presented in the combining governmental financial statements that follow the footnotes.

Total net position which is restricted by enabling legislation amounted to \$1,019,227 for governmental activities.

NOTE K – RISK MANAGEMENT

The City of Gladstone participates as a member of the Michigan Municipal Risk Management Authority. The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property.

This summarizes certain obligations of MMRMA and the City. Except for specific coverage limits and the City's Self Insured Retention (hereinafter the "SIR") and deductibles contained in this Coverage Overview, the provisions of the Joint Powers Agreement, Coverage Documents, MMRMA rules, regulations, and administrative procedures shall prevail in any dispute. The City agrees that any dispute between the City and MMRMA will be resolved in the manner stated in the Joint Powers Agreement and MMRMA rules.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE K – RISK MANAGEMENT (continued)

City Obligations – City of Gladstone is responsible to pay all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the City’s SIR. City of Gladstone’s SIR and deductibles are as follows:

Table I
City Deductibles and Self Insured Retentions

COVERAGE	DEDUCTIBLE	SELF INSURED RETENTION
1. Liability	None	State Pool Member
2. Vehicle Physical Damage	\$250/Vehicle	State Pool Member
3. Property & Crime	\$1,000/Occurrence	N/A
4. Fire/EMS Replacement Cost	\$1,000/Occurrence	N/A
5. Sewage System Overflow	\$0/Occurrence	N/A

The City must satisfy all deductibles before any payments are made from the City’s SIR or by MMRMA.

All costs including damages and allocated loss adjustment expenses are on an occurrence basis and must be paid first from the City’s SIR. The City’s SIR and deductibles must be satisfied fully before MMRMA will be responsible for any payments. The most MMRMA will pay is the difference between the City’s SIR and the Limits of Coverage stated in the Coverage Overview. City of Gladstone agrees to maintain, at all times, on account with MMRMA sufficient funds to pay its SIR obligations. The City agrees to abide by all MMRMA rules, regulations, and administrative procedures pertaining to the City’s SIR.

MMRMA Obligations – After the City’s SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses up to limits established per agreement between the City and MMRMA.

At March 31, 2019, the City had no outstanding claims which exceeded the plan’s limits and there has been no significant reduction in insurance coverage over the past three years.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE L – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion on management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City at March 31, 2019.

NOTE M – JOINT VENTURE – DELTA SOLID WASTE LANDFILL

The Delta Solid Waste Management Authority was incorporated in 1984, pursuant to Act 233, Public Acts of Michigan, 1955, by the County of Delta and the local units of government within the County. It was established in order to provide for a new landfill since the current county-wide site, owned by the City of Gladstone, was approaching saturation.

The Authority is governed by a seven-person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities and one member of the Delta County Board of Commissioners. The three members of the Authority Board from the villages and townships will be selected by and from a body composed of one representative from each such township or village; the three board members of the cities shall be selected by and from a body composed of two representatives from each such city; and the member of the Delta County Board of Commissioners shall be chosen by said Board of Commissioners after review of recommendations by the Townships, Villages and City representatives. The Authority as described herein has no taxing power.

The following local governmental units are participants in the Authority; shown with their respective percentage shares in the Authority:

<u>Local Governmental Unit</u>	<u>Percentage Share</u>
Delta County	51.8%
City of Escanaba	18.6%
City of Gladstone	5.9%
Local Townships	23.7%
	<u>100.0%</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE M – JOINT VENTURE – DELTA SOLID WASTE LANDFILL (continued)

Operation and maintenance costs are paid out of tipping fees assessed against users of the landfill. Parties that use the landfill include the municipal sanitation systems of the cities of Escanaba and Gladstone, and private solid waste companies serving the local units. The landfill began operation in December 1985. Currently City management feels the landfill does not pose any additional financial burden or benefit on the City. Financial information of the Delta Solid Waste Management Authority and Recycling Program is available at their administrative office located at 5701 19th Avenue North, Escanaba, MI 49829.

NOTE N – SINGLE AUDIT

For the year ended March 31, 2019, the City did not expend more than \$750,000 in federal awards and therefore a single audit in accordance with Uniform Guidance was not required in 2019.

NOTE O – TAX ABATEMENTS

For the year end March 31, 2019, the city did not have material tax abatements.

