

CITY OF GLADSTONE, MICHIGAN

**BASIC FINANCIAL STATEMENTS
with Supplemental Information**

MARCH 31, 2020

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	21
Statement of Net Position - Proprietary Funds	22
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	26
Statement of Fiduciary Net Position	28
Notes to the Basic Financial Statements	29
Required Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	68
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Major Street Fund.....	69
Schedule of Changes in Net Pension Liability and Related Ratios-Retirement System.....	70
Schedule of Employer Contributions Retirement System.....	71

TABLE OF CONTENTS

	<u>Page</u>
Required Supplemental Information (continued):	
Schedule of Changes in Net OPEB Liability and Related Ratios.....	72
Schedule of OPEB Contributions.....	73
Other Supplemental Information:	
Combining Balance Sheet - Nonmajor Governmental Funds	74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	76
Combining Statement of Net Position - Nonmajor Proprietary Funds	78
Combining Statement of Revenues, Expenses and Changes in Net Position - Nonmajor Proprietary Funds	79
Combining Statement of Cash Flows - Nonmajor Proprietary Funds	80
Combining Statement of Net Position - Internal Service Funds	81
Combining Statement of Revenues, Expenses and Changes in Net Position - Internal Service Funds	82
Combining Statement of Cash Flows - Internal Service Funds	83
Additional Supplemental Information:	
Utility Funds Schedule of Operating Statistics (Unaudited)	84
Schedule of State Equalized Valuation & Taxable Values (Unaudited)	85
Schedule of Annual Tax Rates (Per \$1,000 Valuation) (Unaudited)	86
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 <i>Government Auditing Standards</i>	
	88



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

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

"A Regional Firm 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 Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise the City of Gladstone's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Gladstone Housing Commission, which represents 100% of the assets, net position and revenues of the discretely presented component units. Those financial statements were audited by another auditor whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Gladstone Housing Commission, are based on the reports of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan, as of March 31, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, the schedules of net pension/OPEB liability and related ratios for the retirement system and other post-employment benefits, and the schedules of employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone's basic financial statements. The combining and individual nonmajor fund financial statements, schedule of operating statistics, schedule of state equalized valuation and taxable values, and schedule of annual tax rates (per \$1,000 valuation) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The utility funds schedule of operating statistics, schedule of state equalized valuation and taxable values, and schedule of annual tax rates (per \$1,000 valuation) have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2020, on our consideration of the City of Gladstone’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Gladstone’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Gladstone’s internal control over financial reporting and compliance.



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

September 28, 2020

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, 2020. 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 \$17,087,416. Net position decreased \$721,025 from March 31, 2019, excluding the impact of the prior period adjustment. Net position for our business-type activities was \$10,811,162, a decrease of \$439,427 from 2019, while net position in our governmental activities was \$6,276,254, a decrease of \$281,598 (before prior period adjustment).
- The City's expenses for the year totaled \$11,787,041, an increase of \$1,356,327 over 2019. Revenue from all sources was \$11,066,016, a decrease of \$320,325 from 2019.
- In the City's business-type activities, total revenues were \$6,632,966, an increase of 3.0% over the previous year. Business-type activity revenues increased as a percentage of total revenues of 60% for 2020 compared to 36% for 2019.
- In 2019, the City received \$159,003 from the Dr. Mary Cretens Trust which was budgeted for expenditure in the 2020 fiscal year. In 2020, the City received \$156,558 from the Trust which was budgeted for expenditure in the 2021 fiscal year.
- The General Fund finished the year with a decrease in fund balance of \$177,947 and an ending fund balance of \$733,174. This was after revenues of \$3,071,441 compared to \$3,055,165 in 2019, and expenditures of \$3,714,615 compared to expenditures of \$3,470,740 in 2019, exclusive of other financing sources and uses.
- The City eliminated its net OPEB liability 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.

USING THIS REPORT

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

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

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

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

Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation and general administration. Property taxes, state shared revenues, charges for services and state and federal grants fund the majority of these activities.

Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Electrical Departments, Solid Waste, Harbor and Economic Development Corporation are reported here.

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Governmental funds – Most of the City's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.

Proprietary funds - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other City programs and activities – such as the Retirement System Fund, and Employee Health Care Fund.

The City as a Trustee

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

The City as a Whole

The City's combined net position decreased by \$721,025.

Table 1
Net Position

	Governmental Activities		Business-Type Activities	
	2020	2019	2020	2019
Current and other assets	\$ 8,254,221	\$ 3,521,427	\$ 6,298,085	\$ 6,450,165
Capital assets (net)	8,213,151	8,388,062	7,798,667	7,898,449
Total Assets	<u>\$ 16,467,372</u>	<u>\$ 11,909,489</u>	<u>\$ 14,096,752</u>	<u>\$ 14,348,614</u>
Deferred outflows	\$ 496,495	\$ 738,947	\$ 211,963	\$ 313,904
Long-term debt outstanding	\$ 4,955,614	\$ 187,621	\$ 470,718	\$ 525,715
Other liabilities	5,389,606	5,405,883	2,892,479	2,807,324
Total Liabilities	<u>\$ 10,345,220</u>	<u>\$ 5,593,504</u>	<u>\$ 3,363,197</u>	<u>\$ 3,333,039</u>
Deferred inflows	\$ 342,393	\$ 223,580	\$ 134,356	\$ 78,890
Net Position:				
Net investment in capital assets	\$ 3,659,576	\$ 8,325,442	\$ 7,327,949	\$ 7,372,731
Restricted:				
Expendable	6,136,390	1,019,227	39,727	39,727
Nonexpendable	274,109	273,744	-	-
Unrestricted	(3,793,821)	(2,787,061)	3,443,486	3,838,131
Total net position	<u>\$ 6,276,254</u>	<u>\$ 6,831,352</u>	<u>\$ 10,811,162</u>	<u>\$ 11,250,589</u>

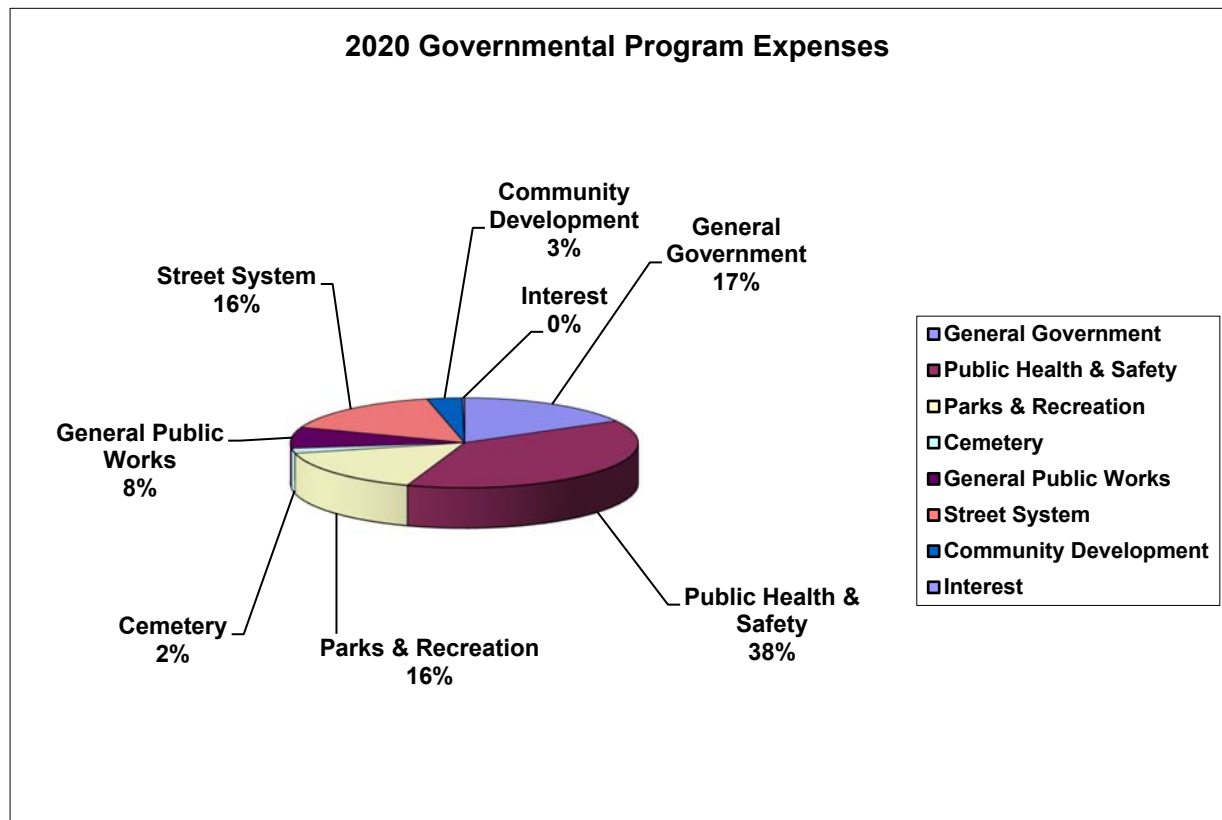
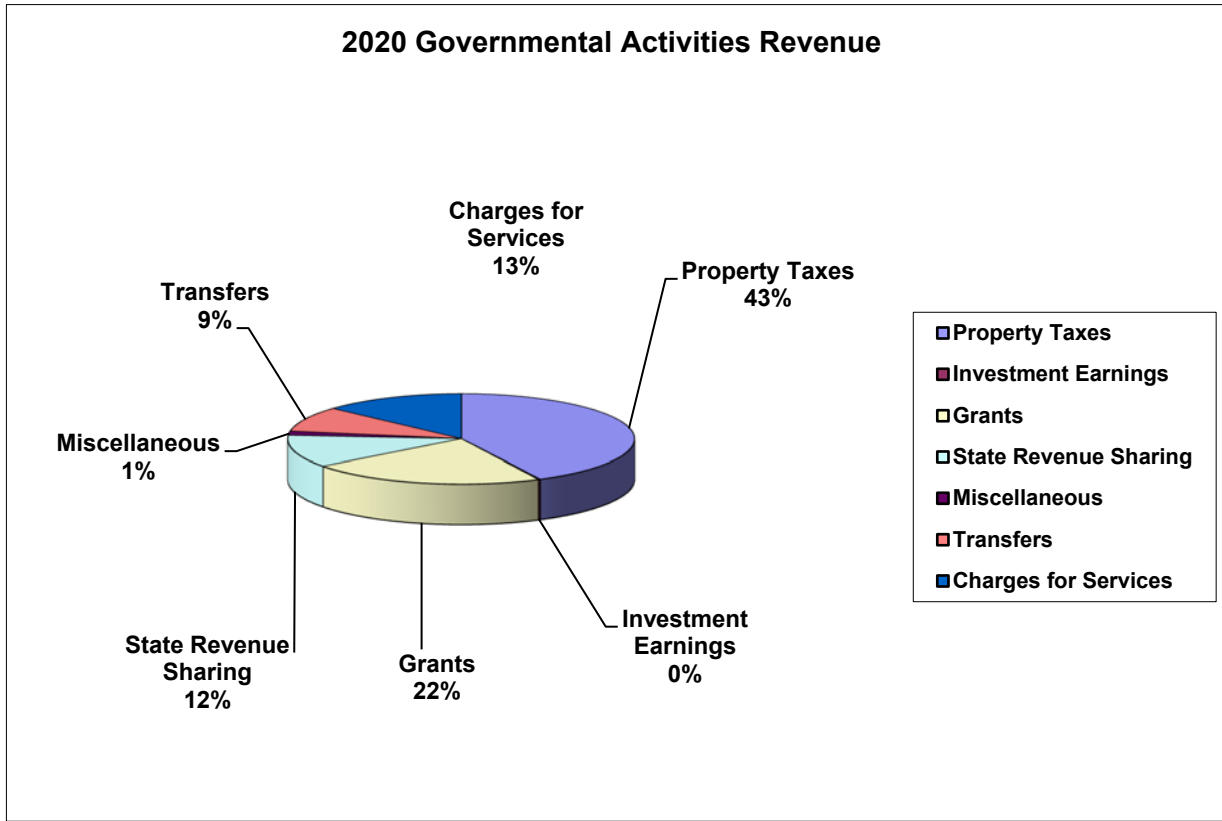
Net position of the City's governmental activities stood at \$6,276,254, down from \$6,831,352 in 2019 before prior period adjustment (-8%). Total of the governmental activities' assets increased by 38%, and total liabilities increased by 85%. The ratio of assets to liabilities decreased slightly from 2.13 in 2019 to 1.59 in 2020. The primary cause of the changes is a new bond obtained near year end for the 9th Street infrastructure project.

Net position in our business-type activities stood at \$10,811,162, down from \$11,250,589 in 2019 (-4%). Total assets decreased to \$14,096,752 from \$14,348,614 in 2019, and liabilities increased to \$3,363,197 from \$3,333,039 in 2019. Unrestricted net position increased to \$3,443,486 from \$3,838,131, while the amount invested in capital assets (net of related debt) decreased slightly to \$7,327,949 from \$7,372,731 in 2019. There was \$39,727 in restricted net position for the Economic Development Corporation Fund.

