

CITY OF GLADSTONE, MICHIGAN

**BASIC FINANCIAL STATEMENTS
with Supplemental Information**

MARCH 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the City Manager, 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, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan as of and for the year ended March 31, 2018, and the related notes to the financial statements. We were not engaged to audit the financial statements of the discretely presented component unit (Gladstone Housing Commission). These financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 unmodified and adverse audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Discretely Presented Component Unit	Adverse
General Fund	Unmodified
Major Streets Fund	Unmodified
DDA Fund	Unmodified
Electric Utility Fund	Unmodified
Waste Water Utility Fund	Unmodified
Water Utility Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Adverse Opinion on Discretely Presented Component Unit

The financial statements referred to above do not include financial data for the City's legally separate component unit (Gladstone Housing Commission). Accounting principles generally accepted in the United States of America require financial data for the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Management of the Gladstone Housing Commission have not provided necessary information to complete an audit of the financial statements within the required time parameter. Because of this departure from accounting principles generally accepted in the United States of America, the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the discretely presented component unit are not presented. The amount by which this departure would affect the financial statements and the related notes has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the City of Gladstone, Michigan, as of March 31, 2018, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified 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, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan, as of March 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and the utility funds schedule of operating statistics are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining 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 and the schedule of expenditures of federal awards 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 26, 2018, on our consideration of the City of Gladstone, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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'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's internal control over financial reporting and compliance.



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

September 26, 2018

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, 2018. 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 \$16,744,010. Net position increased \$483,953 from March 31, 2017. Net position for our business-type activities was \$11,028,286, a decrease of \$271,203 from 2017 (before prior period adjustment), while net position in our governmental activities was \$5,715,724, an increase of \$755,156 (before prior period adjustment).
- The City's expenses for the year totaled \$9,919,710, an increase of \$283,567 over 2017. Revenue from all sources was \$10,403,663, an increase of \$346,739 from 2017.
- In the City's business-type activities, total revenues were \$6,392,999, an increase of 0.6% over the previous year. Business-type activity revenues remained stable as a percentage of total revenues at 61% for 2018 and 58% for 2017.
- In 2017, the City received a distribution from the Dr. Mary Cretens Trust in the amount of \$178,912, which was budgeted for expenditure in the 2018 fiscal year. In 2018, the City received \$164,401 from the Trust which was budgeted for expenditure in the 2019 fiscal year.
- The General Fund finished the year with an increase in fund balance of \$56,892 and an ending fund balance of \$883,830. This was after revenues of \$2,708,325 compared to \$2,734,164 in 2017, and expenditures of \$3,221,334 compared to expenditures of \$3,307,474 in 2017, 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 exclude the Gladstone Housing Commission, a legally separate component unit, as financial information was not available. 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 \$483,953.

Table 1
Net Position

	Governmental Activities		Business-Type Activities	
	2018	2017	2018	2017
Current and other assets	\$ 3,351,442	\$ 2,297,089	\$ 6,191,993	\$ 6,789,657
Capital assets (net)	8,052,486	7,974,178	8,049,589	8,445,078
Total Assets	<u>\$11,403,928</u>	<u>\$10,271,267</u>	<u>\$ 14,241,582</u>	<u>\$ 15,234,735</u>
Deferred outflow-pension	\$ 138,897	\$ 246,746	\$ 57,286	\$ 104,644
Long-term debt outstanding	\$ 66,500	\$ -	\$ 580,718	\$ 635,718
Other liabilities	5,604,905	6,028,399	2,646,301	2,875,792
Total Liabilities	<u>\$ 5,671,405</u>	<u>\$ 6,028,399</u>	<u>\$ 3,227,019</u>	<u>\$ 3,511,510</u>
Deferred inflow- special assessments	\$ 46,674	\$ 57,426	\$ -	\$ -
Deferred inflow-pension	109,022	-	43,563	-
Total deferred inflows	<u>\$ 155,696</u>	<u>\$ 57,426</u>	<u>\$ 43,563</u>	<u>\$ -</u>
Net Position:				
Net investment in capital assets	\$ 7,985,987	\$ 7,974,178	\$ 7,468,871	\$ 7,809,360
Restricted:				
Expendable	826,843	728,515	-	-
Nonexpendable	272,496	270,117	-	-
Unrestricted	(3,369,602)	(4,540,622)	3,559,415	4,018,509
Total net position	<u>\$ 5,715,724</u>	<u>\$ 4,432,188</u>	<u>\$ 11,028,286</u>	<u>\$ 11,827,869</u>

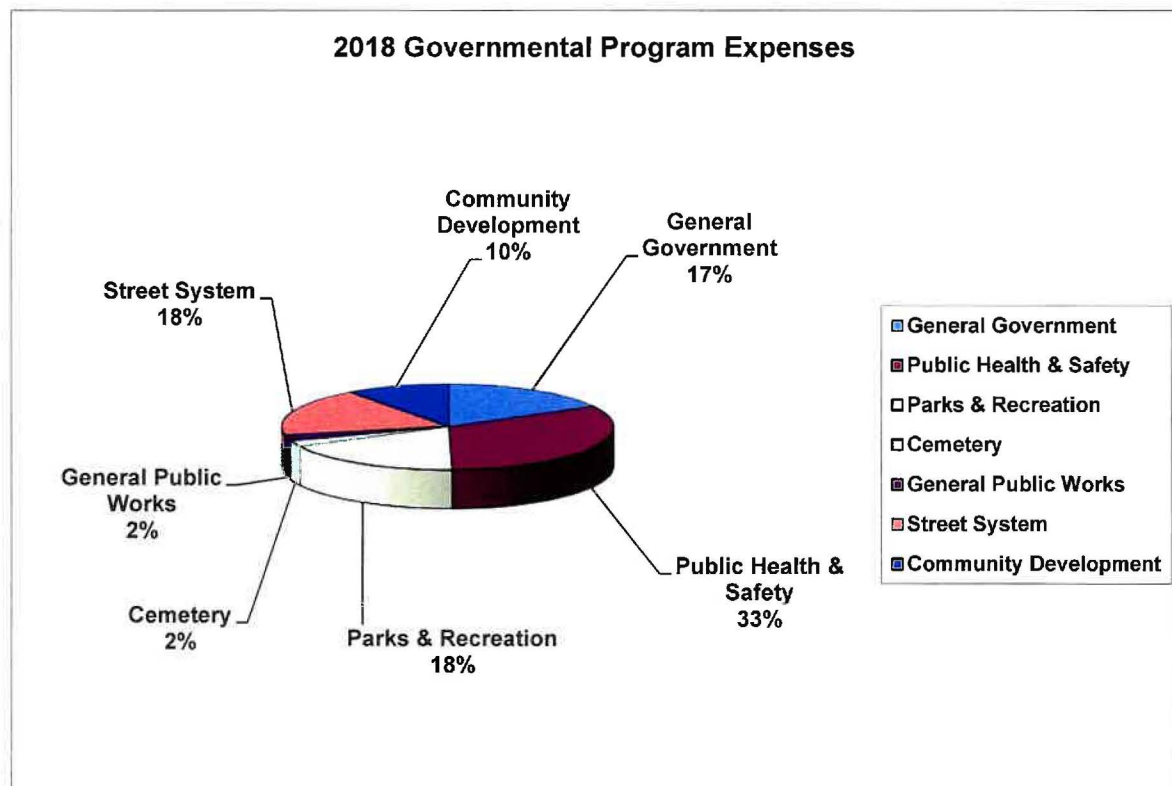
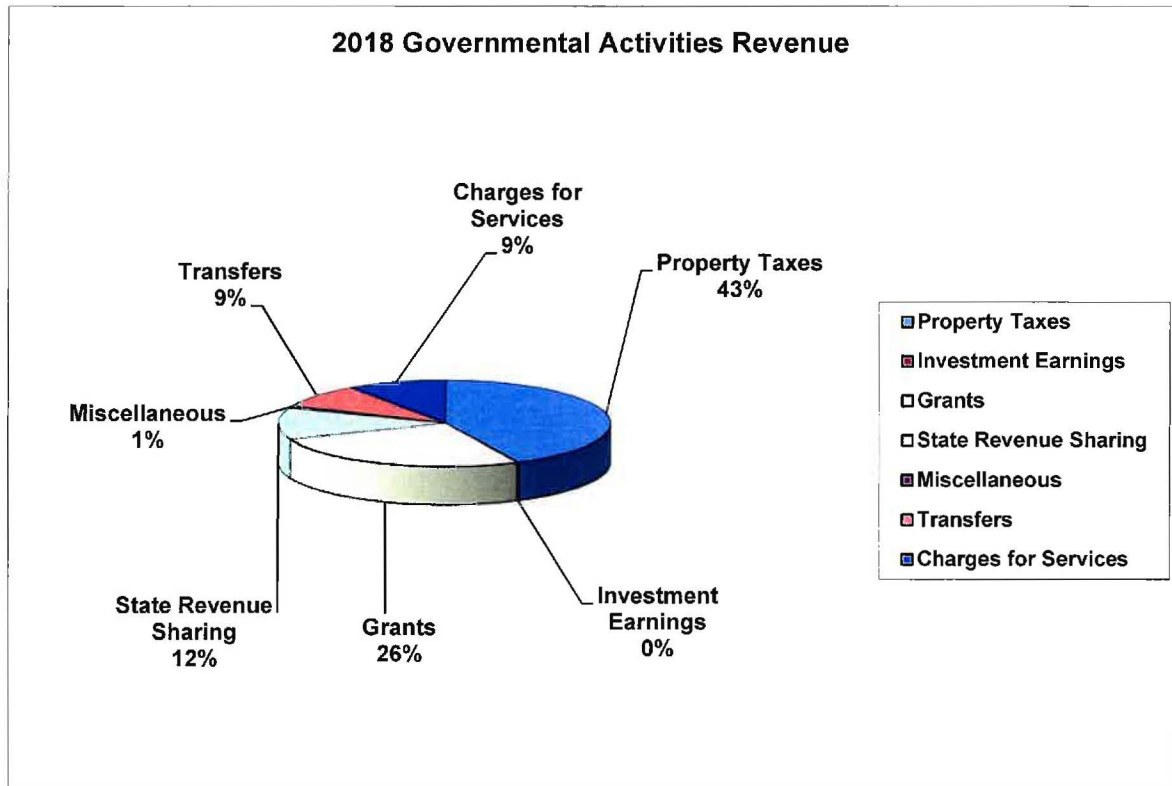
Net position of the City's governmental activities stood at \$5,715,724, up from \$4,432,188 in 2017 before prior period adjustment (+29%). Total of the governmental activities assets increased by 11%, and total liabilities decreased by 6%. The ratio of assets to liabilities increased slightly from 1.70 in 2017 to 2.01 in 2018.