NOTE P – FUTURE CHANGES IN ACCOUNTING PRINCIPLE

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2019-2020 fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE P – FUTURE CHANGES IN ACCOUNTING PRINCIPLE (continued)

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2020-2021 fiscal year.

NOTE Q – PRIOR PERIOD ADJUSTMENT

As of March 31, 2019, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard required the City to recognize on the face of the financial statements the net OPEB liability. As a result of implementing this statement, the beginning net position of the governmental activities, business-type activities, and certain enterprise funds was restated as noted in the following table.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2019

NOTE Q – PRIOR PERIOD ADJUSTMENT (continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		
Beginning net position, as previously reported on March 31, 2018	\$ 5,715,724	\$ 11,028,286		
Prior period adjustment				
GASB 75-OPEB implementation	<u>226,499</u>	<u>155,805</u>		
Net position, as restated on April 1, 2018	<u>\$ 5,942,223</u>	<u>\$ 11,184,091</u>		
			<u>Enterprise Fund</u>	
	<u>Electric Utility Fund</u>	<u>Waste Water Fund</u>	<u>Water Fund</u>	<u>Solid Waste Fund</u>
Beginning net position, as previously reported on March 31, 2018	\$ 6,034,153	\$ 2,194,350	\$ 1,682,622	\$ 486,961
Prior period adjustment				
GASB 75-OPEB implementation	<u>50,427</u>	<u>84,350</u>	<u>73,770</u>	<u>(52,742)</u>
Net position, as restated on April 1, 2018	<u>\$ 6,084,580</u>	<u>\$ 2,278,700</u>	<u>\$ 1,756,392</u>	<u>\$ 434,219</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2019

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	566,000	566,000	555,648	(10,352)
Local sources	207,900	253,027	126,590	(126,437)
Taxes	1,897,944	1,687,476	1,669,273	(18,203)
Charges for services	340,200	370,817	530,270	159,453
Interest income	2,000	5,000	5,162	162
Miscellaneous	137,502	170,002	168,222	(1,780)
Total revenues	<u>3,151,546</u>	<u>3,052,322</u>	<u>3,055,165</u>	<u>2,843</u>
EXPENDITURES:				
General government:				
City commission	390,129	448,379	404,681	43,698
City manager	142,857	136,457	133,697	2,760
Elections	15,850	15,850	14,468	1,382
City assessor	45,550	52,050	51,008	1,042
Board of review	1,870	2,399	2,316	83
City treasurer	83,127	83,127	83,315	(188)
City clerk	104,325	116,825	113,196	3,629
City hall	120,582	111,476	40,561	70,915
Computer & copier	24,000	29,000	29,028	(28)
Public health and safety:				
Police department	1,670,130	1,565,900	1,363,266	202,634
Fire department	141,040	131,640	128,962	2,678
Building and housing inspections	120,742	120,742	111,664	9,078
Parks and recreation:				
Recreation administrative	157,935	170,335	164,385	5,950
Parks	67,519	79,319	81,395	(2,076)
Beach	35,330	36,330	36,238	92
Sports park	86,793	86,793	85,286	1,507
Campground	61,789	61,789	72,110	(10,321)
Miscellaneous	71,793	82,341	57,706	24,635
Community Development:				
Administrative	-	-	360	(360)
Cemetery:				
Ground maintenance and burials	64,114	60,114	61,855	(1,741)
General public works:				
Sidewalks & alley maintenance	19,255	19,255	19,223	32
Grounds maintenance	116,720	135,164	144,609	(9,445)
Motor pool	68,558	77,833	75,970	1,863
Capital outlay	201,000	202,234	188,723	13,511
Debt service	6,718	6,718	6,718	-
Total expenditures	<u>3,817,726</u>	<u>3,832,070</u>	<u>3,470,740</u>	<u>361,330</u>
Excess revenues (expenditures)	<u>(666,180)</u>	<u>(779,748)</u>	<u>(415,575)</u>	<u>364,173</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	753,205	753,205	644,208	(108,997)
Transfer out	<u>(87,025)</u>	<u>(171,892)</u>	<u>(201,342)</u>	<u>(29,450)</u>
Total other financing sources (uses)	<u>666,180</u>	<u>581,313</u>	<u>442,866</u>	<u>(138,447)</u>
Net changes in fund balances	-	(198,435)	27,291	225,726
Fund balances - beginning	<u>883,830</u>	<u>883,830</u>	<u>883,830</u>	<u>-</u>
Fund balances - ending	<u>\$ 883,830</u>	<u>\$ 685,395</u>	<u>\$ 911,121</u>	<u>\$ 225,726</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND
For the Year Ended March 31, 2019

