

**CITY OF GLADSTONE, MICHIGAN**

**BASIC FINANCIAL STATEMENTS  
with Supplemental Information**

**March 31, 2022**

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*“A Regional Firm Within the Upper Peninsula of Michigan”*

## **INDEPENDENT AUDITOR’S REPORT**

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

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan (the “City”), as of and for the year ended March 31, 2022, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan, as of March 31, 2022, 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.

We did not audit the financial statements of the Gladstone Housing Commission, which represent 100 percent of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Gladstone Housing Commission, is based solely on the report of the other auditors.

#### ***Basis for Opinions***

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. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, and Schedules of Changes in Net Pension Liability and Related Ratios and Employer Contributions for the Retirement System, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary 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 accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 by us and other auditors. In our opinion, based on our report and the report of the other auditors, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the Utility Funds Schedule of Operating Statistics, Schedule of State Equalized Valuation and Taxable Values, and Schedule of Annual Tax Rates but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2022, on our consideration of the City'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 City's internal control over financial reporting and compliance.



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

September 23, 2022

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

## 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, 2022. 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 \$20,052,918. Net position increased \$846,701 from March 31, 2021. Net position for our business-type activities was \$12,057,212, an increase of \$915,870 from 2021 (not including prior period adjustment), while net position in our governmental activities was \$7,995,706, a decrease of \$69,169 from 2021 (not including prior period adjustment).
- The City's expenses for the year totaled \$11,787,882, an increase of \$1,130,622 over 2021. Revenue from all sources was \$12,634,583, a decrease of \$141,478 from 2021.
- In the City's business-type activities, total revenues were \$7,234,298, an increase of 6.6% over the previous year. Business-type activity revenues as a percentage of total revenues were 57% for 2022 compared to 53% for 2021.
- In 2022, the City received \$159,776 from the Dr. Mary Cretens Trust which was budgeted for expenditure in the 2023 fiscal year. In 2021, the City received \$154,496 from the Trust which was budgeted for expenditure in the 2022 fiscal year.
- The General Fund finished the year with an increase in fund balance of \$78,517 and an ending fund balance of \$586,656. This was after revenues of \$3,779,264 compared to \$3,469,462 in 2021, and expenditures of \$3,889,142 compared to expenditures of \$3,760,487 in 2021, exclusive of other financing sources and uses. The General Fund had other financing sources of \$188,395 in 2022 compared to \$65,990 in 2021.
- The City eliminated its net OPEB liability in fiscal year 2020 by reaching buyout agreements with all retirees and making those payments before year end. The City also negotiated buyout agreements with active employees. Depending on the agreement, these buyouts will be paid over the next several years and are shown on the Statement of Net Position.
- The 15<sup>th</sup> Street Infrastructure Project Special Assessment was assessed in 2022 with a certified roll of \$210,032.

### USING THIS REPORT

This annual report consists of financial statements. The Statement of Net Position and Statement of Activities (on pages 16 through 18) 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 19. 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, and Harbor are reported here.

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

## **Reporting the City's Most Significant Funds**

### **Fund Financial Statements**

Our analysis of the City's Major Funds begins on page 11. The fund financial statements begin on page 19 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 Retirement System 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 and Statement of Changes in Fiduciary Net Position on pages 31-32. 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 \$846,701.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities	
	2022	2021	2022	2021
Current and other assets	\$ 3,617,573	\$ 4,010,618	\$ 6,016,528	\$ 6,264,112
Capital assets (net)	13,990,062	13,296,461	9,019,882	8,103,186
Total Assets	<u>\$ 17,607,635</u>	<u>\$ 17,307,079</u>	<u>\$ 15,036,410</u>	<u>\$ 14,367,298</u>
Deferred outflows	<u>\$ 326,802</u>	<u>\$ 404,907</u>	<u>\$ 143,402</u>	<u>\$ 173,710</u>
Long-term obligations	\$ 5,081,832	\$ 4,631,263	\$ 360,718	\$ 415,718
Other liabilities	4,295,169	4,716,691	2,520,098	2,691,340
Total Liabilities	<u>\$ 9,377,001</u>	<u>\$ 9,347,954</u>	<u>\$ 2,880,816</u>	<u>\$ 3,107,058</u>
Deferred inflows	<u>\$ 561,730</u>	<u>\$ 415,708</u>	<u>\$ 241,784</u>	<u>\$ 176,057</u>
Net Position:				
Net investment in capital assets	\$ 9,195,097	\$ 8,997,102	\$ 8,659,164	\$ 7,687,468
Restricted:				
Expendable	1,494,132	1,800,922	-	39,727
Nonexpendable	274,074	275,578	-	-
Unrestricted	(2,967,597)	(3,125,278)	3,398,048	3,530,698
Total net position	<u>\$ 7,995,706</u>	<u>\$ 7,948,324</u>	<u>\$ 12,057,212</u>	<u>\$ 11,257,893</u>

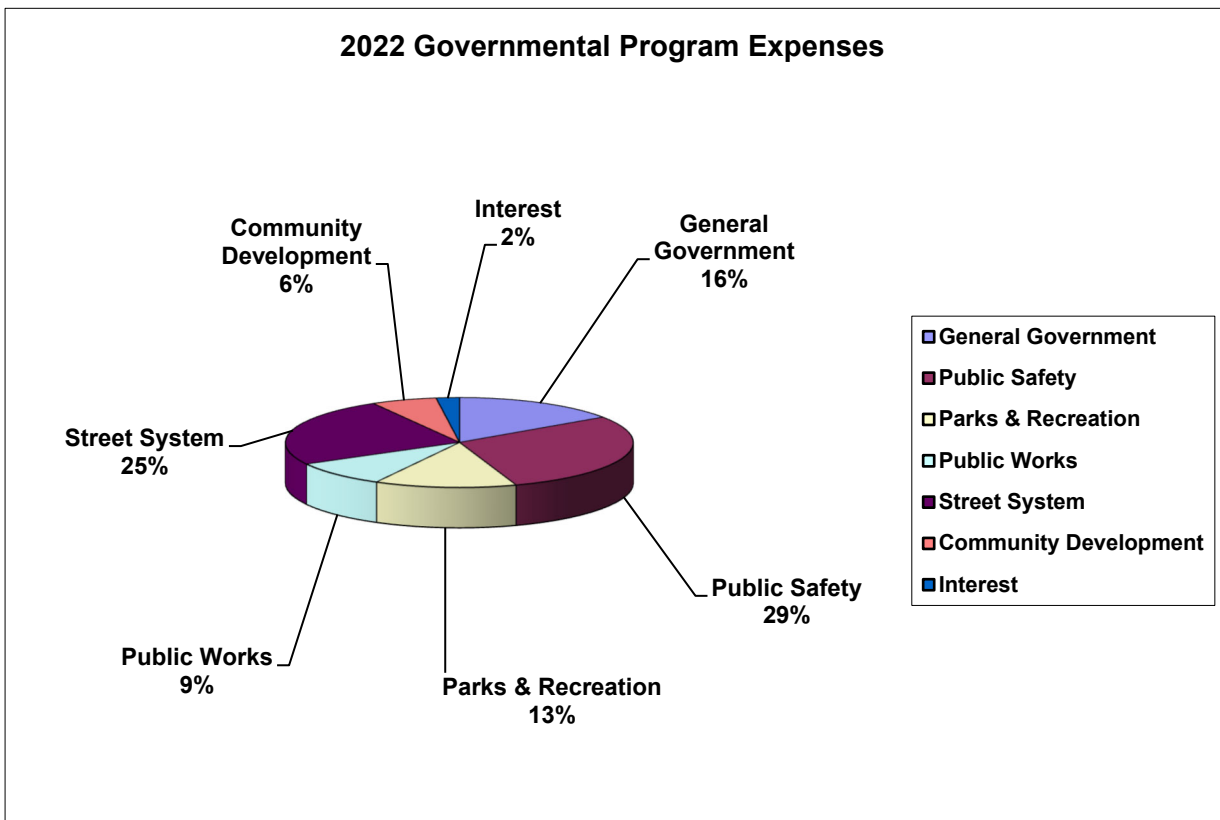
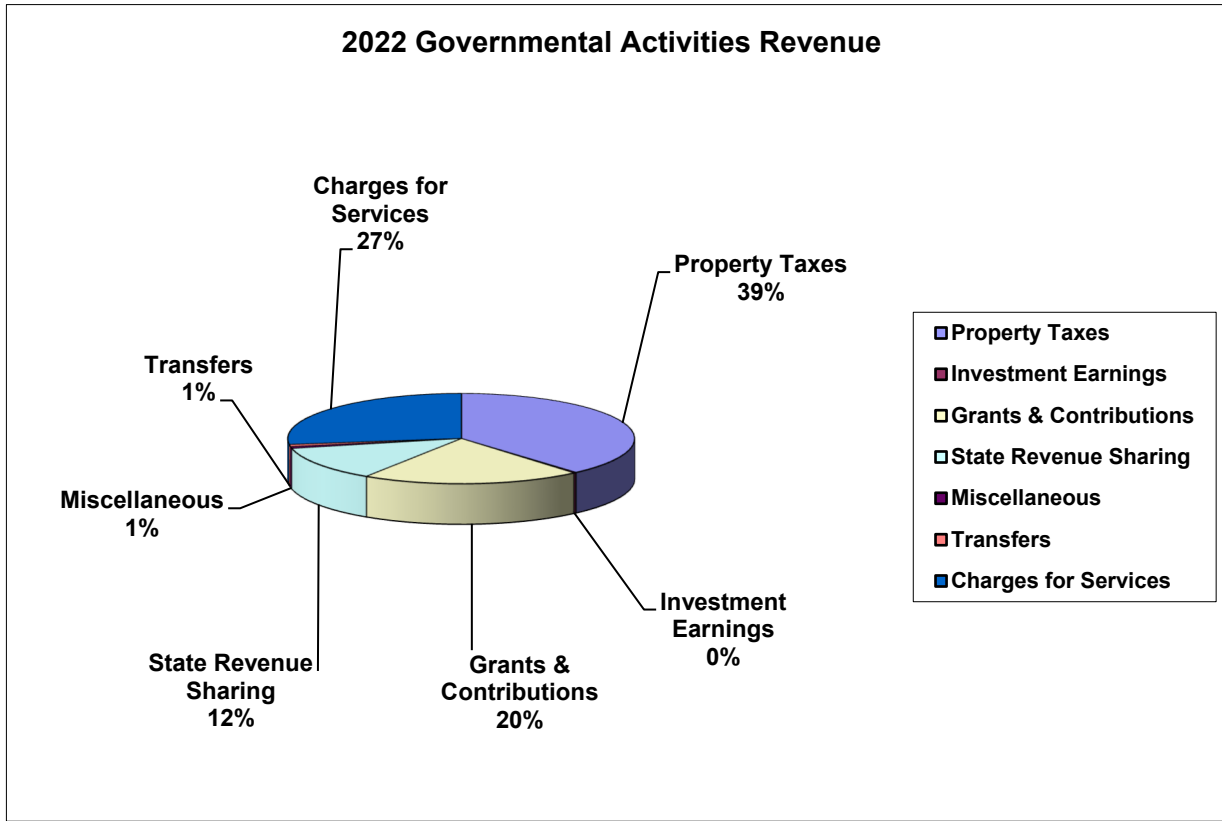
Net position of the City's governmental activities stood at \$7,995,706, up from \$7,948,324 in 2021 (1%). Total governmental activities' assets increased by 2%, and total liabilities increased by 0.3%. The ratio of assets to liabilities increased slightly from 1.85 in 2021 to 1.88 in 2022.

Net position in our business-type activities stood at \$12,057,212, up from \$11,257,893 in 2021 (7%). Total assets increased by 5%, while liabilities decreased by 7% from the prior year. Unrestricted net position decreased to \$3,398,048 from \$3,530,698 while the amount invested in capital assets (net of related debt) increased to \$8,659,164 from \$7,687,468 in 2021.

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activities	
	2022	2021	2022	2021
<b>Revenues:</b>				
Program Revenues:				
Charges for services	\$ 1,484,897	\$ 1,833,422	\$ 7,237,729	\$ 6,552,877
Operating grants	913,341	1,019,363	-	-
Capital grants	29,540	310,529	3,522	220,037
General Revenues:				
Property taxes	2,108,199	2,074,769	-	-
State revenue sharing	671,236	542,264	-	-
Unrestricted grants	173,300	170,333	-	-
Unrestricted investment earnings	(14,384)	(6,485)	(6,953)	16,124
Miscellaneous	32,156	39,994	-	-
Total Revenues	<u>5,398,285</u>	<u>5,984,189</u>	<u>7,234,298</u>	<u>6,789,038</u>
<b>Program Expenses:</b>				
General government	852,856	741,442	-	-
Public safety	1,613,138	1,657,272	-	-
Parks & recreation	725,327	625,215	-	-
Public works	502,322	407,134	-	-
Street system	1,364,075	693,687	-	-
Community development	335,730	106,607	-	-
Interest on long-term debt	119,006	115,362	-	-
Electric	-	-	4,074,563	3,881,307
Wastewater	-	-	974,492	1,104,477
Water	-	-	701,469	768,582
Solid waste	-	-	446,765	445,554
Harbor	-	-	78,139	87,170
Economic development	-	-	-	23,451
Total Expenses	<u>5,512,454</u>	<u>4,346,719</u>	<u>6,275,428</u>	<u>6,310,541</u>
Excess (deficiency) before transfers and contributions	(114,169)	1,637,470	958,870	478,497
Transfers	43,000	31,000	(43,000)	(31,000)
Contributions to permanent fund	2,000	3,600	-	-
Gain/(loss) on sale of fixed assets	-	-	-	(766)
Increase (decrease) in net position	<u>(69,169)</u>	<u>1,672,070</u>	<u>915,870</u>	<u>446,731</u>
Net position - beginning	7,948,324	6,276,254	11,257,893	10,811,162
Prior period adjustment	116,551	-	(116,551)	-
Net position - beginning, as restated	<u>8,064,875</u>	<u>6,276,254</u>	<u>11,141,342</u>	<u>10,811,162</u>
Net position - ending	<u>\$ 7,995,706</u>	<u>\$ 7,948,324</u>	<u>\$ 12,057,212</u>	<u>\$ 11,257,893</u>

**GOVERNMENTAL ACTIVITIES**



The City’s total revenues were \$12,634,583, down from \$12,766,061 in 2021. The cost of all programs and services was \$11,787,882, up from \$10,657,260 in 2021. For 2022, there was an overall excess of revenues over expenses of \$846,701, compared to an excess of expenses over revenue of \$2,118,801 in 2021.

**Governmental Activities**

Revenues for the City’s governmental activities totaled \$5,443,285, down 9.56% from \$6,018,789 in 2021. The greater revenue in the prior year primarily related to new special assessments for 4<sup>th</sup> Street and 9<sup>th</sup> Street infrastructure projects. Expenses increased by 26.8% or \$1,165,735 in 2022 as compared to 2021. Most departments saw an increase in program expenses. Street system expenses in particular had an increase from the prior year related to greater costs for repair and maintenance projects and related equipment costs. There was also about \$475,000 in pension-related expenses paid by the City’s Retirement System Fund.