Net position in our business-type activities stood at \$11,028,286, up from \$11,827,869 in 2017 (-7%). Total assets decreased to \$14,241,582 from \$15,234,735 in 2017, while liabilities decreased to \$3,227,019 in 2018 from \$3,730,058 in 2017. Unrestricted net position decreased to \$3,559,415 from \$4,018,509, while the amount invested in capital assets (net of related debt) decreased slightly to \$7,468,871 in 2018 from \$7,809,360 in 2017.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities	
	2018	2017	2018	2017
Revenues:				
Program Revenues:				
Charges for services	\$ 420,140	\$ 388,486	\$ 6,348,007	\$ 6,270,564
Operating grants	764,120	654,101	-	-
Capital grants	162,064	582,620	33,966	35,989
General Revenues:				
Property taxes	1,877,862	1,673,199	-	-
State revenue sharing	521,350	507,059	-	-
Unrestricted grants	217,814	4,882	-	-
Unrestricted investment earnings	6,853	5,902	55,956	46,060
Miscellaneous	38,161	(8,912)	-	-
Total Revenues	<u>4,008,364</u>	<u>3,807,337</u>	<u>6,437,929</u>	<u>6,352,613</u>
Program Expenses:				
General government	631,247	1,102,858	-	-
Public health & safety	1,207,635	1,435,754	-	-
Parks & recreation	654,010	564,671	-	-
Cemetery	80,679	78,884	-	-
General public works	83,802	50,128	-	-
Street system	671,394	528,184	-	-
Community development	317,369	149,858	-	-
Interest on long-term debt	-	-	-	-
Electric	-	-	4,292,189	3,847,179
Wastewater	-	-	796,112	713,564
Water	-	-	758,851	706,491
Solid waste	-	-	351,497	372,230
Harbor	-	-	64,847	60,573
Economic development	-	-	10,078	25,769
Total Expenses	<u>3,646,136</u>	<u>3,910,337</u>	<u>6,273,574</u>	<u>5,725,806</u>
Excess (deficiency) before transfers and contributions	362,228	(103,000)	164,355	626,807
Transfers	390,628	599,291	(390,628)	(599,291)
Contributions to permanent fund	2,300	5,030	-	-
Gain/loss on sale of fixed assets	-	(110,556)	(44,930)	2,500
Increase (decrease) in net position	<u>755,156</u>	<u>390,765</u>	<u>(271,203)</u>	<u>30,016</u>
Net position - beginning	4,432,188	4,041,423	11,827,869	11,797,853
Prior period adjustment	528,380	-	(528,380)	-
Net position - beginning, as restated	<u>4,960,568</u>	<u>4,041,423</u>	<u>11,299,489</u>	<u>11,797,853</u>
Net position - ending	<u>\$ 5,715,724</u>	<u>\$ 4,432,188</u>	<u>\$ 11,028,286</u>	<u>\$ 11,827,869</u>

Governmental Activities



The City's total revenues were \$10,403,663, up from \$10,056,924 in 2017. The cost of all programs and services was \$9,919,710, up from \$9,636,143 in 2017. For 2018, there was an overall excess of revenues over expenses of \$483,953, compared to \$420,781 in 2017.

Governmental Activities

Revenues for the City's governmental activities totaled \$4,401,292, up 2.3% from \$4,301,102 in 2017. Expenses decreased by 6.8% or \$264,201 in 2018 as compared to 2017.

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	
	2018	2017	2018	2017
Public health & safety	\$ 1,207,635	\$ 1,435,754	\$ 1,179,343	\$ 1,397,873
Street systems	671,394	528,184	(91,037)	(76,788)
Parks & recreation	654,010	564,671	251,478	221,358
Community development	317,369	149,858	303,859	91,700
General government	631,247	1,102,858	539,238	1,010,789
Totals	<u>\$ 3,481,655</u>	<u>\$ 3,781,325</u>	<u>\$ 2,182,881</u>	<u>\$ 2,644,932</u>

Business-Type Activities

Revenues for the City's business-type activities totaled \$6,392,999 up from \$6,355,113 in 2017 (+0.6%). Business-type activity expenses increased by \$547,768 (+9.6%).

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 \$2,075,591, an increase of \$136,722 from 2017. The combined increase in fund balance, in large part, comes from the street funds and the capital projects 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.

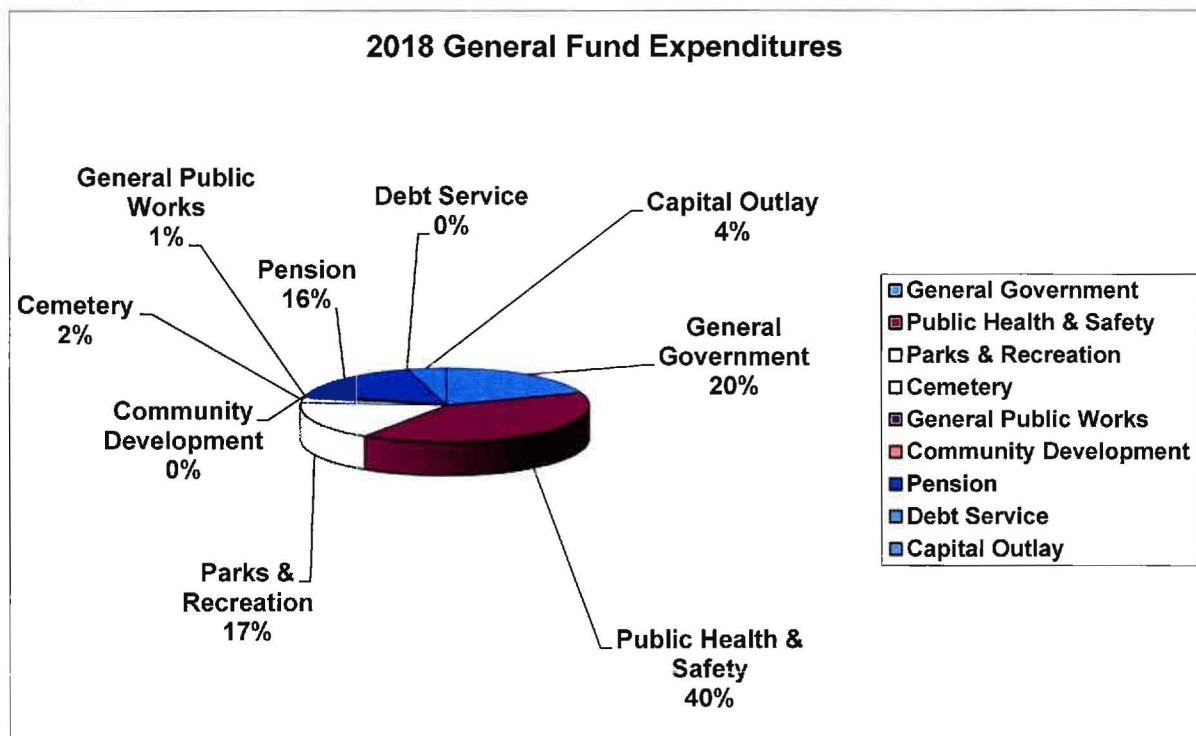
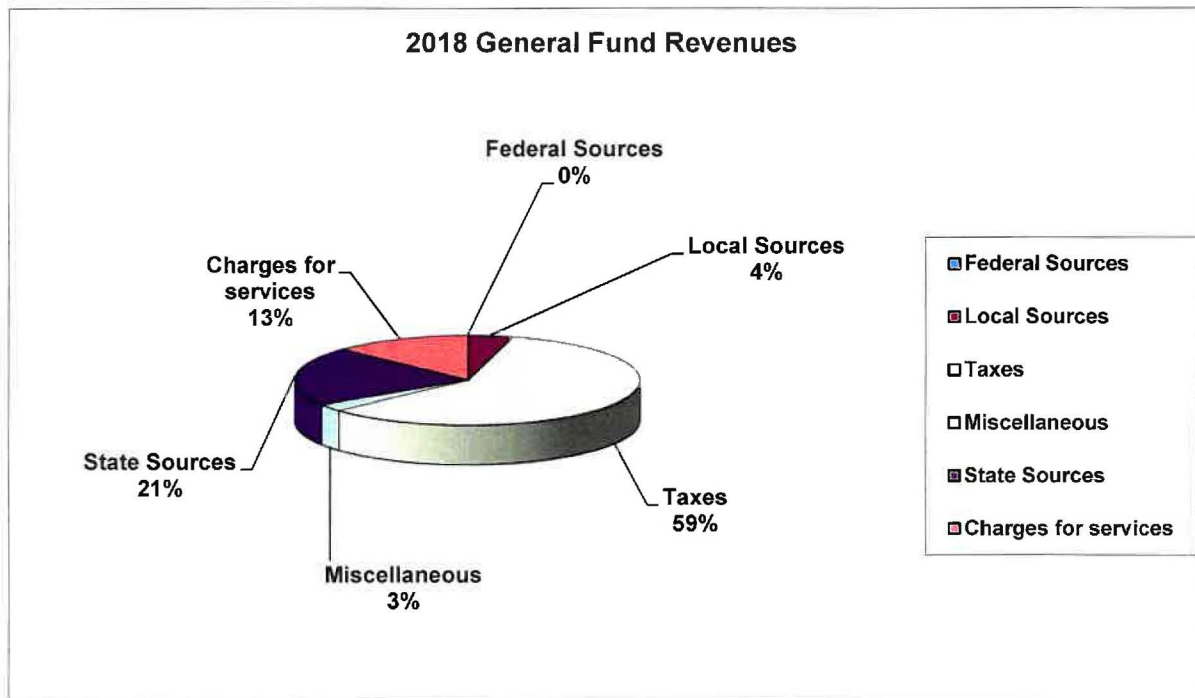
General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenditures. Revenues were less than the amended budget by \$174,538. The final revenue number of \$2,708,325 was 6% lower than the revised revenue estimate of \$2,882,863. The final revenue number being less than budget was an effect of less state and miscellaneous revenue sources. The final revenue number when compared to the 2017 fiscal year was \$25,836 less than 2017. The contributing factors were decreases in miscellaneous revenue donations.

Expenditures were less than the amended budget by \$732,136. The final expenditure number of \$3,221,334 was 19% lower than the revised expenditure estimates of \$3,953,470. Final expenditure numbers being less than budget were an effect of reduced expenses in public safety and sports park. The final expenditure number when compared to the 2017 fiscal year was \$86,140 less than 2017. The contributing factors were decreases in capital outlay.