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 519,143	\$ 519,143	\$ 544,354	\$ 25,211
Local sources	-	-	6,041	6,041
Interest income	-	-	1,011	1,011
Miscellaneous	3,400	3,400	3,873	473
	<u>522,543</u>	<u>522,543</u>	<u>555,279</u>	<u>32,736</u>
EXPENDITURES:				
Street system	416,927	394,539	359,847	34,692
Capital outlay	-	-	-	-
	<u>416,927</u>	<u>394,539</u>	<u>359,847</u>	<u>34,692</u>
Excess revenues (expenditures)	<u>105,616</u>	<u>128,004</u>	<u>195,432</u>	<u>67,428</u>
OTHER FINANCING SOURCES (USES):				
Transfer in	60,353	60,353	-	(60,353)
Transfer out	(165,969)	(150,500)	(152,160)	(1,660)
	<u>(105,616)</u>	<u>(90,147)</u>	<u>(152,160)</u>	<u>(62,013)</u>
Net changes in fund balances	-	37,857	43,272	5,415
Fund balances - beginning	<u>208,916</u>	<u>208,916</u>	<u>208,916</u>	<u>-</u>
Fund balances - ending	<u>\$ 208,916</u>	<u>\$ 246,773</u>	<u>\$ 252,188</u>	<u>\$ 5,415</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS
For the Year Ended March 31, 2019

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 250,000	\$ 250,000	\$ 280,585	\$ 30,585
Local sources	83,500	315,106	207,453	(107,653)
Total revenues	<u>333,500</u>	<u>565,106</u>	<u>488,038</u>	<u>(77,068)</u>
EXPENDITURES:				
General government	250,000	410,200	285,823	(124,377)
Parks and recreation	83,500	-	-	-
Capital outlay	264,380	672,767	620,541	52,226
Total expenditures	<u>597,880</u>	<u>1,082,967</u>	<u>906,364</u>	<u>(72,151)</u>
Excess revenues (expenditures)	(264,380)	(517,861)	(418,326)	(4,917)
OTHER FINANCING SOURCES (USES):				
Transfer in	264,380	264,380	325,904	(61,524)
Net change in fund balance	-	(253,481)	(92,422)	(66,441)
Fund balances - beginning	92,422	92,422	92,422	-
Fund balances (deficit) - ending	<u>\$ 92,422</u>	<u>\$ (161,059)</u>	<u>\$ -</u>	<u>\$ (66,441)</u>

Note: The Capital Projects Fund is not required to adopt a budget.

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS - RETIREMENT SYSTEM
For the Year Ended March 31, 2019
(Schedule is prepared prospectively upon implementation of GASB 68)

	2016	2017	2018	2019
Total pension liability				
Service cost	\$ 84,917	\$ 85,502	\$ 58,336	\$ 46,590
Interest	953,137	979,922	1,019,988	1,016,964
Change in benefits	3,739	-	-	-
Difference between expected and actual experience	(30,084)	335,350	(138,780)	(44,558)
Change in assumptions	523,082	-	-	-
Benefit payments, including refund of member contributions	(842,391)	(836,086)	(936,653)	(1,006,283)
Other	-	-	(4)	-
Net change in total pension liability	692,400	564,688	2,887	12,713
Total pension liability - beginning	11,931,915	12,624,315	13,189,003	13,191,890
Total pension liability - ending	<u>\$ 12,624,315</u>	<u>\$ 13,189,003</u>	<u>\$ 13,191,890</u>	<u>\$ 13,204,603</u>
Plan fiduciary net position				
Contributions - employer	\$ 642,574	\$ 841,312	\$ 768,951	\$ 956,931
Contributions - employee	12,492	12,791	8,995	6,601
Net investment income	(83,968)	615,682	792,296	(259,575)
Benefit payments, including refunds of member contributions	(842,391)	(836,086)	(936,653)	(1,006,283)
Administrative expense	(12,265)	(12,163)	(12,544)	(12,842)
Net change in plan fiduciary net position	(283,558)	621,536	621,045	(315,168)
Plan fiduciary net position - beginning	5,677,689	5,394,131	6,015,667	6,636,712
Plan fiduciary net position - ending	<u>\$ 5,394,131</u>	<u>\$ 6,015,667</u>	<u>\$ 6,636,712</u>	<u>\$ 6,321,544</u>
City's net pension liability - ending	<u>\$ 7,230,184</u>	<u>\$ 7,173,336</u>	<u>\$ 6,555,178</u>	<u>\$ 6,883,059</u>
Plan fiduciary net position as a percentage of the total pension liability	43%	46%	50%	48%
Covered - employee payroll	\$ 760,520	\$ 751,993	\$ 525,382	\$ 434,047
City's net pension liability as a percentage of covered-employee payroll	951%	954%	1248%	1586%
Annual money-weighted rate of return, net of investment expense	-2%	11%	13%	-4%