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	
	2022	2021	2022	2021
Public safety	\$ 1,613,138	\$ 1,657,272	\$ 1,565,917	\$ 1,476,056
Street systems	1,364,075	693,687	245,324	(1,300,492)
Parks & recreation	725,327	625,215	409,996	442,430
Public works	502,322	407,134	124,008	166,237
General government	852,856	741,442	287,607	203,070
Totals	<u>\$ 5,057,718</u>	<u>\$ 4,124,750</u>	<u>\$ 2,632,852</u>	<u>\$ 987,301</u>

**Business-Type Activities**

Revenues for the City’s business-type activities totaled \$7,234,298, up from \$6,788,272 in 2021 (+6.6%). Business-type activity expenses decreased by \$35,113 (-0.6%). The increased revenues were primarily in the Electric and Waste Water Funds and related to increases in utility rates.

## **THE CITY'S FUNDS**

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 19) reported a combined fund balance of \$2,354,862, a decrease of \$321,251 (not including the effect of prior period adjustment) from 2021. The combined decrease in fund balance, in large part, comes from capital outlays for the road system and various machinery and equipment.

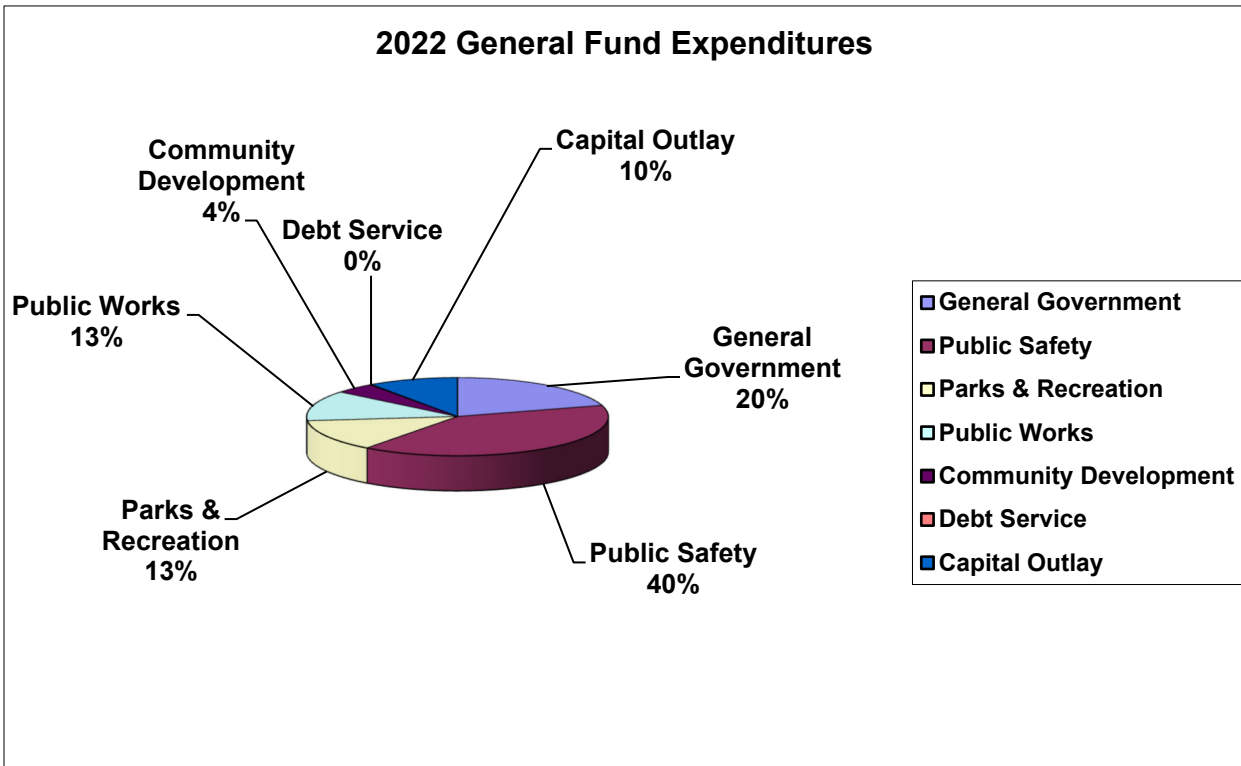
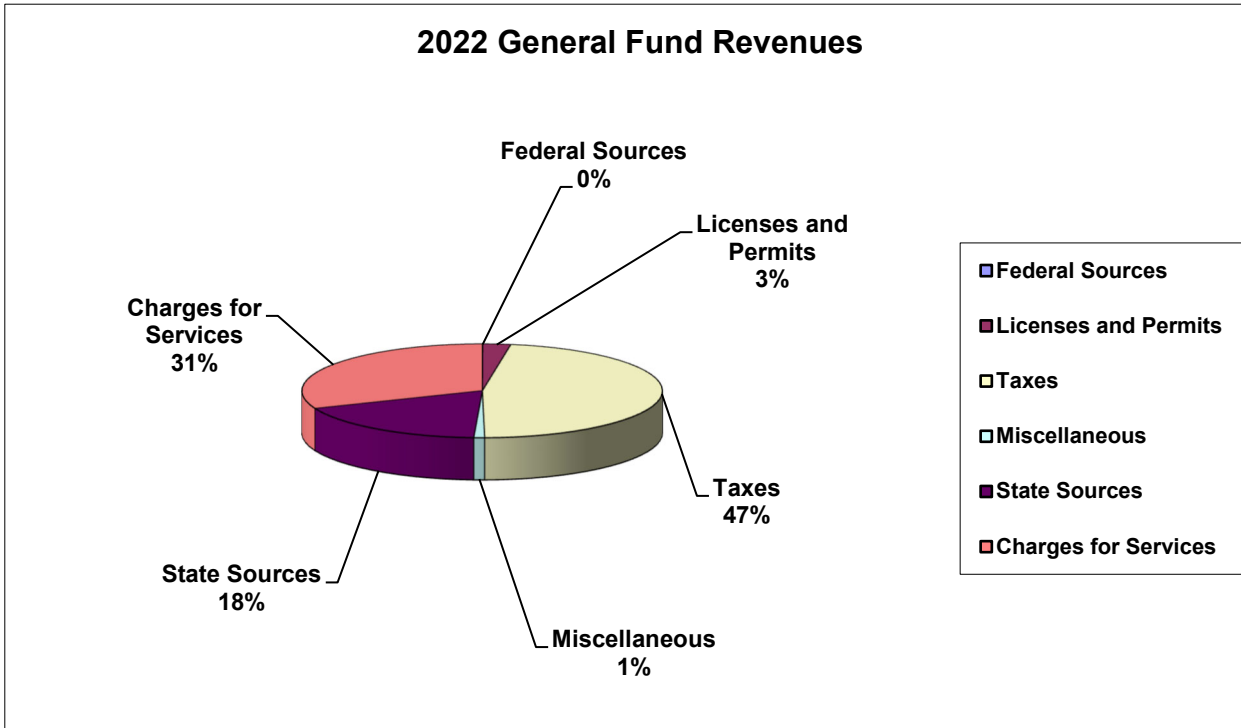
### **General Fund Budgetary Highlights**

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 \$239,973. Total General Fund revenue of \$3,779,264 was 6.0% lower than the revised revenue estimate of \$4,019,237. The final revenue amount was less than revised estimates primarily due to grant revenue being less than expected. Total revenue for 2022 was \$353,832 higher than the 2021 fiscal year revenue. The primary factor for this increase was an increase in administrative services provided to other governmental departments.

Expenditures were less than the amended budget by \$352,010. Total General Fund expenditures of \$3,889,142 were 8.3% lower than the revised expenditure estimates of \$4,241,152. Final expenditures were less than budgeted primarily due to capital outlay expenditures being less than expected. The final expenditures for 2022 were \$128,655 higher than the 2021 fiscal year expenditures.

The final expenditures exceeded revenues by \$109,878 for the year before other financing sources and uses. After factoring in the net increase of \$188,395 from other financing sources and uses, General Fund inflows exceeded outflows by \$78,517. As a result, the General Fund had an increase in fund balance that was \$69,882 greater than the final budgeted increase of \$8,635.

**General Fund**





## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2022, the City had \$23,009,944, 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 \$21,399,647 in 2021. The increase primarily related construction in progress for improvements to the wastewater treatment facility (see table 4 below). Additional information on the City's capital assets can be found in Note D.

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

	Governmental Activities		Business-Type Activities	
	2022	2021	2022	2021
Land	\$ 2,394,627	\$ 1,619,627	\$ 236,836	\$ 236,836
Construction in progress	-	-	1,265,110	20,861
Land Improvements	332,123	364,733	-	-
Buildings	1,303,902	1,358,078	710,533	618,826
Machinery & Equipment	1,726,835	1,610,472	883,013	1,022,012
Infrastructure - Road System	7,279,348	7,320,466	-	-
Infrastructure - Other	953,227	1,048,662	115,087	268,717
Distribution/Collection System	-	-	5,809,303	5,910,357
Total	<u>\$ 13,990,062</u>	<u>\$ 13,322,038</u>	<u>\$ 9,019,882</u>	<u>\$ 8,077,609</u>

## Debt

At year-end, the City had \$5,442,449 in long-term liabilities, bonds and notes outstanding. This is a net increase of \$395,468 in total long-term debt. The increase is due to a new installment purchase agreement for the purchase of land, partially offset by debt service payments on existing 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. Additional information on the City's debt can be found in Note E.

**Table 5  
Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
General obligation bonds/premium (backed by the City)	\$ 4,256,766	\$ 4,526,902	\$ -	\$ -	\$ 4,256,766	\$ 4,526,902
Other liabilities	25,000	50,000	-	-	25,000	50,000
Notes payable	799,965	54,361	-	-	799,965	54,361
Revenue bonds and notes (backed by specific tax and fee revenues)	-	-	360,718	415,718	360,718	415,718
<b>Totals</b>	<b>\$ 5,081,731</b>	<b>\$ 4,631,263</b>	<b>\$ 360,718</b>	<b>\$ 415,718</b>	<b>\$ 5,442,449</b>	<b>\$ 5,046,981</b>

## 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 are 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 decrease. Unfortunately, we were not able to attain the commission directed general fund unassigned fund balance goal of 20 to 30% of expenditures. This target was passed with the new Fund Balance Policy approved at the 10/23/2017 regular Commission Meeting. However, \$30,000 negative fund balance in 2009 to a positive unassigned fund balance of \$219,393 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 is not back to where it was a number of years ago while the cost of materials doubles. Therefore, special assessments are necessary to maintain the roads we have.

Business type activities budgets saw 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.

## **Basic Financial Statements**

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF NET POSITION**  
**March 31, 2022**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
<b>ASSETS</b>				
Current assets:				
Cash, cash equivalents and investments	\$ 772,696	\$ 1,976,164	\$ 2,748,860	\$ 189,147
Receivables:				
Accounts	30,543	-	30,543	55,779
Utilities	-	1,164,012	1,164,012	-
Special assessments	671,093	-	671,093	-
Miscellaneous	198,641	12,329	210,970	-
Due from other governmental units	312,788	-	312,788	-
Internal balances	553,735	(553,735)	-	-
Prepaid items	50,130	22,474	72,604	2,375
Inventory	15,114	341,006	356,120	-
Restricted cash, cash equivalents and investments	635,694	-	635,694	-
Total current assets	<u>3,240,434</u>	<u>2,962,250</u>	<u>6,202,684</u>	<u>247,301</u>
Noncurrent assets:				
Investments	864,478	2,284,235	3,148,713	-
Mortgage receivable	-	-	-	1,095,725
Internal balances	(770,043)	770,043	-	-
Restricted investments	282,704	-	282,704	-
Non-depreciable capital assets	2,394,627	236,836	2,631,463	15,325
Capital assets, net of accumulated depreciation	11,595,435	8,783,046	20,378,481	193,232
Total noncurrent assets	<u>14,367,201</u>	<u>12,074,160</u>	<u>26,441,361</u>	<u>1,304,282</u>
Total assets	<u>\$ 17,607,635</u>	<u>\$ 15,036,410</u>	<u>\$ 32,644,045</u>	<u>\$ 1,551,583</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflow - pension plan	<u>\$ 326,802</u>	<u>\$ 143,402</u>	<u>\$ 470,204</u>	<u>\$ -</u>

See accompanying notes to financial statements.

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 36,602	\$ 507,928	\$ 544,530	\$ 33,758
Accrued interest	15,529	-	15,529	-
Accrued payroll	224,398	35,861	260,259	-
Customer deposits	-	77,393	77,393	4,050
Unearned revenue	142,649	174,589	317,238	33
Other liabilities	25,100	-	25,100	-
Compensated absences	70,386	37,821	108,207	-
Employment benefits	89,000	81,000	170,000	-
Bonds payable	260,000	60,000	320,000	-
Bond premium	20,136	-	20,136	-
Notes payable	45,952	-	45,952	-
Total current liabilities	<u>929,752</u>	<u>974,592</u>	<u>1,904,344</u>	<u>37,841</u>
Noncurrent liabilities:				
Compensated absences	140,658	95,095	235,753	419
Employment benefits	187,500	81,000	268,500	-
Net pension liability	3,388,447	1,429,411	4,817,858	-
Bonds payable	3,735,000	300,718	4,035,718	-
Bond premium	241,631	-	241,631	-
Notes payable	754,013	-	754,013	-
Other liabilities	-	-	-	-
Total noncurrent liabilities	<u>8,447,249</u>	<u>1,906,224</u>	<u>10,353,473</u>	<u>419</u>
Total liabilities	<u>\$ 9,377,001</u>	<u>\$ 2,880,816</u>	<u>\$ 12,257,817</u>	<u>\$ 38,260</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflow - pension plan	<u>\$ 561,730</u>	<u>\$ 241,784</u>	<u>\$ 803,514</u>	<u>\$ -</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 9,195,097	\$ 8,659,164	\$ 17,854,261	\$ 208,556
Restricted for:				
Expendable	1,494,132	-	1,494,132	-
Nonexpendable	274,074	-	274,074	-
Unrestricted	<u>(2,967,597)</u>	<u>3,398,048</u>	<u>430,451</u>	<u>1,304,767</u>
Total net position	<u>\$ 7,995,706</u>	<u>\$ 12,057,212</u>	<u>\$ 20,052,918</u>	<u>\$ 1,513,323</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2022**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Housing Commission
					Governmental Activities	Business-type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 852,856	\$ 564,259	\$ 990	\$ -	\$ (287,607)	\$ -	\$ (287,607)	\$ -
Public safety	1,613,138	35,748	11,473	-	(1,565,917)	-	(1,565,917)	-
Parks and recreation	725,327	302,418	2,700	10,213	(409,996)	-	(409,996)	-
Public works	502,322	378,314	-	-	(124,008)	-	(124,008)	-
Street system	1,364,075	201,346	898,178	19,227	(245,324)	-	(245,324)	-
Community development	335,730	2,812	-	100	(332,818)	-	(332,818)	-
Interest on long-term debt	119,006	-	-	-	(119,006)	-	(119,006)	-
Total governmental activities	<u>5,512,454</u>	<u>1,484,897</u>	<u>913,341</u>	<u>29,540</u>	<u>(3,084,676)</u>	<u>-</u>	<u>(3,084,676)</u>	<u>-</u>
Business-type activities:								
Electric utility	4,074,563	4,458,976	-	-	-	384,413	384,413	-
Waste water utility	974,492	1,223,858	-	2,122	-	251,488	251,488	-
Water utility	701,469	994,423	-	-	-	292,954	292,954	-
Solid waste	446,765	478,629	-	-	-	31,864	31,864	-
Harbor	78,139	81,843	-	1,400	-	5,104	5,104	-
Total business-type activities	<u>6,275,428</u>	<u>7,237,729</u>	<u>-</u>	<u>3,522</u>	<u>-</u>	<u>965,823</u>	<u>965,823</u>	<u>-</u>
Total primary government	<u>\$ 11,787,882</u>	<u>\$ 8,722,626</u>	<u>\$ 913,341</u>	<u>\$ 33,062</u>	<u>(3,084,676)</u>	<u>965,823</u>	<u>(2,118,853)</u>	<u>-</u>
Component unit:								
Housing commission	<u>\$ 339,496</u>	<u>\$ 173,660</u>	<u>\$ 248,654</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,818</u>
General revenues:								
Property taxes					2,108,199	-	2,108,199	-
State revenue sharing					671,236	-	671,236	-
Grants and contributions not restricted to specific programs					173,300	-	173,300	-
Contributions to permanent fund					2,000	-	2,000	-
Unrestricted investment earnings (loss)					(14,384)	(6,953)	(21,337)	30,765
Miscellaneous					32,156	-	32,156	244,958
Gain (loss) on disposal of capital assets					-	-	-	372,087
Transfers					43,000	(43,000)	-	-
Total general revenues and transfers					<u>3,015,507</u>	<u>(49,953)</u>	<u>2,965,554</u>	<u>647,810</u>
Changes in net position					<u>(69,169)</u>	<u>915,870</u>	<u>846,701</u>	<u>730,628</u>
Net position - beginning					7,948,324	11,257,893	19,206,217	782,695
Prior period adjustment					116,551	(116,551)	-	-
Net position - beginning, restated					<u>8,064,875</u>	<u>11,141,342</u>	<u>19,206,217</u>	<u>782,695</u>
Net position - ending					<u>\$ 7,995,706</u>	<u>\$ 12,057,212</u>	<u>\$ 20,052,918</u>	<u>\$ 1,513,323</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
March 31, 2022**