The final expenditures exceeded revenues by \$513,009 for the year before transfers. Revenues exceed expenditures by \$56,892 after net transfers in of \$569,901. 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 2018, the City had \$16,102,075, 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 \$16,419,256 in 2017. (See table 4 below).

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

	Governmental Activities		Business-Type Activities	
	2018	2017	2018	2017
Land	1,619,627	1,619,627	236,836	236,836
Construction in progress	286,834	55,980	62,948	35,096
Land Improvements	319,611	330,294	-	-
Buildings	1,486,034	1,517,582	647,485	706,496
Machinery & Equipment	1,131,625	1,146,546	837,728	906,672
Infrastructure - Road System	2,419,034	2,444,958	-	-
Infrastructure - Other	789,721	859,191	355,826	378,087
Distribution/Collection System	-	-	5,908,766	6,181,891
Total	8,052,486	7,974,178	8,049,589	8,445,078

DEBT

At year-end the City had \$730,718 in long-term liabilities, bonds and notes outstanding. This is a net increase of \$95,000 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	
	2018	2017	2018	2017	2018	2017
Other liabilities	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000	\$ -
Revenue bonds and notes (backed by specific tax and fee revenues)	-	-	580,718	635,718	580,718	635,718
Totals	\$ 150,000	\$ -	\$ 580,718	\$ 635,718	\$ 730,718	\$ 635,718

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 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, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,176,328	\$ 3,810,051	\$ 5,986,379
Receivables :			
Accounts	126,127	-	126,127
Utilities	-	1,181,690	1,181,690
Special assessments	55,753	-	55,753
Miscellaneous	27,926	71,256	99,182
Due from other governmental units	341,834	-	341,834
Prepaid items	54,612	18,600	73,212
Inventory	15,134	195,675	210,809
Total current assets	<u>2,797,714</u>	<u>5,277,272</u>	<u>8,074,986</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	792,578	-	792,578
Investments	-	675,871	675,871
Internal balances	(238,850)	238,850	-
Capital assets, net of accumulated depreciation	8,052,486	8,049,589	16,102,075
Total noncurrent assets	<u>8,606,214</u>	<u>8,964,310</u>	<u>17,570,524</u>
Total assets	<u>\$ 11,403,928</u>	<u>\$ 14,241,582</u>	<u>\$ 25,645,510</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow - pension plan	<u>\$ 138,897</u>	<u>\$ 57,286</u>	<u>\$ 196,183</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 37,707	\$ 84,923	\$ 122,630
Accrued payroll	35,398	22,679	58,077
Customer deposits	-	90,229	90,229
Unearned revenue	17,612	14,695	32,307
Other liabilities	26,086	-	26,086
Compensated absences	28,628	27,335	55,963
Bonds payable	-	55,000	55,000
Notes payable	3,879	-	3,879
Total current liabilities	<u>149,310</u>	<u>294,861</u>	<u>444,171</u>
Noncurrent liabilities:			
Compensated absences	114,512	109,341	223,853
OPEB obligation	619,454	342,429	961,883
Net pension liability	4,600,508	1,954,670	6,555,178
Bonds payable	-	525,718	525,718
Notes payable	62,621	-	62,621
Other liabilities	125,000	-	125,000
Total noncurrent liabilities	<u>5,522,095</u>	<u>2,932,158</u>	<u>8,454,253</u>
Total liabilities	<u>\$ 5,671,405</u>	<u>\$ 3,227,019</u>	<u>\$ 8,898,424</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue - special assessments	\$ 46,674	\$ -	\$ 46,674
Deferred inflow - pension plan	109,022	43,563	152,585
Total deferred inflows of resources	<u>\$ 155,696</u>	<u>\$ 43,563</u>	<u>\$ 199,259</u>
NET POSITION			
Net investment in capital assets	\$ 7,985,987	\$ 7,468,871	\$ 15,454,858
Restricted for:			
Expendable	826,843	-	826,843
Nonexpendable	272,496	-	272,496
Unrestricted	(3,369,602)	3,559,415	189,813
Total net position	<u>\$ 5,715,724</u>	<u>\$ 11,028,286</u>	<u>\$ 16,744,010</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2018

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		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	\$ 631,247	\$ 91,395	\$ -	\$ 614	\$ (539,238)	\$ -	\$ (539,238)
Public health and safety	1,207,635	27,692	-	600	(1,179,343)	-	(1,179,343)
Parks and recreation	654,010	241,707	-	160,825	(251,478)	-	(251,478)
Cemetery	80,679	47,525	-	-	(33,154)	-	(33,154)
General public works	83,802	-	-	25	(83,777)	-	(83,777)
Street system	671,394	10,971	751,460	-	91,037	-	91,037
Community development	317,369	850	12,660	-	(303,859)	-	(303,859)
Total governmental activities	<u>3,646,136</u>	<u>420,140</u>	<u>764,120</u>	<u>162,064</u>	<u>(2,299,812)</u>	<u>-</u>	<u>(2,299,812)</u>
Business-type activities:							
Electric utility	4,292,189	4,132,852	-	14,270	-	(145,067)	(145,067)
Waste water utility	796,112	935,788	-	13,137	-	152,813	152,813
Water utility	758,851	766,549	-	6,559	-	14,257	14,257
Solid waste	351,497	454,220	-	-	-	102,723	102,723
Harbor	64,847	58,577	-	-	-	(6,270)	(6,270)
Economic development	10,078	21	-	-	-	(10,057)	(10,057)
Total business-type activities	<u>6,273,574</u>	<u>6,348,007</u>	<u>-</u>	<u>33,966</u>	<u>-</u>	<u>108,399</u>	<u>108,399</u>
Total primary government	<u>\$ 9,919,710</u>	<u>\$ 6,768,147</u>	<u>\$ 764,120</u>	<u>\$ 196,030</u>	<u>(2,299,812)</u>	<u>108,399</u>	<u>(2,191,413)</u>
General revenues:							
Property taxes					1,877,862	-	1,877,862
State revenue sharing					521,350	-	521,350
Grants and contributions not restricted to specific programs					217,814	-	217,814
Contributions to permanent fund					2,300	-	2,300
Unrestricted investment earnings					6,853	55,956	62,809
Miscellaneous					38,161	-	38,161
Gain (loss) on disposal of fixed assets					-	(44,930)	(44,930)
Transfers					390,628	(390,628)	-
Total general revenues and transfers					<u>3,054,968</u>	<u>(379,602)</u>	<u>2,675,366</u>
Changes in net position					<u>755,156</u>	<u>(271,203)</u>	<u>483,953</u>
Net position - beginning					4,432,188	11,827,869	16,260,057
Prior period adjustment					528,380	(528,380)	-
Net position - beginning, restated					<u>4,960,568</u>	<u>11,299,489</u>	<u>16,260,057</u>
Net position - ending					<u>\$ 5,715,724</u>	<u>\$ 11,028,286</u>	<u>\$ 16,744,010</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2018

	General	Major Streets	DDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and equivalents:					
Restricted	\$ 106,825	\$ -	\$ -	\$ 685,753	\$ 792,578
Unrestricted	747,819	130,699	122,022	45,704	1,046,244
Receivables:					
Accounts	10	-	-	126,117	126,127
Special assessments	(711)	39,280	-	17,184	55,753
Miscellaneous	27,926	-	-	-	27,926
Due from other governmental units	167,876	120,380	6,505	47,073	341,834
Due from other funds	33,525	-	-	23,985	57,510
Prepaid items	51,197	-	-	-	51,197
Total assets	<u>\$ 1,134,467</u>	<u>\$ 290,359</u>	<u>\$ 128,527</u>	<u>\$ 945,816</u>	<u>\$ 2,499,169</u>
LIABILITIES					
Liabilities:					
Accounts payable	\$ 19,751	\$ 2,534	\$ 5,847	\$ 208	\$ 28,340
Accrued payroll	29,991	1,617	112	1,786	33,506
Due to other funds	182,647	46,013	14,286	53,414	296,360
Unearned revenue	17,162	-	450	-	17,612
Other liabilities	1,086	-	-	-	1,086
Total liabilities	<u>250,637</u>	<u>50,164</u>	<u>20,695</u>	<u>55,408</u>	<u>376,904</u>
DEFERRED INFLOWS OF RESOURCES					
Unearned revenue - Special assessments	<u>-</u>	<u>31,279</u>	<u>-</u>	<u>15,395</u>	<u>46,674</u>
FUND BALANCES					
Nonspendable	51,197	-	-	272,496	323,693
Restricted	-	208,916	107,832	510,095	826,843
Committed	192,724	-	-	92,422	285,146
Assigned	-	-	-	-	-
Unassigned	639,909	-	-	-	639,909
Total fund balances	<u>883,830</u>	<u>208,916</u>	<u>107,832</u>	<u>875,013</u>	<u>2,075,591</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,134,467</u>	<u>\$ 290,359</u>	<u>\$ 128,527</u>	<u>\$ 945,816</u>	<u>\$ 2,499,169</u>

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, 2018

Total fund balances for governmental funds \$ 2,075,591

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	\$ 22,970,834	
Accumulated depreciation	(15,248,352)	
Total capital assets		7,722,482

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 assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. 318,614

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. 1,043,791

Deferred outflow of resources related to recording of net pension liability. 138,897

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	\$ (150,000)	
OPEB obligation	(580,981)	
Net pension liability	(4,600,508)	
Compensated absences	(143,140)	(5,474,629)

Deferred inflow of resources related to recording of net pension liability. (109,022)

Total net position of governmental activities \$ 5,715,724

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, 2018

	General Fund	Major Streets	DDA Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	574,763	525,190	4,234	195,320	1,299,507
Local sources	114,070	8,282	10,651	276,358	409,361
Taxes	1,601,002	-	276,860	-	1,877,862
Charges for services	349,125	-	-	-	349,125
Interest income	2,979	491	664	2,719	6,853
Miscellaneous	66,386	169	1,351	52	67,958
Total revenues	2,708,325	534,132	293,760	474,449	4,010,666
EXPENDITURES:					
General government	626,786	-	-	35,050	661,836
Public health and safety	1,287,846	-	-	-	1,287,846
Parks and recreation	539,954	-	-	9,330	549,284
Cemetery	70,968	-	-	-	70,968
General public works	38,343	-	-	-	38,343
Street system	-	239,730	-	231,439	471,169
Community development	6,174	-	150,969	-	157,143
Pension	514,954	-	-	-	514,954
Capital outlay	136,309	-	217,512	118,693	472,514
Total expenditures	3,221,334	239,730	368,481	394,512	4,224,057
Excess revenues (expenditures)	(513,009)	294,402	(74,721)	79,937	(213,391)
OTHER FINANCING SOURCES (USES):					
Transfers in	576,615	-	-	135,008	711,623
Transfers out	(6,714)	(112,000)	(25,000)	(217,796)	(361,510)
Total other financing sources (uses)	569,901	(112,000)	(25,000)	(82,788)	350,113
Net changes in fund balances	56,892	182,402	(99,721)	(2,851)	136,722
Fund balances - beginning	826,938	26,514	207,553	877,864	1,938,869
Fund balances - ending	\$ 883,830	\$ 208,916	\$ 107,832	\$ 875,013	\$ 2,075,591