Table 2
Changes in Net Position

	Governmental		Business-Type	
	Activities		Activities	
	2020	2019	2020	2019
Revenues:				
Program Revenues:				
Charges for services	\$ 647,514	\$ 618,501	\$ 6,256,653	\$ 6,340,299
Operating grants	826,190	1,238,708	-	-
Capital grants	70,563	263,965	327,027	28,317
General Revenues:				
Property taxes	2,071,961	2,025,608	-	-
State revenue sharing	563,600	539,822	-	-
Unrestricted grants	172,688	174,829	-	-
Unrestricted investment earnings	8,944	10,441	59,778	59,131
Miscellaneous	70,890	73,408	-	-
Total Revenues	<u>4,432,350</u>	<u>4,945,282</u>	<u>6,643,458</u>	<u>6,427,747</u>
Program Expenses:				
General government	873,627	1,060,424	-	-
Public health & safety	1,978,775	1,357,399	-	-
Parks & recreation	818,812	641,178	-	-
Cemetery	93,747	71,486	-	-
General public works	390,734	277,812	-	-
Street system	822,807	910,871	-	-
Community development	167,328	181,797	-	-
Interest on long-term debt	11,621	2,839	-	-
Electric	-	-	3,739,024	3,991,994
Wastewater	-	-	1,451,353	820,897
Water	-	-	963,169	653,962
Solid waste	-	-	378,167	370,545
Harbor	-	-	87,005	73,519
Economic development	-	-	10,872	15,991
Total Expenses	<u>5,157,451</u>	<u>4,503,806</u>	<u>6,629,590</u>	<u>5,926,908</u>
Excess (deficiency) before transfers and contributions	(725,101)	441,476	13,868	500,839
Transfers	442,803	446,403	(442,803)	(446,403)
Contributions to permanent fund	700	1,250	-	-
Gain/loss on sale of fixed assets	-	-	(10,492)	12,062
Increase (decrease) in net position	<u>(281,598)</u>	<u>889,129</u>	<u>(439,427)</u>	<u>66,498</u>
Net position - beginning	6,831,352	5,715,724	11,250,589	11,028,286
Prior period adjustment	(273,500)	226,499	-	155,805
Net position - beginning, as restated	<u>6,557,852</u>	<u>5,942,223</u>	<u>11,250,589</u>	<u>11,184,091</u>
Net position - ending	<u>\$ 6,276,254</u>	<u>\$ 6,831,352</u>	<u>\$ 10,811,162</u>	<u>\$ 11,250,589</u>

GOVERNMENTAL ACTIVITIES



The City’s total revenues were \$11,066,016, down from \$11,386,341 in 2019. The cost of all programs and services was \$11,787,041, up from \$10,430,714 in 2019. For 2020, there was an overall excess of expenses over revenue of \$721,025, compared to an excess of revenues over expenses of \$955,627 in 2019.

Governmental Activities

Revenues for the City’s governmental activities totaled \$4,875,853, down 9.6% from \$5,392,935 in 2019. The decrease in revenues primarily relates to less grants in 2020. Expenses increased by 14.5% or \$653,645 in 2020 as compared to 2019. The increase related to additional personnel costs, capital outlay, and miscellaneous other expenses. In addition, the City coded certain pension and retiree healthcare costs within specific activities rather than just under general government to more accurately align those costs, which caused a shifting of expenses.

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	
	2020	2019	2020	2019
Public health & safety	\$ 1,978,775	\$ 1,357,399	\$ 1,904,368	\$ 1,303,482
Street systems	822,807	910,871	(24,268)	63,694
Parks & recreation	818,812	641,178	536,742	165,193
Public Works	390,734	277,812	187,154	(236,812)
General government	873,627	1,060,424	782,046	941,857
Totals	<u>\$ 4,884,755</u>	<u>\$ 4,247,684</u>	<u>\$ 3,386,042</u>	<u>\$ 2,237,414</u>

Business-Type Activities

Revenues for the City’s business-type activities totaled \$6,632,966 up from \$6,439,809 in 2019 (+3.0%). Business-type activity expenses increased by \$702,682 (+11.9%). The increased expenses were primarily in the Wastewater and Water Funds and related to personnel costs, contracted services, and repairs and maintenance costs.

THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 18) reported a combined fund balance of \$7,143,673, an increase of \$4,935,120 from 2019. The combined increase in fund balance, in large part, comes from bond proceeds received near year end, but the majority of the construction projected for completion during 2021.

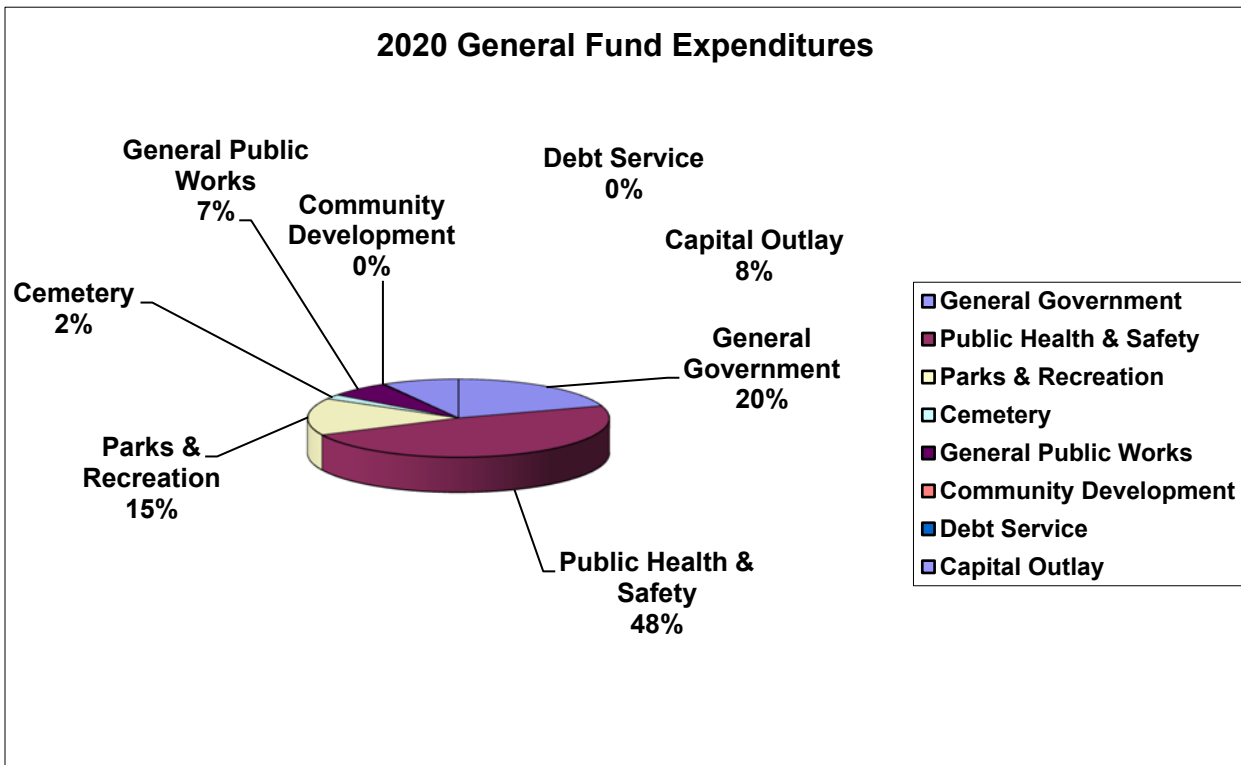
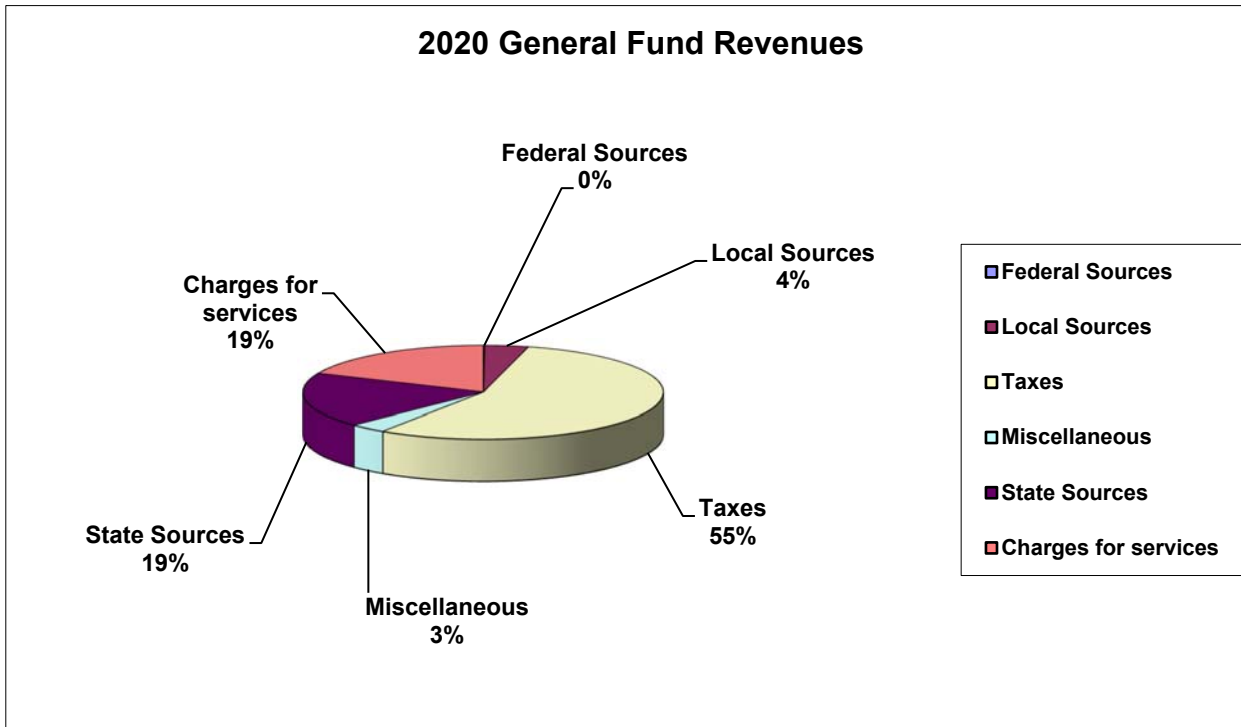
General Fund Budgetary Highlights

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 \$38,514. Total General Fund revenue of \$3,071,441 was 1.2% lower than the revised revenue estimate of \$3,109,955. The final revenue amount was comparable to revised estimates. Total revenue for 2020 was \$16,276 higher than the 2019 fiscal year revenue.

Expenditures were less than the amended budget by \$317,732. Total General Fund expenditures of \$3,714,615 were 7.9% lower than the revised expenditure estimates of \$4,032,347. Final expenditures were less than budgeted primarily due to reduced expenses in public safety and city commission. The final expenditures for 2020 were \$243,875 higher than the 2019 fiscal year expenditures. The contributing factors were increased personnel costs and capital outlay.

The final expenditures exceeded revenues by \$643,174 for the year before transfers. Expenditures still exceeded revenues by \$177,947 after net transfers in of \$465,227, which are primarily for administrative services. As a result, the General Fund had a decrease in fund balance, that was slightly less than the budgeted decrease in fund balance of \$207,989.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2020, the City had \$16,011,818, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was up from \$16,286,511 in 2019. (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	
	2020	2019	2020	2019
Land	1,619,627	1,619,627	236,836	236,836
Construction in progress	373,455	362,129	20,861	20,861
Land Improvements	397,343	402,133	-	-
Buildings	1,437,356	1,509,232	665,824	714,073
Machinery & Equipment	1,253,449	1,091,144	1,012,230	807,620
Infrastructure - Road System	2,012,848	2,230,553	-	-
Infrastructure - Other	1,119,073	1,173,244	317,265	340,235
Distribution/Collection System	-	-	5,545,651	5,778,824
Total	<u>8,213,151</u>	<u>8,388,062</u>	<u>7,798,667</u>	<u>7,898,449</u>

Debt

At year-end, the City had \$5,426,332 in long-term liabilities, bonds and notes outstanding. This is a net increase of \$4,712,993 in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City’s corporate limits. The City’s outstanding general obligation debt is well below the 10% limit. Additional information on the City’s debt can be found in Note E.

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

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2020	2019	2020	2019	2020	2019
General obligation bonds/premium (backed by the City)	\$ 4,797,038	\$ -	\$ -	\$ -	\$ 4,797,038	\$ -
Other liabilities	100,000	125,000	-	-	100,000	125,000
Notes payable	58,576	62,621	-	-	58,576	62,621
Revenue bonds and notes (backed by specific tax and fee revenues)	-	-	470,718	525,718	470,718	525,718
Totals	\$ 4,955,614	\$ 187,621	\$ 470,718	\$ 525,718	\$ 5,426,332	\$ 713,339

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 20/21 budget will require significant amendment after calculating the anticipated impact of the coronavirus (COVID-19) pandemic and the related government mandates. At the current time, the City is unable to quantify these potential effects.

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 \$462,494 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. Therefore, special assessments are necessary to maintain the roads we have.

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

MISSION STATEMENT

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

VISION STATEMENT

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

GUIDING PRINCIPALS

We value...

Integrity: Honesty and openness in our commitments.

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

Teamwork: Working collaboratively to build and maintain productive relationships.