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
RETIREMENT SYSTEM
For the Year Ended March 31, 2019
(Schedule is prepared prospectively upon implementation of GASB 68)

	2015	2016	2017	2018	2019
Actuarially determined contribution	\$ 545,395	\$ 674,856	\$ 721,620	\$ 784,728	\$ 889,332
Contributions in relation to the actuarially determined contribution	<u>545,395</u>	<u>674,856</u>	<u>721,620</u>	<u>784,728</u>	<u>1,076,832</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (187,500)</u>
Covered - employee payroll	\$ 726,599	\$ 760,520	\$ 751,993	\$ 525,382	\$ 434,047
Contributions as a percentage of covered-employee payroll	75%	89%	96%	149%	248%

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	10 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.75%, average, including inflation
Investment rate of return	7.75%
Retirement age	50-60 years of age depending on years of credited service
Mortality	50% Female/50% Male blend of RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
AND RELATED RATIOS
For the Year Ended March 31, 2019
(Schedule is prepared prospectively upon implementation of GASB 75)

	2019
Total OPEB liability	
Service cost	\$ -
Interest	16,021
Change in benefits	-
Difference between expected and actual experience	-
Change in assumptions	-
Benefit payments, including refund of member contributions	(190,987)
Other	-
	(174,966)
Net change in total OPEB liability	(174,966)
Total OPEB liability - beginning	582,458
Total OPEB liability - ending	\$ 407,492
Plan fiduciary net position	
Contributions to OPEB trust	\$ -
Contributions/benefit payments made from general operating funds	190,987
Net investment income	80
Benefit payments, including refunds of member contributions	(190,987)
Administrative expense	(4)
	76
Net change in plan fiduciary net position	76
Plan fiduciary net position - beginning	2,878
Plan fiduciary net position - ending	\$ 2,954
City's net OPEB liability - ending	\$ 404,538
Plan fiduciary net position as a percentage of the total pension liability	0.72%
Covered - employee payroll	N/A
City's net OPEB liability as a percentage of covered-employee payroll	N/A
Annual money-weighted rate of return, net of investment expense	2.64%

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF OPEB CONTRIBUTIONS
For the Year Ended March 31, 2019
(Schedule is prepared prospectively upon implementation of GASB 68)

	2019
Actuarially determined contribution	\$ 249,860
Contributions in relation to the actuarially determined contribution	190,857
Contribution deficiency (excess)	\$ 59,003
Covered - employee payroll	\$ 525,382
Contributions as a percentage of covered-employee payroll	36%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of March 31st, at 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	
Asset valuation method	Market value	
Inflation	Included in investment rate of return	
Salary increases	N/A	
Investment rate of return	7.05%	
Mortality	2010 Public General and Public Safety, Headcount-weighted, Employee and Healthy Retiree with MP-2018 Mortality Improvement Scale	