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, 2018

Net changes in fund balances - total governmental funds	\$ 136,722
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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 (\$472,514) exceeded depreciation expense (\$440,310).	32,204
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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.	(45,962)
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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.	515,411
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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	\$ (150,000)	
Compensated absences	17,416	
OPEB obligation	29,632	
Net pension liability	219,733	116,781

Changes in net position of governmental activities	\$ 755,156
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See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
March 31, 2018

	Electric Utility	Waste Water Utility	Water Utility
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,986,979	\$ 594,791	\$ 671,550
Receivables:			
Utilities	751,661	188,588	151,204
Miscellaneous	12,551	53,287	3,765
Prepaid items	8,102	5,288	2,743
Inventory	195,675	-	-
Total current assets	<u>2,954,968</u>	<u>841,954</u>	<u>829,262</u>
Noncurrent assets:			
Investments	675,871	-	-
Due from other funds	224,564	-	14,286
Capital assets, net of accumulated depreciation	3,543,145	2,430,435	1,491,964
Total noncurrent assets	<u>4,443,580</u>	<u>2,430,435</u>	<u>1,506,250</u>
Total assets	<u>\$ 7,398,548</u>	<u>\$ 3,272,389</u>	<u>\$ 2,335,512</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow - pension plan	<u>\$ 30,938</u>	<u>\$ 8,848</u>	<u>\$ 15,028</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 15,900	\$ 48,805	\$ 5,878
Accrued payroll	7,755	5,728	7,080
Customer deposits	90,229	-	-
Compensated absences	10,371	7,675	9,289
Unearned revenue	-	-	-
Bonds payable	-	55,000	-
Notes payable	-	-	-
Total current liabilities	<u>124,255</u>	<u>117,208</u>	<u>22,247</u>
Noncurrent liabilities:			
Compensated absences	41,483	30,702	37,156
OPEB obligation	135,625	108,692	98,112
Net pension liability	1,070,814	297,737	498,629
Bonds payable	-	525,718	-
Notes payable	-	-	-
Total noncurrent liabilities	<u>1,247,922</u>	<u>962,849</u>	<u>633,897</u>
Total liabilities	<u>\$ 1,372,177</u>	<u>\$ 1,080,057</u>	<u>\$ 656,144</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow - pension plan	<u>\$ 23,156</u>	<u>\$ 6,830</u>	<u>\$ 11,774</u>
NET POSITION			
Net investment in capital assets	\$ 3,543,145	\$ 1,849,717	\$ 1,491,964
Unrestricted	<u>2,491,008</u>	<u>344,633</u>	<u>190,658</u>
Total net position	<u>\$ 6,034,153</u>	<u>\$ 2,194,350</u>	<u>\$ 1,682,622</u>

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 556,731	\$ 3,810,051	\$ 1,130,084
90,237	1,181,690	-
1,653	71,256	-
2,467	18,600	3,415
-	195,675	15,134
<u>651,088</u>	<u>5,277,272</u>	<u>1,148,633</u>
-	675,871	-
-	238,850	-
584,045	8,049,589	330,004
<u>584,045</u>	<u>8,964,310</u>	<u>330,004</u>
<u>\$ 1,235,133</u>	<u>\$ 14,241,582</u>	<u>\$ 1,478,637</u>
<u>\$ 2,472</u>	<u>\$ 57,286</u>	<u>\$ -</u>
\$ 14,340	\$ 84,923	\$ 9,367
2,116	22,679	1,892
-	90,229	-
-	27,335	-
14,695	14,695	-
-	55,000	-
-	-	3,879
<u>31,151</u>	<u>294,861</u>	<u>15,138</u>
-	109,341	-
-	342,429	38,473
87,490	1,954,670	-
-	525,718	-
-	-	62,621
<u>87,490</u>	<u>2,932,158</u>	<u>101,094</u>
<u>\$ 118,641</u>	<u>\$ 3,227,019</u>	<u>\$ 116,232</u>
<u>\$ 1,803</u>	<u>\$ 43,563</u>	<u>\$ -</u>
\$ 584,045	\$ 7,468,871	\$ 263,504
<u>533,116</u>	<u>3,559,415</u>	<u>1,098,901</u>
<u>\$ 1,117,161</u>	<u>\$ 11,028,286</u>	<u>\$ 1,362,405</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, 2018

	Electric Utility	Waste Water Utility	Water Utility
OPERATING REVENUES:			
Charges for services	\$ 3,936,245	\$ 919,432	\$ 743,913
Miscellaneous	196,607	16,356	22,636
Total operating revenue	<u>4,132,852</u>	<u>935,788</u>	<u>766,549</u>
OPERATING EXPENSES:			
Salaries and fringes	946,538	397,529	358,529
Supplies	52,603	51,130	72,648
Contracted services	72,500	38,932	26,484
Repairs and maintenance	17,218	41,113	94,878
Utilities	108,477	51,598	47,190
Purchased power	2,701,115	-	-
Rent	17,752	5,759	3,399
Memberships and dues	6,336	4,752	1,279
Travel	2,117	222	-
Insurance	53,392	7,716	13,909
Education and training	10,561	4,177	4,327
Energy optimization program	69,880	-	-
Landfill tipping fees	-	493	-
Depreciation	191,650	118,504	127,503
Miscellaneous	42,050	64,303	8,705
Total operating expenses	<u>4,292,189</u>	<u>786,228</u>	<u>758,851</u>
Operating income (loss)	<u>(159,337)</u>	<u>149,560</u>	<u>7,698</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	50,247	1,868	2,609
Interest expense	-	(9,884)	-
Total nonoperating revenue (expense)	<u>50,247</u>	<u>(8,016)</u>	<u>2,609</u>
Income (loss) before transfers, contributions and special items	(109,090)	141,544	10,307
Gain/(loss) on asset disposal	-	1,650	(46,580)
Capital contributions	14,270	13,137	6,559
Transfer in	-	-	-
Transfer out	(218,534)	(54,533)	(71,986)
Change in net position	<u>(313,354)</u>	<u>101,798</u>	<u>(101,700)</u>
Total net position - beginning	6,875,887	2,092,552	1,784,322
Prior period adjustment	(528,380)	-	-
Total net position - beginning, restated	<u>6,347,507</u>	<u>2,092,552</u>	<u>1,784,322</u>
Total net position - ending	<u>\$ 6,034,153</u>	<u>\$ 2,194,350</u>	<u>\$ 1,682,622</u>

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 507,953	\$ 6,107,543	\$ 1,609,438
4,865	240,464	1,897
512,818	6,348,007	1,611,335
178,877	1,881,473	1,002,004
30,740	207,121	69,358
26,080	163,996	28,991
12,794	166,003	21,581
9,471	216,736	16,242
-	2,701,115	-
8,894	35,804	56
-	12,367	199
-	2,339	-
1,008	76,025	2,289
6	19,071	58
-	69,880	-
93,769	94,262	-
62,000	499,657	44,760
2,783	117,841	1,047
426,422	6,263,690	1,186,585
86,396	84,317	424,750
1,232	55,956	480
-	(9,884)	-
1,232	46,072	480
87,628	130,389	425,230
-	(44,930)	3,705
-	33,966	-
-	-	40,514
(45,575)	(390,628)	-
42,053	(271,203)	469,449
1,075,108	11,827,869	364,576
-	(528,380)	528,380
1,075,108	11,299,489	892,956
\$ 1,117,161	\$ 11,028,286	\$ 1,362,405

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2018

	Electric Utility	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 3,995,963	\$ 957,415	\$ 751,930
Cash receipts from interfund services provided	-	-	(14,286)
Payments to suppliers	(3,145,556)	(273,670)	(271,302)
Payments for wages and related benefits	(1,001,821)	(420,741)	(393,480)
Other receipts (payments)	196,607	16,356	22,636
Net cash provided (used) by operating activities	45,193	279,360	95,498
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(218,534)	(54,533)	(71,986)
Interfund loan (net)	-	-	-
Cash received (paid) on customer deposits	(25,372)	-	-
Net cash provided (used) by noncapital financing activities	(243,906)	(54,533)	(71,986)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	(105,379)	(29,778)	(15,589)
Principal paid on debt instruments	-	(55,000)	-
Interest paid on debt instruments	-	(9,884)	-
Loan proceeds	-	-	-
Proceeds from sale of capital assets	-	1,650	-
Capital contributions	14,270	13,137	6,559
Net cash provided (used) by capital and related financing activities	(91,109)	(79,875)	(9,030)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net transfers from/(to) investments	(23,240)	-	-
Interest earnings	50,247	1,868	2,609
Net cash provided (used) by investing activities	27,007	1,868	2,609
Net increase (decrease) in cash and equivalents	(262,815)	146,820	17,091
Cash and equivalents, beginning of year	2,249,794	447,971	654,459
Cash and equivalents, end of year	\$ 1,986,979	\$ 594,791	\$ 671,550
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (159,337)	\$ 149,560	\$ 7,698
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	191,650	118,504	127,503
Changes in assets and liabilities:			
(Increase) decrease in receivables	59,718	37,983	8,017
(Increase) decrease in due from other funds	-	-	(14,286)
(Increase) decrease in prepaid items	14,907	2,230	1,568
(Increase) decrease in inventory	(13,102)	-	-
(Increase) decrease in deferred outflows	26,339	7,105	11,713
Increase (decrease) in accounts payable	6,640	(5,705)	(51)
Increase (decrease) in accrued payroll	580	(3,670)	(6,171)
Increase (decrease) in OPEB liability	(6,918)	(5,545)	(5,005)
Increase (decrease) in net pension liability	(98,440)	(27,932)	(47,262)
Increase (decrease) in due to other funds	-	-	-
Increase (decrease) in unearned revenue	-	-	-
Increase (decrease) in deferred inflows	23,156	6,830	11,774
Net cash provided by operating activities	\$ 45,193	\$ 279,360	\$ 95,498