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

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

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
March 31, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
ASSETS				
Current assets:				
Cash and cash equivalents-restricted	\$ 5,796,904	\$ -	\$ 5,796,904	\$ -
Cash and cash equivalents-unrestricted	2,310,008	4,012,573	6,322,581	420,957
Receivables:				
Accounts	-	-	-	387
Utilities	-	1,150,999	1,150,999	-
Special assessments	31,587	-	31,587	-
Miscellaneous	71,995	83,606	155,601	164
Due from other governmental units	350,075	-	350,075	-
Internal balances	(13,050)	13,050	-	-
Prepaid items	33,602	16,089	49,691	27,072
Inventory	15,114	203,980	219,094	-
Total current assets	<u>8,596,235</u>	<u>5,480,297</u>	<u>14,076,532</u>	<u>448,580</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	-	-
Investments	-	475,774	475,774	240,988
Internal balances	(342,014)	342,014	-	-
Non-depreciable capital assets	1,993,082	257,697	2,250,779	69,466
Capital assets, net of accumulated depreciation	6,220,069	7,540,970	13,761,039	743,645
Total noncurrent assets	<u>7,871,137</u>	<u>8,616,455</u>	<u>16,487,592</u>	<u>1,054,099</u>
Total assets	<u>\$ 16,467,372</u>	<u>\$ 14,096,752</u>	<u>\$ 30,564,124</u>	<u>\$ 1,502,679</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - pension plan	\$ 496,495	\$ 211,963	\$ 708,458	\$ -
Deferred outflow - OPEB	-	-	-	-
Total deferred outflows of resources	<u>\$ 496,495</u>	<u>\$ 211,963</u>	<u>\$ 708,458</u>	<u>\$ -</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 92,114	\$ 373,921	\$ 466,035	\$ 19,291
Accrued interest	8,948	-	8,948	-
Accrued payroll	71,545	36,372	107,917	7,332
Customer deposits	-	80,329	80,329	9,185
Unearned revenue	12,384	14,060	26,444	241
Other liabilities	25,329	-	25,329	24,706
Compensated absences	35,952	27,151	63,103	5,191
Employment benefits	172,500	81,000	253,500	-
Bonds payable	250,000	55,000	305,000	-
Bond premium	20,136	-	20,136	-
Notes payable	4,216	-	4,216	-
Total current liabilities	<u>693,124</u>	<u>667,833</u>	<u>1,360,957</u>	<u>65,946</u>
Noncurrent liabilities:				
Compensated absences	143,806	108,603	252,409	2,329
Employment benefits	317,500	243,000	560,500	-
Net pension liability	4,534,528	1,928,043	6,462,571	-
Bonds payable	4,245,000	415,718	4,660,718	-
Bond premium	281,902	-	281,902	-
Notes payable	54,360	-	54,360	-
Other liabilities	75,000	-	75,000	-
Total noncurrent liabilities	<u>9,652,096</u>	<u>2,695,364</u>	<u>12,347,460</u>	<u>2,329</u>
Total liabilities	<u>\$ 10,345,220</u>	<u>\$ 3,363,197</u>	<u>\$ 13,708,417</u>	<u>\$ 68,275</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue - special assessments	\$ 25,061	\$ -	\$ 25,061	\$ -
Deferred inflow - pension plan	317,332	134,356	451,688	-
Total deferred inflows of resources	<u>\$ 342,393</u>	<u>\$ 134,356</u>	<u>\$ 476,749</u>	<u>\$ -</u>
NET POSITION				
Net investment in capital assets	\$ 3,659,576	\$ 7,327,949	\$ 10,987,525	\$ 813,111
Restricted for:				
Expendable	6,136,390	39,727	6,176,117	-
Nonexpendable	274,109	-	274,109	-
Unrestricted	(3,793,821)	3,443,486	(350,335)	621,293
Total net position	<u>\$ 6,276,254</u>	<u>\$ 10,811,162</u>	<u>\$ 17,087,416</u>	<u>\$ 1,434,404</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2020

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component Unit Housing Commission
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 873,627	\$ 91,231	\$ 350	\$ -	\$ (782,046)	\$ -	\$ (782,046)	\$ -
Public health and safety	1,978,775	41,634	846	31,927	(1,904,368)	-	(1,904,368)	-
Parks and recreation	818,812	243,434	-	38,636	(536,742)	-	(536,742)	-
Cemetery	93,747	38,170	-	-	(55,577)	-	(55,577)	-
General public works	390,734	203,430	150	-	(187,154)	-	(187,154)	-
Street system	822,807	28,475	818,600	-	24,268	-	24,268	-
Community development	167,328	1,140	6,244	-	(159,944)	-	(159,944)	-
Interest on long-term debt	11,621	-	-	-	(11,621)	-	(11,621)	-
Total governmental activities	<u>5,157,451</u>	<u>647,514</u>	<u>826,190</u>	<u>70,563</u>	<u>(3,613,184)</u>	<u>-</u>	<u>(3,613,184)</u>	<u>-</u>
Business-type activities:								
Electric utility	3,739,024	3,884,033	-	209	-	145,218	145,218	-
Waste water utility	1,451,353	982,458	-	320,795	-	(148,100)	(148,100)	-
Water utility	963,169	886,138	-	6,023	-	(71,008)	(71,008)	-
Solid waste	378,167	451,353	-	-	-	73,186	73,186	-
Harbor	87,005	52,671	-	-	-	(34,334)	(34,334)	-
Economic development	10,872	-	-	-	-	(10,872)	(10,872)	-
Total business-type activities	<u>6,629,590</u>	<u>6,256,653</u>	<u>-</u>	<u>327,027</u>	<u>-</u>	<u>(45,910)</u>	<u>(45,910)</u>	<u>-</u>
Total primary government	<u>\$ 11,787,041</u>	<u>\$ 6,904,167</u>	<u>\$ 826,190</u>	<u>\$ 397,590</u>	<u>(3,613,184)</u>	<u>(45,910)</u>	<u>(3,659,094)</u>	<u>-</u>
Component unit:								
Housing commission	<u>\$ 656,514</u>	<u>\$ 356,860</u>	<u>\$ 185,735</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(113,919)</u>
General revenues:								
Property taxes					2,071,961	-	2,071,961	-
State revenue sharing					563,600	-	563,600	-
Grants and contributions not restricted to specific programs					172,688	-	172,688	-
Contributions to permanent fund					700	-	700	-
Unrestricted investment earnings					8,944	59,778	68,722	1,583
Miscellaneous					70,890	-	70,890	4,170
Gain (loss) on disposal of capital assets					-	(10,492)	(10,492)	(73)
Transfers					442,803	(442,803)	-	-
Total general revenues and transfers					3,331,586	(393,517)	2,938,069	5,680
Changes in net position					(281,598)	(439,427)	(721,025)	(108,239)
Net position - beginning					6,831,352	11,250,589	18,081,941	1,542,643
Prior period adjustment					(273,500)	-	(273,500)	-
Net position - beginning, restated					<u>6,557,852</u>	<u>11,250,589</u>	<u>17,808,441</u>	<u>1,542,643</u>
Net position - ending					<u>\$ 6,276,254</u>	<u>\$ 10,811,162</u>	<u>\$ 17,087,416</u>	<u>\$ 1,434,404</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2020**

	General	Major Streets	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and equivalents:					
Restricted	\$ 174,975	\$ -	\$ 4,945,440	\$ 676,489	\$ 5,796,904
Unrestricted	642,250	275,475	-	483,168	1,400,893
Receivables:					
Accounts	-	-	-	-	-
Special assessments	4,129	17,366	-	10,092	31,587
Miscellaneous	71,272	723	-	-	71,995
Due from other governmental units	210,730	99,168	-	40,177	350,075
Due from other funds	-	-	-	23,985	23,985
Prepaid items	33,602	-	-	-	33,602
Inventory	15,114	-	-	-	15,114
Total assets	\$ 1,152,072	\$ 392,732	\$ 4,945,440	\$ 1,233,911	\$ 7,724,155
LIABILITIES					
Liabilities:					
Accounts payable	\$ 25,837	\$ 7,011	\$ 44,758	\$ 14,508	\$ 92,114
Accrued payroll	67,201	2,076	329	1,939	71,545
Due to other funds	313,147	46,013	-	19,889	379,049
Unearned revenue	12,384	-	-	-	12,384
Other liabilities	329	-	-	-	329
Total liabilities	418,898	55,100	45,087	36,336	555,421
DEFERRED INFLOWS OF RESOURCES					
Unearned revenue - Special assessments	-	14,969	-	10,092	25,061
FUND BALANCES					
Nonspendable	48,716	-	-	274,109	322,825
Restricted	-	322,663	4,900,353	913,374	6,136,390
Committed	221,964	-	-	-	221,964
Assigned	-	-	-	-	-
Unassigned	462,494	-	-	-	462,494
Total fund balances	733,174	322,663	4,900,353	1,187,483	7,143,673
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,152,072	\$ 392,732	\$ 4,945,440	\$ 1,233,911	\$ 7,724,155

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, 2020

Total fund balances for governmental funds		\$ 7,143,673
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	\$ 25,370,310	
Accumulated depreciation	<u>(17,157,159)</u>	
Total capital assets		8,213,151
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.		
		909,115
Deferred outflow of resources related to recording of net pension liability.		
		496,495
Deferred outflow of resources related to recording of net OPEB liability.		
		-
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	\$ (8,948)	
Other liabilities	(100,000)	
Notes payable	(58,576)	
Bonds payable	(4,495,000)	
Bond premium	(302,038)	
Employment benefits	(490,000)	
Net pension liability	(4,534,528)	
Compensated absences	<u>(179,758)</u>	(10,168,848)
Deferred inflow of resources related to recording of net pension liability.		
		<u>(317,332)</u>
Total net position of governmental activities		<u>\$ 6,276,254</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2020

	General Fund	Major Streets	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Federal sources	\$ 3,390	\$ -	\$ -	\$ -	\$ 3,390
State sources	579,731	554,042	-	235,698	1,369,471
Local sources	120,313	10,269	2,000	165,899	298,481
Taxes	1,700,311	-	-	371,650	2,071,961
Charges for services	566,745	-	-	-	566,745
Interest income	3,402	1,034	816	3,692	8,944
Miscellaneous	97,549	525	-	15,984	114,058
Total revenues	<u>3,071,441</u>	<u>565,870</u>	<u>2,816</u>	<u>792,923</u>	<u>4,433,050</u>
EXPENDITURES:					
General government	742,344	-	123,786	-	866,130
Public health and safety	1,778,504	-	-	-	1,778,504
Parks and recreation	568,970	-	-	-	568,970
Cemetery	71,627	-	-	335	71,962
General public works	241,753	-	-	-	241,753
Street system	-	340,395	-	265,847	606,242
Community development	-	-	-	153,492	153,492
Pension	-	-	-	-	-
Capital outlay	304,699	-	114,301	-	419,000
Debt service:					
Principal	4,045	-	-	25,000	29,045
Interest and other charges	2,673	-	-	-	2,673
Total expenditures	<u>3,714,615</u>	<u>340,395</u>	<u>238,087</u>	<u>444,674</u>	<u>4,737,771</u>
Excess revenues (expenditures)	<u>(643,174)</u>	<u>225,475</u>	<u>(235,271)</u>	<u>348,249</u>	<u>(304,721)</u>
OTHER FINANCING SOURCES (USES):					
Loan proceeds	-	-	4,495,000	-	4,495,000
Premium/(discount) on loan proceeds	-	-	302,038	-	302,038
Transfers in	536,360	-	338,586	85,000	959,946
Transfers out	(71,133)	(155,000)	-	(291,010)	(517,143)
Total other financing sources (uses)	<u>465,227</u>	<u>(155,000)</u>	<u>5,135,624</u>	<u>(206,010)</u>	<u>5,239,841</u>
Net changes in fund balances	(177,947)	70,475	4,900,353	142,239	4,935,120
Fund balances - beginning	<u>911,121</u>	<u>252,188</u>	<u>-</u>	<u>1,045,244</u>	<u>2,208,553</u>
Fund balances - ending	<u>\$ 733,174</u>	<u>\$ 322,663</u>	<u>\$ 4,900,353</u>	<u>\$ 1,187,483</u>	<u>\$ 7,143,673</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, 2020

Net changes in fund balances - total governmental funds \$ 4,935,120

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which

Capital outlay	419,000
Depreciation expense	(568,895)
Net transfer of assets	8,706
Gain/(Loss) on disposal of assets	(33,722)

Debt proceeds and related premium provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net position (4,797,038)

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. (234,754)

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	\$ (8,948)	
Other liabilities	25,000	
Notes payable	4,045	
Bonds payable	-	
Bond premium	-	
Compensated absences	(9,540)	
Employment benefits	57,708	
Net pension liability	(78,280)	(10,015)

Changes in net position of governmental activities \$ (281,598)