OTHER SUPPLEMENTAL INFORMATION

**CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2019**

	Special Revenue Funds		
	Local Street	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
ASSETS			
Cash and equivalents:			
Restricted	\$ -	\$ -	\$ -
Unrestricted	46,564	3,390	26,338
Receivables:			
Special assessments	12,973	-	-
Due from other governmental units	35,258	-	-
Due from other funds	23,985	-	-
Prepaid items	2,136	-	-
	<u>\$ 120,916</u>	<u>\$ 3,390</u>	<u>\$ 26,338</u>
LIABILITIES			
Liabilities:			
Accounts payable	\$ 30	\$ -	\$ -
Accrued payroll	2,209	-	-
Due to other funds	19,889	-	-
Unearned revenue	-	-	-
	<u>22,128</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue - special assessments	12,929	-	-
	<u>12,929</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	2,136	-	-
Restricted	83,723	3,390	26,338
	<u>85,859</u>	<u>3,390</u>	<u>26,338</u>
Total fund balances	85,859	3,390	26,338
	<u>85,859</u>	<u>3,390</u>	<u>26,338</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 120,916</u>	<u>\$ 3,390</u>	<u>\$ 26,338</u>

See accompanying notes to financial statements.

Special Revenue Funds		Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Downtown Development Authority	Cemetery Perpetual Care	
\$ 396,847	\$ -	273,744	\$ 670,591
-	268,642	-	344,934
-	-	-	12,973
-	2,530	-	37,788
-	-	-	23,985
-	-	-	2,136
<u>\$ 396,847</u>	<u>\$ 271,172</u>	<u>\$ 273,744</u>	<u>\$ 1,092,407</u>
\$ -	\$ 11,656	\$ -	\$ 11,686
-	-	-	2,209
-	-	-	19,889
-	450	-	450
-	12,106	-	34,234
-	-	-	12,929
-	-	273,744	275,880
396,847	259,066	-	769,364
<u>396,847</u>	<u>259,066</u>	<u>273,744</u>	<u>1,045,244</u>
<u>\$ 396,847</u>	<u>\$ 271,172</u>	<u>\$ 273,744</u>	<u>\$ 1,092,407</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended March 31, 2019

	Special Revenue Funds		
	Local Street	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
REVENUES:			
State sources	\$ 254,095	\$ -	\$ -
Local sources	2,466	-	-
Taxes	-	-	-
Interest income	30	-	-
Miscellaneous	135	-	-
	256,726	-	-
EXPENDITURES:			
Cemetery	-	-	-
Street system	370,585	-	-
Community development	-	-	-
Capital outlay	28,417	-	-
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
	399,002	-	-
Excess revenues (expenditures)	(142,276)	-	-
OTHER FINANCING SOURCES (USES):			
Transfers in	164,025	-	-
Transfers out	(3,000)	-	-
	161,025	-	-
Net changes in fund balances	18,749	-	-
Fund balances - beginning	67,110	3,390	26,338
Fund balances - ending	\$ 85,859	\$ 3,390	\$ 26,338

See accompanying notes to financial statements.

Special Revenue Funds		Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Downtown Development Authority	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ 254,095
159,003	68,879	1,250	231,598
-	356,335	-	356,335
1,856	1,101	1,280	4,267
-	1,620	-	1,755
<u>160,859</u>	<u>427,935</u>	<u>2,530</u>	<u>848,050</u>
-	-	2	2
-	-	-	370,585
-	167,601	-	167,601
-	25,000	-	53,417
-	25,000	-	25,000
-	-	-	-
<u>-</u>	<u>217,601</u>	<u>2</u>	<u>616,605</u>
<u>160,859</u>	<u>210,334</u>	<u>2,528</u>	<u>231,445</u>
-	-	-	164,025
(177,269)	(59,100)	(1,280)	(240,649)
<u>(177,269)</u>	<u>(59,100)</u>	<u>(1,280)</u>	<u>(76,624)</u>
(16,410)	151,234	1,248	154,821
<u>413,257</u>	<u>107,832</u>	<u>272,496</u>	<u>890,423</u>
<u>\$ 396,847</u>	<u>\$ 259,066</u>	<u>\$ 273,744</u>	<u>\$ 1,045,244</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
March 31, 2019

