

CITY OF GLADSTONE, MICHIGAN

BASIC FINANCIAL STATEMENTS

MARCH 31, 2013

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Gladstone, Michigan, as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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, 2013, 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2013, on our consideration of the City of Gladstone, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gladstone, Michigan's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Escanaba, Michigan

September 11, 2013

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, 2013. Please read it in conjunction with the City's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City's net position was reported at \$19,651,518. This is an increase of \$682,139 from March 31, 2012. This resulted from an increase in total assets of \$690,477 (or +3.0%) and an increase in liabilities of \$8,339 (+0.2%). The increase in net assets resulted primarily from a decrease in budgeted expenses. Net assets for our business-type activities were \$12,170,879, an increase of \$601,386 from 2012, while net assets in our governmental activities were \$7,480,639, an increase of \$80,753.
- The City's expenses for the year totaled \$9,450,273 an increase of \$1,580 over 2012. Revenue from all sources was \$10,132,412, a decrease of \$54,281 (+0.05%) from 2012.
- In the City's business type activities, total revenues were \$5,972,924 a decrease of 4.2% over the previous year. Business-type activity revenues decreased slightly as a percentage of total revenues at 59% for 2013 and 61% for 2012.
- In 2012 the City received a distribution from the Dr. Mary Cretens Trust in the amount of \$118,128, which was budgeted for expenditure in the 2012 fiscal year. In 2013 the City received \$162,841 from the Trust which was budgeted for expenditure in the 2014 fiscal year.
- The General Fund finished the year with a decrease in fund balance of \$40,464 and an ending fund balance of \$512,949. This was after revenues of \$2,313,371 compared to \$2,334,335 in 2012, and expenditures of \$2,692,196 compared to expenditures of \$2,547,727 in 2012, exclusive of other financing sources.

USING THIS REPORT

This annual report consists of financial statements. The Statement of Net Position and Statement of Activities (on pages 15 and 16) 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 17. 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 6. 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 assets 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, Harbor and Economic Development Corporation are reported here.

The City also presents the Gladstone Housing Commission, a legally separate component unit, separately from the financial information of the City. 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 10. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that the Commission is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

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

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 29. We exclude these funds from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The City as a Whole

The City's combined net position increased by \$682,139.

Table 1
Net Position

	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Current and other assets	\$ 2,379,017	\$ 2,173,998	\$ 6,250,360	\$ 5,351,773
Capital assets (net)	7,080,114	7,291,175	7,953,585	8,155,653
Total Assets	<u>9,459,131</u>	<u>9,465,173</u>	<u>14,203,945</u>	<u>13,507,426</u>
Long-term debt outstanding	988,678	1,113,372	1,357,568	1,381,476
Other liabilities	989,814	951,915	675,498	556,456
Total Liabilities	<u>1,978,492</u>	<u>2,065,287</u>	<u>2,033,066</u>	<u>1,937,932</u>
Net Assets:				
Invested in capital assets, net of related debt	6,091,436	6,177,803	6,596,017	6,774,177
Restricted assets:				
Expendable	1,110,608	763,427	-	-
Nonexpendable	252,693	247,904	-	-
Unrestricted	25,902	210,752	5,574,862	4,795,317
Total net assets	<u>\$ 7,480,639</u>	<u>\$ 7,399,886</u>	<u>\$ 12,170,879</u>	<u>\$ 11,569,494</u>