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 512,978	\$ 6,218,286	\$ -
-	(14,286)	1,606,023
(182,816)	(3,873,344)	(137,719)
(181,765)	(1,997,807)	(1,003,821)
4,865	240,464	-
<u>153,262</u>	<u>573,313</u>	<u>466,380</u>
(45,575)	(390,628)	40,514
-	-	-
-	(25,372)	-
<u>(45,575)</u>	<u>(416,000)</u>	<u>40,514</u>
-	(150,746)	(90,867)
-	(55,000)	-
-	(9,884)	-
-	-	66,500
-	1,650	3,705
-	33,966	-
<u>-</u>	<u>(180,014)</u>	<u>(20,662)</u>
-	(23,240)	-
1,232	55,956	480
<u>1,232</u>	<u>32,716</u>	<u>480</u>
108,919	10,015	486,712
<u>447,812</u>	<u>3,800,036</u>	<u>643,372</u>
<u>\$ 556,731</u>	<u>\$ 3,810,051</u>	<u>\$ 1,130,084</u>
\$ 86,396	\$ 84,317	\$ 424,750
62,000	499,657	44,760
5,025	110,743	-
-	(14,286)	-
479	19,184	(2,257)
-	(13,102)	-
2,201	47,358	-
6,075	6,959	944
1,023	(8,238)	146
-	(17,468)	(1,963)
(7,915)	(181,549)	-
-	-	-
(3,825)	(3,825)	-
1,803	43,563	-
<u>\$ 153,262</u>	<u>\$ 573,313</u>	<u>\$ 466,380</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
March 31, 2018

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 13,731
Receivables:	
Delinquent taxes	<u>109,621</u>
Total assets	<u>\$ 123,353</u>
LIABILITIES	
Due to other governmental units	<u>\$ 123,353</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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 units, 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 – Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are 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.

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. The Housing Commission financial data was not included in the City's financial statements in the current year as they were not prepared within the required time parameter.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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, 2018

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 Downtown Development Authority Fund accounts for the administrative costs of the authority.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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, 2018

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. 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, 2018

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, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- a. Cash and Equivalents – The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Position are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less or where there is no loss of principal upon early withdrawal.
- 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 Equipment 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, 2018

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, 2018

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 \$17,162 in the General Fund, \$450 in the Downtown Development Fund, and \$14,695 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, 2018

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, 2018

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, 2018

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 reported 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, 2018

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 unexpended appropriations lapse at the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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, 2018

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		\$	1,060
Deposits:			
Checking accounts	\$6,471,566		
Savings	15,589		
Certificate of Deposit	304,473		6,791,628
Total cash and equivalents			<u>\$6,792,688</u>
Government-wide Statement of Net Position Presentation:			
Unrestricted	\$5,986,379		
Restricted	792,578		\$6,778,957
Statement of Fiduciary Net Position			<u>13,731</u>
Total cash and equivalents			<u>\$6,792,688</u>
Investments:			
U.S. government agency securities		\$	247,123
Upper Peninsula Public Power Agency			<u>428,748</u>
Total investments		\$	<u>675,871</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, 2018

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	\$ 686,449	\$ 686,449
Uninsured	6,433,081	6,106,239
Total	<u>\$ 7,119,530</u>	<u>\$ 6,792,688</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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 \$6,433,081 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	\$ 247,123	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	\$ 247,123	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	\$ 247,123	AA+	S & P

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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 \$4,243 for donations related to a hover craft, \$75,461 for donations related to the Little Bay de Noc trail, and \$27,121 for donations related to a disc golf course.
2. The Cemetery Perpetual Care Fund in the amount of \$272,496 for cemetery care as required by the nature of the fund.
3. The Mary Cretens Trust Fund in the amount of \$413,257 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, 2018 the value of the investment was \$428,748 and was based upon the value as reported in UPPPA's December 31, 2017 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, 2018

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:

Year	Real	Personal	Total
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, 2018

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

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, 2018

NOTE C – PROPERTY TAXES (continued)

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

Year	City Tax	School *	Schools			Total Local Taxes	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt					
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, 2018

NOTE C – PROPERTY TAXES (continued)

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

Year	City Tax	School *	Schools			Total	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt	Local Taxes				
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

* 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, 2018 were as follows:

General Fund \$ 1,601,002 and the DDA Fund capture from the summer and winter levy's was \$276,860

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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, 2018, was as follows:

	Balance at <u>April 1, 2017</u>	<u>Additions</u>	Transfers/ <u>Disposals</u>	Balance at <u>March 31, 2018</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,619,627	\$ -	\$ -	\$ 1,619,627
Construction in progress	55,980	230,854	-	286,834
Total non-depreciable capital assets	<u>1,675,607</u>	<u>230,854</u>	<u>-</u>	<u>1,906,461</u>
Capital assets being depreciated:				
Land improvements	554,003	13,068	-	567,071
Buildings	3,455,799	31,714	-	3,487,513
Machinery and equipment	3,464,542	135,378	316,393	3,283,527
Infrastructure-road system	13,322,454	188,000	-	13,510,454
Infrastructure-other	1,587,906	-	-	1,587,906
Total depreciable capital assets	<u>22,384,704</u>	<u>368,160</u>	<u>316,393</u>	<u>22,436,471</u>
Total capital assets	<u>24,060,311</u>	<u>599,014</u>	<u>316,393</u>	<u>24,342,932</u>
Less accumulated depreciation:				
Land improvements	223,709	23,751	-	247,460
Buildings	1,938,217	63,262	-	2,001,479
Machinery and equipment	2,317,997	114,665	280,760	2,151,902
Infrastructure-road system	10,877,497	213,923	-	11,091,420
Infrastructure-other	728,716	69,469	-	798,185
Total accumulated depreciation	<u>16,086,136</u>	<u>485,070</u>	<u>280,760</u>	<u>16,290,446</u>
Net depreciable capital assets	<u>6,298,568</u>	<u>(116,910)</u>	<u>35,633</u>	<u>6,146,025</u>
Governmental activities capital assets, net	<u>\$ 7,974,175</u>	<u>\$ 113,944</u>	<u>\$ 35,633</u>	<u>\$ 8,052,486</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

NOTE D – CAPITAL ASSETS (continued)

	Balance at April 1, 2017	Transfers/ Additions	Transfers/ Disposals	Balance at March 31, 2018
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 236,836	\$ -	\$ -	\$ 236,836
Construction in progress	35,096	27,852	-	62,948
Total non-depreciable capital assets	<u>271,932</u>	<u>27,852</u>	<u>-</u>	<u>299,784</u>
Capital assets being depreciated:				
Buildings	1,125,879	-	-	1,125,879
Machinery and equipment	1,791,838	90,875	81,070	1,801,643
Infrastructure - other	485,287	-	-	485,287
Distribution/collection system	17,243,153	32,019	105,411	17,169,761
Total depreciable capital assets	<u>20,646,157</u>	<u>122,894</u>	<u>186,481</u>	<u>20,582,570</u>
Total capital assets	<u>20,918,089</u>	<u>150,746</u>	<u>186,481</u>	<u>20,882,354</u>
Less accumulated depreciation:				
Buildings	434,013	44,381	-	478,394
Machinery and equipment	930,059	112,267	78,411	963,915
Infrastructure - other	107,199	22,262	-	129,461
Distribution/collection system	11,001,738	320,747	61,490	11,260,995
Total accumulated depreciation	<u>12,473,009</u>	<u>499,657</u>	<u>139,901</u>	<u>12,832,765</u>
Net depreciable capital assets	<u>8,173,148</u>	<u>(376,763)</u>	<u>46,580</u>	<u>7,749,805</u>
Business-type activities capital assets, net	<u>\$ 8,445,080</u>	<u>\$ (348,911)</u>	<u>\$ 46,580</u>	<u>\$ 8,049,589</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

NOTE D – CAPITAL ASSETS (continued)

Depreciation expense was charged to the following activities:

Governmental activities:

General government	\$ 23,291
Public health and safety	60,863
Parks and recreation	120,524
Cemetery	5,346
Street system	220,279
Community development	10,007
Internal service activity	44,760
Total governmental activities	
depreciation expense	<u>\$ 485,070</u>

Business-type activities:

Electric	\$ 191,650
Waste water	118,504
Water	127,503
Solid waste	37,696
Harbor	23,257
Development	1,047
Total business-type activities	
depreciation expense	<u>\$ 499,657</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, 2018

NOTE E – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2018:

Type of Debt	Balance April 1, 2017	Additions	Deductions	Balance March 31, 2018	Amounts Due Within One Year
Governmental Activities:					
Other liabilities	\$ -	\$ 175,000	\$ 25,000	\$ 150,000	\$ 25,000
Compensated absences*	160,555	-	17,415	143,140	28,628
Total governmental long-term debt	<u>\$ 160,555</u>	<u>\$ 175,000</u>	<u>\$ 42,415</u>	<u>\$ 293,140</u>	<u>\$ 53,628</u>

Type of Debt	Balance April 1, 2017	Additions	Deductions	Balance March 31, 2018	Amounts Due Within One Year
Business-type Activities:					
2006 Sludge Storage bond	\$ 635,718	\$ -	\$ 55,000	\$ 580,718	\$ 55,000
Compensated absences*	145,001	-	8,325	136,676	27,335
Total business-type long-term debt	<u>\$ 780,719</u>	<u>\$ -</u>	<u>\$ 63,325</u>	<u>\$ 717,394</u>	<u>\$ 82,335</u>

* The changes in compensated absences are shown as a net change.

Debt service requirements on long-term debt at March 31, 2018 are as follows:

For the Year Ending March 31,	Governmental Activities		Business-type Activities	
	Other Liabilities		Bonds Payable	
	Principal	Interest	Principal	Interest
2019	\$ 25,000	\$ -	\$ 55,000	\$ 9,437
2020	25,000	-	55,000	8,543
2021	25,000	-	55,000	7,649
2022	25,000	-	55,000	6,755
2023	25,000	-	60,000	5,862
2024-2028	25,000	-	300,718	14,683
	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 580,718</u>	<u>\$ 52,929</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

NOTE E – LONG-TERM DEBT (continued)

Governmental Activities:

As of March 31, 2018, the long-term debt of governmental activities consists of the following:

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. The City approved the current year payment of \$25,000 on February 23, 2017.