	Economic Development Corporation	Harbor	Solid Waste	Total Nonmajor Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 130,410	\$ 113,522	\$ 326,712	\$ 570,644
Receivables:				
Utilities	-	-	90,328	90,328
Miscellaneous	-	2,550	500	3,050
Prepaid items	-	-	1,988	1,988
Total current assets	<u>130,410</u>	<u>116,072</u>	<u>419,528</u>	<u>666,010</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	29,088	324,548	183,953	537,589
Total noncurrent assets	<u>29,088</u>	<u>324,548</u>	<u>183,953</u>	<u>537,589</u>
Total assets	<u>\$ 159,498</u>	<u>\$ 440,620</u>	<u>\$ 603,481</u>	<u>\$ 1,203,599</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - pension plan	\$ -	\$ -	\$ 13,471	\$ 13,471
Deferred outflow - OPEB	-	-	9	9
Total deferred outflows	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,480</u>	<u>\$ 13,480</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 674	\$ 1,222	\$ 11,910	\$ 13,806
Accrued payroll	-	46	2,233	2,279
Unearned revenue	-	19,715	-	19,715
Total current liabilities	<u>674</u>	<u>20,983</u>	<u>14,143</u>	<u>35,800</u>
Noncurrent liabilities:				
Net OPEB liability	-	-	36,813	36,813
Net pension liability	-	-	91,516	91,516
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>128,329</u>	<u>128,329</u>
Total liabilities	<u>\$ 674</u>	<u>\$ 20,983</u>	<u>\$ 142,472</u>	<u>\$ 164,129</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow - pension plan	\$ -	\$ -	\$ 3,606	\$ 3,606
NET POSITION				
Net investment in capital assets	\$ 29,088	\$ 324,548	\$ 183,953	\$ 537,589
Restricted	39,727	-	-	39,727
Unrestricted	90,009	95,089	286,930	472,028
Total net position	<u>\$ 158,824</u>	<u>\$ 419,637</u>	<u>\$ 470,883</u>	<u>\$ 1,049,344</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2019

	Economic Development Corporation	Harbor	Solid Waste	Total Nonmajor Enterprise Funds
OPERATING REVENUES:				
Charges for services	\$ -	\$ 62,504	\$ 449,664	\$ 512,168
Miscellaneous	-	-	5,137	5,137
Total operating revenue	-	62,504	454,801	517,305
OPERATING EXPENSES:				
Salaries and fringes	-	13,960	179,229	193,189
Supplies	-	19,788	16,944	36,732
Contracted services	14,531	5,045	17,895	37,471
Repairs and maintenance	-	-	17,170	17,170
Utilities	-	8,767	(58)	8,709
Rent	-	-	11,039	11,039
Insurance	-	648	242	890
Education and training	-	-	-	-
Landfill tipping fees	-	-	89,273	89,273
Depreciation	1,460	23,385	37,696	62,541
Miscellaneous	-	1,926	1,115	3,041
Total operating expenses	15,991	73,519	370,545	460,055
Operating income (loss)	(15,991)	(11,015)	84,256	57,250
NONOPERATING REVENUES (EXPENSES):				
Interest income	-	568	1,414	1,982
Income (loss) before transfers, contributions and special items	(15,991)	(10,447)	85,670	59,232
Transfer in	-	3,555	-	3,555
Transfer out	(16,856)	(12,000)	(49,006)	(77,862)
Change in net position	(32,847)	(18,892)	36,664	(15,075)
Total net position - beginning	191,671	438,529	486,961	1,117,161
Prior period adjustment	-	-	(52,742)	(52,742)
Total net position - beginning, restated	191,671	438,529	434,219	1,064,419
Total net position - ending	\$ 158,824	\$ 419,637	\$ 470,883	\$ 1,049,344