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
March 31, 2020

	Electric Utility	Waste Water Utility	Water Utility
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,316,217	\$ 627,448	\$ 766,001
Receivables:			
Utilities	701,882	197,974	163,827
Miscellaneous	31,788	46,962	4,156
Due from other funds	-	-	-
Prepaid items	6,413	6,255	1,861
Inventory	203,980	-	-
Total current assets	3,260,280	878,639	935,845
Noncurrent assets:			
Investments	475,774	-	-
Advances due from other funds	224,564	-	-
Non-depreciable capital assets	257,697	-	-
Capital assets, net of accumulated depreciation	3,256,009	2,235,457	1,423,257
Total noncurrent assets	4,214,044	2,235,457	1,423,257
Total assets	\$ 7,474,324	\$ 3,114,096	\$ 2,359,102
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow - pension plan	\$ 115,060	\$ 32,510	\$ 55,191
Deferred outflow - OPEB	-	-	-
Total deferred outflows of resources	\$ 115,060	\$ 32,510	\$ 55,191
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 217,014	\$ 114,426	\$ 30,566
Accrued payroll	13,055	12,359	7,981
Customer deposits	80,329	-	-
Compensated absences	11,677	10,092	5,382
Employment benefits	27,000	27,000	27,000
Unearned revenue	-	-	-
Bonds payable	-	55,000	-
Notes payable	-	-	-
Total current liabilities	349,075	218,877	70,929
Noncurrent liabilities:			
Compensated absences	46,707	40,369	21,527
Employment benefits	81,000	81,000	81,000
Net pension liability	1,056,315	293,642	491,784
Bonds payable	-	415,718	-
Notes payable	-	-	-
Total noncurrent liabilities	1,184,022	830,729	594,311
Total liabilities	\$ 1,533,097	\$ 1,049,606	\$ 665,240
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow - pension plan	\$ 73,251	\$ 20,550	\$ 34,625
NET POSITION			
Net investment in capital assets	\$ 3,256,009	\$ 1,764,739	\$ 1,423,257
Restricted	-	-	-
Unrestricted	2,727,027	311,711	291,171
Total net position	\$ 5,983,036	\$ 2,076,450	\$ 1,714,428

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 302,907	\$ 4,012,573	\$ 909,115
87,316	1,150,999	-
700	83,606	-
13,050	13,050	-
1,560	16,089	-
-	203,980	-
<u>405,533</u>	<u>5,480,297</u>	<u>909,115</u>
-	475,774	-
117,450	342,014	-
-	257,697	-
626,247	7,540,970	-
<u>743,697</u>	<u>8,616,455</u>	<u>-</u>
<u>\$ 1,149,230</u>	<u>\$ 14,096,752</u>	<u>\$ 909,115</u>
\$ 9,202	\$ 211,963	\$ -
-	-	-
<u>\$ 9,202</u>	<u>\$ 211,963</u>	<u>\$ -</u>
\$ 11,915	\$ 373,921	\$ -
2,977	36,372	-
-	80,329	-
-	27,151	-
-	81,000	-
14,060	14,060	-
-	55,000	-
-	-	-
<u>28,952</u>	<u>667,833</u>	<u>-</u>
-	108,603	-
-	243,000	-
86,302	1,928,043	-
-	415,718	-
-	-	-
<u>86,302</u>	<u>2,695,364</u>	<u>-</u>
<u>\$ 115,254</u>	<u>\$ 3,363,197</u>	<u>\$ -</u>
<u>\$ 5,930</u>	<u>\$ 134,356</u>	<u>\$ -</u>
\$ 626,247	\$ 7,070,252	\$ -
39,727	39,727	-
<u>371,274</u>	<u>3,701,183</u>	<u>909,115</u>
<u>\$ 1,037,248</u>	<u>\$ 10,811,162</u>	<u>\$ 909,115</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, 2020

	Electric Utility	Waste Water Utility	Water Utility
OPERATING REVENUES:			
Charges for services	\$ 3,681,110	\$ 967,609	\$ 864,286
Miscellaneous	202,923	14,849	21,852
Total operating revenue	<u>3,884,033</u>	<u>982,458</u>	<u>886,138</u>
OPERATING EXPENSES:			
Salaries and fringes	784,326	624,171	498,350
Supplies	40,214	73,846	84,644
Contracted services	158,345	422,264	45,789
Repairs and maintenance	12,049	57,204	156,092
Utilities	102,273	50,084	49,327
Purchased power	2,261,172	-	-
Rent	16,831	3,378	3,023
Memberships and dues	5,135	5,630	805
Travel	775	-	212
Insurance	7,103	7,973	12,839
Education and training	4,462	3,317	4,963
Energy optimization program	76,790	-	-
Landfill tipping fees	-	253	-
Depreciation	213,520	115,473	98,870
Miscellaneous	56,029	79,664	8,255
Total operating expenses	<u>3,739,024</u>	<u>1,443,257</u>	<u>963,169</u>
Operating income (loss)	<u>145,009</u>	<u>(460,799)</u>	<u>(77,031)</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	52,995	2,465	2,742
Interest expense	-	(8,096)	-
Total nonoperating revenue (expense)	<u>52,995</u>	<u>(5,631)</u>	<u>2,742</u>
Income (loss) before transfers, contributions and special items	198,004	(466,430)	(74,289)
Gain/(loss) on asset disposal	14,873	(13,819)	(11,546)
Capital contributions	209	320,795	6,023
Transfer in	-	-	-
Transfer out	(207,726)	(105,345)	(88,080)
Change in net position	5,360	(264,799)	(167,892)
Total net position - beginning	<u>5,977,676</u>	<u>2,341,249</u>	<u>1,882,320</u>
Total net position - ending	<u>\$ 5,983,036</u>	<u>\$ 2,076,450</u>	<u>\$ 1,714,428</u>

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 499,393	\$ 6,012,398	\$ 348,243
4,631	244,255	-
<u>504,024</u>	<u>6,256,653</u>	<u>348,243</u>
187,556	2,094,403	582,997
37,590	236,294	-
38,856	665,254	-
29,246	254,591	-
8,819	210,503	-
-	2,261,172	-
16,155	39,387	-
-	11,570	-
-	987	-
905	28,820	-
-	12,742	-
-	76,790	-
87,466	87,719	-
66,842	494,705	-
2,609	146,557	-
<u>476,044</u>	<u>6,621,494</u>	<u>582,997</u>
<u>27,980</u>	<u>(364,841)</u>	<u>(234,754)</u>
1,576	59,778	-
-	(8,096)	-
<u>1,576</u>	<u>51,682</u>	<u>-</u>
29,556	(313,159)	(234,754)
-	(10,492)	-
-	327,027	-
-	-	-
<u>(41,652)</u>	<u>(442,803)</u>	<u>-</u>
(12,096)	(439,427)	(234,754)
<u>1,049,344</u>	<u>11,250,589</u>	<u>1,143,869</u>
<u>\$ 1,037,248</u>	<u>\$ 10,811,162</u>	<u>\$ 909,115</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2020

	Electric Utility	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 3,667,317	\$ 936,603	\$ 869,619
Cash receipts from interfund services provided	-	-	-
Payments to suppliers	(2,806,145)	(655,175)	(345,381)
Payments for wages and related benefits	(703,527)	(507,902)	(411,136)
Other receipts (payments)	202,923	14,849	21,852
Net cash provided (used) by operating activities	<u>360,568</u>	<u>(211,625)</u>	<u>134,954</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(207,726)	(105,345)	(88,080)
Cash received (paid) on customer deposits	(2,437)	-	-
Net cash provided (used) by noncapital financing activities	<u>(210,163)</u>	<u>(105,345)</u>	<u>(88,080)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	(261,788)	-	(13,240)
Principal paid on debt instruments	-	(55,000)	-
Interest paid on debt instruments	-	(8,096)	-
Proceeds from sale of capital assets	24,700	-	413
Capital contributions	209	320,795	6,023
Net cash provided (used) by capital and related financing activities	<u>(236,879)</u>	<u>257,699</u>	<u>(6,804)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net transfers from/(to) investments	221,793	-	-
Interest earnings	52,995	2,466	2,741
Net cash provided (used) by investing activities	<u>274,788</u>	<u>2,466</u>	<u>2,741</u>
Net increase (decrease) in cash and equivalents	188,314	(56,805)	42,811
Cash and equivalents, beginning of year	<u>2,127,903</u>	<u>684,253</u>	<u>723,190</u>
Cash and equivalents, end of year	<u>\$ 2,316,217</u>	<u>\$ 627,448</u>	<u>\$ 766,001</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 145,009	\$ (460,799)	\$ (77,031)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	213,520	115,473	98,870
Changes in assets and liabilities:			
(Increase) decrease in receivables	(13,793)	(31,006)	5,333
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in prepaid items	2,222	(47)	226
(Increase) decrease in inventory	(1,355)	-	-
(Increase) decrease in deferred outflows	54,654	15,806	27,203
Increase (decrease) in accounts payable	(65,834)	48,485	20,342
Increase (decrease) in accrued payroll	14,604	20,154	(12,583)
Increase (decrease) in net OPEB liability	48,533	91,009	91,009
Increase (decrease) in net pension liability	(66,730)	(19,301)	(33,218)
Increase (decrease) in unearned revenue	-	-	-
Increase (decrease) in deferred inflows	29,738	8,601	14,803
Net cash provided by operating activities	<u>\$ 360,568</u>	<u>\$ (211,625)</u>	<u>\$ 134,954</u>

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 504,755	\$ 5,978,294	\$ -
-	-	352,077
(228,765)	(4,035,466)	(319)
(222,283)	(1,844,848)	(584,759)
(125,869)	113,755	-
<u>(72,162)</u>	<u>211,735</u>	<u>(233,001)</u>
(41,652)	(442,803)	-
-	(2,437)	-
<u>(41,652)</u>	<u>(445,240)</u>	<u>-</u>
(155,500)	(430,528)	-
-	(55,000)	-
-	(8,096)	-
-	25,113	-
-	327,027	-
<u>(155,500)</u>	<u>(141,484)</u>	<u>-</u>
-	221,793	-
1,577	59,779	-
<u>1,577</u>	<u>281,572</u>	<u>-</u>
(267,737)	(93,417)	(233,001)
<u>570,644</u>	<u>4,105,990</u>	<u>1,142,116</u>
<u>\$ 302,907</u>	<u>\$ 4,012,573</u>	<u>\$ 909,115</u>
\$ 27,980	\$ (364,841)	\$ (234,754)
66,842	494,705	-
5,362	(34,104)	1,509
(130,500)	(130,500)	-
428	2,829	2,325
-	(1,355)	-
4,278	101,941	-
(1,892)	1,101	(319)
698	22,873	(1,762)
(36,813)	193,738	-
(5,214)	(124,463)	-
(5,655)	(5,655)	-
2,324	55,466	-
<u>(72,162)</u>	<u>211,735</u>	<u>(233,001)</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
March 31, 2020

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 5,882
Receivables:	
Delinquent taxes	111,456
Total assets	\$ 117,338
LIABILITIES	
Due to other governmental units	\$ 117,338

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Gladstone Area Schools – provides education services to the community.

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

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

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

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

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

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, 2020

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 either in accordance with the above criteria:

The General Fund which is described below.

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

The funds of the City are described below:

Governmental Funds

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

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

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

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

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

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, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal Service Funds – The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. In the government-wide financial statements, the City has two internal service funds that are included with the governmental activities. The Retirement System and Employee Health Care Funds account for retiree pension and other postemployment benefit costs incurred by various City departments.

Fiduciary Funds

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

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 Funds

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 utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net position.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

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

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

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash Equivalents and Investments – Cash and investments are segregated on the statement of net position. Cash deposits consist of demand and time deposits with financial institutions and are reported at carrying amount which is fair value. Investments are stated at cost or amortized cost which approximates market value. For the purpose of the statement of cash flows, the City considers all highly liquid investments with maturities of less than three months or where there is no loss of principal upon early withdrawal, as cash equivalents.

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.

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.

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.

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Restricted Assets – Restricted assets include cash and equivalents which have been reserved for the principal portion of the Cemetery Perpetual Care Fund non-expendable cash.

Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

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

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

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 – In the government-wide statements and proprietary fund financial statements unearned revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements unearned revenue is recognized when revenue is unearned or unavailable. The City has reported unearned revenue of \$12,384 in the General Fund, \$0 in the Downtown Development Fund, and \$14,060 in the Harbor Fund for prepaid service revenue. These amounts have been deemed measurable, but not currently available.

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Inflows of Resources - In addition to liabilities, the statement of net position and/or governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has other state grants related to Public Act 252 as well as pension related items that qualify for reporting in this category.

Equity Classification

Government-Wide 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 “invested in capital assets, net of related debt.”

Fund Statements

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

Nonspendable– This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified prepaid items as nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Assigned– This classification includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed. The intent can be expressed by the City through the budgetary process and this classification also includes the remaining positive fund balance for all governmental funds.

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reports as nonoperating revenues and expenses.

Other Financing Sources (Uses)

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

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, 2020

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.

Property Taxes

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Implementation of New Accounting Standards

As of March 31, 2020, the City adopted GASB Statement No. 88, *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements*. The implementation of this standard is to improve the information that is disclosed in the notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The additional disclosures required by this standard are included in Note E.