	General	Major Streets	Local Streets	Downtown Development Authority
<b>ASSETS</b>				
Cash, cash equivalents and investments	\$ 280,801	\$ 340,170	\$ 196,180	\$ 287,091
Receivables:				
Accounts	29,351	-	-	-
Special assessments	17,795	65,342	109,758	-
Notes	-	-	-	-
Miscellaneous	187,571	639	220	8,775
Due from other governmental units	159,891	111,225	41,672	-
Due from other funds	868,715	-	-	-
Prepaid items	50,130	-	-	-
Inventory	15,114	-	-	-
Restricted cash, cash equivalents and investments	100,987	-	-	-
	<u>\$ 1,710,355</u>	<u>\$ 517,376</u>	<u>\$ 347,830</u>	<u>\$ 295,866</u>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable	\$ 22,963	\$ 6,405	\$ -	\$ 4,151
Accrued payroll	218,050	3,143	3,071	134
Due to other funds	772,300	46,013	19,889	-
Unearned revenue	80,935	43,200	18,514	-
Other liabilities	100	-	-	-
	<u>1,094,348</u>	<u>98,761</u>	<u>41,474</u>	<u>4,285</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Special assessments-Unavailable revenue	-	65,342	109,758	-
Property taxes-Unavailable revenue	29,351	-	-	-
	<u>29,351</u>	<u>65,342</u>	<u>109,758</u>	<u>-</u>
<b>FUND BALANCES</b>				
Nonspendable	65,244	-	-	-
Restricted	-	353,273	196,598	291,581
Committed	302,019	-	-	-
Assigned	-	-	-	-
Unassigned	219,393	-	-	-
	<u>586,656</u>	<u>353,273</u>	<u>196,598</u>	<u>291,581</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,710,355</u>	<u>\$ 517,376</u>	<u>\$ 347,830</u>	<u>\$ 295,866</u>

See accompanying notes to financial statements.



General Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 133,955	\$ 1,238,197
-	1,192	30,543
478,198	-	671,093
-	-	-
-	-	197,205
-	-	312,788
-	-	868,715
-	-	50,130
-	-	15,114
52,121	765,290	918,398
<u>\$ 530,319</u>	<u>\$ 900,437</u>	<u>\$ 4,302,183</u>
\$ -	\$ 3,083	\$ 36,602
-	-	224,398
-	22,721	860,923
-	-	142,649
-	-	100
<u>-</u>	<u>25,804</u>	<u>1,264,672</u>
478,198	-	653,298
-	-	29,351
<u>478,198</u>	<u>-</u>	<u>682,649</u>
-	274,074	339,318
52,121	600,559	1,494,132
-	-	302,019
-	-	-
-	-	219,393
<u>52,121</u>	<u>874,633</u>	<u>2,354,862</u>
<u>\$ 530,319</u>	<u>\$ 900,437</u>	<u>\$ 4,302,183</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, 2022**

Total fund balances for governmental funds \$ 2,354,862

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	\$ 32,206,401	
Accumulated depreciation	(18,216,339)	
Total capital assets		13,990,062

Internal service funds are used by the City to charge the cost of pension and retiree healthcare costs to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 176,313

Deferred outflow of resources related to recording of net pension liability. 326,802

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.

Accrued interest	\$ (15,529)	
Other liabilities	(25,000)	
Notes payable	(799,965)	
Bonds payable	(3,995,000)	
Bond premium	(261,767)	
Employment benefits	(276,500)	
Net pension liability	(3,388,447)	
Compensated absences	(211,044)	
		(8,973,252)

Deferred inflow of resources related to recording of net pension liability. (561,730)

Certain revenue in the governmental funds is deferred and will be recognized as revenue in the fund statements in future years. 682,649

Total net position of governmental activities \$ 7,995,706

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, 2022**

	General Fund	Major Streets	Local Streets	Downtown Development Authority
<b>REVENUES:</b>				
Federal sources	\$ 990	\$ -	\$ -	\$ -
State sources	683,085	633,295	264,883	-
Local sources	-	-	-	14,413
Taxes	1,786,344	-	-	320,452
Special assessments	-	31,868	107,540	-
Charges for services	1,177,859	-	-	-
Licenses and permits	94,689	-	-	-
Lease income	3,750	-	-	-
Investment gain (loss)	(276)	(2,365)	(1,309)	(4,489)
Miscellaneous	32,823	(323)	1,162	1,484
	<u>3,779,264</u>	<u>662,475</u>	<u>372,276</u>	<u>331,860</u>
<b>EXPENDITURES:</b>				
General government	792,738	-	-	-
Public safety	1,548,144	-	-	-
Parks and recreation	508,335	-	-	-
Public works	489,151	-	-	-
Street system	-	356,735	461,570	-
Community development	168,141	-	-	152,112
Capital outlay	375,915	61,738	309,321	750,000
Debt service:				
Principal	4,395	-	-	25,000
Interest and other charges	2,323	-	-	-
	<u>3,889,142</u>	<u>418,473</u>	<u>770,891</u>	<u>927,112</u>
Excess revenues (expenditures)	<u>(109,878)</u>	<u>244,002</u>	<u>(398,615)</u>	<u>(595,252)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Loan proceeds	-	-	-	750,000
Proceeds from sale of capital assets	5,237	-	-	-
Transfers in	208,158	-	250,000	-
Transfers out	(25,000)	(229,400)	(9,600)	(277,000)
	<u>188,395</u>	<u>(229,400)</u>	<u>240,400</u>	<u>473,000</u>
Net changes in fund balances	78,517	14,602	(158,215)	(122,252)
Fund balances - beginning, as previously stated	508,139	338,671	354,813	413,833
Prior period adjustment	-	-	-	-
Fund balances - beginning, as restated	<u>508,139</u>	<u>338,671</u>	<u>354,813</u>	<u>413,833</u>
Fund balances - ending	<u>\$ 586,656</u>	<u>\$ 353,273</u>	<u>\$ 196,598</u>	<u>\$ 291,581</u>

See accompanying notes to financial statements.

General Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 990
-	4,301	1,585,564
-	167,388	181,801
-	-	2,106,796
61,788	-	201,196
-	-	1,177,859
-	-	94,689
-	-	3,750
68	(9,764)	(18,135)
-	500	35,646
<u>61,856</u>	<u>162,425</u>	<u>5,370,156</u>
29,001	3,786	825,525
-	-	1,548,144
-	-	508,335
-	3	489,154
-	-	818,305
-	24,886	345,139
-	66,000	1,562,974
250,000	-	279,395
110,350	-	112,673
<u>389,351</u>	<u>94,675</u>	<u>6,489,644</u>
<u>(327,495)</u>	<u>67,750</u>	<u>(1,119,488)</u>
-	-	750,000
-	-	5,237
334,000	91,000	883,158
<u>(66,000)</u>	<u>(233,158)</u>	<u>(840,158)</u>
<u>268,000</u>	<u>(142,158)</u>	<u>798,237</u>
(59,495)	(74,408)	(321,251)
111,616	858,067	2,585,139
-	90,974	90,974
<u>111,616</u>	<u>949,041</u>	<u>2,676,113</u>
<u>\$ 52,121</u>	<u>\$ 874,633</u>	<u>\$ 2,354,862</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2022**

Net changes in fund balances - total governmental funds \$ (321,251)

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.

Capital outlay	1,587,975
Depreciation expense	(892,815)
Net book value of disposed assets	(46,363)

Governmental funds do not record contributions of capital assets. However, in the statement of activities, the fair value of those assets are reported as capital contributions.

19,227

Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available.

10,901

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net position.

(750,000)

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.

(475,655)

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 and bond premiums on long-term debt are not recognized under the modified accrual basis of accounting until due, rather than as it accrues or amortizes. This adjustment combines the following net changes:

Accrued interest	\$ (6,333)	
Other liabilities	25,000	
Notes payable	4,395	
Bonds payable	250,000	
Bond premium	20,136	
Compensated absences	(18,628)	
Employment benefits	53,000	
Net pension liability	471,242	798,812

Changes in net position of governmental activities	\$ (69,169)
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See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**March 31, 2022**

	Enterprise Funds		
	Electric Utility	Waste Water Utility	Water Utility
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,256,021	\$ -	\$ 433,697
Investments	82,926	24,736	31,150
Receivables:			
Utilities	691,120	244,547	149,979
Miscellaneous	5,213	4,834	1,467
Due from other funds	55,110	-	-
Prepaid items	10,154	7,973	2,359
Inventory	341,006	-	-
Total current assets	<u>2,441,550</u>	<u>282,090</u>	<u>618,652</u>
Noncurrent assets:			
Investments	1,462,513	298,457	358,969
Notes receivable	-	-	-
Advances due from other funds	678,693	-	-
Non-depreciable capital assets	236,836	1,265,110	-
Capital assets, net of accumulated depreciation	3,181,830	2,103,606	1,679,047
Total noncurrent assets	<u>5,559,872</u>	<u>3,667,173</u>	<u>2,038,016</u>
Total assets	<u>\$ 8,001,422</u>	<u>\$ 3,949,263</u>	<u>\$ 2,656,668</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflow - pension plan	<u>\$ 78,449</u>	<u>\$ 21,560</u>	<u>\$ 37,175</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 237,683	\$ 257,172	\$ 6,859
Accrued payroll	16,694	9,764	6,531
Customer deposits	77,393	-	-
Compensated absences	12,616	8,315	16,890
Employment benefits	27,000	27,000	27,000
Unearned revenue	-	61,714	61,714
Due to other funds	-	621,894	-
Bonds payable	-	60,000	-
Total current liabilities	<u>371,386</u>	<u>1,045,859</u>	<u>118,994</u>
Noncurrent liabilities:			
Compensated absences	50,466	33,260	11,369
Employment benefits	27,000	27,000	27,000
Net pension liability	785,720	218,928	357,722
Bonds payable	-	300,718	-
Total noncurrent liabilities	<u>863,186</u>	<u>579,906</u>	<u>396,091</u>
Total liabilities	<u>\$ 1,234,572</u>	<u>\$ 1,625,765</u>	<u>\$ 515,085</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflow - pension plan	<u>\$ 131,687</u>	<u>\$ 36,502</u>	<u>\$ 63,591</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 3,418,666	\$ 1,742,888	\$ 1,679,047
Restricted	-	-	-
Unrestricted	<u>3,294,946</u>	<u>565,668</u>	<u>436,120</u>
Total net position	<u>\$ 6,713,612</u>	<u>\$ 2,308,556</u>	<u>\$ 2,115,167</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund	
		Retirement System Fund	
\$ 133,377	\$ 1,823,095	\$ -	
14,257	153,069	30,536	
78,366	1,164,012	-	
814	12,328	1,437	
13,050	68,160	-	
1,988	22,474	-	
-	341,006	-	
<u>241,852</u>	<u>3,584,144</u>	<u>31,973</u>	
164,296	2,284,235	368,441	
-	-	-	
91,350	770,043	-	
-	1,501,946	-	
553,453	7,517,936	-	
<u>809,099</u>	<u>12,074,160</u>	<u>368,441</u>	
<u>\$ 1,050,951</u>	<u>\$ 15,658,304</u>	<u>\$ 400,414</u>	
<u>\$ 6,218</u>	<u>\$ 143,402</u>	<u>\$ -</u>	
\$ 6,214	\$ 507,928	\$ -	
2,872	35,861	-	
-	77,393	-	
-	37,821	-	
-	81,000	-	
51,161	174,589	-	
-	621,894	224,101	
-	60,000	-	
<u>60,247</u>	<u>1,596,486</u>	<u>224,101</u>	
-	95,095	-	
-	81,000	-	
67,041	1,429,411	-	
-	300,718	-	
<u>67,041</u>	<u>1,906,224</u>	<u>-</u>	
<u>\$ 127,288</u>	<u>\$ 3,502,710</u>	<u>\$ 224,101</u>	
<u>\$ 10,004</u>	<u>\$ 241,784</u>	<u>\$ -</u>	
\$ 553,453	\$ 7,394,054	\$ -	
-	-	-	
<u>366,424</u>	<u>4,663,158</u>	<u>176,313</u>	
<u>\$ 919,877</u>	<u>\$ 12,057,212</u>	<u>\$ 176,313</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, 2022**

	Enterprise Funds		
	Electric Utility	Waste Water Utility	Water Utility
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 4,389,444	\$ 1,218,822	\$ 988,322
Miscellaneous	69,532	5,036	6,101
Total operating revenue	<u>4,458,976</u>	<u>1,223,858</u>	<u>994,423</u>
<b>OPERATING EXPENSES:</b>			
Salaries and fringes	627,563	449,516	324,552
Supplies	67,677	141,678	92,880
Contracted services	331,802	129,430	81,632
Repairs and maintenance	154	-	-
Utilities	102,342	49,464	49,660
Purchased power	2,510,183	-	-
Rent	453	2,597	1,073
Memberships and dues	5,199	4,272	6,095
Travel	2,432	156	-
Insurance	6,756	8,404	12,714
Education and training	4,575	5,283	2,335
Energy optimization program	65,317	-	-
Landfill tipping fees	-	2,472	-
Depreciation	225,314	125,464	97,323
Miscellaneous	124,796	49,447	31,508
Total operating expenses	<u>4,074,563</u>	<u>968,183</u>	<u>699,772</u>
Operating income (loss)	<u>384,413</u>	<u>255,675</u>	<u>294,651</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment gain (loss)	17,472	(8,783)	(10,674)
Interest expense	-	(6,309)	-
Total nonoperating revenue (expense)	<u>17,472</u>	<u>(15,092)</u>	<u>(10,674)</u>
Income (loss) before transfers, contributions and special items	401,885	240,583	283,977
Gain/(loss) on asset disposal	-	-	(1,697)
Capital contributions	-	2,122	-
Transfer in	-	-	-
Transfer out	-	(25,000)	(18,000)
Change in net position	401,885	217,705	264,280
Total net position - beginning	<u>6,311,727</u>	<u>2,090,851</u>	<u>1,850,887</u>
Total net position - ending	<u>\$ 6,713,612</u>	<u>\$ 2,308,556</u>	<u>\$ 2,115,167</u>

See accompanying notes to financial statements.



Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund  Retirement System Fund
\$ 555,080	\$ 7,151,668	\$ 50,000
5,392	86,061	-
<u>560,472</u>	<u>7,237,729</u>	<u>50,000</u>
190,678	1,592,309	514,132
46,193	348,428	-
64,324	607,188	-
995	1,149	-
7,822	209,288	-
-	2,510,183	-
12,249	16,372	-
-	15,566	-
-	2,588	-
1,079	28,953	-
2,193	14,386	-
-	65,317	-
112,260	114,732	-
71,081	519,182	-
16,030	221,781	-
<u>524,904</u>	<u>6,267,422</u>	<u>514,132</u>
<u>35,568</u>	<u>970,307</u>	<u>(464,132)</u>
(4,968)	(6,953)	(11,523)
-	(6,309)	-
<u>(4,968)</u>	<u>(13,262)</u>	<u>(11,523)</u>
30,600	957,045	(475,655)
-	(1,697)	-
1,400	3,522	-
-	-	-
-	(43,000)	-
<u>32,000</u>	<u>915,870</u>	<u>(475,655)</u>
<u>887,877</u>	<u>11,141,342</u>	<u>651,968</u>
<u>\$ 919,877</u>	<u>\$ 12,057,212</u>	<u>\$ 176,313</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2022**

	Enterprise Funds		
	Electric Utility	Waste Water Utility	Water Utility
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 4,404,128	\$ 1,255,087	\$ 1,070,618
Cash receipts from interfund services provided	-	-	-
Payments to suppliers	(3,341,036)	(232,948)	(366,852)
Payments for wages and related benefits	(770,712)	(519,985)	(410,021)
Other receipts (payments)	69,532	5,036	6,101
Net cash provided (used) by operating activities	<u>361,912</u>	<u>507,190</u>	<u>299,846</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	-	(25,000)	(18,000)
Advances from other funds	-	621,894	-
Repayments of advances from other funds	-	-	-
Advances made to other funds	(225,960)	-	-
Repayments of advances made to other funds	36,500	-	-
Cash received (paid) on customer deposits	(3,299)	-	-
Net cash provided (used) by noncapital financing activities	<u>(192,759)</u>	<u>596,894</u>	<u>(18,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	(42,374)	(1,285,277)	(136,049)
Principal paid on debt instruments	-	(55,000)	-
Interest paid on debt instruments	-	(6,309)	-
Proceeds from sale of capital assets	-	-	546
Proceeds from grant funds and contributions	-	2,122	-
Net cash provided (used) by capital and related financing activities	<u>(42,374)</u>	<u>(1,344,464)</u>	<u>(135,503)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investment securities	(98,246)	(22,955)	(29,120)
Interest and dividend income	49,016	1,140	1,371
Net cash provided (used) by investing activities	<u>(49,230)</u>	<u>(21,815)</u>	<u>(27,749)</u>
Net increase (decrease) in cash and equivalents	77,549	(262,195)	118,594
Cash and equivalents, beginning of year	1,178,472	262,195	315,103
Cash and equivalents, end of year	<u>\$ 1,256,021</u>	<u>\$ -</u>	<u>\$ 433,697</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 384,413	\$ 255,675	\$ 294,651
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	225,314	125,464	97,323
Changes in assets and liabilities:			
(Increase) decrease in receivables	14,684	(25,449)	20,582
(Increase) decrease in prepaid items	(1,934)	(1,517)	(459)
(Increase) decrease in inventory	(150,324)	-	-
(Increase) decrease in deferred outflows	16,290	4,938	7,780
Increase (decrease) in accounts payable	32,908	161,772	(88,496)
Increase (decrease) in accrued payroll	1,267	(1,218)	(528)
Increase (decrease) in employment benefit liability	(28,792)	(38,295)	(27,266)
Increase (decrease) in net pension liability	(167,742)	(45,486)	(83,327)
Increase (decrease) in unearned revenue	-	61,714	61,714
Increase (decrease) in deferred inflows	35,828	9,592	17,872
Net cash provided (used) by operating activities	<u>\$ 361,912</u>	<u>\$ 507,190</u>	<u>\$ 299,846</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund	
		Retirement System Fund	
\$ 567,656	\$ 7,297,489	\$ -	
-	-	48,563	
(260,569)	(4,201,405)	-	
(200,382)	(1,901,100)	(514,132)	
5,392	86,061	-	
<u>112,097</u>	<u>1,281,045</u>	<u>(465,569)</u>	
-	(43,000)	-	
-	621,894	224,101	
13,050	13,050	-	
-	(225,960)	-	
(55,008)	(18,508)	-	
-	(3,299)	-	
<u>(41,958)</u>	<u>344,177</u>	<u>224,101</u>	
-	(1,463,700)	-	
-	(55,000)	-	
-	(6,309)	-	
-	546	-	
1,400	3,522	-	
<u>1,400</u>	<u>(1,520,941)</u>	<u>-</u>	
(14,969)	(165,290)	(29,020)	
628	52,155	1,407	
<u>(14,341)</u>	<u>(113,135)</u>	<u>(27,613)</u>	
57,198	(8,854)	(269,081)	
76,179	1,831,949	269,081	
<u>\$ 133,377</u>	<u>\$ 1,823,095</u>	<u>\$ -</u>	
\$ 35,568	\$ 970,307	\$ (464,132)	
71,081	519,182	-	
9,236	19,053	(1,437)	
(1,980)	(5,890)	-	
-	(150,324)	-	
1,300	30,308	-	
4,556	110,740	-	
(1,844)	(2,323)	-	
-	(94,353)	-	
(11,595)	(308,150)	-	
3,340	126,768	-	
2,435	65,727	-	
<u>\$ 112,097</u>	<u>\$ 1,281,045</u>	<u>\$ (465,569)</u>	

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**March 31, 2022**

	Custodial Fund
	Tax Collection
<b>ASSETS</b>	
Cash and cash equivalents	\$ 11,182
Receivables:	
Delinquent taxes	74,644
Total assets	\$ 85,826
<b>LIABILITIES</b>	
Due to other governmental units	\$ 85,826

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**For the Year Ended March 31, 2022**

	Custodial Funds
	Tax Collection
<b>ADDITIONS</b>	
Property tax collections	\$ 3,813,996
<b>DEDUCTIONS</b>	
Property tax disbursements	3,813,996
<b>NET CHANGE IN FIDUCIARY NET POSITION</b>	-
<b>NET POSITION - beginning</b>	-
<b>NET POSITION - ending</b>	\$ -

See accompanying notes to financial statements.

## **Notes to Financial Statements**

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The City of Gladstone (the “City”) 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. 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. The City follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. As required by generally accepted accounting principles, these financial statements present the City of Gladstone (the primary government) and its component unit, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations, and accordingly, data from these units are combined with data of the City. Each discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the City. All blended and discretely presented component units have a March 31 year end.

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

Blended Component Units – The City has two component units for which the financial data has been blended with the primary government financial statements.

Downtown Development Authority – For financial reporting purposes the Downtown Development Authority (DDA) is reported as if it were part of the City’s operations because the City appoints a voting majority and the DDA provides services entirely to the City. The DDA was created under Public Act 197 of 1975 to take an active role in economic revitalization and facilitate downtown redevelopment and opportunities associated with vacant or underutilized commercial and industrial areas.

Economic Development Corporation – The Economic Development Corporation (EDC) is reported as if it were part of the City’s operations because the City Commission appoints and can remove all members of the EDC’s governing body and the EDC’s purpose is to serve the City. The EDC was organized and incorporated pursuant to Public Act 338 of 1974, as amended (the Economic Development Corporation Act) to alleviate and prevent conditions of unemployment and to assist and retain local industries and commercial enterprises.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Discretely Presented Component Unit – The financial statements of the Gladstone Housing Commission are reported as a discretely presented component unit in a separate column to emphasize that they are legally separate from the City.

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

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 L for additional information.

Delta Solid Waste Management Authority  
5701 19<sup>th</sup> 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:

**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, 2022

**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:

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

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 in accordance with the above criteria:

The General Fund which is described below.

The Major Streets Fund is a special revenue fund and accounts for the revenue and expenditures related to maintenance and construction of the major street system.

The Local Streets Fund is a special revenue fund which accounts for the revenue and expenditures related to construction and maintenance of the City's local street system.

The Downtown Development Authority Fund is a special revenue fund which accounts for the revenue and expenditures related to the DDA, described under "Blended Component Units" above.

The General Debt Service Fund accounts for financial resources and the related principal and interest payments on debt.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**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 in exchange for charges.

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

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

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 Fund – Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Fund – Capital projects 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.

**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.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Internal Service Fund – 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 one internal service fund that is included with the governmental activities. The Retirement System Fund accounts for retiree pension costs incurred by various City departments.

**Fiduciary Funds**

Custodial Fund - The Tax Collection Fund is the City’s only custodial fund and is used to account for the collections and payments of amounts received by the City in a trustee capacity or as an agent for governmental units assessing a property tax on property within the City limits.

**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.

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 and fiduciary funds, as applicable, 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 and fiduciary fund equity are classified as net position.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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

Cash, Cash Equivalents and Investments – Cash deposits consist of demand and time deposits with financial institutions and are reported at carrying amount which is fair value. Investments are reported at fair value or estimated fair value. For the purpose of the statement of cash flows, the City considers all highly liquid investments with maturities of less than three months as cash equivalents.

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.

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.

Prepayments – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments, using the purchases method, in both the government-wide and fund financial statements. Nonspendable fund balances have been recorded in the applicable governmental funds to indicate the prepayments are not a currently available or spendable component of fund balance.

Inventory – Materials inventory in the Electric Utility Fund and the General Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Capital 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, capital assets are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital 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, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

*Component Unit Financial Statements*

Capital assets of the Gladstone Housing Commission are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Generally, buildings and improvements are depreciated over 40 years and furniture and equipment are depreciated over three to seven years.

Restricted Assets – Restricted assets include cash, cash equivalents, and investments which have been reserved for the principal portion of the Cemetery Perpetual Care Fund non-expendable cash and for donations or receipts related to specific projects as explained in Note B.

Long-Term Obligations – The accounting treatment of long-term obligations 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.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of bonds payable and notes payable. Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as "other financing sources" and bond discounts as "other financing uses."

Long-term obligations for governmental funds are 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. The General Funds, Debt Service Fund, and Waste Water Fund are generally used to liquidate long-term debt.

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.

Unearned Revenues – Unearned revenue is recognized when cash, receivables or other assets are received prior to their being earned. Unearned revenue may also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when the revenue is earned or when the government has a legal claim to the resources, the liability of unearned revenue is removed from the balance sheet and revenue is recognized.

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.

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 two items that qualify for reporting in this category. Unavailable revenue qualifies for reporting in this category and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: personal property taxes and special assessments. In addition, the government-wide statements and proprietary funds report deferred inflows of resources related to the pension system.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Equity Classification

*Government-Wide Statements and Proprietary Fund Statements*

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

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.

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.

Unrestricted – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

*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, inventory, and permanent fund principal as nonspendable.

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. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Commission.

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 by the City Manager or 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, 2022

### 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.

### 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.

##### *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.



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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, 2022

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**OTHER SIGNIFICANT ACCOUNTING POLICIES**

**Budgets and Budgetary Accounting**

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

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

**Budget Violations**

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget at the activity level. The General Fund had expenditures that exceeded the budgeted amounts for treasurer in the amount of \$9,383, parks in the amount of \$10,385, sports park in the amount of \$3,065, forestry in the amount of \$1,948, and motor pool in the amount of \$9,695. The Local Street Fund had expenditures that exceeded the budgeted amounts for capital outlay in the amount of \$29,255. The Downtown Development Authority Fund had expenditures that exceeded the budgeted amounts for capital outlay in the amount of \$705,000 and transfers out in the amount of \$50,000.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property Taxes**

Property taxes levied attach as an enforceable lien on property. The City’s annual property tax on real and personal property within the City is levied on July 1, payable by September 15, and is based on the taxable valuation of the property on the preceding December 31. Unpaid property taxes become delinquent on March 1, and all delinquent real property taxes are purchased by the County Treasurer. 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 (Custodial) 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, 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.

**NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS**

The composition of cash and equivalents is presented below:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Statement of Net Position:				
Current:				
Cash, cash equivalents and investments (unrestricted)	\$ 2,748,860	\$ 189,147	\$ -	\$ 2,938,007
Restricted cash, cash equivalents and investments	635,694	-	-	635,694
Noncurrent:				
Investments (unrestricted)	3,148,713	-	-	3,148,713
Restricted investments	282,704	-	-	282,704
Statement of Fiduciary Net Position:				
Cash and cash equivalents	-	-	11,182	11,182
Total cash & equivalents and investments	<u>\$ 6,815,971</u>	<u>\$ 189,147</u>	<u>\$ 11,182</u>	<u>\$ 7,016,300</u>
	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Imprest cash	\$ 590	\$ 200	\$ -	\$ 790
Bank deposits:				
Checking and savings accounts	3,110,003	188,947	11,182	3,310,132
Money market accounts	29,977	-	-	29,977
Certificates of deposit	1,017,442	-	-	1,017,442
Investments in securities	2,160,865	-	-	2,160,865
Investment in Upper Peninsula Public Power Agency	497,094	-	-	497,094
Total cash & equivalents and investments	<u>\$ 6,815,971</u>	<u>\$ 189,147</u>	<u>\$ 11,182</u>	<u>\$ 7,016,300</u>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

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.
- 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. Investment 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 City's cash is subject to the following risk.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**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 of March 31, 2022, the City held \$4,221,191 in checking and savings accounts, money market accounts, and certificates of deposit. Of this amount, \$3,181,946 was uninsured and uncollateralized. Although such deposits exceed federally insured limits, they are, in the opinion of management, subject to minimal risk. The City's component units had no bank deposits that were uninsured and uncollateralized.