Business-type Activities:

As of March 31, 2018, 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 \$143,140 are reported under governmental activities and \$136,676 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, 2018

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 have been classified 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, 2018 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 33,525	General Fund	\$ 182,647
Local Roads	23,985	DDA Fund	14,286
Electric Fund	224,564	Major Street Fund	46,013
Water Fund	<u>14,286</u>	Local Street Fund	19,889
		Capital Projects	<u>33,525</u>
Total	<u>\$ 296,360</u>	Total	<u>\$ 296,360</u>

Financial Statement Presentation:

Governmental Funds	\$ 57,510	Governmental Funds	\$ 296,360
Enterprise Funds	238,850	Enterprise Funds	-
Internal Service Funds	<u>-</u>	Internal Service Funds	<u>-</u>
	<u>\$ 296,360</u>		<u>\$ 296,360</u>

The interfund receivables are not expected to be repaid within the next fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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, 2018 were as follows:

		TRANSFERS IN		
		General	Nonmajor Govern.	Internal Service
				Total
TRANSFERS (OUT)	General	\$ -	\$ 2,124	\$ 4,590
	Major Street	-	102,000	10,000
	DDA Fund	25,000	-	-
	Nonmajor Govern.	201,391	13,905	2,500
	Electric	205,390	6,980	6,164
	Waste Water	44,293	5,000	5,240
	Water	61,746	5,000	5,240
	Nonmajor Enter.	38,795	-	6,780
	Internal Service	-	-	-
Total		\$ 576,615	\$ 135,009	\$ 40,514
				\$ 752,138

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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, 2017.

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.

	Divisions - For the 2017 Valuation			
	01-General Closed	02-Plc/Fire Closed	10-General Supervisor Closed	20-Pub Safety Comm Officers Closed
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, 2018

NOTE H – RETIREMENT PLANS (continued)

Employees Covered by Benefit Terms

At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>8</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, 2018 was as follows:

01 - General	\$ 17,942
02 – Police/Fire	\$ 17,367
10 – General Supervisor	\$ 28,292
20 – Public Safety Comm. Officers	\$ 1,793

Net Pension Liability

The City's net pension liability was measured as of December 31, 2017, 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, 2017 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, 2018

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, 2017 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	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate. The discount rate used to measure the total pension liability is 8.00% for 2017. 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, 2018

NOTE H – RETIREMENT PLANS (continued)

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	\$ 13,189,003	\$ 6,015,667	\$ 7,173,336
Service cost	58,336	-	58,336
Interest on total pension liability	1,019,988	-	1,019,988
Changes in benefits	-	-	-
Difference between expected and actual experience	(138,780)	-	(138,780)
Changes in assumptions	-	-	-
Employer contributions	-	768,951	(768,951)
Employee contributions	-	8,995	(8,995)
Net investment income	-	792,296	(792,296)
Benefit payments, including employee refunds	(936,653)	(936,653)	-
Administrative expense	-	(12,544)	12,544
Other changes	(4)	-	(4)
Net changes	2,887	621,045	(618,158)
Balances as of December 31, 2017	\$ 13,191,890	\$ 6,636,712	\$ 6,555,178

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

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
City's change in net pension liability at 12/31/17	\$1,283,022	\$-	(\$1,095,762)

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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, 2018, the City recognized pension expense of \$474,366. At March 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	152,585
Contributions subsequent to the measurement date *	<u>196,183</u>	<u>-</u>
Total	<u>\$ 196,183</u>	<u>\$ 152,585</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, 2019.

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:

2019	\$ 5,678
2020	5,678
2021	(100,362)
2022	(63,579)

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

NOTE H – RETIREMENT PLANS (continued)

Annual Pension Cost

During the year ended March 31, 2018, the City's contributions totaling \$784,728 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2016. 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 from 9 to 23 years.

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 3.0% 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 March 31,</u>	<u>Number of Participants</u>	<u>City's Share</u>	<u>Employee's Share</u>
2014	24	\$127,136	\$ 34,811
2015	26	130,467	35,710
2016	26	141,221	38,330
2017	26	146,864	39,688
2018	27	170,603	45,958

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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. As of March 31, 2018, the City Plan had 14 active plan members and 17 retirees and beneficiaries receiving benefits.

Funding Policy – For the year ended March 31, 2018 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. For fiscal year 2018, the City contributed \$255,209 to the plan. Plan members are not required to make contributions to the Plan.

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's annual net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 190,860
Interest on net OPEB obligation	70,766
Adjustment to annual required contribution	<u>(55,484)</u>
Annual OPEB cost (expense)	206,142
Contributions made	<u>(255,209)</u>
Increase in net OPEB obligation	(49,067)
Net OPEB obligation - beginning of year	<u>1,010,950</u>
Net OPEB obligation - end of year	<u><u>\$ 961,883</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contribution</u>	<u>Net OPEB Obligation</u>
2014	\$ 327,345	51%	\$ 957,248
2015	325,606	65%	1,071,381
2016	207,056	113%	1,043,515
2017	206,634	116%	1,010,950
2018	206,142	124%	961,883

Funded Status and Funding Progress – As of March 31, 2016, the actuarial accrued liability for benefits was \$2,489,098, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was unavailable, and the ratio of the unfunded actuarial accrued liability to the covered payroll was unavailable.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following these notes, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the March 31, 2016 actuarial valuation, the alternative method as provided under GASB Statement No. 45 was used, which incorporated the entry age cost method. The actuarial assumptions include a 7.0% post retirement interest rate, a discount rate of 7.0%, projected salary increases of 3.0% and healthcare inflation rates which are based on NIH National Health Expenditures Table 3, 2008 – 2024.

NOTE J – FUND BALANCE/RESTRICTED NET POSITION

As of March 31, 2018, fund balances are composed of the following:

	General Fund	Major Streets	DDA Fund	Nonmajor Funds	Total Funds
Nonspendable:					
Prepaid items	\$ 51,197	\$ -	\$ -	\$ -	\$ 51,197
Permanent fund principal	-	-	-	272,496	272,496
Restricted for:					
Street system	-	208,916	-	67,110	276,026
Health & welfare	-	-	-	29,728	29,728
Community development	-	-	-	413,257	413,257
Downtown development	-	-	107,832	-	107,832
Committed to:					
Public safety	192,724	-	-	-	192,724
Recreation & culture	-	-	-	92,422	92,422
Unassigned:	639,909	-	-	-	639,909
Total fund balance	<u>\$ 883,830</u>	<u>\$ 208,916</u>	<u>\$ 107,832</u>	<u>\$ 875,013</u>	<u>\$ 2,075,591</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 \$826,843 for governmental activities.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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 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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

NOTE K – RISK MANAGEMENT (continued)

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, 2018, 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.

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, 2018.

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

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

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>

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, 2018, 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 2018.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

NOTE O – FUTURE CHANGES IN ACCOUNTING PRINCIPLE

In June 2015 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which will enhance the note disclosures and schedules of required supplementary information for Other Postemployment Benefit Plans (OPEB). GASB Statement No. 75 establishes standards for governmental employer recognition, measurement, and presentation of information about OPEB plans. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB Statement No. 75 will be effective for the City's 2018-2019 fiscal year. The City is currently evaluating the impact these standards will have on the financial statements when adopted.

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.

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 P – TAX ABATEMENTS

For the year end March 31, 2018, the city did not have material tax abatements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2018

NOTE Q – PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the City created an internal service fund designed to charge other funds for the costs of retiree retirement expenses. In the prior year, the City's Electric department was charged \$528,380, but that amount was not moved. The costs are allocated to funds based on a split of retiree versus active employee retirement costs. The Statement of Net Position and the Statement of Net Position-Proprietary Funds have been restated to record the reclassification as of April 1, 2017.

	Governmental Activities	Business-Type Activities	Internal Service Fund Retirement System Fund	Enterprise Fund Electric Utility Fund
Beginning net position, as previously reported on March 31, 2017	\$ 4,432,188	\$ 11,827,869	\$ -	\$ 6,875,887
Prior period adjustment - move retirement funding Retirement Internal Service Fund	528,380	(528,380)	528,380	(528,380)
Net position, as restated on April 1, 2017	<u>\$ 4,960,568</u>	<u>\$ 11,299,489</u>	<u>\$ 528,380</u>	<u>\$ 6,347,507</u>

NOTE R – BUDGET NONCOMPLIANCE

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

During the year ended March 31, 2018 expenditures in the amount of \$16,550 were incurred in excess of amounts appropriated in the amended budgets for the Local Street Fund.

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, 2018

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	650,000	650,000	574,763	(75,237)
Local sources	119,100	119,100	114,070	(5,030)
Taxes	1,617,613	1,617,613	1,601,002	(16,611)
Charges for services	362,800	377,700	349,125	(28,575)
Interest income	2,000	2,000	2,979	979
Miscellaneous	111,550	116,450	66,386	(50,064)
Total revenues	2,863,063	2,882,863	2,708,325	(174,538)
EXPENDITURES:				
General government:				
City commission	540,038	186,060	173,046	13,014
City manager	128,545	157,045	149,509	7,536
Elections	22,070	8,838	7,515	1,323
City assessor	39,610	52,842	52,374	468
Board of review	2,015	3,140	2,947	193
City treasurer	85,918	85,918	86,873	(955)
City clerk	104,125	104,125	105,330	(1,205)
City hall	39,677	24,849	26,296	(1,447)
Computer & copier	24,000	24,000	22,896	1,104
Public health and safety:				
Police department	1,214,334	1,149,828	1,085,910	63,918
Fire department	146,060	146,060	103,202	42,858
Building and housing inspections	110,117	110,117	98,734	11,383
Parks and recreation:				
Recreation administrative	153,970	163,870	185,789	(21,919)
Parks	66,750	69,750	72,536	(2,786)
Beach	30,720	42,660	32,945	9,715
Sports park	246,230	246,230	81,728	164,502
Campground	91,435	91,435	62,137	29,298
Miscellaneous	106,222	106,222	104,819	1,403
Community Development:				
Administrative	-	-	6,174	(6,174)
Cemetery:				
Ground maintenance and burials	59,306	59,306	70,968	(11,662)
General public works:				
Sidewalks & alley maintenance	27,782	27,782	13,254	14,528
Grounds maintenance	14,252	23,855	25,089	(1,234)
Pension	-	922,438	514,954	407,484
Capital outlay	147,100	147,100	136,309	10,791
Total expenditures	3,400,276	3,953,470	3,221,334	732,136
Excess revenues (expenditures)	(537,213)	(1,070,607)	(513,009)	557,598
OTHER FINANCING SOURCES (USES)				
Transfer in	720,803	720,803	576,615	(144,188)
Transfer out	(183,590)	(224,240)	(6,714)	217,526
Total other financing sources (uses)	537,213	496,563	569,901	73,338
Net changes in fund balances	-	(574,044)	56,892	630,936
Fund balances - beginning	826,938	826,938	826,938	-
Fund balances - ending	\$ 826,938	\$ 252,894	\$ 883,830	\$ 630,936