As of April 1, 2019, the City adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The implementation of this standard is to simplify accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The implementation did not impact the City in the current year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS

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

	Primary Government	Component Unit	Total
Imprest Cash	\$ 590	\$ 200	\$ 790
Deposits:			
Checking accounts	11,507,004	234,769	11,741,773
Savings	617,773	185,988	803,761
Total cash and equivalents	<u>\$ 12,125,367</u>	<u>\$ 420,957</u>	<u>\$ 12,546,324</u>
Government-wide Statement of Net Position Presentation:			
Primary Government:			
Cash & Equivalents - Unrestricted	\$ 6,322,581		
Cash & Equivalents - Restricted	5,796,904		
Component Unit:			
Cash & Equivalents - Unrestricted	420,957		
Statement of Fiduciary Net Position			
Cash & Equivalents	5,882		
Total cash and equivalents	<u>\$ 12,546,324</u>		
Investments:			
Primary Govt. - Upper Peninsula Public Power Agency	\$ 475,774		
Comp. Unit - Certificate of Deposit	240,988		
Total investments	<u>\$ 716,762</u>		

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

- 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. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

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

All deposits are carried at cost and are in accordance with statutory authority.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

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, 2020, the City held \$12,253,600 in checking and savings accounts. Of this amount, \$11,690,390 was uninsured and uncollateralized. Although such deposits exceed federally insured limits, they are, in the opinion of management, subject to minimal risk.

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 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.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities. At year end, the City did not hold any investments that were subject to interest rate risk.

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. At year end, the City did not hold any investments that were subject to credit risk.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Cash has been restricted within the listed funds as follows:

1. The General Fund in the amount of \$4,258 for donations related to a hover craft, \$24,187 for donations related to the Little Bay de Noc trail, \$7,686 for donations related to a disc golf course, and \$138,844 for costs of the police department as required by the Olson Trust.
2. The Cemetery Perpetual Care Fund in the amount of \$274,209 for cemetery care as required by the nature of the fund.
3. The Mary Cretens Trust Fund in the amount of \$375,942 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 Capital Projects Fund in the amount of \$4,945,440 for bond proceeds related to the 9th Street infrastructure project.

Investment in Upper Peninsula Public Power Agency

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City has contributed cash and equipment as part of its investment in UPPPA. Neither UPPPA or ATC are publicly traded companies, therefore, the investment is non-risk categorized and the City is at risk for the underlying value of the issuer, including all related risks. At March 31, 2020 the value of the investment was \$475,774 and was based upon the value as reported in UPPPA's December 31, 2019 audit, which the City feels approximates market value given the annual return on this investment.

Fair Value Measurement

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

The City’s investment in UPPPA is recorded and reported at its historical cost, based on the City’s proportional investment held, as no readily determinable fair market value is available as UPPPA is primarily comprised of an investment in American Transmission Company, LLC, which is privately held. 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 owing at the time.

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

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 City’s share of current real and personal property taxes for the year ended March 31, 2020 were as follows:

- General Fund: \$ 1,700,311
- DDA Fund: \$371,650

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

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. Capital asset activity for the year ended March 31, 2020, was as follows:

	<u>Balance at</u> <u>April 1, 2019</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at</u> <u>March 31, 2020</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,619,627	\$ -	\$ -	\$ 1,619,627
Construction in progress	362,129	114,301	102,975	373,455
Total non-depreciable capital assets	<u>1,981,756</u>	<u>114,301</u>	<u>102,975</u>	<u>1,993,082</u>
Capital assets being depreciated:				
Land improvements	572,449	25,680	-	598,129
Buildings	3,572,749	7,449	-	3,580,198
Machinery and equipment	3,256,620	287,489	(31,515)	3,575,624
Infrastructure-road system	13,538,871	-	-	13,538,871
Infrastructure-other	2,050,536	4,565	(29,303)	2,084,404
Total depreciable capital assets	<u>22,991,225</u>	<u>325,183</u>	<u>(60,818)</u>	<u>23,377,226</u>
Total capital assets	<u>24,972,981</u>	<u>439,484</u>	<u>42,157</u>	<u>25,370,308</u>
Less accumulated depreciation:				
Land improvements	170,316	30,470	-	200,786
Buildings	2,063,517	79,325	-	2,142,842
Machinery and equipment	2,165,476	144,921	(11,778)	2,322,175
Infrastructure-road system	11,308,318	217,705	-	11,526,023
Infrastructure-other	877,292	96,474	8,435	965,331
Total accumulated depreciation	<u>16,584,919</u>	<u>568,895</u>	<u>(3,343)</u>	<u>17,157,157</u>
Net depreciable capital assets	<u>6,406,306</u>	<u>(243,712)</u>	<u>(57,475)</u>	<u>6,220,069</u>
Governmental activities capital assets, net	<u>\$ 8,388,062</u>	<u>\$ (129,411)</u>	<u>\$ 45,500</u>	<u>\$ 8,213,151</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE D – CAPITAL ASSETS (continued)

	<u>Balance at</u> <u>April 1, 2019</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Disposals</u>	<u>Balance at</u> <u>March 31, 2020</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 236,836	\$ -	\$ -	\$ 236,836
Construction in progress	20,861	-	-	20,861
Total non-depreciable capital assets	<u>257,697</u>	<u>-</u>	<u>-</u>	<u>257,697</u>
Capital assets being depreciated:				
Buildings	1,238,571	-	965	1,237,606
Machinery and equipment	1,906,312	364,741	109,915	2,161,138
Infrastructure - other	481,426	-	-	481,426
Distribution/collection system	<u>17,268,303</u>	<u>65,787</u>	<u>72,874</u>	<u>17,261,216</u>
Total depreciable capital assets	<u>20,894,612</u>	<u>430,528</u>	<u>183,754</u>	<u>21,141,386</u>
Total capital assets	<u>21,152,309</u>	<u>430,528</u>	<u>183,754</u>	<u>21,399,083</u>
Less accumulated depreciation:				
Buildings	524,498	48,249	965	571,782
Machinery and equipment	1,098,692	136,485	86,269	1,148,908
Infrastructure - other	141,191	22,970	-	164,161
Distribution/collection system	<u>11,489,479</u>	<u>287,002</u>	<u>60,916</u>	<u>11,715,565</u>
Total accumulated depreciation	<u>13,253,860</u>	<u>494,706</u>	<u>148,150</u>	<u>13,600,416</u>
Net depreciable capital assets	<u>7,640,752</u>	<u>(64,178)</u>	<u>35,604</u>	<u>7,540,970</u>
Business-type activities capital assets, net	<u>\$ 7,898,449</u>	<u>\$ (64,178)</u>	<u>\$ 35,604</u>	<u>\$ 7,798,667</u>
	<u>Balance at</u> <u>April 1, 2019</u>	<u>Additions</u>	<u>Transfers/</u> <u>Disposals</u>	<u>Balance at</u> <u>March 31, 2020</u>
Component Unit-Housing Commission:				
Capital assets not being depreciated:				
Land	\$ 69,466	\$ -	\$ -	\$ 69,466
Capital assets being depreciated:				
Buildings	4,904,588	32,220	-	4,936,808
Furniture and equipment	89,515	698	671	89,542
Infrastructure-road system	140,650	803	-	141,453
Total depreciable capital assets	<u>5,134,753</u>	<u>33,721</u>	<u>671</u>	<u>5,167,803</u>
Total capital assets	<u>5,204,219</u>	<u>33,721</u>	<u>671</u>	<u>5,237,269</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>4,251,585</u>	<u>173,171</u>	<u>598</u>	<u>4,424,158</u>
Net depreciable capital assets	<u>883,168</u>	<u>(139,450)</u>	<u>73</u>	<u>743,645</u>
Component unit capital assets, net	<u>\$ 952,634</u>	<u>\$ (139,450)</u>	<u>\$ 73</u>	<u>\$ 813,111</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE D – CAPITAL ASSETS (continued)

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.

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

Governmental activities:	
General government	\$ 16,264
Public health and safety	91,632
Parks and recreation	167,697
Cemetery	13,063
Public works	44,693
Street system	221,710
Community development	13,836
Total governmental activities depreciation expense	<u>\$ 568,895</u>
Business-type activities:	
Electric	\$ 213,520
Waste water	115,473
Water	98,870
Solid waste	40,287
Harbor	24,800
Development	1,755
Total business-type activities depreciation expense	<u>\$ 494,705</u>

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

The City of Gladstone entered into a construction contract with Oberstar, Inc. for the 9th Street Project which consists of 2.50 miles of urban street reconstruction, curb and gutter, sidewalk ramp construction, HMA surface replacement, concrete removal, water main, sanitary sewer, pavement markings, and restoration. As of March 31, 2020, the City had an outstanding construction contract with \$4,324,009.50 remaining to be paid. The project is being financed with bonds issued in the current year as explained in Note E. Bond payments will be paid from various sources including General Fund, Major Street Fund, Local Street Fund, Wastewater Fund, Water Fund, annual special assessments, and the majority from the DDA.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE E – LONG-TERM DEBT

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. The installment purchase agreement 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, 2020:

Type of Debt	Balance April 1, 2019	Additions	Deductions	Balance March 31, 2020	Amounts Due Within One Year
Governmental Activities:					
Direct Borrowings & Placements:					
Limited Tax General Obligation Bonds:					
2020 Capital Improvement bond	\$ -	\$ 4,495,000	\$ -	\$ 4,495,000	\$ 250,000
Contractual Agreements:					
Installment purchase agreement	62,621	-	4,044	58,577	4,216
Other liabilities	125,000	-	25,000	100,000	25,000
Unamortized bond premium	-	302,038	-	302,038	20,136
Other obligations:					
Employment benefits	-	538,500	48,500	490,000	172,500
Compensated absences	170,218	172,215	162,675	179,758	35,952
Total governmental long-term debt	\$357,839	\$ 5,507,753	\$ 240,219	\$ 5,625,373	\$ 507,804
Type of Debt	Balance April 1, 2019	Additions	Deductions	Balance March 31, 2020	Amounts Due Within One Year
Business-type Activities:					
Direct Borrowings & Placements:					
Revenue Bonds:					
2006 Sludge Storage bond	\$525,718	\$ -	\$ 55,000	\$ 470,718	\$ 55,000
Other obligations:					
Employment benefits	-	324,000	-	324,000	81,000
Compensated absences	126,129	86,618	76,993	135,754	27,151
Total business-type long-term debt	\$651,847	\$ 410,618	\$ 131,993	\$ 930,472	\$ 163,151

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE E – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at March 31, 2020 are as follows:

For the Year Ending March 31,	Governmental Activities							
	Direct Borrowings & Placements							
	Bonds Payable		Notes Payable		Other Liabilities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 250,000	\$112,612	\$ 4,216	\$2,502	\$ 25,000	\$ -	\$ 279,216	\$ 115,114
2022	250,000	110,350	4,395	2,323	25,000	-	279,395	112,673
2023	260,000	102,850	4,582	2,136	25,000	-	289,582	104,986
2024	265,000	95,050	45,383	1,941	25,000	-	335,383	96,991
2025	275,000	87,100	-	-	-	-	275,000	87,100
2026-2030	1,495,000	307,250	-	-	-	-	1,495,000	307,250
2031-2035	1,700,000	103,400	-	-	-	-	1,700,000	103,400
	<u>\$ 4,495,000</u>	<u>\$918,612</u>	<u>\$ 58,576</u>	<u>\$8,902</u>	<u>\$100,000</u>	<u>\$ -</u>	<u>\$ 4,653,576</u>	<u>\$ 927,514</u>

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

For the Year Ending March 31,	Business-type Activities	
	Direct Borrowings & Placements	
	Bonds Payable	
	Principal	Interest
2021	\$ 55,000	\$ 7,649
2022	55,000	6,755
2023	60,000	5,862
2024	60,000	4,887
2025	60,000	3,912
2026-2030	180,718	5,885
2031-2035	-	-
	<u>\$ 470,718</u>	<u>\$ 34,950</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE E – LONG-TERM DEBT (continued)

Governmental Activities

As of March 31, 2020, 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 9th 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.

Notes Payable – 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.

Other Liabilities – On June 12, 2017, the City entered into an agreement for \$175,000 to pay a local business \$25,000 annually for six years in lieu of a formal Brownfield project.

Business-type Activities

As of March 31, 2020, 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.

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 \$179,758 are reported under governmental activities and \$135,754 is reported under business-type activities in the Statement of Net Position. For governmental activities, compensated absences are liquidated by the fund the employee's regular payroll is charged to.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE F – VESTED EMPLOYEE BENEFITS (continued)

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 \$490,000 are reported under governmental activities and \$324,000 is reported under business-type activities 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

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 \$342,014 as noncurrent assets and liabilities in the Statement of Net Position due to the individual funds inability to repay these amounts. Individual fund interfund receivables and payable balances at March 31, 2020 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ -	General Fund	\$ 313,147
Local Roads	23,985	Capital Projects	-
Solid Waste Fund	130,500	Major Street Fund	46,013
Electric Fund	224,564	Local Street Fund	19,889
Total	<u>\$ 379,049</u>	Total	<u>\$ 379,049</u>
Financial Statement Presentation:			
Governmental Funds	\$ 23,985	Governmental Funds	\$ 379,049
Enterprise Funds	355,064	Enterprise Funds	-
	<u>\$ 379,049</u>		<u>\$ 379,049</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 beginning in November 2020 and ending in November 2029. The interfund receivables of \$117,450 in the Solid Waste Fund and \$224,564 in the Electric Fund are not expected to be repaid within the next fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE G – INTERFUND BALANCES AND TRANSFERS (continued)

The transfers to and from the various funds are made to account for budgetary authorizations and/or provide funding for operations as needed. Interfund transfers for the year ended March 31, 2020 were as follows:

		<u>TRANSFERS IN</u>			
		<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Govern.</u>	<u>Total</u>
	General	\$ -	\$ 71,133	\$ -	\$ 71,133
	Major Street	-	70,000	85,000	155,000
	Nonmajor Govern.	213,927	77,083	-	291,010
	Electric	195,383	12,343	-	207,726
	Waste Water	45,660	59,685	-	105,345
	Water	39,738	48,342	-	88,080
	Nonmajor Enter.	41,652	-	-	41,652
	Total	<u>\$ 536,360</u>	<u>\$ 338,586</u>	<u>\$ 85,000</u>	<u>\$ 959,946</u>

NOTE H – RETIREMENT PLANS

MUNICIPAL EMPLOYEE’S RETIREMENT SYSTEM

Description of Plan and Plan Assets

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). 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, 2019.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE H – RETIREMENT PLANS (continued)

General Information about the Pension Plan

Plan Description. The employer’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

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.