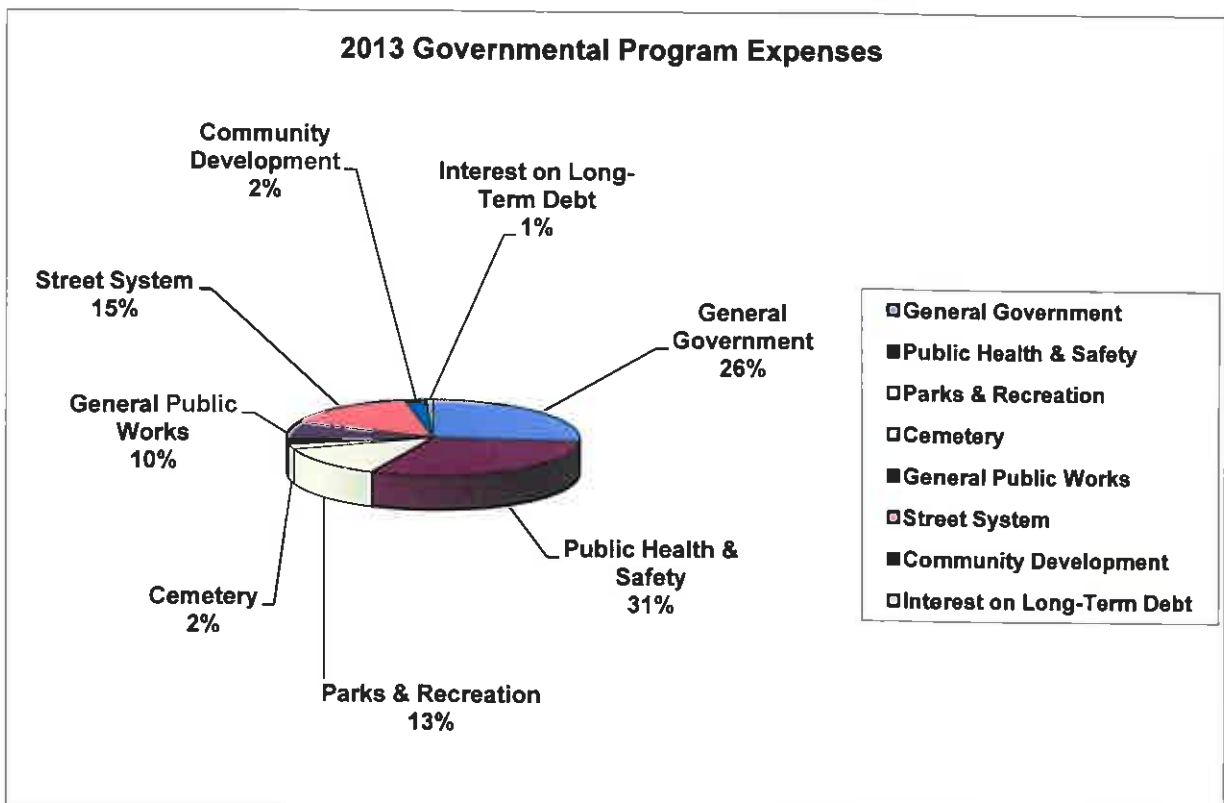
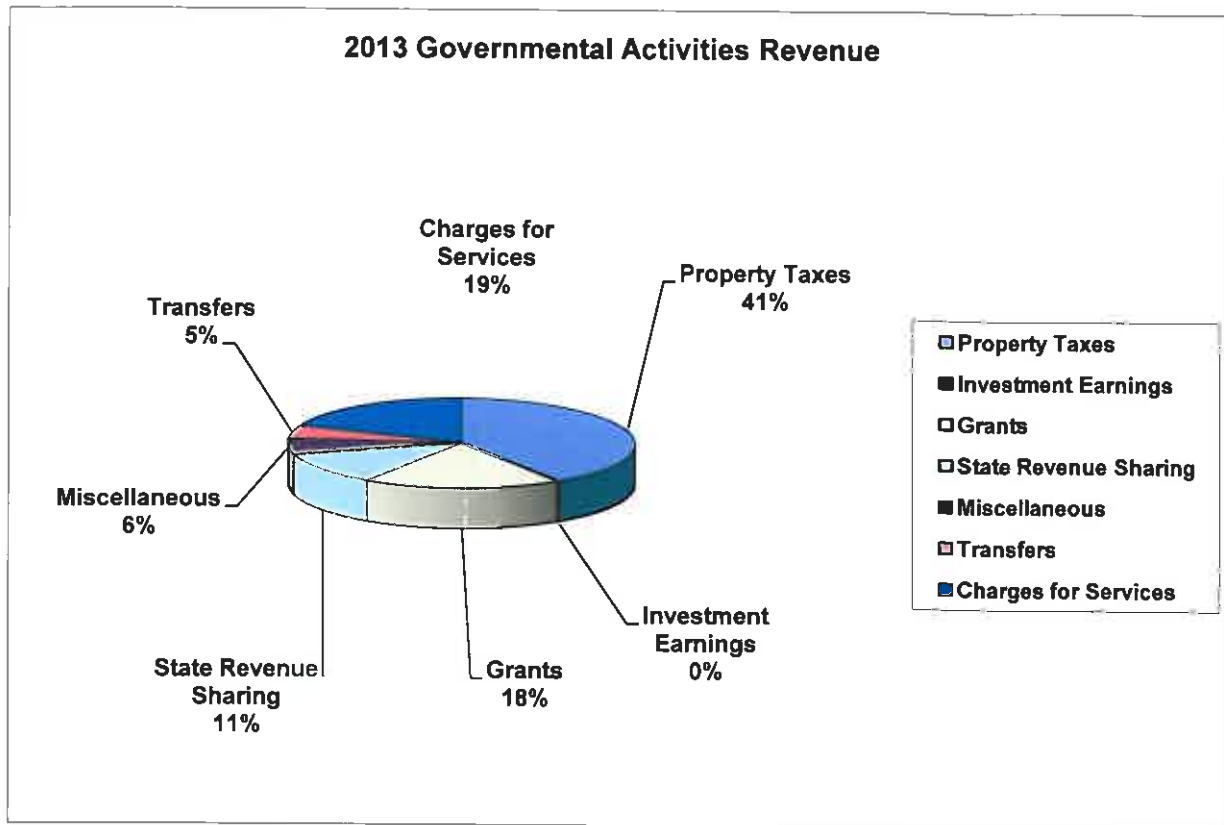
Net assets of the City's governmental activities stood at \$7,480,639, up from \$7,399,886 in 2012 (+1.0%). Total of the governmental activities assets decreased by 0.06%, and total liabilities decreased by 4.2%. The ratio of assets to liabilities increased from 4.58 in 2012 to 4.78 in 2013.