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, 2018

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
State sources	\$ 431,341	\$ 431,341	\$ 525,190	\$ 93,849
Local sources	-	-	8,282	8,282
Interest income	-	-	491	491
Miscellaneous	2,400	2,400	169	(2,231)
Total revenues	433,741	433,741	534,132	100,391
EXPENDITURES:				
Street system	332,697	334,275	239,730	94,545
Capital outlay	-	-	-	-
Total expenditures	332,697	334,275	239,730	94,545
Excess revenues (expenditures)	101,044	99,466	294,402	194,936
OTHER FINANCING SOURCES (USES):				
Transfer in	11,456	11,456	-	(11,456)
Transfer out	(112,500)	(151,197)	(112,000)	39,197
Total other financing sources (uses)	(101,044)	(139,741)	(112,000)	27,741
Net changes in fund balances	-	(40,275)	182,402	222,677
Fund balances - beginning	26,514	26,514	26,514	-
Fund balances - ending	\$ 26,514	\$ (13,761)	\$ 208,916	\$ 222,677

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DOWNTOWN DEVELOPMENT AUTHORITY FUND
For the Year Ended March 31, 2018

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 20,000	\$ 20,000	\$ 4,234	\$ (15,766)
Local sources	30,000	30,000	10,651	(19,349)
Taxes	276,308	276,308	276,860	552
Interest income	-	-	664	664
Miscellaneous	-	-	1,351	1,351
Total revenues	326,308	326,308	293,760	(32,548)
EXPENDITURES:				
Community development	197,313	213,813	150,969	62,844
Capital outlay	226,731	226,731	217,512	9,219
Total expenditures	424,044	440,544	368,481	72,063
Excess revenues (expenditures)	(97,736)	(114,236)	(74,721)	39,515
OTHER FINANCING SOURCES (USES):				
Transfer in	(122,736)	(122,736)	-	122,736
Transfer out	(25,000)	(25,000)	(25,000)	-
Total other financing sources (uses)	(147,736)	(147,736)	(25,000)	122,736
Net changes in fund balances	(245,472)	(261,972)	(99,721)	162,251
Fund balances - beginning	207,553	207,553	207,553	-
Fund balances - ending	<u>\$ (37,919)</u>	<u>\$ (54,419)</u>	<u>\$ 107,832</u>	<u>\$ 162,251</u>

CITY OF GLADSTONE, MICHIGAN

**SCHEDULE OF FUNDING PROGRESS FOR THE
OTHER POST-EMPLOYMENT BENEFITS**

March 31, 2018

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b - a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
04/01/09	\$ -	\$ 4,245,147	\$ 4,247,147	0%	Not Available	-
04/01/12	-	4,076,657	4,076,657	0%	Not Available	-
04/01/15	2,317	2,491,415	2,489,098	0%	Not Available	-

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS - RETIREMENT SYSTEM
For the Year Ended March 31, 2018

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

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
RETIREMENT SYSTEM
For the Year Ended March 31, 2018

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

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	9 - 23 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.75%, average, including inflation
Investment rate of return	8.00%
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

OTHER SUPPLEMENTAL INFORMATION

**CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2018**

	Special Revenue Funds		
	Local Street	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
ASSETS			
Cash and equivalents:			
Restricted	\$ -	\$ -	\$ -
Unrestricted	15,976	3,390	26,338
Receivables:			
Accounts	-	-	-
Special assessments	17,184	-	-
Due from other governmental units	47,073	-	-
Due from other funds	23,985	-	-
Total assets	<u>\$ 104,218</u>	<u>\$ 3,390</u>	<u>\$ 26,338</u>
LIABILITIES			
Liabilities:			
Accounts payable	\$ 208	\$ -	\$ -
Accrued payroll	1,616	-	-
Due to other funds	19,889	-	-
Total liabilities	<u>21,713</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue - special assessments	<u>15,395</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	67,110	3,390	26,338
Committed	-	-	-
Total fund balances	<u>67,110</u>	<u>3,390</u>	<u>26,338</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 104,218</u>	<u>\$ 3,390</u>	<u>\$ 26,338</u>

See accompanying notes to financial statements.

<u>Special Revenue Funds</u>	<u>Capital Projects Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Mary Cretens Trust</u>	<u>Capital Projects</u>	<u>Cemetery Perpetual Care</u>	
\$ 413,257	\$ -	272,496	\$ 685,753
-	-	-	45,704
-	126,117	-	126,117
-	-	-	17,184
-	-	-	47,073
			23,985
<u>\$ 413,257</u>	<u>\$ 126,117</u>	<u>\$ 272,496</u>	<u>\$ 945,816</u>
\$ -	\$ -	\$ -	\$ 208
-	170	-	1,786
-	33,525	-	53,414
-	33,695	-	55,408
-	-	-	15,395
-	-	272,496	272,496
413,257	-	-	510,095
-	92,422	-	92,422
<u>413,257</u>	<u>92,422</u>	<u>272,496</u>	<u>875,013</u>
<u>\$ 413,257</u>	<u>\$ 126,117</u>	<u>\$ 272,496</u>	<u>\$ 945,816</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, 2018

	Special Revenue Funds		
	Local Street	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
REVENUES:			
State sources	\$ 195,320	\$ -	\$ -
Local sources	2,469	-	-
Interest income	32	-	-
Miscellaneous	52	-	-
Total revenues	197,873	-	-
EXPENDITURES:			
General government	-	-	-
Parks and recreation	-	-	-
Street system	231,439	-	-
Capital outlay	-	-	-
Total expenditures	231,439	-	-
Excess revenues (expenditures)	(33,566)	-	-
OTHER FINANCING SOURCES (USES):			
Transfers in	100,000	-	-
Transfers out	(4,500)	-	-
Total other financing sources (uses)	95,500	-	-
Net changes in fund balances	61,934	-	-
Fund balances - beginning	5,176	3,390	26,338
Fund balances - ending	\$ 67,110	\$ 3,390	\$ 26,338

See accompanying notes to financial statements.

Special Revenue Funds	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Capital Projects	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ 195,320
164,401	107,188	2,300	276,358
1,696	-	991	2,719
-	-	-	52
166,097	107,188	3,291	474,449
-	35,050	-	35,050
-	9,330	-	9,330
-	-	-	231,439
-	118,693	-	118,693
-	163,073	-	394,512
166,097	(55,885)	3,291	79,937
-	35,008	-	135,008
(212,384)	-	(912)	(217,796)
(212,384)	35,008	(912)	(82,788)
(46,287)	(20,877)	2,379	(2,851)
459,544	113,299	270,117	877,864
\$ 413,257	\$ 92,422	\$ 272,496	\$ 875,013

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
March 31, 2018

	Economic Development Corporation	Harbor	Solid Waste	Total Nonmajor Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 168,893	\$ 114,660	\$ 273,178	\$ 556,731
Receivables:				
Utilities	-	-	90,237	90,237
Miscellaneous	-	1,153	500	1,653
Prepaid items	-	-	2,467	2,467
Total current assets	<u>168,893</u>	<u>115,813</u>	<u>366,382</u>	<u>651,088</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	23,464	338,933	221,648	584,045
Total noncurrent assets	<u>23,464</u>	<u>338,933</u>	<u>221,648</u>	<u>584,045</u>
Total assets	<u>\$ 192,357</u>	<u>\$ 454,746</u>	<u>\$ 588,030</u>	<u>\$ 1,235,133</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - pension plan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,472</u>	<u>\$ 2,472</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 686	\$ 1,471	\$ 12,183	\$ 14,340
Accrued payroll	-	51	2,065	2,116
Unearned revenue	-	14,695	-	14,695
Total current liabilities	<u>686</u>	<u>16,217</u>	<u>14,248</u>	<u>31,151</u>
Noncurrent liabilities:				
Net pension liability	-	-	87,490	87,490
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>87,490</u>	<u>87,490</u>
Total liabilities	<u>\$ 686</u>	<u>\$ 16,217</u>	<u>\$ 101,738</u>	<u>\$ 118,641</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow - pension plan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,803</u>	<u>\$ 1,803</u>
NET POSITION				
Net investment in capital assets	\$ 23,464	\$ 338,933	\$ 221,648	\$ 584,045
Unrestricted	<u>168,207</u>	<u>99,596</u>	<u>265,313</u>	<u>533,116</u>
Total net position	<u>\$ 191,671</u>	<u>\$ 438,529</u>	<u>\$ 486,961</u>	<u>\$ 1,117,161</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, 2018

	Economic Development Corporation	Harbor	Solid Waste	Total Nonmajor Enterprise Funds
OPERATING REVENUES:				
Charges for services	\$ -	\$ 58,577	\$ 449,376	\$ 507,953
Miscellaneous	21	-	4,844	4,865
Total operating revenue	21	58,577	454,220	512,818
OPERATING EXPENSES:				
Salaries and fringes	-	10,673	168,204	178,877
Supplies	-	17,758	12,982	30,740
Contracted services	9,031	1,273	15,776	26,080
Repairs and maintenance	-	157	12,637	12,794
Utilities	-	9,437	34	9,471
Rent	-	-	8,894	8,894
Insurance	-	741	267	1,008
Education and training	-	-	6	6
Landfill tipping fees	-	-	93,769	93,769
Depreciation	1,047	23,257	37,696	62,000
Miscellaneous	-	1,551	1,232	2,783
Total operating expenses	10,078	64,847	351,497	426,422
Operating income (loss)	(10,057)	(6,270)	102,723	86,396
NONOPERATING REVENUES (EXPENSES):				
Interest income	20	437	775	1,232
Income (loss) before transfers, contributions and special items	(10,037)	(5,833)	103,498	87,628
Transfer out	(396)	(12,000)	(33,179)	(45,575)
Change in net position	(10,433)	(17,833)	70,319	42,053
Total net position - beginning	202,104	456,362	416,642	1,075,108
Total net position - ending	\$ 191,671	\$ 438,529	\$ 486,961	\$ 1,117,161