	Divisions - For the 2019 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, 2019 valuation date, the following employees were covered by the benefit terms:

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE H – RETIREMENT PLANS (continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City’s competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The City is required to contribute at an actuarially determined rate. The 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, 2020 was as follows:

01 - General	\$ 21,340
02 – Police/Fire	\$ 22,054
10 – General Supervisor	\$ 30,298
20 – Public Safety Comm. Officers	\$ 4,803

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2019, 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, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.00 percent, in the long-term
Investment rate of return	7.35 percent, net of investment expenses, including inflation

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

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of the most recent actuarial experience study covering the period from 2009 through 2013.

Beginning with the actuarial valuation as of December 31, 2019, the investment rate of return of reduced from 7.75 percent to 7.35 percent. Additionally, the inflation assumption was changed from 3.75 percent to 3.00 percent.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE H – RETIREMENT PLANS (continued)

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

Asset Class	Target Allocation	Target Allocation Gross Rate of Return	Long-Term Expected Real Rate of Return
Global Equity	60.0%	8.65%	6.15%
Global Fixed Income	20.0%	3.76%	1.26%
Private Investments	20.0%	9.06%	6.56%

Discount Rate. The discount rate used to measure the total pension liability is 7.60% for 2019. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE H – RETIREMENT PLANS (continued)

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2018	\$ 13,204,604	\$ 6,321,545	\$ 6,883,059
Service cost	47,899	-	47,899
Interest on total pension liability	1,016,752	-	1,016,752
Changes in benefits	-	-	-
Difference between expected and actual experience	(54,199)	-	(54,199)
Changes in assumptions	447,771	-	447,771
Employer contributions	-	1,022,538	(1,022,538)
Employee contributions	-	6,625	(6,625)
Net investment income	-	864,446	(864,446)
Benefit payments, including employee refunds	(1,038,320)	(1,038,320)	-
Administrative expense	-	(14,900)	14,900
Other changes	(2)	-	(2)
Net changes	419,901	840,389	(420,488)
Balances as of December 31, 2019	\$ 13,624,505	\$ 7,161,934	\$ 6,462,571

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 7.60% , 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 (6.60%) or 1-percentage-point higher (8.60%) than the current rate:

	1% Decrease	Current	1% Increase
	6.60%	Discount Rate 7.60%	8.60%
City’s net pension liability at 12/31/19	\$ 6,462,571	\$ 6,462,571	\$ 6,462,571
City’s change in net pension liability at 12/31/19	1,312,910	-	(1,121,611)
	\$ 7,775,481	\$ 6,462,571	\$ 5,340,960

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE H – RETIREMENT PLANS (continued)

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

For the year ended March 31, 2020, the City recognized pension expense of \$1,053,134. At March 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	472,973	451,688
Contributions subsequent to the measurement date *	<u>235,485</u>	<u>-</u>
Total	<u>\$ 708,458</u>	<u>\$ 451,688</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, 2021.

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

Plan Year Ended December 31:

2020	\$ (14,641)
2021	22,142
2022	85,721
2023	<u>(71,937)</u>
	<u>\$ 21,285</u>

At March 31, 2020, the City did not have any outstanding contributions to the pension plan.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE H – RETIREMENT PLANS (continued)

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. In fiscal year 2010, all new hires of the POLC union are also included in this retirement plan. In addition, if the employee contributes an additional 3% to the plan the City will match the employee contribution of 3% 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, 2020, there are 2 terminated participants and 31 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>
2016	26	\$141,221	\$ 38,330
2017	26	146,864	39,688
2018	27	170,603	45,958
2019	31	187,837	52,500
2020	33	198,360	55,497

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

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

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

Funding Policy – For the year ended March 31, 2020 the City has not established a Trust to fund the OPEB obligation. The City's funding policy is to pay all premiums as they come due on a pay-as-you-go basis. Plan members are not required to make contributions to the Plan. Management of the Plan is vested with the City Commission.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

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

Contributions - The Plan was established and is being funded under the authority of the City Council. Retiree healthcare costs are paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. In the current year, the City paid post employment healthcare premiums of \$66,053 (prior to the negotiated buyouts explained below). There are no long-term contracts for contributions to the Plan. The Plan has no legally required reserves.

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

During fiscal year ended March 31, 2020, the City negotiated buyout agreements with all 13 retirees that remained in the Plan. Based on the retiree’s union or employment agreement and retirement date, the retirees had various terms of coverage remaining through 2027. Retirees had the option of a one-time contribution into a Medical Savings Account at 90% of the current monthly premium for the balance of the coverage period or a one-time cash payment at 70% of the current monthly premium for the balance of the coverage period. Total buyouts of \$282,190 were completed by October 2019. The City has no remaining OPEB liability as of March 31, 2020.

NOTE J – FUND BALANCE/RESTRICTED NET POSITION

As of March 31, 2020, fund balances are composed of the following:

	<u>General Fund</u>	<u>Major Streets</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total Funds</u>
Nonspendable:					
Prepaid items	\$ 33,602	\$ -	\$ -	\$ -	\$ 33,602
Inventory	15,114	-	-	-	15,114
Permanent fund principal	-	-	-	274,109	274,109
Restricted for:					
Bond proceeds - 9th Street	-	-	4,797,038	-	4,797,038
Capital projects	-	-	103,315	-	103,315
Street system	-	322,663	-	128,627	451,290
Health & welfare	-	-	-	26,338	26,338
Community development	-	-	-	375,942	375,942
Downtown development	-	-	-	382,467	382,467
Committed to:					
Public safety	184,719	-	-	-	184,719
Facilities	20,000	-	-	-	20,000
Equipment replacement	12,245	-	-	-	12,245
Employee leave	5,000	-	-	-	5,000
Unassigned:	<u>464,494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>464,494</u>
Total fund balance	<u>\$ 735,174</u>	<u>\$ 322,663</u>	<u>\$ 4,900,353</u>	<u>\$ 1,187,483</u>	<u>\$ 7,145,673</u>

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE J – FUND BALANCE/RESTRICTED NET POSITION (continued)

The government-wide statement of net position reports \$6,136,390 of expendable restricted net position, of which \$382,467 is restricted by enabling legislation.

NOTE K – RISK MANAGEMENT

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

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

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

Table I
City Deductibles and Self Insured Retentions

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

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

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE K – RISK MANAGEMENT (continued)

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, 2020, the City had no outstanding claims which exceeded the plan’s limits and there has been no significant reduction in insurance coverage over the past three years.

NOTE L – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion on management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City at March 31, 2020.

NOTE M – JOINT VENTURE – DELTA SOLID WASTE LANDFILL

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

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

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

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

NOTE N – SINGLE AUDIT

For the year ended March 31, 2020, the City did not expend more than \$750,000 in federal awards and therefore a single audit in accordance with Uniform Guidance was not required in 2020.

NOTE O – TAX ABATEMENTS

For the year end March 31, 2020, the city did not have material tax abatements.

NOTE P – FUTURE CHANGES IN ACCOUNTING PRINCIPLE

The Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2020-2021 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. 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.

The Governmental Accounting Standards Board issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE P – FUTURE CHANGES IN ACCOUNTING PRINCIPLE (continued)

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority interest in a legally separate organization results in a government being financially accountable for a legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2020-2021 fiscal year.

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 assets, 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.

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE P – FUTURE CHANGES IN ACCOUNTING PRINCIPLE (continued)

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.

NOTE Q – PRIOR PERIOD ADJUSTMENT

A prior period adjustment to correct an error in the employment benefits liability in the amount of \$273,500 was recorded in 2020. The City negotiated buyout agreements with active employees, who were previously entitled to post-employment health benefits based on various union and employment agreements, during 2018 and 2019. As of March 31, 2019, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension*. During the adoption, the City eliminated active employees from the assumptions included in the actuarial valuation for OPEB as a result of the buyout agreements. However, the City did not make the payments for the buyout agreements and did not record a long-term liability for the amount owed. As a result of this error, the beginning net position of the governmental activities was restated as noted in the following table. The total liability for employment benefits is explained in Note E.

	<u>Governmental Activities</u>
Beginning net position, as previously reported on March 31, 2019	\$ 6,831,352
Prior period adjustment	
Employee benefits	<u>(273,500)</u>
Net position, as restated on April 1, 2019	<u><u>\$ 6,557,852</u></u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2020

NOTE R – SUBSEQUENT EVENT

Pandemic - On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a pandemic. The COVID-19 outbreak in the United States has resulted in temporary reduction of operating hours for many local units of government as well as temporary local government mandated closures. Michigan's Governor, Gretchen Whitmer, has issued several executive orders that temporarily suspended activities that are not necessary to sustain or protect life. The impact on the City's future operating costs and revenue and any recovery from emergency funding, whether federal, state, or local, cannot be estimated. No impairments were recorded as of the statement of net position/balance sheet date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. At the current time, the City is unable to quantify the potential effects of the pandemic on its future financial statements.

MERS Defined Benefit Plan – A 5-year experience study analyzing historical experience from 2013 through 2018 was completed in February 2020. In addition to changes to the economic assumptions which will take effect with the fiscal year 2021 contribution rates, the experience study recommends updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates. Changes to the demographic assumptions resulting from the experience study have been approved by the MERS Retirement Board and are to be effective beginning with the December 31, 2020 actuarial valuation first impacting 2022 contributions.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2020

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Federal sources	\$ -	\$ 3,390	\$ 3,390	\$ -
State sources	585,000	585,000	579,731	(5,269)
Local sources	92,200	123,223	120,313	(2,910)
Taxes	1,683,188	1,735,550	1,700,311	(35,239)
Charges for services	376,000	376,000	566,745	190,745
Interest income	3,500	3,500	3,402	(98)
Miscellaneous	111,700	283,292	97,549	(185,743)
Total revenues	<u>2,851,588</u>	<u>3,109,955</u>	<u>3,071,441</u>	<u>(38,514)</u>
EXPENDITURES:				
General government:				
City commission	272,941	285,548	179,331	106,217
City manager	142,458	146,027	146,066	(39)
Elections	21,694	21,694	14,538	7,156
City assessor	41,850	59,077	56,872	2,205
Board of review	3,453	3,453	3,311	142
City treasurer	88,469	108,657	109,681	(1,024)
City clerk	120,264	130,810	138,259	(7,449)
City hall	39,049	37,049	41,330	(4,281)
Office clerk	-	26,976	26,239	737
Computer & copier	24,000	27,000	26,717	283
Public health and safety:				
Police department	1,515,107	1,626,276	1,473,410	152,866
Fire department	148,637	121,764	135,264	(13,500)
Building and housing inspections	131,430	157,929	155,811	2,118
Canine	-	14,010	14,019	(9)
Parks and recreation:				
Recreation administrative	165,482	202,143	201,875	268
Parks	71,672	95,848	93,485	2,363
Beach	37,267	34,774	33,943	831
Sports park	80,663	108,863	117,295	(8,432)
Campground	65,119	68,444	67,617	827
Miscellaneous	90,699	69,091	54,755	14,336
Cemetery:				
Ground maintenance and burials	65,488	61,228	71,627	(10,399)
General public works:				
Sidewalks & alley maintenance	28,939	11,945	18,353	(6,408)
Grounds maintenance	116,065	160,412	132,454	27,958
Motor pool	86,035	86,035	90,946	(4,911)
Capital outlay	226,813	360,576	304,699	55,877
Debt service	16,138	6,718	6,718	-
Total expenditures	<u>3,599,732</u>	<u>4,032,347</u>	<u>3,714,615</u>	<u>317,732</u>
Excess revenues (expenditures)	<u>(748,144)</u>	<u>(922,392)</u>	<u>(643,174)</u>	<u>279,218</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	748,143	773,823	536,360	(237,463)
Transfer out	-	(59,420)	(71,133)	(11,713)
Total other financing sources (uses)	<u>748,143</u>	<u>714,403</u>	<u>465,227</u>	<u>(249,176)</u>
Net changes in fund balances	(1)	(207,989)	(177,947)	30,042
Fund balances - beginning	<u>911,121</u>	<u>911,121</u>	<u>911,121</u>	<u>-</u>
Fund balances - ending	<u>\$ 911,120</u>	<u>\$ 703,132</u>	<u>\$ 733,174</u>	<u>\$ 30,042</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, 2020