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2019

	Economic Development Corporation	Harbor	Solid Waste	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ -	\$ 61,107	\$ 449,573	\$ 510,680
Payments to suppliers	(14,543)	(31,404)	(153,414)	(199,361)
Payments for wages and related benefits	-	(13,965)	(200,169)	(214,134)
Other receipts (payments)	-	-	5,137	5,137
Net cash provided (used) by operating activities	<u>(14,543)</u>	<u>15,738</u>	<u>101,127</u>	<u>102,322</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	<u>(16,856)</u>	<u>(8,445)</u>	<u>(49,006)</u>	<u>(74,307)</u>
Net cash provided (used) by noncapital financing activities	<u>(16,856)</u>	<u>(8,445)</u>	<u>(49,006)</u>	<u>(74,307)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of fixed assets	<u>(7,084)</u>	<u>(9,000)</u>	<u>-</u>	<u>(16,084)</u>
Net cash provided (used) by capital and related financing activities	<u>(7,084)</u>	<u>(9,000)</u>	<u>-</u>	<u>(16,084)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earnings	<u>-</u>	<u>569</u>	<u>1,413</u>	<u>1,982</u>
Net cash provided (used) by investing activities	<u>-</u>	<u>569</u>	<u>1,413</u>	<u>1,982</u>
Net increase (decrease) in cash and equivalents	(38,483)	(1,138)	53,534	13,913
Cash and equivalents, beginning of year	168,893	114,660	273,178	556,731
Cash and equivalents, end of year	<u>\$ 130,410</u>	<u>\$ 113,522</u>	<u>\$ 326,712</u>	<u>\$ 570,644</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (15,991)	\$ (11,015)	\$ 84,256	\$ 57,250
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	1,460	23,385	37,696	62,541
Changes in assets and liabilities:				
(Increase) decrease in receivables	-	(1,397)	(91)	(1,488)
(Increase) decrease in prepaid items	-	-	479	479
(Increase) decrease in deferred outflows	-	-	(11,008)	(11,008)
Increase (decrease) in accounts payable	(12)	(250)	(273)	(535)
Increase (decrease) in accrued payroll	-	(5)	168	163
Increase (decrease) in net OPEB liability	-	-	(15,929)	(15,929)
Increase (decrease) in net pension liability	-	-	4,026	4,026
Increase (decrease) in unearned revenue	-	5,020	-	5,020
Increase (decrease) in deferred inflows	-	-	1,803	1,803
Net cash provided by operating activities	<u>\$ (14,543)</u>	<u>\$ 15,738</u>	<u>\$ 101,127</u>	<u>\$ 102,322</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
March 31, 2019

	Equipment Fund	Retirement System Fund	Employee Health Care Fund	Total Internal Service Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 1,141,066	\$ 1,050	\$ 1,142,116
Receivables:				
Miscellaneous	-	-	1,509	1,509
Prepaid items	-	-	2,325	2,325
Inventory	-	-	-	-
Total current assets	<u>-</u>	<u>1,141,066</u>	<u>4,884</u>	<u>1,145,950</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ -</u>	<u>\$ 1,141,066</u>	<u>\$ 4,884</u>	<u>\$ 1,145,950</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ -	\$ -	\$ 319	\$ 319
Accrued payroll	-	-	1,762	1,762
Notes payable	-	-	-	-
Total current liabilities	<u>-</u>	<u>-</u>	<u>2,081</u>	<u>2,081</u>
Noncurrent liabilities:				
OPEB obligation	-	-	-	-
Notes payable	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,081</u>	<u>\$ 2,081</u>
NET POSITION				
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -
Unrestricted	-	1,141,066	2,803	1,143,869
Total net position	<u>\$ -</u>	<u>\$ 1,141,066</u>	<u>\$ 2,803</u>	<u>\$ 1,143,869</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
For the Year Ended March 31, 2019

	Equipment Fund	Retirement System Fund	Employee Health Care Fund	Total Internal Service Funds
OPERATING REVENUES:				
Charges for services	\$ -	\$ 1,117,291	\$ 167,956	\$ 1,285,247
Miscellaneous	-	-	-	-
Total operating revenue	-	1,117,291	167,956	1,285,247
OPERATING EXPENSES:				
Salaries and fringes	-	\$ 1,016,940	\$ 168,229	\$ 1,185,169
Total operating expenses	-	1,016,940	168,229	1,185,169
Operating income (loss)	-	100,351	(273)	100,078
NONOPERATING REVENUES (EXPENSES):				
Interest income	-	-	-	-
Income (loss) before transfers, contributions and special items	-	100,351	(273)	100,078
Transfer in	-	-	-	-
Transfer out	(93,583)	-	-	(93,583)
Equity Transfer	(225,031)	-	-	(225,031)
Change in net position	(318,614)	100,351	(273)	(218,536)
Total net position - beginning	318,614	1,040,715	3,076	1,362,405
Total net position - ending	\$ -	\$ 1,141,066	\$ 2,803	\$ 1,143,869