The composition of investments is presented below:

	Fair Value	Moody Credit Rating	S&P Credit Rating	Maturity Date
Primary Government				
Municipal Bonds:				
Mount Morris Michigan Consolidated Schools	\$ 137,353	A3	-	5/1/2026
Ferris State University	51,397	A1	-	10/1/2026
Wyandotte Michigan Electric Revenue	20,491	-	AA	10/1/2026
Napoleon Michigan Community Schools	100,052	-	AA	5/1/2028
Genesee Michigan Schools	225,063	-	AA	5/1/2029
Chippewa Valley Michigan Schools	89,358	A2	-	5/1/2032
Grand Rapids Community College	224,358	-	AA	5/1/2032
Total Municipal Bonds	<u>848,072</u>			
U.S. Government Securities:				
Federal Farm Credit Bank Securities	274,095	AAA	AA+	8/3/2027
Federal Home Loan Mortgage Corporation	137,283	AAA	-	7/21/2028
Tennessee Valley Authority	123,642	-	AA+	1/15/2029
Tennessee Valley Authority	120,249	-	AA+	1/15/2030
Federal Home Loan Mortgage Corporation	225,828	AAA	-	7/29/2030
Federal Home Loan Bank Securities	178,222	AAA	AA+	7/29/2031
Total U.S. Government Securities	<u>1,059,319</u>			
Brokered Certificate of Deposit:				
Sallie Mae Bank	253,474	N/A	N/A	8/18/2026
Nonnegotiable Certificates of Deposit:				
CD	253,781	N/A	N/A	8/21/2022
CD	253,338	N/A	N/A	7/28/2023
CD	255,035	N/A	N/A	7/23/2024
CD	255,288	N/A	N/A	7/28/2025
Total Nonnegotiable Certificates of Deposit	<u>1,017,442</u>			
Upper Peninsula Public Power Agency	497,094	N/A	N/A	N/A
Total Investments	<u>\$ 3,675,401</u>			

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

The City's investments are subject to several types of risk, which are examined below in more detail.

**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 City did not hold any investment securities that were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name except for the investment in Upper Peninsula Public Power Agency.

**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 restricts investment maturities to a maturity of no more than twelve years from the date of purchase and commercial paper, which can only be purchased with a 270-day maturity. Investment balances and maturities as of March 31, 2022 are listed in the table above.

**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. Investment balances and the credit quality ratings of debt securities as of March 31, 2022 are listed in the table above.

**Concentration of Credit Risk**

The City's investment policy limits the amount that may be invested in a single issuer to no more than 50 percent of the market value of the portfolio and limits the amount that may be invested in a single security type to no more than 50 percent of the market value of the portfolio, with the exception of U.S. Treasury securities and authorized investment pools. As of March 31, 2022, the City had no more than 50 percent of its portfolio invested in a single issuer or in a single security type.

**Risks and Uncertainties**

Due to the level of risk associated with certain investment securities, as described above, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

**Restricted Cash and Investments**

Cash and investments have been restricted within the listed funds as follows:

1. The General Fund in the amount of \$4,267 for donations related to a hover craft, \$8,169 for donations related to the Little Bay de Noc trail, and \$88,551 for costs of the police department as required by the Olson Trust.
2. The Cemetery Perpetual Care Fund in the amount of \$273,708 for cemetery care as required by the nature of the fund.
3. The Mary Cretens Trust Fund in the amount of \$440,244 for community maintenance and improvements as required by the nature of the fund.
4. The MSHDA Homeowners Fund in the amount of \$26,338 for allowable costs under MSDHA homeowner programs as required by the nature of the fund.
5. The MSHDA Habitat Rehab Fund in the amount of \$25,000 for allowable costs under MSDHA habitat rehabilitation programs as required by the nature of the fund.
6. The General Debt Service Fund in the amount of \$52,121 for debt service payments as required by the funding sources 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 (ATC). 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. During the year ended March 31, 2022, the City made additional investments in UPPPA. Neither UPPPA or ATC are publicly traded companies and readily determinable fair market value is not available. The City's investment in UPPPA is recorded and reported at its historical cost. Based on the City's proportional investment held (approximately 7%), the City receives dividends which are distributions from net accumulated earnings which are reported as investment income. If the dividends were to exceed earnings, the dividends would be treated as a return of investment and recorded as a reduction in the original cost of the investment. There were no returns of the investment in the current year. At March 31, 2022, the value of the investment was \$497,094.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

**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. 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. The City had the following recurring fair value measurements as of March 31, 2022:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
U.S. Government Securities	\$ 1,059,319	\$ -	\$ -	\$ 1,059,319
Municipal Bonds	-	848,072	-	848,072
Brokered Certificates of Deposit	-	253,474	-	253,474
Total	<u>\$ 1,059,319</u>	<u>\$ 1,101,546</u>	<u>\$ -</u>	<u>\$ 2,160,865</u>

Debt securities classified in Level 1 are valued using prices quoted in active markets for those securities. The fair values of the municipal bonds were determined primarily based on Level 2 inputs. The City estimates the fair value of these investments using interactive data, which uses other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals. The City has no other investments that are required to be reported at fair value.

**NOTE C – PROPERTY TAXES**

Tax information:

Assessment Date . . . . . December 31  
Taxes payable . . . . . July 1  
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 owed at the time.



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE C – PROPERTY TAXES (continued)**

*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.

See the Additional Supplemental Information as detailed in the Table of Contents for a Schedule of State Equalized Valuation and Taxable Values.

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.

See the Additional Supplemental Information as detailed in the Table of Contents for a Schedule of Annual Tax Rates (per \$1,000 valuation).

City's Share of Current Property Taxes – The 2021 taxable valuation of the City totaled \$119,024,952, on which taxes levied consisted of 15.4773 mills for City operating purposes. The City's share of current real and personal property taxes for the year ended March 31, 2022 was recognized in the funds as follows:

- General Fund: \$1,666,248
- DDA Fund: \$172,554

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE D – CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The City has adopted a capitalization policy that identifies capital assets as those having a value of \$5,000 or more and a useful life greater than one year. The Gladstone Housing Commission has adopted a capitalization policy that identifies capital assets as those have a cost in excess of \$1,000 that materially add to the productive capacity and extend the life of an asset longer than one year. Capital asset activity for the year ended March 31, 2022, was as follows:

	Balance at April 1, 2021	Additions	Transfers/ Disposals	Balance at March 31, 2022
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,619,627	\$ 775,000	\$ -	\$ 2,394,627
Construction in progress	-	-	-	-
Total non-depreciable capital assets	<u>1,619,627</u>	<u>775,000</u>	<u>-</u>	<u>2,394,627</u>
Capital assets being depreciated:				
Land improvements	598,129	-	-	598,129
Buildings	3,580,198	26,423	-	3,606,621
Machinery and equipment	3,907,525	320,527	81,899	4,146,153
Infrastructure-road system	19,068,119	456,286	-	19,524,405
Infrastructure-other	2,141,536	28,966	234,036	1,936,466
Total depreciable capital assets	<u>29,295,507</u>	<u>832,202</u>	<u>315,935</u>	<u>29,811,774</u>
Total capital assets	<u>30,915,134</u>	<u>1,607,202</u>	<u>315,935</u>	<u>32,206,401</u>
Less accumulated depreciation:				
Land improvements	233,396	32,610	-	266,006
Buildings	2,222,120	80,599	-	2,302,719
Machinery and equipment	2,297,053	195,336	73,071	2,419,318
Infrastructure-road system	11,747,653	497,404	-	12,245,057
Infrastructure-other	1,092,874	86,866	196,501	983,239
Total accumulated depreciation	<u>17,593,096</u>	<u>892,815</u>	<u>269,572</u>	<u>18,216,339</u>
Net depreciable capital assets	<u>11,702,411</u>	<u>(60,613)</u>	<u>46,363</u>	<u>11,595,435</u>
Governmental activities capital assets, net	<u>\$ 13,322,038</u>	<u>\$ 714,387</u>	<u>\$ 46,363</u>	<u>\$ 13,990,062</u>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE D – CAPITAL ASSETS (continued)**

	Balance at April 1, 2021	Additions	Transfers/ Disposals	Balance at March 31, 2022
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 236,836	\$ -	\$ -	\$ 236,836
Construction in progress	20,861	1,265,110	20,861	1,265,110
Total non-depreciable capital assets	<u>257,697</u>	<u>1,265,110</u>	<u>20,861</u>	<u>1,501,946</u>
Capital assets being depreciated:				
Buildings	1,237,606	142,995	-	1,380,601
Machinery and equipment	2,237,695	5,404	6,542	2,236,557
Infrastructure - other	424,293	-	-	424,293
Distribution/collection system	17,905,305	50,189	(17,849)	17,973,343
Total depreciable capital assets	<u>21,804,899</u>	<u>198,588</u>	<u>(11,307)</u>	<u>22,014,794</u>
Total capital assets	<u>22,062,596</u>	<u>1,463,698</u>	<u>9,554</u>	<u>23,516,740</u>
Less accumulated depreciation:				
Buildings	618,780	51,288	-	670,068
Machinery and equipment	1,215,684	142,160	4,300	1,353,544
Infrastructure - other	155,576	153,630	-	309,206
Distribution/collection system	11,994,948	172,104	3,012	12,164,040
Total accumulated depreciation	<u>13,984,988</u>	<u>519,182</u>	<u>7,312</u>	<u>14,496,858</u>
Net depreciable capital assets	<u>7,819,911</u>	<u>(320,594)</u>	<u>(18,619)</u>	<u>7,517,936</u>
Business-type activities capital assets, net	<u>\$ 8,077,608</u>	<u>\$ 944,516</u>	<u>\$ 2,242</u>	<u>\$ 9,019,882</u>

	Balance at April 1, 2021	Additions	Transfers/ Disposals	Balance at March 31, 2022
<b>Component Unit-Housing Commission:</b>				
Capital assets not being depreciated:				
Land	\$ 69,466	\$ -	\$ 54,141	\$ 15,325
Capital assets being depreciated:				
Buildings	4,944,208	4,487	2,365,949	2,582,746
Furniture and equipment	87,495	-	47,083	40,412
Infrastructure-road system	137,459	978	30,076	108,361
Total depreciable capital assets	<u>5,169,162</u>	<u>5,465</u>	<u>2,443,108</u>	<u>2,731,519</u>
Total capital assets	<u>5,238,628</u>	<u>5,465</u>	<u>2,497,249</u>	<u>2,746,844</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>4,837,559</u>	<u>50,065</u>	<u>2,349,337</u>	<u>2,538,287</u>
Net depreciable capital assets	<u>331,603</u>	<u>(44,600)</u>	<u>93,771</u>	<u>193,232</u>
Component unit capital assets, net	<u>\$ 401,069</u>	<u>\$ (44,600)</u>	<u>\$ 147,912</u>	<u>\$ 208,557</u>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE D – CAPITAL ASSETS (continued)**

Depreciation expense was charged to the following activities in the primary government:

**Governmental activities:**

General government	\$	24,752
Public safety		91,961
Parks and recreation		168,191
Public works		90,910
Street system		501,410
Community development		15,591
Total governmental activities depreciation expense	<u>\$</u>	<u>892,815</u>

**Business-type activities:**

Electric	\$	225,314
Waste water		125,464
Water		97,323
Solid waste		47,598
Harbor		23,483
Total business-type activities depreciation expense	<u>\$</u>	<u>519,182</u>

**Component Unit – RAD Conversion**

The Gladstone Housing Commission applied for and received approval to convert 52 units to a Project-Based Rental Assistance (PBRA) Section 8 program. The Housing Assistance Payment (HAP) contract began on June 1, 2021 and shall run for an initial term of 20 years. The funding for the conversion includes Tax Credit Equity, Commercial Non-FHA Loan, Seller Note/Take Back Financing, and Public Housing Operating Reserves, the total estimated Sources and Uses Cost was \$6,407,770.

The on-going subsidy known as the HAP contract was awarded to the Waterview Apartments 1 LDHA, LLC (LLC). The LLC consists of two major components: the Tax Credit investor which is a 99.99% Member; and the Waterview GP 1, LLC (GP 1) which is a .001 % Member. GP 1 is further owned by two major components: RAD Conversion Specialists, LLC, a 10% Member and the Gladstone Housing, LLC a 90% Member. The Gladstone Housing, LLC is 100% owned by the Gladstone Housing Development Corporation; the RAD Conversion Specialists is owned by Stavik Company, a 50% Member, and Premier Property Management, LLC, a 50% Member.

The Gladstone Housing Commission (GHC) also manages 50 units of Low Rent Public Housing Units under the original Annual Contributions Contract (ACC) and will have two 100% owned component units; Gladstone Housing Development Corporation; and the Waterview GP 1, LLC. The GHC's interest in the HAP contract will consist of .0009%; the Gladstone Housing LLC has a 90% interest of the .001 interest in the LLC. Currently the management of the LLC property will be by contract; the LLC will contract with the GHC. The GHC will receive a fee and reimbursement of all approved operating expenses which will include wages.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE E – LONG-TERM OBLIGATIONS**

The City issued general obligation bonds to provide for acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City's contractual agreements are also general obligations of the City. One of the installment purchase agreements related to the governmental activities is secured with collateral of the Caterpillar Backhoe that was purchased with the proceeds from the installment purchase agreement. The City issued revenue bonds to provide for the construction and installation of improvements to the City's sludge storage tank. The City has pledged the revenues of sewage disposal system after provision has been made for reasonable and necessary expenses of operation, maintenance, and administration for the revenue bonds. As additional security on the revenue bonds, the City has pledged its limited tax full faith and credit. The following is a summary of changes in long-term debt for the year ended March 31, 2022:

Type of Debt	Balance April 1, 2021	Additions	Deductions	Balance March 31, 2022	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Direct Borrowings & Placements:					
Limited Tax General Obligation Bonds:					
2020 Capital Improvement bond	\$ 4,245,000	\$ -	\$ 250,000	\$ 3,995,000	\$ 260,000
Contractual Agreements:					
Installment purchase agreements	54,360	750,000	4,395	799,965	45,952
Other liabilities	50,000	-	25,000	25,000	25,000
Unamortized bond premium	281,902	-	20,136	261,766	20,136
Other obligations:					
Employment benefits	329,500	-	53,000	276,500	89,000
Compensated absences	192,416	231,712	213,084	211,044	70,386
<b>Total governmental long-term debt</b>	<b>\$ 5,153,178</b>	<b>\$ 981,712</b>	<b>\$ 565,615</b>	<b>\$ 5,569,275</b>	<b>\$ 510,474</b>
Type of Debt	Balance April 1, 2021	Additions	Deductions	Balance March 31, 2022	Amounts Due Within One Year
<b>Business-type Activities:</b>					
Direct Borrowings & Placements:					
Revenue Bonds:					
2006 Sludge Storage bond	\$ 415,718	\$ -	\$ 55,000	\$ 360,718	\$ 60,000
Other obligations:					
Employment benefits	243,000	-	81,000	162,000	81,000
Compensated absences	146,269	92,913	106,266	132,916	37,821
<b>Total business-type long-term debt</b>	<b>\$ 804,987</b>	<b>\$ 92,913</b>	<b>\$ 242,266</b>	<b>\$ 655,634</b>	<b>\$ 178,821</b>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE E – LONG-TERM OBLIGATIONS (continued)**

Debt service requirements on long-term debt at March 31, 2022 are as follows:

For the Year Ended March 31,	Governmental Activities							
	Direct Borrowings & Placements							
	Bonds Payable		Notes Payable		Other Liabilities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 260,000	\$ 102,850	\$ 45,952	\$ 22,011	\$ 25,000	\$ -	\$ 330,952	\$ 124,861
2024	265,000	95,050	87,849	20,720	-	-	352,849	115,770
2025	275,000	87,100	43,592	17,653	-	-	318,592	104,753
2026	280,000	78,850	44,747	16,498	-	-	324,747	95,348
2027	290,000	70,450	45,933	15,312	-	-	335,933	85,762
2028-2032	1,585,000	219,450	248,581	57,645	-	-	1,833,581	277,095
2033-2037	1,040,000	41,900	283,311	22,916	-	-	1,323,311	64,816
	<u>\$ 3,995,000</u>	<u>\$ 695,650</u>	<u>\$ 799,965</u>	<u>\$ 172,755</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 4,819,965</u>	<u>\$ 868,405</u>

Note: the above table excludes the future debt service requirements for the premiums on bonds payable.