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2018

	Economic Development Corporation	Harbor	Solid Waste	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ -	\$ 58,177	\$ 454,801	\$ 512,978
Payments to suppliers	(15,345)	(33,496)	(133,975)	(182,816)
Payments for wages and related benefits	-	(10,622)	(171,143)	(181,765)
Other receipts (payments)	21	-	4,844	4,865
Net cash provided (used) by operating activities	(15,324)	14,059	154,527	153,262
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	(396)	(12,000)	(33,179)	(45,575)
Net cash provided (used) by noncapital financing activities	(396)	(12,000)	(33,179)	(45,575)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of fixed assets	-	-	-	-
Net cash provided (used) by capital and related financing activities	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earnings	20	437	775	1,232
Net cash provided (used) by investing activities	20	437	775	1,232
Net increase (decrease) in cash and equivalents	(15,700)	2,496	122,123	108,919
Cash and equivalents, beginning of year	184,593	112,164	151,055	447,812
Cash and equivalents, end of year	\$ 168,893	\$ 114,660	\$ 273,178	\$ 556,731
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (10,057)	\$ (6,270)	\$ 102,723	\$ 86,396
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	1,047	23,257	37,696	62,000
Changes in assets and liabilities:				
(Increase) decrease in receivables	-	(400)	5,425	5,025
(Increase) decrease in prepaid items	-	-	479	479
(Increase) decrease in deferred outflows	-	-	2,201	2,201
Increase (decrease) in accounts payable	(6,314)	1,246	11,143	6,075
Increase (decrease) in accrued payroll	-	51	972	1,023
Increase (decrease) in net pension liability	-	-	(7,915)	(7,915)
Increase (decrease) in unearned revenue	-	(3,825)	-	(3,825)
Increase (decrease) in deferred inflows	-	-	1,803	1,803
Net cash provided by operating activities	\$ (15,324)	\$ 14,059	\$ 154,527	\$ 153,262

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
March 31, 2018

	Equipment Fund	Retirement System Fund	Employee Health Care Fund	Total Internal Service Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 89,369	\$ 1,040,715	\$ -	\$ 1,130,084
Prepaid items	-	-	3,415	3,415
Inventory	15,134	-	-	15,134
Total current assets	<u>104,503</u>	<u>1,040,715</u>	<u>3,415</u>	<u>1,148,633</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	330,004	-	-	330,004
Total noncurrent assets	<u>330,004</u>	<u>-</u>	<u>-</u>	<u>330,004</u>
Total assets	<u>\$ 434,507</u>	<u>\$ 1,040,715</u>	<u>\$ 3,415</u>	<u>\$ 1,478,637</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 9,367	\$ -	\$ -	\$ 9,367
Accrued payroll	1,553	-	339	1,892
Notes payable	3,879	-	-	3,879
Total current liabilities	<u>14,799</u>	<u>-</u>	<u>339</u>	<u>15,138</u>
Noncurrent liabilities:				
OPEB obligation	38,473	-	-	38,473
Notes payable	62,621	-	-	62,621
Total noncurrent liabilities	<u>101,094</u>	<u>-</u>	<u>-</u>	<u>101,094</u>
Total liabilities	<u>\$ 115,893</u>	<u>\$ -</u>	<u>\$ 339</u>	<u>\$ 116,232</u>
NET POSITION				
Net investment in capital assets	\$ 263,504	\$ -	\$ -	\$ 263,504
Unrestricted	55,110	1,040,715	3,076	1,098,901
Total net position	<u>\$ 318,614</u>	<u>\$ 1,040,715</u>	<u>\$ 3,076</u>	<u>\$ 1,362,405</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, 2018

	Equipment Fund	Retirement System Fund	Employee Health Care Fund	Total Internal Service Funds
OPERATING REVENUES:				
Charges for services	\$ 236,404	\$ 1,174,221	\$ 198,813	\$ 1,609,438
Miscellaneous	1,897	-	-	1,897
Total operating revenue	238,301	1,174,221	198,813	1,611,335
OPERATING EXPENSES:				
Salaries and fringes	144,324	\$ 661,943	\$ 195,737	\$ 1,002,004
Supplies	69,358	-	-	69,358
Contracted services	28,991	-	-	28,991
Repairs and maintenance	21,581	-	-	21,581
Utilities	16,242	-	-	16,242
Rent	56	-	-	56
Memberships and dues	199	-	-	199
Insurance	2,289	-	-	2,289
Education and training	58	-	-	58
Depreciation	44,760	-	-	44,760
Miscellaneous	1,047	-	-	1,047
Total operating expenses	328,905	661,943	195,737	1,186,585
Operating income (loss)	(90,604)	512,278	3,076	424,750
NONOPERATING REVENUES (EXPENSES):				
Interest income	423	57	-	480
Income (loss) before transfers, contributions and special items	(90,181)	512,335	3,076	425,230
Gain/(loss) on asset disposal	3,705	-	-	3,705
Transfer in	40,514	-	-	40,514
Transfer out	-	-	-	-
Change in net position	(45,962)	512,335	3,076	469,449
Total net position - beginning	364,576	-	-	364,576
Adjustments to net position - beginning of year	-	528,380	-	528,380
Net position - beginning of year, restated	364,576	528,380	-	892,956
Total net position - ending	\$ 318,614	\$ 1,040,715	\$ 3,076	\$ 1,362,405

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended March 31, 2018

	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	236,404	1,174,221	195,398	1,606,023
Payments to suppliers	(137,719)	-	-	(137,719)
Payments for wages and related benefits	(146,480)	(661,943)	(195,398)	(1,003,821)
Other receipts (payments)	1,897	-	-	1,897
Net cash provided (used) by operating activities	(45,898)	512,278	-	466,380
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	40,514	-	-	40,514
Net cash provided (used) by noncapital financing activities	40,514	-	-	40,514
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of fixed assets	(90,867)	-	-	(90,867)
Principal paid on debt instruments	-	-	-	-
Interest paid on debt instruments	-	-	-	-
Loan proceeds	66,500	-	-	66,500
Proceeds from sale of capital assets	3,705	-	-	3,705
Net cash provided (used) by capital and related financing activities	(20,662)	-	-	(20,662)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earnings	423	57	-	480
Net cash provided (used) by investing activities	423	57	-	480
Net increase (decrease) in cash and equivalents	(25,623)	512,335	-	486,712
Cash and equivalents, beginning of year	114,992	528,380	-	643,372
Cash and equivalents, end of year	\$ 89,369	\$ 1,040,715	\$ -	\$ 1,130,084
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (90,604)	\$ 512,278	\$ 3,076	\$ 424,750
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	44,760	-	-	44,760
Changes in assets and liabilities:				
(Increase) decrease in prepaid items	1,158	-	(3,415)	(2,257)
Increase (decrease) in accounts payable	944	-	-	944
Increase (decrease) in accrued payroll	(193)	-	339	146
Increase (decrease) in OPEB liability	(1,963)	-	-	(1,963)
Net cash provided by operating activities	\$ (45,898)	\$ 512,278	\$ -	\$ 466,380

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, 2018

ALL UTILITIES:

Population served	4,973
Average number of meters in service	5,152

ELECTRIC UTILITY FUND:

K.W.H. purchased	32,232,899
K.W.H. sold	<u>30,972,382</u>
K.W.H. lost (4%)	<u><u>1,260,517</u></u>
Renewal from sales	<u><u>\$ 4,197,535</u></u>
Average number of meters	2,933

WATER UTILITY FUND:

Gallons pumped into plant	116,906,800
Gallons used in plant, system maintenance & let runs	<u>5,886,547</u>
Gallons pumped to mains	111,020,253
Gallons sold	<u>89,245,000</u>
Gallons lost (19%)	<u><u>21,775,253</u></u>
Revenue from sales	<u><u>\$ 756,988</u></u>
Average number of meters in service	2,219

WASTE WATER UTILITY FUND:

Revenue from sales	<u><u>\$ 728,251</u></u>
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ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Kristine P. Berhow, CPA, Principal
Brandy M. Olson, CPA, Principal
Kathleen A. Ciantar, CPA, Principal

"A Regional Firm With Offices in Michigan and Wisconsin"

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 City Manager, 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, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan as of and for the year ended March 31, 2018, 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 26, 2018. Our report on the City's basic financial statements includes an adverse opinion on the discretely presented component unit (Gladstone Housing Commission). This report does not include testing of internal control over financial reporting or compliance and other matters as it relates to the Gladstone Housing Commission.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness.

2018-001 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 and by the City staff not reconciling activity recorded in the general ledger.

Effect: The City lacks internal controls over recording and reporting accounting data.

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, but the City was short staffed in the past year due to medical leaves. We will continue to make every effort to properly accrue all revenue and expenditures and to properly classify activity.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

2018-002 Deficiency: Significant deficiency for the City not reconciling cash and other activity recorded in the general ledger through manual journal entries on a timely basis.

Criteria: One of the most significant internal controls over an entity's cash assets are regular bank account reconciliations. A bank reconciliation identifies difference between the City's general ledger (book balance) and the bank statement balance. Timely book-to-bank reconciliations are important controls for detecting potential fraud and identifying errors, including data entry errors. Timely review of manual journal entries by an individual independent of the transaction is also an important control for detecting potential fraud and identifying errors.

Condition: Cash reconciliations were performed more than 30 days after the end of each calendar month and had unidentified reconciling items. Manual journal entries were not reviewed timely.

Cause: This condition was caused by the City not reconciling cash activity or approving manual journal entries in a timely manner. The condition was partially caused by staff medical leaves.

Effect: The City lacks internal controls over reconciling and approving cash and manual journal entries, especially during times of short staffing.

Recommendation: The City should reconcile all balance sheets accounts, especially cash accounts, within 30 days of the end of each month. The City should ensure all reconciling items are properly identified and understood. Also, the City should implement control procedures related to review and approval of manual journal entries within a timely manner.

Management Response: Staff will continue to make every effort to reconcile cash in a timely manner and to have journal entries reviewed by an individual independent of the transaction in a timely manner, but the City was short staffed in the past year due to medical leaves.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

2018-003 Compliance Finding – Violation of Public Act 621 of 1978, as Amended

Condition: During Fiscal year ended March 31, 2018, expenditures were incurred in excess of amounts appropriated in the amended budget of the Local Streets Fund (see footnote R for detail).

Criteria: Expenditures in excess of appropriations is contrary to the provisions of Public Act 621.

Recommendation: We recommend that the City develop budgetary control procedures, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management Response: Monthly revenue and expenditure reports are generated and reviewed by the City Commission. If action is needed to address an overage in expenditure accounts, a budget amendment will be submitted to the City Commission for approval.

City of Gladstone, Michigan's Response to Findings

The City of Gladstone, Michigan'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 26, 2018