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 531,001	\$ 540,057	\$ 554,042	\$ 13,985
Local sources	-	-	10,269	10,269
Interest income	1,000	1,000	1,034	34
Miscellaneous	2,400	2,400	525	(1,875)
	<u>534,401</u>	<u>543,457</u>	<u>565,870</u>	<u>22,413</u>
EXPENDITURES:				
Street system	359,895	355,848	340,395	15,453
Capital outlay	-	-	-	-
	<u>359,895</u>	<u>355,848</u>	<u>340,395</u>	<u>15,453</u>
Excess revenues (expenditures)	<u>174,506</u>	<u>187,609</u>	<u>225,475</u>	<u>37,866</u>
OTHER FINANCING SOURCES (USES):				
Transfer in	-	-	-	-
Transfer out	(174,506)	(215,427)	(155,000)	60,427
	<u>(174,506)</u>	<u>(215,427)</u>	<u>(155,000)</u>	<u>60,427</u>
Net changes in fund balances	-	(27,818)	70,475	98,293
Fund balances - beginning	252,188	252,188	252,188	-
Fund balances - ending	<u>\$ 252,188</u>	<u>\$ 224,370</u>	<u>\$ 322,663</u>	<u>\$ 98,293</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
Total pension liability					
Service cost	\$ 84,917	\$ 85,502	\$ 58,336	\$ 46,590	\$ 47,899
Interest	953,137	979,922	1,019,988	1,016,964	1,016,752
Change in benefits	3,739	-	-	-	-
Difference between expected and actual experience	(30,084)	335,350	(138,780)	(44,558)	(54,199)
Change in assumptions	523,082	-	-	-	447,771
Benefit payments, including refund of member contributions	(842,391)	(836,086)	(936,653)	(1,006,283)	(1,038,320)
Other	-	-	(4)	-	1
Net change in total pension liability	692,400	564,688	2,887	12,713	419,904
Total pension liability - beginning	11,931,915	12,624,315	13,189,003	13,191,890	13,204,603
Total pension liability - ending	<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>
Plan fiduciary net position					
Contributions - employer	\$ 642,574	\$ 841,312	\$ 768,951	\$ 956,931	\$ 1,022,538
Contributions - employee	12,492	12,791	8,995	6,601	6,625
Net investment income (loss)	(83,968)	615,682	792,296	(259,575)	864,446
Benefit payments, including refunds of member contributions	(842,391)	(836,086)	(936,653)	(1,006,283)	(1,038,320)
Administrative expense	(12,265)	(12,163)	(12,544)	(12,842)	(14,899)
Net change in plan fiduciary net position	(283,558)	621,536	621,045	(315,168)	840,390
Plan fiduciary net position - beginning	5,677,689	5,394,131	6,015,667	6,636,712	6,321,544
Plan fiduciary net position - ending	<u>\$ 5,394,131</u>	<u>\$ 6,015,667</u>	<u>\$ 6,636,712</u>	<u>\$ 6,321,544</u>	<u>\$ 7,161,934</u>
City's net pension liability - ending	<u>\$ 7,230,184</u>	<u>\$ 7,173,336</u>	<u>\$ 6,555,178</u>	<u>\$ 6,883,059</u>	<u>\$ 6,462,573</u>
Plan fiduciary net position as a percentage of the total pension liability	43%	46%	50%	48%	53%
Covered - employee payroll	\$ 760,520	\$ 751,993	\$ 525,382	\$ 434,047	\$ 447,960
City's net pension liability as a percentage of covered-employee payroll	951%	954%	1248%	1586%	1443%
Annual money-weighted rate of return, net of investment expense	-2%	11%	13%	-4%	13%

Note: Schedule prepared based on measurement date of December 31

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
Actuarially determined contribution	\$ 545,395	\$ 674,856	\$ 721,620	\$ 784,728	\$ 889,332	\$ 941,940
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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (187,500)</u>	<u>\$ -</u>
Covered - employee payroll	\$ 726,599	\$ 760,520	\$ 751,993	\$ 525,382	\$ 434,047	\$ 447,960
Contributions as a percentage of covered-employee payroll	75%	89%	96%	149%	248%	210%

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	10 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.75%, average, including inflation
Investment rate of return	7.75%
Retirement age	50-60 years of age depending on years of credited service
Mortality	50% Female/50% Male blend of RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables
Assumption changes	In the 2019 MERS valuation, the investment rate of return was reduced from 7.75 percent to 7.35 percent. Additionally, the inflation assumption was changed from 3.75 percent to 3.00 percent.
Note	Above dates are based on fiscal year and not the measurement date

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

	2019	2020
Total OPEB liability		
Service cost	\$ -	\$ -
Interest	16,021	-
Change in benefits	-	-
Difference between expected and actual experience	-	-
Change in assumptions	-	(59,249)
Benefit payments, including refund of member contributions	(190,987)	(348,243)
Other	-	-
Net change in total OPEB liability	(174,966)	(407,492)
Total OPEB liability - beginning	582,458	407,492
Total OPEB liability - ending	<u>\$ 407,492</u>	<u>\$ -</u>
Plan fiduciary net position		
Contributions to OPEB trust	\$ -	\$ -
Contributions/benefit payments made from general operating funds	190,987	348,243
Net investment income	80	(2,950)
Benefit payments, including refunds of member contributions	(190,987)	(348,243)
Administrative expense	(4)	(4)
Net change in plan fiduciary net position	76	(2,954)
Plan fiduciary net position - beginning	2,878	2,954
Plan fiduciary net position - ending	<u>\$ 2,954</u>	<u>\$ -</u>
City's net OPEB liability (asset) - ending	<u>\$ 404,538</u>	<u>\$ -</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.72%	0.00%
Covered - employee payroll	N/A	N/A
City's net OPEB liability as a percentage of covered-employee payroll	N/A	N/A
Annual money-weighted rate of return, net of investment expense	2.64%	0.00%

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF OPEB CONTRIBUTIONS
For the Fiscal Years Ended March 31
(Schedule is prepared prospectively upon implementation of GASB 75)

	2019	2020
Actuarially determined contribution	\$ 249,860	\$ -
Contributions in relation to the actuarially determined contribution	190,857	348,243
Contribution deficiency (excess)	\$ 59,003	\$ (348,243)
Covered - employee payroll	\$ 525,382	unknown
Contributions as a percentage of covered-employee payroll	36%	0%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of March 31st, at the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age	
Amortization method	Level percentage of payroll	
Asset valuation method	Market value	
Inflation	Included in investment rate of return	
Salary increases	N/A	
Investment rate of return	7.05%	
Mortality	2010 Public General and Public Safety, Headcount-weighted, Employee and Healthy Retiree with MP-2018 Mortality Improvement Scale	
Changes	The City negotiated buyouts of all participants and made those payments during 2020. As a result, the City no longer has a net OPEB liability and did not have any actuarially determined contributions for 2020.	

OTHER SUPPLEMENTAL INFORMATION

**CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2020**

	Special Revenue Funds		
	Local Street	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
ASSETS			
Cash and equivalents:			
Restricted	\$ -	\$ -	\$ 26,338
Unrestricted	97,187	-	-
Receivables:			
Accounts	-	-	-
Special assessments	10,092	-	-
Due from other governmental units	37,647	-	-
Due from other funds	23,985	-	-
Prepaid items	-	-	-
	\$ 168,911	\$ -	\$ 26,338
Total assets	\$ 168,911	\$ -	\$ 26,338
LIABILITIES			
Liabilities:			
Accounts payable	\$ 8,364	\$ -	\$ -
Accrued payroll	1,939	-	-
Due to other funds	19,889	-	-
Unearned revenue	-	-	-
	30,192	-	-
Total liabilities	30,192	-	-
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue - special assessments	10,092	-	-
	10,092	-	-
FUND BALANCES			
Nonspendable	-	-	-
Restricted	128,627	-	26,338
	128,627	-	26,338
Total fund balances	128,627	-	26,338
Total liabilities, deferred inflows of resources, and fund balances	\$ 168,911	\$ -	\$ 26,338

See accompanying notes to financial statements.

Special Revenue Funds		Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Downtown Development Authority	Cemetery Perpetual Care	
\$ 375,942	\$ -	274,209	\$ 676,489
-	385,981	-	483,168
-	-	-	-
-	-	-	10,092
-	2,530	-	40,177
-	-	-	23,985
-	-	-	-
<u>\$ 375,942</u>	<u>\$ 388,511</u>	<u>\$ 274,209</u>	<u>\$ 1,233,911</u>
\$ -	\$ 6,044	\$ 100	\$ 14,508
-	-	-	1,939
-	-	-	19,889
-	-	-	-
-	6,044	100	36,336
-	-	-	10,092
-	-	274,109	274,109
375,942	382,467	-	913,374
375,942	382,467	274,109	1,187,483
<u>\$ 375,942</u>	<u>\$ 388,511</u>	<u>\$ 274,209</u>	<u>\$ 1,233,911</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, 2020

	Special Revenue Funds		
	Local Street	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
REVENUES:			
State sources	\$ 235,698	\$ -	\$ -
Local sources	2,837	-	-
Taxes	-	-	-
Interest income	236	-	-
Miscellaneous	14,844	-	-
	253,615	-	-
Total revenues			
EXPENDITURES:			
Cemetery	-	-	-
Street system	265,847	-	-
Community development	-	3,390	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
	265,847	3,390	-
Total expenditures			
Excess revenues (expenditures)	(12,232)	(3,390)	-
OTHER FINANCING SOURCES (USES):			
Transfers in	85,000	-	-
Transfers out	(30,000)	-	-
	55,000	-	-
Total other financing sources (uses)			
Net changes in fund balances	42,768	(3,390)	-
Fund balances - beginning	85,859	3,390	26,338
Fund balances - ending	\$ 128,627	\$ -	\$ 26,338

See accompanying notes to financial statements.

Special Revenue Funds		Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Downtown Development Authority	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ 235,698
156,558	5,804	700	165,899
-	371,650	-	371,650
1,429	1,092	935	3,692
-	1,140	-	15,984
<u>157,987</u>	<u>379,686</u>	<u>1,635</u>	<u>792,923</u>
-	-	335	335
-	-	-	265,847
-	150,102	-	153,492
-	-	-	-
-	25,000	-	25,000
-	-	-	-
<u>-</u>	<u>175,102</u>	<u>335</u>	<u>444,674</u>
<u>157,987</u>	<u>204,584</u>	<u>1,300</u>	<u>348,249</u>
-	-	-	85,000
<u>(178,892)</u>	<u>(81,183)</u>	<u>(935)</u>	<u>(291,010)</u>
<u>(178,892)</u>	<u>(81,183)</u>	<u>(935)</u>	<u>(206,010)</u>
(20,905)	123,401	365	142,239
<u>396,847</u>	<u>259,066</u>	<u>273,744</u>	<u>1,045,244</u>
<u>\$ 375,942</u>	<u>\$ 382,467</u>	<u>\$ 274,109</u>	<u>\$ 1,187,483</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
March 31, 2020

	Economic Development Corporation	Harbor	Solid Waste	Total Nonmajor Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 114,316	\$ 89,416	\$ 99,175	\$ 302,907
Receivables:				
Utilities	-	-	87,316	87,316
Miscellaneous	-	200	500	700
Due from other funds	-	-	13,050	13,050
Prepaid items	-	-	1,560	1,560
Total current assets	<u>114,316</u>	<u>89,616</u>	<u>201,601</u>	<u>405,533</u>
Noncurrent assets:				
Advance due from other funds	-	-	117,450	117,450
Capital assets, net of accumulated depreciation	27,333	299,748	299,166	626,247
Total noncurrent assets	<u>27,333</u>	<u>299,748</u>	<u>416,616</u>	<u>743,697</u>
Total assets	<u>\$ 141,649</u>	<u>\$ 389,364</u>	<u>\$ 618,217</u>	<u>\$ 1,149,230</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - pension plan	\$ -	\$ -	\$ 9,202	\$ 9,202
Deferred outflow - OPEB	-	-	-	-
Total deferred outflows	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,202</u>	<u>\$ 9,202</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 697	\$ 1,635	\$ 9,583	\$ 11,915
Accrued payroll	-	-	2,977	2,977
Unearned revenue	-	14,060	-	14,060
Total current liabilities	<u>697</u>	<u>15,695</u>	<u>12,560</u>	<u>28,952</u>
Noncurrent liabilities:				
Net OPEB liability	-	-	-	-
Net pension liability	-	-	86,302	86,302
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>86,302</u>	<u>86,302</u>
Total liabilities	<u>\$ 697</u>	<u>\$ 15,695</u>	<u>\$ 98,862</u>	<u>\$ 115,254</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow - pension plan	\$ -	\$ -	\$ 5,930	\$ 5,930
NET POSITION				
Net investment in capital assets	\$ 27,333	\$ 299,748	\$ 299,166	\$ 626,247
Restricted	39,727	-	-	39,727
Unrestricted	73,892	73,921	223,461	371,274
Total net position	<u>\$ 140,952</u>	<u>\$ 373,669</u>	<u>\$ 522,627</u>	<u>\$ 1,037,248</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, 2020