For the Year Ended March 31,	Business-type Activities	
	Direct Borrowings & Placements	
	Bonds Payable	
	Principal	Interest
2023	\$ 60,000	\$ 5,862
2024	60,000	4,887
2025	60,000	3,912
2026	60,000	2,937
2027	60,000	1,962
2028	60,718	987
	<u>\$ 360,718</u>	<u>\$ 20,547</u>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE E – LONG-TERM OBLIGATIONS (continued)**

**Governmental Activities**

As of March 31, 2022, the long-term debt of governmental activities consists of the following:

**Bonds Payable**

**2020 Capital Improvement Bonds** – On March 17, 2020, the City issued \$4,495,000 in Limited Tax General Obligation bonds for the purpose of the reconstruction of 2.50 miles of 9<sup>th</sup> Street. The bonds have interest rates that range from 2.00% to 3.00%. Interest payments are due and payable each March 1 and September 1. Principal payments are due each March 1 with the first principal payment due March 1, 2021 and the final principal payment due no later than March 1, 2035. The bonds will be partially paid from the proceeds of special assessments levied against benefited property owners. In the event, a property owner would fail to pay the assessment, payment would be made by the City.

**Notes Payable**

**Backhoe Purchase** – On October 4, 2017, the City entered into an installment purchase agreement for \$66,500 to purchase a backhoe. The note is payable in six annual installments of \$6,718 through October 2023 at an interest rate of 4.25095% with a balloon payment of \$40,880 in October 2023.

**North Shore Land Purchase** – On December 20, 2021, the City entered into an installment purchase agreement for \$750,000 to purchase a parcel of land. The City had previously paid on deposit on the purchase in the amount of \$25,000 from cash on hand. Principal payments on the note are payable in fifteen annual installments through December 1, 2036, at an interest rate of 2.65%. Interest payments are due and payable each June 1 and December 1.

**Other Liabilities** – On June 12, 2017, the City entered into an agreement for \$150,000 to pay a local business \$25,000 annually for five years in lieu of a formal Brownfield project.

**Business-type Activities**

As of March 31, 2022, 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 (limited tax general obligation) 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.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE F – VESTED EMPLOYEE BENEFITS**

**Compensated Absences**

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. Compensated absences in the amount of \$211,044 under governmental activities and \$132,916 under business-type activities are reported in the Statement of Net Position. For governmental activities, compensated absences are liquidated by the fund the employee’s regular payroll is charged to.

**Employment Benefits**

The City has negotiated buyouts with active employees that were previously entitled to post-employment health benefits based on various union and employment agreements. These buyout agreements are for varying amounts and terms. The City expects to complete the final buyout payment in fiscal year 2027. Employment benefits in the amount of \$276,500 under governmental activities and \$162,000 under business-type activities are reported in the Statement of Net Position. For governmental activities, employment benefits are liquidated by the fund the employee’s regular payroll is charged to.

**NOTE G – INTERFUND BALANCES AND TRANSFERS**

**Interfund Balances**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund receivables represent short-term borrowings between funds. The balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. The City has also classified \$770,043 as noncurrent assets and liabilities in the Statement of Net Position due to the individual funds’ inability to repay these amounts or payback agreements put in place. The noncurrent interfund balances are not expected to be repaid within the next fiscal year. Individual fund interfund receivables and payable balances at March 31, 2022 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 868,715	General Fund	\$ 772,300
Major Street Fund	-	Major Street Fund	46,013
Local Street Fund	-	Local Street Fund	19,889
Capital Projects Fund	-	Capital Projects Fund	22,721
Solid Waste Fund	104,400	Solid Waste Fund	-
Electric Fund	733,803	Electric Fund	-
Waste Water Fund	-	Waste Water Fund	621,894
Retirement System Fund	-	Retirement System Fund	224,101
Total	<u>\$ 1,706,918</u>	Total	<u>\$ 1,706,918</u>



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE G – INTERFUND BALANCES AND TRANSFERS (continued)**

Financial Statement Presentation:			
Governmental Funds	\$ 868,715	Governmental Funds	\$ 860,923
Enterprise Funds	838,203	Enterprise Funds	621,894
Internal Service Funds	-	Internal Service Funds	224,101
	<u>\$ 1,706,918</u>		<u>\$ 1,706,918</u>

On November 25, 2019, the City approved the purchase of equipment to be partially funded with a loan from the Solid Waste Fund to the General Fund in the amount of \$130,500. The loan is to be repaid on a 10-year payback schedule with annual payments of \$13,050 beginning in November 2020 and ending in November 2029. The remaining balance on the internal loan as of March 31, 2022 is \$104,400 with \$13,050 shown as current.

On May 11, 2020, the City approved the purchase of equipment to be partially funded with a loan from the Electric Fund to the General Fund in the amount of \$313,268. The loan is to be repaid on a 10-year payback schedule with annual payments of \$31,363 beginning in December 2021 and ending in December 2030. The remaining balance on the internal loan as of March 31, 2022 is \$282,265 with \$31,363 shown as current.

On March 28, 2022, the City approved the purchase of equipment to be partially funded with a loan from the Electric Fund to the General Fund in the amount of \$225,960. The loan is to be repaid on a 10-year payback schedule with annual payments of \$22,596 beginning in 2023 and ending in 2032. The remaining balance on the internal loan as of March 31, 2022 is \$225,960 with \$22,596 shown as current.

The City also has several other noncurrent interfund balances due to inability to repay. The Major Street Fund owes the Electric Fund \$46,013 and the Local Street Fund owes the Electric Fund \$19,889.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE G – INTERFUND BALANCES AND TRANSFERS (continued)**

**Interfund Transfers**

The transfers to and from the various funds are made to account for budgetary authorizations, provide funding for operations as needed, and fund debt service payments. Interfund transfers for the year ended March 31, 2022 were as follows:

	TRANSFERS IN				
	General	Local Street	General Debt Service	Nonmajor Govern.	Total
	TRANSFERS (OUT)				
General	\$ -	\$ -	\$ 25,000	\$ -	\$ 25,000
Major Street	-	200,000	29,400	-	229,400
Local Street	-	-	9,600	-	9,600
DDA	-	50,000	227,000	-	277,000
Gen. Debt Service	-	-	-	66,000	66,000
Nonmajor Govern.	208,158	-	-	25,000	233,158
Waste Water	-	-	25,000	-	25,000
Water	-	-	18,000	-	18,000
<b>Total</b>	<b>\$ 208,158</b>	<b>\$ 250,000</b>	<b>\$ 334,000</b>	<b>\$ 91,000</b>	<b>\$ 883,158</b>

Financial Statement Presentation:

	Transfers In		Transfers Out
Governmental Funds	\$ 883,158	Governmental Funds	\$ 840,158
Enterprise Funds	-	Enterprise Funds	43,000
	<b>\$ 883,158</b>		<b>\$ 883,158</b>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE H – RETIREMENT PLANS**

**MUNICIPAL EMPLOYEES’ RETIREMENT SYSTEM**

Description of Plan and Plan Assets

The City participates in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the MERS of Michigan plan and additions to/deductions from MERS’ fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported as fair value.

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, 2021.

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 is a nonprofit organization that was granted independence from the State of Michigan pursuant to Public Act 220 of 1996, effective August 15, 1996. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com) or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

*Benefits Provided--Defined Benefit.* The County’s defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984 established and amends the benefit provisions of the participants in MERS.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE H – RETIREMENT PLANS (continued)**

	Divisions - For the 2021 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

Employees Covered by Benefit Terms

At the December 31, 2021 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	2
Active employees	<u>7</u>
	49

There were no employees with pending refunds.

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. Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The contribution rate as a monthly dollar amount for the year ended March 31, 2022 was as follows:

01 - General	\$ 27,084
02 – Police/Fire	\$ 33,510
10 – General Supervisor	\$ 37,726
20 – Public Safety Comm. Officers	\$ 5,862

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE H – RETIREMENT PLANS (continued)**

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2021, 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, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.00 percent, in the long-term
Investment rate of return	7.00 percent, net of investment expenses, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.00% long-term wage inflation assumption would be consistent with a price inflation of 3.00% - 4.00%.

Mortality rates used were based on a version of Pub-2010 and fully generational MP-2019.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of the most recent actuarial experience study covering the period from 2014 through 2018.

Beginning with the actuarial valuation as of December 31, 2020, there were updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates. Beginning with the actuarial valuation as of December 31, 2021, the investment rate of return was reduced from 7.35 percent to 7.00 percent.

Effective for the valuation as of December 31, 2021, MERS has adopted a dedicated gains policy which allows for recognition of asset gains in excess of a set threshold in combination with lowering the assumed rate of investment return. Changes to these assumptions and methods will be effective for contributions beginning in 2023.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global Equity	60.0%	4.65%	3.15%
Global Fixed Income	20.0%	0.75%	0.25%
Private Investments	20.0%	1.95%	1.45%

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE H – RETIREMENT PLANS (continued)**

*Discount Rate.* The discount rate used to measure the total pension liability is 7.25% for 2021. The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because, for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in the Net Pension Liability:**

	<b>Increases (Decreases)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
<b>Balances at December 31, 2020</b>	<b>\$ 13,904,396</b>	<b>\$ 8,083,019</b>	<b>\$ 5,821,377</b>
Service cost	46,554	-	46,554
Interest on total pension liability	1,020,015	-	1,020,015
Changes in benefits	-	-	-
Difference between expected and actual experience	(166,912)	-	(166,912)
Changes in assumptions	443,678	-	443,678
Employer contributions	-	1,200,939	(1,200,939)
Employee contributions	-	6,236	(6,236)
Net investment income	-	1,152,890	(1,152,890)
Benefit payments, including employee refunds	(1,012,847)	(1,012,847)	-
Administrative expense	-	(13,210)	13,210
Other changes	1	-	1
<b>Net changes</b>	<b>330,489</b>	<b>1,334,008</b>	<b>(1,003,519)</b>
<b>Balances as of December 31, 2021</b>	<b>\$ 14,234,885</b>	<b>\$ 9,417,027</b>	<b>\$ 4,817,858</b>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE H – RETIREMENT PLANS (continued)**

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the City, calculated using the discount rate of 7.25%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	<b>1% Decrease 6.25%</b>	<b>Current Discount Rate 7.25%</b>	<b>1% Increase 8.25%</b>
City’s net pension liability at 12/31/21	\$ 4,817,858	\$ 4,817,858	\$ 4,817,858
City’s change in net pension liability at 12/31/21	1,418,058	-	(1,205,027)
	<u>\$ 6,235,916</u>	<u>\$ 4,817,858</u>	<u>\$ 3,612,831</u>

*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, 2022, the City recognized pension expense of \$566,827. At March 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	157,657	803,514
Contributions subsequent to the measurement date *	<u>312,547</u>	<u>-</u>
Total	<u><u>\$ 470,204</u></u>	<u><u>\$ 803,514</u></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, 2023.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE H – RETIREMENT PLANS (continued)**

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

<u>Plan Year Ended December 31:</u>	
2022	\$ (98,713)
2023	(256,371)
2024	(184,434)
2025	(106,339)
	<u>\$ (645,857)</u>

At March 31, 2022, the City had outstanding contributions to the pension plan of \$104,648.

**401 (A) RETIREMENT PLAN**

The City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by Municipal Employees' Retirement System of Michigan. 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. As of fiscal year 2010, all new hires of the POLC union are also included in this retirement plan. In addition, if the employee contributes an additional 3% to the plan the City will match the employee contribution of 3% for a total employer contribution of 11%. All contributions are held and owned in the name of each employee and are immediately vested. There are no forfeitures in the Plan. Loans are permitted under the Plan. At March 31, 2022, there are 5 terminated participants and 34 active participants.

<u>Year Ended</u> <u>March 31,</u>	<u>Number of</u> <u>Participants</u>	<u>City's</u> <u>Share</u>	<u>Employee's</u> <u>Share</u>
2018	27	170,603	45,958
2019	31	187,837	52,500
2020	33	198,360	55,497
2021	36	203,002	54,905
2022	39	215,518	59,989



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE I – FUND BALANCE/RESTRICTED NET POSITION**

As of March 31, 2022, fund balances are composed of the following:

	General Fund	Major Streets	Local Streets	Downtown Development	General Debt Service	Nonmajor Funds	Total Funds
<b>Nonspendable:</b>							
Prepaid items	\$ 50,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,130
Inventory	15,114	-	-	-	-	-	15,114
Permanent fund principal	-	-	-	-	-	274,074	274,074
<b>Restricted for:</b>							
Debt service payments	-	-	-	-	52,121	-	52,121
Capital projects	-	-	-	-	-	43,279	43,279
Street system	-	353,273	196,598	-	-	-	549,871
Health & welfare	-	-	-	-	-	51,338	51,338
Community development	-	-	-	-	-	440,880	440,880
Economic development	-	-	-	-	-	25,335	25,335
Industrial development	-	-	-	-	-	39,727	39,727
Downtown development	-	-	-	291,581	-	-	291,581
<b>Committed to:</b>							
Public safety equipment	69,664	-	-	-	-	-	69,664
Public safety fire truck	105,843	-	-	-	-	-	105,843
Facilities	98,025	-	-	-	-	-	98,025
Equipment replacement	28,487	-	-	-	-	-	28,487
<b>Unassigned:</b>	219,393	-	-	-	-	-	219,393
<b>Total fund balance</b>	<b>\$ 586,656</b>	<b>\$ 353,273</b>	<b>\$ 196,598</b>	<b>\$ 291,581</b>	<b>\$ 52,121</b>	<b>\$ 874,633</b>	<b>\$ 2,354,862</b>

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

The government-wide statement of net position reports \$1,494,132 of expendable restricted net position, of which \$291,581 is restricted by enabling legislation.

**NOTE J – RISK MANAGEMENT**

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

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

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE J – RISK MANAGEMENT (continued)**

City Obligations – The 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**

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

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

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

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

At March 31, 2022, 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 K – 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, 2022.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE L – JOINT VENTURE – DELTA SOLID WASTE LANDFILL**

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

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

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

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

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 19<sup>th</sup> Avenue North, Escanaba, MI 49829.

**NOTE M – SINGLE AUDIT**

For the year ended March 31, 2022, 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.

**NOTE N – TAX ABATEMENTS**

For the year ended March 31, 2022, the city did not have material tax abatements.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE O – FUTURE CHANGES IN ACCOUNTING PRINCIPLE**

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 2022-2023 fiscal year as amended by GASB Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*.

The Governmental Accounting Standards Board issued GASB Statement No. 91, *Conduit Debt Obligations*, which provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. 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 2022-2023 fiscal year.

The Governmental Accounting Standards Board issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improve financial reporting by establishing the definitions of public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs) and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice.

This Statement will enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPPs.

Under this Statement, a PPP is defined as an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Under this Statement a PPP meets the definition of a service concession arrangement (SCA) if: (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE O – FUTURE CHANGES IN ACCOUNTING PRINCIPLE (continued)**

As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. 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 2023-2024 fiscal year.

The Governmental Accounting Standards Board issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which will improve financial reporting by establishing a definition for subscription-based information technology arrangements (SBITAs) for government end users (governments) and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset — an intangible asset — and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs. 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 2023-2024 fiscal year.

The Governmental Accounting Standards Board issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 plan should be considered a pension plan or an other employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for the City's financial statements for the 2022-2023 fiscal year.