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended March 31, 2019

	Equipment Fund	Retirement System Fund	Employee Health Care Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ -	\$ -	\$ -	\$ -
Cash receipts from interfund services provided	-	1,117,291	167,537	1,284,828
Payments to suppliers	5,767	-	319	6,086
Payments for wages and related benefits	(1,553)	(1,016,940)	(166,806)	(1,185,299)
Net cash provided (used) by operating activities	4,214	100,351	1,050	105,615
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	(93,583)	-	-	(93,583)
Net cash provided (used) by noncapital financing activities	(93,583)	-	-	(93,583)
Net increase (decrease) in cash and equivalents	(89,369)	100,351	1,050	12,032
Cash and equivalents, beginning of year	89,369	1,040,715	-	1,130,084
Cash and equivalents, end of year	\$ -	\$ 1,141,066	\$ 1,050	\$ 1,142,116
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ -	\$ 100,351	\$ (273)	\$ 100,078
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	-	-	-	-
Changes in assets and liabilities:				
(Increase) decrease in receivables	-	-	(1,509)	(1,509)
(Increase) decrease in prepaid items	-	-	1,090	1,090
(Increase) decrease in inventory	15,134	-	-	15,134
Increase (decrease) in accounts payable	(9,367)	-	319	(9,048)
Increase (decrease) in accrued payroll	(1,553)	-	1,423	(130)
Increase (decrease) in OPEB liability	-	-	-	-
Net cash provided by operating activities	\$ 4,214	\$ 100,351	\$ 1,050	\$ 105,615

See accompanying notes to financial statements.

ADDITIONAL SUPPLEMENTAL INFORMATION

**CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2019**

ALL UTILITIES:

Population served	4,751
Average number of meters in service	5,336

ELECTRIC UTILITY FUND:

K.W.H. purchased	32,851,668
K.W.H. sold	<u>31,466,954</u>
K.W.H. lost (4%)	<u>1,384,714</u>
Revenue from sales	<u>\$ 4,012,698</u>
Average number of meters	3,115

WATER UTILITY FUND:

Gallons pumped into plant	123,797,200
Gallons used in plant, system maintenance & let runs	<u>6,197,533</u>
Gallons pumped to mains	117,599,667
Gallons sold	<u>92,828,000</u>
Gallons lost (19%)	<u>24,771,667</u>
Revenue from sales	<u>\$ 868,147</u>
Average number of meters in service	2,221

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 733,278</u>
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ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Kristine P. Berhow, CPA, Principal
Brandy M. Olson, CPA, Principal
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"A Regional Firm Within the Upper Peninsula of Michigan"

Alan M. Stotz, CPA

**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**

To the Mayor and Members of the
City Commission
City of Gladstone, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan, as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 29, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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.

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 have not been identified. We did identify a deficiency in internal control that we consider to be a material weakness as identified below.

2019-001 Deficiency: Material audit adjustments were required to properly classify and record activity. This is a repeat deficiency.

Criteria: The City is required to have internal controls in place to properly record, process and report accounting data.

Condition: Audit adjustments were required to properly classify and record activity to present the financial statements in accordance with generally accepted accounting principles.

Cause: This condition was caused by the City's decision to rely on the external auditor to recommend journal entries at year-end due to a relatively small staff and by the City staff not reconciling activity recorded in the general ledger.

Effect: The City lacks internal controls over recording and reporting certain accounting data resulting in the financial statements not being presented in accordance with generally accepted accounting principles.

Recommendation: The City should record all journal entries necessary to materially record all financial activity prior to final trial balances being produced to be used for preparation of the year-end financial statements. Also, the City should reconcile activity throughout the year to ensure the year-end trial balances are correct.

Management Response: Staff has made improvements in the past few years. We will continue to make every effort to properly accrue all revenue and expenditures and to properly classify activity.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

2019-002 Compliance Finding – Violation of Michigan Law

Condition: During fiscal year ended March 31, 2019, expenditures were incurred without a public purpose. Local units of government are a steward of public resources, and they may not be used for a private purpose. There are numerous state statutes, court cases, and attorney general opinions that define allowable expenditures.

Criteria: Expenditures were incurred without a public purpose related to a retirement party and funeral flowers. Per the Michigan Audit Manual for Local Units, neither a retirement party nor funeral flowers are allowable.

Recommendation: We recommend that the City closely monitor expenditures for allowability

Management Response: We will closely monitor expenditures in the future to ensure they meet allowability requirements. An open and public recognition event was published for City boards and commissions as well as public to attend. Rental of the facility was paid for with public funds.

City of Gladstone's Response to Findings

The City of Gladstone's response to the findings identified in our audit is described above. The City'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 results 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
Escanaba, Michigan

September 29, 2019