	Economic Development Corporation	Harbor	Solid Waste	Total Nonmajor Enterprise Funds
OPERATING REVENUES:				
Charges for services	\$ -	\$ 52,671	\$ 446,722	\$ 499,393
Miscellaneous	-	-	4,631	4,631
Total operating revenue	-	52,671	451,353	504,024
OPERATING EXPENSES:				
Salaries and fringes	-	16,882	170,674	187,556
Supplies	-	24,570	13,020	37,590
Contracted services	9,117	10,020	19,719	38,856
Repairs and maintenance	-	10	29,236	29,246
Utilities	-	8,819	-	8,819
Rent	-	-	16,155	16,155
Insurance	-	650	255	905
Education and training	-	-	-	-
Landfill tipping fees	-	-	87,466	87,466
Depreciation	1,755	24,800	40,287	66,842
Miscellaneous	-	1,254	1,355	2,609
Total operating expenses	10,872	87,005	378,167	476,044
Operating income (loss)	(10,872)	(34,334)	73,186	27,980
NONOPERATING REVENUES (EXPENSES):				
Interest income	-	366	1,210	1,576
Income (loss) before transfers, contributions and special items	(10,872)	(33,968)	74,396	29,556
Transfer in	-	-	-	-
Transfer out	(7,000)	(12,000)	(22,652)	(41,652)
Change in net position	(17,872)	(45,968)	51,744	(12,096)
Total net position - beginning	158,824	419,637	470,883	1,049,344
Total net position - ending	\$ 140,952	\$ 373,669	\$ 522,627	\$ 1,037,248

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2020

	Economic Development Corporation	Harbor	Solid Waste	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ -	\$ 55,021	\$ 449,734	\$ 504,755
Payments to suppliers	(9,094)	(50,566)	(169,105)	(228,765)
Payments for wages and related benefits	-	(16,928)	(205,355)	(222,283)
Other receipts (payments)	-	-	(125,869)	(125,869)
Net cash provided (used) by operating activities	<u>(9,094)</u>	<u>(12,473)</u>	<u>(50,595)</u>	<u>(72,162)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	<u>(7,000)</u>	<u>(12,000)</u>	<u>(22,652)</u>	<u>(41,652)</u>
Net cash provided (used) by noncapital financing activities	<u>(7,000)</u>	<u>(12,000)</u>	<u>(22,652)</u>	<u>(41,652)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of fixed assets	<u>-</u>	<u>-</u>	<u>(155,500)</u>	<u>(155,500)</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>(155,500)</u>	<u>(155,500)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earnings	<u>-</u>	<u>367</u>	<u>1,210</u>	<u>1,577</u>
Net cash provided (used) by investing activities	<u>-</u>	<u>367</u>	<u>1,210</u>	<u>1,577</u>
Net increase (decrease) in cash and equivalents	(16,094)	(24,106)	(227,537)	(267,737)
Cash and equivalents, beginning of year	<u>130,410</u>	<u>113,522</u>	<u>326,712</u>	<u>570,644</u>
Cash and equivalents, end of year	<u>\$ 114,316</u>	<u>\$ 89,416</u>	<u>\$ 99,175</u>	<u>\$ 302,907</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (10,872)	\$ (34,334)	\$ 73,186	\$ 27,980
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	1,755	24,800	40,287	66,842
Changes in assets and liabilities:				
(Increase) decrease in receivables	-	2,350	3,012	5,362
(Increase) decrease in prepaid items	-	-	428	428
(Increase) decrease in interfunds	-	-	(130,500)	(130,500)
(Increase) decrease in deferred outflows	-	-	4,278	4,278
Increase (decrease) in accounts payable	23	412	(2,327)	(1,892)
Increase (decrease) in accrued payroll	-	(46)	744	698
Increase (decrease) in net OPEB liability	-	-	(36,813)	(36,813)
Increase (decrease) in net pension liability	-	-	(5,214)	(5,214)
Increase (decrease) in unearned revenue	-	(5,655)	-	(5,655)
Increase (decrease) in deferred inflows	-	-	2,324	2,324
Net cash provided by operating activities	<u>\$ (9,094)</u>	<u>\$ (12,473)</u>	<u>\$ (50,595)</u>	<u>\$ (72,162)</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
March 31, 2020

	Retirement System Fund	Employee Health Care Fund	Total Internal Service Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 906,312	\$ 2,803	\$ 909,115
Receivables:			
Miscellaneous	-	-	-
Prepaid items	-	-	-
Inventory	-	-	-
Total current assets	906,312	2,803	909,115
Noncurrent assets:			
Capital assets, net of accumulated depreciation	-	-	-
Total noncurrent assets	-	-	-
Total assets	\$ 906,312	\$ 2,803	\$ 909,115
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Accrued payroll	-	-	-
Notes payable	-	-	-
Total current liabilities	-	-	-
Noncurrent liabilities:			
OPEB obligation	-	-	-
Notes payable	-	-	-
Total noncurrent liabilities	-	-	-
Total liabilities	\$ -	\$ -	\$ -
NET POSITION			
Net investment in capital assets	\$ -	\$ -	\$ -
Unrestricted	906,312	2,803	909,115
Total net position	\$ 906,312	\$ 2,803	\$ 909,115

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
For the Year Ended March 31, 2020

	Retirement System Fund	Employee Health Care Fund	Total Internal Service Funds
OPERATING REVENUES:			
Charges for services	\$ -	\$ 348,243	\$ 348,243
Miscellaneous	-	-	-
Total operating revenue	-	348,243	348,243
OPERATING EXPENSES:			
Salaries and fringes	\$ 234,754	\$ 348,243	\$ 582,997
Total operating expenses	234,754	348,243	582,997
Operating income (loss)	(234,754)	-	(234,754)
NONOPERATING REVENUES (EXPENSES):			
Interest income	-	-	-
Income (loss) before transfers, contributions and special items	(234,754)	-	(234,754)
Transfer in	-	-	-
Transfer out	-	-	-
Change in net position	(234,754)	-	(234,754)
Total net position - beginning	1,141,066	2,803	1,143,869
Total net position - ending	\$ 906,312	\$ 2,803	\$ 909,115

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended March 31, 2020

	Equipment Fund	Retirement System Fund	Employee Health Care Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ -	\$ -	\$ -	\$ -
Cash receipts from interfund services provided	-	-	352,077	352,077
Payments to suppliers	-	-	(319)	(319)
Payments for wages and related benefits	-	(234,754)	(350,005)	(584,759)
Net cash provided (used) by operating activities	-	(234,754)	1,753	(233,001)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	-	-	-	-
Net cash provided (used) by noncapital financing activities	-	-	-	-
Net increase (decrease) in cash and equivalents	-	(234,754)	1,753	(233,001)
Cash and equivalents, beginning of year	-	1,141,066	1,050	1,142,116
Cash and equivalents, end of year	\$ -	\$ 906,312	\$ 2,803	\$ 909,115
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ -	\$ (234,754)	\$ -	\$ (234,754)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	-	-	-	-
Changes in assets and liabilities:				
(Increase) decrease in receivables	-	-	1,509	1,509
(Increase) decrease in prepaid items	-	-	2,325	2,325
(Increase) decrease in inventory	-	-	-	-
Increase (decrease) in accounts payable	-	-	(319)	(319)
Increase (decrease) in accrued payroll	-	-	(1,762)	(1,762)
Increase (decrease) in OPEB liability	-	-	-	-
Net cash provided by operating activities	\$ -	\$ (234,754)	\$ 1,753	\$ (233,001)

See accompanying notes to financial statements.

ADDITIONAL SUPPLEMENTAL INFORMATION

CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2020

ALL UTILITIES:

Population served	4,751
Average number of meters in service	5,340

ELECTRIC UTILITY FUND:

K.W.H. purchased	32,004,444
K.W.H. sold	<u>31,838,287</u>
K.W.H. lost (1%)	<u>166,157</u>
Revenue from sales	<u>\$ 3,894,166</u>
Average number of meters	3,119

WATER UTILITY FUND:

Gallons pumped into plant	123,511,500
Gallons used in plant, system maintenance & let runs	<u>5,611,859</u>
Gallons pumped to mains	117,899,641
Gallons sold	<u>92,198,000</u>
Gallons lost (20%)	<u>25,701,641</u>
Revenue from sales	<u>\$ 816,602</u>
Average number of meters in service	2,221

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 760,883</u>
--------------------	-------------------

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF STATE EQUALIZED VALUATION & TAXABLE VALUES
(UNAUDITED)
For the Year Ended March 31, 2020

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

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, 2020

Year	City Tax	School *	Schools			Total Taxes	Local	Community College	County Taxes	I.S.D.	Total
			Non-Homestead	State	Debt						
1961	14.7300	17.0000	-	-	-	31.7300	-	7.9300	-	39.6600	
1962	14.7400	23.6000	-	-	-	38.3400	-	7.9500	-	46.2900	
1963	14.7700	23.3900	-	-	-	38.1600	1.1410	10.1550	0.1140	49.5700	
1964	15.9100	23.1200	-	-	-	39.0300	1.1400	8.1600	0.0800	48.4100	
1965	15.9300	24.2300	-	-	-	40.1600	1.1400	8.2300	0.1000	49.6300	
1966	15.9000	24.8600	-	-	-	40.7600	1.1400	8.2100	0.6900	50.8000	
1967	14.0600	21.8000	-	-	-	35.8600	1.0000	6.2000	0.6000	43.6600	
1968	14.0000	23.3000	-	-	-	37.3000	2.5000	5.2000	0.6000	45.6000	
1969	15.0000	21.8000	-	-	-	36.8000	2.5000	5.2000	1.1100	45.6100	
1970	17.0000	19.8000	-	-	-	36.8000	2.5000	5.9000	1.1460	46.3460	
1971	17.0000	22.0000	-	-	-	39.0000	2.5000	5.9000	2.2200	49.6200	
1972	17.0000	21.3000	-	-	-	38.3000	2.5000	6.2000	2.6500	49.6500	
1973	17.0000	27.1000	-	-	-	44.1000	2.5000	5.0000	2.7000	54.3000	
1974	16.0000	24.1000	-	-	-	40.1000	2.5000	5.0000	2.7000	50.3000	
1975	17.0000	23.7000	-	-	-	40.7000	2.5000	5.4500	2.6500	51.3000	
1976	17.0000	27.2000	-	-	-	44.2000	2.5000	5.4500	2.6500	54.8000	
1977	17.0000	27.2800	-	-	-	44.2800	2.5000	5.4500	2.6500	54.8800	
1978	17.0000	16.7300	-	-	-	33.7300	2.5000	5.4500	2.6500	44.3300	
1979	17.0000	27.6000	-	-	-	44.6000	2.5000	5.4500	2.6500	55.2000	
1980	17.0000	30.1200	-	-	-	47.1200	2.5000	5.4500	2.6500	57.7200	
1981	17.0000	32.4800	-	-	-	49.4800	2.5000	5.4500	2.6500	60.0800	
1982	16.9900	31.2800	-	-	-	48.2700	2.5000	5.2000	2.6500	58.6200	
1983	16.9371	21.2800	-	-	-	38.2171	2.5000	5.0844	2.6500	48.4515	
1984	16.8867	31.6129	-	-	-	48.4996	2.5000	5.4500	2.6500	59.0996	
1985	17.0000	33.8496	-	-	-	50.8496	2.5000	5.4500	2.6500	61.4496	
1986	17.0000	33.4659	-	-	-	50.4659	2.5000	5.4500	2.6500	61.0659	
1987	17.0000	33.2594	-	-	-	50.2594	2.5000	6.1000	2.6500	61.5094	
1988	17.0000	33.2732	-	-	-	50.2732	2.5000	5.4500	2.6500	60.8732	
1989	17.0000	37.5654	-	-	-	54.5654	2.5000	6.1000	2.6500	65.8154	
1990	17.0000	37.5452	-	-	-	54.5452	2.5000	7.0500	2.6500	66.7452	
1991	17.0000	37.0772	-	-	-	54.0772	2.5000	7.1000	2.6500	66.3272	
1992	17.0000	37.0522	-	-	-	54.0522	2.5000	7.1000	2.6500	66.3022	
1993	16.6575	35.6443	-	-	-	52.3018	2.4055	7.0873	2.5501	64.3447	
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	53.7508	
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	3.2735	7.0483	2.5124	54.6508	
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	3.3735	7.0483	2.5124	54.2748	
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, 2020

Year	City Tax	School *	Schools			Total Local Taxes	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt					
2004	15.6303	-	18.0000	6.0000	8.5600	48.1903	3.5000	6.5455	2.4191	60.6549
2005	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2006	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2007	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5225	7.5897	2.3854	61.5597
2008	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5149	7.5897	2.3851	61.5518
2009	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5109	7.4397	2.3851	61.3978
2010	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5111	7.4317	2.3851	61.3900
2011	15.5021	-	17.5669	6.0000	7.0000	46.0690	3.3076	7.6317	2.3851	59.3934
2012	13.6785	-	17.5669	6.0000	6.6500	43.8954	3.3076	7.6317	2.3851	57.2198
2013	13.6785	-	18.0000	6.0000	6.6500	44.3285	3.3076	7.4317	2.3851	57.4529
2014	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.4317	2.3851	59.2165
2015	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.3317	2.3851	59.1165
2016	13.6785	-	18.0000	6.0000	6.3000	43.9785	3.3076	7.6317	2.3851	57.3029
2017	15.4897	-	18.0000	6.0000	6.2000	45.6897	3.3076	8.1667	2.3851	59.5491
2018	15.4897	-	18.0000	6.0000	6.2000	45.6897	3.3076	8.7167	2.3851	60.0991
2019	15.4773	-	18.0000	6.0000	6.2000	45.6773	3.3076	8.7167	2.3851	60.0867

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



“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, as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated September 28, 2020. 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 of Gladstone’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

2020-001 Deficiency: Material audit adjustments were required to properly classify and record activity. This is a repeat deficiency.

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

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

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

City of Gladstone's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

September 28, 2020