**NOTE P – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment was recorded in 2022 to change the reporting classification of the Economic Development Corporation (EDC) from an enterprise fund to a special revenue fund. This change was made based on the City's analysis of the EDC's activity and the determination that, based on its primary revenue sources, it is properly reported as a special revenue fund as defined by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2022

**NOTE P – PRIOR PERIOD ADJUSTMENT (continued)**

Fund balance and net position in the government-wide financial statements, governmental funds financial statements, and proprietary funds financial statements as of the beginning of the current fiscal year were adjusted as shown in the following tables:

	Governmental Activities	Total Enterprise Funds and Business-Type Activities
	<u>                    </u>	<u>                    </u>
Beginning net position, as previously reported on March 31, 2021	\$ 7,948,324	\$ 11,257,893
Prior period adjustment		
Reclassification of EDC	<u>116,551</u>	<u>(116,551)</u>
Net position, as restated on April 1, 2021	<u>\$ 8,064,875</u>	<u>\$ 11,141,342</u>

	Total Governmental Funds
	<u>                    </u>
Beginning fund balance, as previously reported on March 31, 2021	\$ 2,585,139
Prior period adjustment	
Addition of EDC fund balance	<u>90,974</u>
Fund balance, as restated on April 1, 2021	<u>\$ 2,676,113</u>

**NOTE Q – SUBSEQUENT EVENTS**

On June 6, 2022, the City closed on the Sewage Disposal System Revenue Bond, Series 2022, in the amount of \$21,305,000. The bonds mature in 2053 and bear an interest rate of 2.125%. The bonds were purchased by the Michigan Finance Authority in connection with the Michigan Department of Environment, Great Lakes and Energy Clean Water State Revolving Fund loan program. The bonds will be used to pay for improvements to the City’s sewage disposal system including the wastewater treatment plant. The City awarded a contract to Staab Construction Corp. for the wastewater treatment plant construction project in the amount of \$17,743,000. The remaining bond proceeds will be used for engineering and other project costs.

On June 27, 2022, the City Commission approved a special assessment resolution for the North Bluff Infrastructure project with a special assessment roll in the amount of \$249,907. The assessments will be payable in eight annual installments, commencing November 15, 2022. Interest will accrue on unpaid installments beginning on November 15, 2022 at the rate of 3.00% per annum.

## **Required Supplementary 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, 2022**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
<b>REVENUES:</b>				
Federal sources	\$ -	\$ 246,856	\$ 990	\$ (245,866)
State sources	560,736	560,736	683,085	122,349
Local sources	57,000	1,000	-	(1,000)
Taxes	1,721,807	1,762,183	1,786,344	24,161
Charges for services	1,106,526	1,225,902	1,177,859	(48,043)
Licenses and permits	95,700	92,600	94,689	2,089
Lease income	204,000	3,000	3,750	750
Interest income	1,500	1,500	(276)	(1,776)
Miscellaneous	76,025	125,460	32,823	(92,637)
Total revenues	<u>3,823,294</u>	<u>4,019,237</u>	<u>3,779,264</u>	<u>(239,973)</u>
<b>EXPENDITURES:</b>				
General government:				
City commission	104,157	129,249	117,369	11,880
City manager	128,390	144,390	144,065	325
Elections	13,980	13,980	11,759	2,221
City assessor	63,787	77,943	76,466	1,477
Board of review	2,953	2,953	2,503	450
City treasurer	130,832	133,332	142,715	(9,383)
City clerk	148,920	148,920	143,404	5,516
City hall	29,916	35,916	30,004	5,912
Office clerk	81,715	81,715	81,554	161
Computer & copier	23,335	23,335	17,899	5,436
Pension	25,000	25,000	25,000	-
Public safety:				
Police department	1,455,453	1,455,453	1,422,768	32,685
Fire department	170,744	170,744	119,530	51,214
Canine	1,875	5,865	5,846	19
Parks and recreation:				
Recreation administrative	160,472	160,472	152,909	7,563
Parks	66,940	66,940	77,325	(10,385)
Beach	39,150	39,150	30,955	8,195
Sports park	89,650	97,150	100,215	(3,065)
Campground	73,520	78,269	78,181	88
Miscellaneous	65,336	74,500	68,750	5,750
Community development:				
Administrative	134,552	168,552	168,141	411
Public works:				
Cemetery	72,626	72,626	66,193	6,433
Forestry	23,460	23,460	25,408	(1,948)
Sidewalks & alley maintenance	29,260	29,260	23,890	5,370
Grounds maintenance	395,973	242,011	180,787	61,224
Motor pool	149,222	183,178	192,873	(9,695)
Capital outlay	531,500	505,521	375,915	129,606
Debt service	51,268	51,268	6,718	44,550
Total expenditures	<u>4,263,986</u>	<u>4,241,152</u>	<u>3,889,142</u>	<u>352,010</u>
Excess revenues (expenditures)	<u>(440,692)</u>	<u>(221,915)</u>	<u>(109,878)</u>	<u>112,037</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds	250,000	250,000	-	(250,000)
Proceeds from sales of capital assets	-	-	5,237	5,237
Transfer in	240,550	215,550	208,158	(7,392)
Transfer out	(49,858)	(235,000)	(25,000)	210,000
Total other financing sources (uses)	<u>440,692</u>	<u>230,550</u>	<u>188,395</u>	<u>(42,155)</u>
Net changes in fund balances	-	8,635	78,517	69,882
Fund balances - beginning	<u>508,139</u>	<u>508,139</u>	<u>508,139</u>	<u>-</u>
Fund balances - ending	<u>\$ 508,139</u>	<u>\$ 516,774</u>	<u>\$ 586,656</u>	<u>\$ 69,882</u>



**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**MAJOR STREET FUND**  
**For the Year Ended March 31, 2022**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
State sources	\$ 610,758	\$ 612,478	\$ 633,295	\$ 20,817
Special assessments	22,807	-	31,868	31,868
Interest income	2,500	3,600	(2,365)	(5,965)
Miscellaneous	900	900	(323)	(1,223)
	<hr/>		<hr/>	
Total revenues	636,965	616,978	662,475	45,497
<hr/>				
<b>EXPENDITURES:</b>				
Street system	493,432	388,510	356,735	31,775
Capital outlay	-	61,739	61,738	1
	<hr/>		<hr/>	
Total expenditures	493,432	450,249	418,473	31,776
	<hr/>		<hr/>	
Excess revenues (expenditures)	143,533	166,729	244,002	77,273
<hr/>				
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	85,867	85,867	-	(85,867)
Transfer out	(229,400)	(229,400)	(229,400)	-
	<hr/>		<hr/>	
Total other financing sources (uses)	(143,533)	(143,533)	(229,400)	(85,867)
	<hr/>		<hr/>	
Net changes in fund balances	-	23,196	14,602	(8,594)
	<hr/>		<hr/>	
Fund balances - beginning	338,671	338,671	338,671	-
	<hr/>		<hr/>	
Fund balances - ending	\$ 338,671	\$ 361,867	\$ 353,273	\$ (8,594)
	<hr/>		<hr/>	

**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**LOCAL STREET FUND**  
**For the Year Ended March 31, 2022**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
State sources	\$ 254,505	\$ 255,505	\$ 264,883	\$ 9,378
Special assessments	250,000	220,000	107,540	(112,460)
Interest income	300	300	(1,309)	(1,609)
Miscellaneous	100	100	1,162	1,062
	<hr/>		<hr/>	
Total revenues	504,905	475,905	372,276	(103,629)
<hr/>				
<b>EXPENDITURES:</b>				
Street system	501,064	565,521	461,570	103,951
Capital outlay	394,241	280,066	309,321	(29,255)
	<hr/>		<hr/>	
Total expenditures	895,305	845,587	770,891	74,696
	<hr/>		<hr/>	
Excess revenues (expenditures)	(390,400)	(369,682)	(398,615)	(28,933)
<hr/>				
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	400,000	289,000	250,000	(39,000)
Transfer out	(9,600)	(9,600)	(9,600)	-
	<hr/>		<hr/>	
Total other financing sources (uses)	390,400	279,400	240,400	(39,000)
	<hr/>		<hr/>	
Net changes in fund balances	-	(90,282)	(158,215)	(67,933)
	<hr/>		<hr/>	
Fund balances - beginning	354,813	354,813	354,813	-
	<hr/>		<hr/>	
Fund balances - ending	\$ 354,813	\$ 264,531	\$ 196,598	\$ (67,933)
	<hr/>		<hr/>	

**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, 2022**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Local sources	\$ 82,000	\$ 82,000	\$ 14,413	\$ (67,587)
Taxes	390,399	390,399	320,452	(69,947)
Interest income	2,500	2,500	(4,489)	(6,989)
Miscellaneous	173,329	173,329	1,484	(171,845)
Total revenues	<u>648,228</u>	<u>648,228</u>	<u>331,860</u>	<u>(316,368)</u>
<b>EXPENDITURES:</b>				
Community development	351,228	351,228	152,112	199,116
Capital outlay	45,000	45,000	750,000	(705,000)
Debt service:				
Principal	25,000	25,000	25,000	-
Total expenditures	<u>421,228</u>	<u>421,228</u>	<u>927,112</u>	<u>(505,884)</u>
Excess revenues (expenditures)	<u>227,000</u>	<u>227,000</u>	<u>(595,252)</u>	<u>(822,252)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Loan proceeds	-	-	750,000	750,000
Transfer out	(227,000)	(227,000)	(277,000)	(50,000)
Total other financing sources (uses)	<u>(227,000)</u>	<u>(227,000)</u>	<u>473,000</u>	<u>700,000</u>
Net changes in fund balances	-	-	(122,252)	(122,252)
Fund balances - beginning	<u>413,833</u>	<u>413,833</u>	<u>413,833</u>	<u>-</u>
Fund balances - ending	<u>\$ 413,833</u>	<u>\$ 413,833</u>	<u>\$ 291,581</u>	<u>\$ (122,252)</u>

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

	2015	2016	2017	2018	2019	2020	2021
<b>Total pension liability</b>							
Service cost	\$ 84,917	\$ 85,502	\$ 58,336	\$ 46,590	\$ 47,899	\$ 53,632	\$ 46,554
Interest	953,137	979,922	1,019,988	1,016,964	1,016,752	998,326	1,020,015
Change in benefits	3,739	-	-	-	-	-	-
Difference between expected and actual experience	(30,084)	335,350	(138,780)	(44,558)	(54,199)	(10,976)	(166,912)
Change in assumptions	523,082	-	-	-	447,771	269,813	443,678
Benefit payments, including refund of member contributions	(842,391)	(836,086)	(936,653)	(1,006,283)	(1,038,320)	(1,030,906)	(1,012,847)
Other	-	-	(4)	-	1	-	1
<b>Net change in total pension liability</b>	692,400	564,688	2,887	12,713	419,904	279,889	330,489
<b>Total pension liability - beginning</b>	11,931,915	12,624,315	13,189,003	13,191,890	13,204,603	13,624,507	13,904,396
<b>Total pension liability - ending</b>	<u>\$ 12,624,315</u>	<u>\$ 13,189,003</u>	<u>\$ 13,191,890</u>	<u>\$ 13,204,603</u>	<u>\$ 13,624,507</u>	<u>\$ 13,904,396</u>	<u>\$ 14,234,885</u>
<b>Plan fiduciary net position</b>							
Contributions - employer	\$ 642,574	\$ 841,312	\$ 768,951	\$ 956,931	\$ 1,022,538	\$ 1,025,388	\$ 1,200,939
Contributions - employee	12,492	12,791	8,995	6,601	6,625	6,824	6,236
Net investment income (loss)	(83,968)	615,682	792,296	(259,575)	864,446	934,276	1,152,890
Benefit payments, including refunds of member contributions	(842,391)	(836,086)	(936,653)	(1,006,283)	(1,038,320)	(1,030,906)	(1,012,847)
Administrative expense	(12,265)	(12,163)	(12,544)	(12,842)	(14,899)	(14,497)	(13,210)
<b>Net change in plan fiduciary net position</b>	(283,558)	621,536	621,045	(315,168)	840,390	921,085	1,334,008
<b>Plan fiduciary net position - beginning</b>	5,677,689	5,394,131	6,015,667	6,636,712	6,321,544	7,161,934	8,083,019
<b>Plan fiduciary net position - ending</b>	<u>\$ 5,394,131</u>	<u>\$ 6,015,667</u>	<u>\$ 6,636,712</u>	<u>\$ 6,321,544</u>	<u>\$ 7,161,934</u>	<u>\$ 8,083,019</u>	<u>\$ 9,417,027</u>
<b>City's net pension liability - ending</b>	<u>\$ 7,230,184</u>	<u>\$ 7,173,336</u>	<u>\$ 6,555,178</u>	<u>\$ 6,883,059</u>	<u>\$ 6,462,573</u>	<u>\$ 5,821,377</u>	<u>\$ 4,817,858</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	43%	46%	50%	48%	53%	58%	66%
<b>Covered - employee payroll</b>	\$ 760,520	\$ 751,993	\$ 525,382	\$ 434,047	\$ 447,960	\$ 504,170	\$ 497,752
<b>City's net pension liability as a percentage of covered-employee payroll</b>	951%	954%	1248%	1586%	1443%	1155%	968%
<b>Annual money-weighted rate of return, net of investment expense</b>	-2%	11%	13%	-4%	13%	13%	14%

Note: Schedule prepared based on measurement date of December 31

Assumption changes: In the 2021 MERS valuation, the investment rate of return was reduced from 7.35 percent to 7.00 percent.

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

	2015	2016	2017	2018	2019	2020	2021	2022
Actuarially determined contribution	\$ 545,395	\$ 674,856	\$ 721,620	\$ 784,728	\$ 889,332	\$ 941,940	\$ 1,053,204	\$ 1,250,184
Contributions in relation to the actuarially determined contribution	<u>545,395</u>	<u>674,856</u>	<u>721,620</u>	<u>784,728</u>	<u>1,076,832</u>	<u>941,940</u>	<u>1,053,204</u>	<u>1,250,184</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (187,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 726,599	\$ 760,520	\$ 751,993	\$ 525,382	\$ 434,047	\$ 447,960	\$ 504,170	\$ 497,752
Contributions as a percentage of covered-employee payroll	75%	89%	96%	149%	248%	210%	209%	251%

**Notes to Schedule:**

Methods and assumptions used to determine contribution rates:

Valuation Date	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.
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	10 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.00%, average, including inflation
Investment rate of return	7.35%
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
Assumption changes	In the 2021 MERS valuation, the investment rate of return was reduced from 7.35 percent to 7.00 percent, which will first impact 2023 contributions. In the 2020 MERS valuation, demographic assumptions including mortality, retirement, disability, and termination rates were updated based on the recent experience study, which first impacted 2022 contributions.
Note	Above dates are based on fiscal year and not the measurement date.

## **Other Supplementary Information**

**CITY OF GLADSTONE, MICHIGAN  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
March 31, 2022**

	Special Revenue Funds			
	MSDHA Homeowner	MSHDA Habitat Rehab	Mary Cretens Trust	Economic Development Corporation
<b>ASSETS</b>				
Cash, cash equivalents and investments	\$ -	\$ -	\$ -	\$ 67,955
Receivables:				
Accounts	-	-	636	190
Restricted cash, cash equivalents and investments	26,338	25,000	440,244	-
Total assets	\$ 26,338	\$ 25,000	\$ 440,880	\$ 68,145
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 3,083
Accrued payroll	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	-	-	-	3,083
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	-
Restricted	26,338	25,000	440,880	65,062
Total fund balances	26,338	25,000	440,880	65,062
Total liabilities, deferred inflows of resources, and fund balances	\$ 26,338	\$ 25,000	\$ 440,880	\$ 68,145

See accompanying notes to financial statements.

<u>Capital Projects Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Capital Projects</u>	<u>Cemetery Perpetual Care</u>	
\$ 66,000	\$ -	133,955
-	366	1,192
-	273,708	765,290
<u>\$ 66,000</u>	<u>\$ 274,074</u>	<u>\$ 900,437</u>
\$ -	\$ -	\$ 3,083
-	-	-
22,721	-	22,721
<u>22,721</u>	<u>-</u>	<u>25,804</u>
-	274,074	274,074
43,279	-	600,559
<u>43,279</u>	<u>274,074</u>	<u>874,633</u>
<u>\$ 66,000</u>	<u>\$ 274,074</u>	<u>\$ 900,437</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, 2022**

	Special Revenue Funds			
	MSDHA Homeowner	MSHDA Habitat Rehab	Mary Cretens Trust	Economic Development Corporation
<b>REVENUES:</b>				
State sources	\$ -	\$ -	\$ -	\$ -
Local sources	-	-	159,776	-
Investment gain/(loss)	-	-	(4,737)	(1,526)
Miscellaneous	-	-	-	500
Total revenues	<u>-</u>	<u>-</u>	<u>155,039</u>	<u>(1,026)</u>
<b>EXPENDITURES:</b>				
General government	-	-	-	-
Public works	-	-	-	-
Community development	-	-	-	24,886
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,886</u>
Excess revenues (expenditures)	<u>-</u>	<u>-</u>	<u>155,039</u>	<u>(25,912)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	25,000	-
Transfers out	-	-	(123,908)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(98,908)</u>	<u>-</u>
Net changes in fund balances	-	-	56,131	(25,912)
Fund balances - beginning, as previously stated	26,338	25,000	384,749	-
Prior period adjustment	-	-	-	90,974
Fund balances - beginning, as restated	<u>26,338</u>	<u>25,000</u>	<u>384,749</u>	<u>90,974</u>
Fund balances - ending	<u>\$ 26,338</u>	<u>\$ 25,000</u>	<u>\$ 440,880</u>	<u>\$ 65,062</u>

See accompanying notes to financial statements.

<u>Capital Projects Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Capital Projects</u>	<u>Cemetery Perpetual Care</u>	
\$ 4,301	\$ -	\$ 4,301
5,612	2,000	167,388
-	(3,501)	(9,764)
-	-	500
<u>9,913</u>	<u>(1,501)</u>	<u>162,425</u>
3,786	-	3,786
-	3	3
-	-	24,886
<u>66,000</u>	<u>-</u>	<u>66,000</u>
<u>69,786</u>	<u>3</u>	<u>94,675</u>
<u>(59,873)</u>	<u>(1,504)</u>	<u>67,750</u>
66,000	-	91,000
<u>(109,250)</u>	<u>-</u>	<u>(233,158)</u>
<u>(43,250)</u>	<u>-</u>	<u>(142,158)</u>
(103,123)	(1,504)	(74,408)
146,402	275,578	858,067
-	-	90,974
<u>146,402</u>	<u>275,578</u>	<u>949,041</u>
<u>\$ 43,279</u>	<u>\$ 274,074</u>	<u>\$ 874,633</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF NET POSITION**  
**NONMAJOR PROPRIETARY FUNDS**  
**March 31, 2022**

	Solid Waste	Harbor	Total Nonmajor Enterprise Funds
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 29,316	\$ 104,061	\$ 133,377
Investments	10,107	4,150	14,257
Receivables:			
Utilities	78,366	-	78,366
Miscellaneous	447	367	814
Due from other funds	13,050	-	13,050
Prepaid items	1,988	-	1,988
Total current assets	<u>133,274</u>	<u>108,578</u>	<u>241,852</u>
Noncurrent assets:			
Investments	116,468	47,828	164,296
Advance due from other funds	91,350	-	91,350
Capital assets, net of accumulated depreciation	300,739	252,714	553,453
Total noncurrent assets	<u>508,557</u>	<u>300,542</u>	<u>809,099</u>
Total assets	<u>\$ 641,831</u>	<u>\$ 409,120</u>	<u>\$ 1,050,951</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflow - pension plan	<u>\$ 6,218</u>	<u>\$ -</u>	<u>\$ 6,218</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 6,091	\$ 123	\$ 6,214
Accrued payroll	2,792	80	2,872
Unearned revenue	-	51,161	51,161
Due to other funds	-	-	-
Total current liabilities	<u>8,883</u>	<u>51,364</u>	<u>60,247</u>
Noncurrent liabilities:			
Net pension liability	67,041	-	67,041
Total noncurrent liabilities	<u>67,041</u>	<u>-</u>	<u>67,041</u>
Total liabilities	<u>\$ 75,924</u>	<u>\$ 51,364</u>	<u>\$ 127,288</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflow - pension plan	<u>\$ 10,004</u>	<u>\$ -</u>	<u>\$ 10,004</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 300,739	\$ 252,714	\$ 553,453
Restricted	-	-	-
Unrestricted	261,382	105,042	366,424
Total net position	<u>\$ 562,121</u>	<u>\$ 357,756</u>	<u>\$ 919,877</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, 2022**

	Solid Waste	Harbor	Total Nonmajor Enterprise Funds
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 473,237	\$ 81,843	\$ 555,080
Miscellaneous	5,392	-	5,392
Total operating revenue	<u>478,629</u>	<u>81,843</u>	<u>560,472</u>
<b>OPERATING EXPENSES:</b>			
Salaries and fringes	174,266	16,412	190,678
Supplies	28,078	18,115	46,193
Contracted services	53,926	10,398	64,324
Repairs and maintenance	-	995	995
Utilities	59	7,763	7,822
Rent	12,249	-	12,249
Insurance	431	648	1,079
Travel, education and training	2,193	-	2,193
Landfill tipping fees	112,260	-	112,260
Depreciation	47,598	23,483	71,081
Miscellaneous	15,705	325	16,030
Total operating expenses	<u>446,765</u>	<u>78,139</u>	<u>524,904</u>
Operating income (loss)	<u>31,864</u>	<u>3,704</u>	<u>35,568</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment gain (loss)	<u>(3,588)</u>	<u>(1,380)</u>	<u>(4,968)</u>
Income (loss) before transfers, contributions and special items	28,276	2,324	30,600
Capital contributions	-	1,400	1,400
Transfer in	-	-	-
Transfer out	-	-	-
Change in net position	28,276	3,724	32,000
Total net position - beginning	<u>533,845</u>	<u>354,032</u>	<u>887,877</u>
Total net position - ending	<u>\$ 562,121</u>	<u>\$ 357,756</u>	<u>\$ 919,877</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2022**

	Solid Waste	Harbor	Total Nonmajor Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 481,510	\$ 86,146	\$ 567,656
Payments to suppliers	(221,129)	(39,440)	(260,569)
Payments for wages and related benefits	(183,812)	(16,570)	(200,382)
Other receipts (payments)	5,392	-	5,392
Net cash provided (used) by operating activities	<u>81,961</u>	<u>30,136</u>	<u>112,097</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Repayments of advances made to other funds	13,050	-	13,050
Repayments of advances from other funds	(55,008)	-	(55,008)
Net cash provided (used) by noncapital financing activities	<u>(41,958)</u>	<u>-</u>	<u>(41,958)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from grants and contributions	-	1,400	1,400
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>1,400</u>	<u>1,400</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investment securities	(11,132)	(3,837)	(14,969)
Interest income	445	183	628
Net cash provided (used) by investing activities	<u>(10,687)</u>	<u>(3,654)</u>	<u>(14,341)</u>
Net increase (decrease) in cash and equivalents	29,316	27,882	57,198
Cash and equivalents, beginning of year	-	76,179	76,179
Cash and equivalents, end of year	<u>\$ 29,316</u>	<u>\$ 104,061</u>	<u>\$ 133,377</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 31,864	\$ 3,704	\$ 35,568
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	47,598	23,483	71,081
Changes in assets and liabilities:			
(Increase) decrease in receivables	8,273	963	9,236
(Increase) decrease in prepaid items	(1,980)	-	(1,980)
(Increase) decrease in deferred outflows	1,300	-	1,300
Increase (decrease) in accounts payable	5,752	(1,196)	4,556
Increase (decrease) in accrued payroll	(1,686)	(158)	(1,844)
Increase (decrease) in net pension liability	(11,595)	-	(11,595)
Increase (decrease) in unearned revenue	-	3,340	3,340
Increase (decrease) in deferred inflows	2,435	-	2,435
Net cash provided by operating activities	<u>\$ 81,961</u>	<u>\$ 30,136</u>	<u>\$ 112,097</u>

See accompanying notes to financial statements.

## **Other Information**

**CITY OF GLADSTONE, MICHIGAN**  
**ALL UTILITY FUNDS**  
**SCHEDULE OF OPERATING STATISTICS (UNAUDITED)**  
**For the Year Ended March 31, 2022**

ALL UTILITIES:

Population served per 2020 census	5,257
Average number of meters in service	5,554

ELECTRIC UTILITY FUND:

K.W.H. purchased	32,844,671
K.W.H. sold	<u>31,484,880</u>
K.W.H. lost (4%)	<u>1,359,791</u>
Revenue from sales	<u>\$ 4,023,830</u>
Average number of meters	3,131

WATER UTILITY FUND:

Gallons pumped into plant	128,346,100
Gallons used in plant, system maintenance & let runs	<u>4,486,022</u>
Gallons pumped to mains	123,860,078
Gallons sold	<u>93,501,000</u>
Gallons lost (24%)	<u>30,359,078</u>
Revenue from sales	<u>\$ 979,403</u>
Average number of meters in service	2,423

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 1,009,063</u>
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**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF STATE EQUALIZED VALUATION & TAXABLE VALUES**  
**(UNAUDITED)**  
**For the Year Ended March 31, 2022**

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
1992	35,490,200	4,653,700	40,143,900
1993	34,997,900	4,170,900	39,168,800
1994	37,978,900	4,598,000	42,576,900
1995	40,146,600	4,840,200	44,986,800
1996	44,252,300	5,614,100	49,866,400
1997	44,731,000	5,547,450	50,278,450
1998	48,702,846	6,544,900	55,247,746
1999	52,246,500	7,261,900	59,508,400
2000	56,966,800	7,003,200	63,970,000
2001	61,646,100	6,894,200	68,540,300
2002	65,730,220	7,074,246	72,804,466
2003	69,954,964	7,532,830	77,487,794
2004	73,303,100	6,376,000	79,679,100
2005	77,310,900	6,341,200	83,652,100
2006	82,438,553	6,280,247	88,718,800
2007	85,949,610	6,439,250	92,388,860
2008	88,547,733	5,930,894	94,478,627
2009	91,044,442	5,546,476	96,590,918
2010	91,709,532	5,325,444	97,034,976
2011	89,049,581	6,938,949	95,988,530
2012	92,552,022	6,252,741	98,804,763
2013	94,803,405	6,911,937	101,715,342
2014	95,117,711	8,423,595	103,541,306
2015	94,312,251	11,278,862	105,591,113
2016	93,470,914	12,684,877	106,155,791
2017	95,022,933	12,478,411	107,501,344
2018	100,807,552	13,633,954	114,441,506
2019	102,932,237	13,382,676	116,314,913
2020	104,570,911	12,955,838	117,526,749
2021	106,093,552	12,931,400	119,024,952

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



**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF ANNUAL TAX RATES (PER \$1,000 VALUATION)**  
**(UNAUDITED)**  
**For the Year Ended March 31, 2022**

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

**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF ANNUAL TAX RATES (PER \$1,000 VALUATION)**  
**(UNAUDITED) - continued**  
**For the Year Ended March 31, 2022**

Year	City Tax	School *	Schools			Total		County Taxes	I.S.D.	DATA	Total
			Non- Homestead	State	Debt	Local Taxes	Community College				
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	0.6000	61.7223
2007	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5225	7.5897	2.3854	0.6000	62.1597
2008	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5149	7.5897	2.3851	0.6000	62.1518
2009	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5109	7.4397	2.3851	0.6000	61.9978
2010	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5111	7.4317	2.3851	0.6000	61.9900
2011	15.5021	-	17.5669	6.0000	7.0000	46.0690	3.3076	7.6317	2.3851	0.6000	59.9934
2012	13.6785	-	17.5669	6.0000	6.6500	43.8954	3.3076	7.6317	2.3851	0.6000	57.8198
2013	13.6785	-	18.0000	6.0000	6.6500	44.3285	3.3076	7.4317	2.3851	0.6000	58.0529
2014	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.4317	2.3851	0.6000	59.8165
2015	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.3317	2.3851	0.6000	59.7165
2016	13.6785	-	18.0000	6.0000	6.3000	43.9785	3.3076	7.6317	2.3851	0.6000	57.9029
2017	15.4897	-	18.0000	6.0000	6.2000	45.6897	3.3076	8.1667	2.3851	0.6000	60.1491
2018	15.4897	-	18.0000	6.0000	6.2000	45.6897	3.3076	8.7167	2.3851	0.6000	60.6991
2019	15.4773	-	18.0000	6.0000	6.2000	45.6773	3.3076	8.7167	2.3851	0.6000	60.6867
2020	15.4773	-	18.0000	6.0000	6.2000	45.6773	3.3076	8.7167	2.3851	0.6000	60.6867
2021	15.4773	-	18.0000	6.0000	6.2000	45.6773	3.3076	9.0341	2.3851	0.6000	61.0041

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



**ANDERSON, TACKMAN & COMPANY, PLC**  
Certified Public Accountants

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

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*“A Regional Firm Within the Upper Peninsula of Michigan”*

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan (the “City”), as of and for the year ended March 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Gladstone’s basic financial statements and have issued our report thereon dated September 23, 2022. Our report includes a reference to other auditors who audited the financial statements of the Gladstone Housing Commission, as described in our report on the City’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a material weakness as identified below.

**2022-001 Deficiency:** Material audit adjustments were required to properly classify and record activity. This is a repeat deficiency.

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

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

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

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

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

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

### **Report on 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 financial statements. 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:

#### **2022-002: Compliance Finding – Violation of Public Act 2 of 1968, as Amended**

**Criteria:** Expenditures in excess of appropriations is a contrary to the provisions of Public Act 2.

**Condition:** During the fiscal year ended March 31, 2022, expenditures were incurred in excess of amounts appropriated in the amended budgets of the certain activities in the General Fund, Local Streets Fund, and Downtown Development Authority Fund (see footnote A for detail).

**Cause:** City management did not reallocate budgets prior to year end within certain functions of the General Fund and Local Streets Fund to cover the excess in specific departments/activities. The Downtown Development Authority obtained financing for the purchase of property. The loan proceeds and the related capital outlay were inadvertently missed during the budget amendment process.

**Effect:** Expenditures were incurred in excess of amounts appropriated in the amended budget.

**Recommendation:** Budgets should be amended prior to expenditures being incurred that are in excess of appropriated amounts.

**Management Response:** We will continue to make every effort to properly amend budgets.

### **City of Gladstone's Response to Findings**

*Government Auditing Standards* require the auditor to perform limited procedures on the City of Gladstone's response to the finding 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 the response.

## **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 23, 2022