Net assets in our business-type activities stood at \$12,170,879, up from \$11,569,494 in 2012. Total assets increased to \$14,203,945 from \$13,507,426 in 2012, while liabilities also increased from \$1,937,932 in 2012 to \$2,033,066 in 2013 (+4.9%). Unrestricted net assets increased from \$4,795,317 to \$5,571,923, while the amount invested in capital assets (net of related debt) decreased from \$6,774,177 in 2012 to \$5,596,017 in 2013. In summary, the net position of the business lines became a little more liquid, but investments in infrastructure will pay dividends in the future.

Table 2
Changes in Net Position

Governmental Activities	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Revenues:				
Program Revenues:				
Charges for services	\$ 791,138	\$ 682,335	\$ 6,068,960	\$ 6,294,447
Operating grants	725,543	495,074	-	-
Capital grants	32,600	104,123	32,651	13,872
General Revenues:				
Property taxes	1,677,811	1,834,046	-	-
State revenue sharing	468,119	453,780	-	-
Unrestricted grants	5,246	5,237	-	-
Unrestricted investment earnings	13,436	17,645	68,033	71,246
Miscellaneous	243,780	203,610	-	-
Total Revenues	<u>3,957,673</u>	<u>3,795,850</u>	<u>6,169,644</u>	<u>6,379,565</u>
Program Expenses:				
General government	1,062,609	852,127	-	-
Public health & safety	1,253,696	1,252,534	-	-
Parks & recreation	521,897	521,639	-	-
Cemetery	86,991	65,467	-	-
General public works	394,758	495,911	-	-
Street system	629,755	624,203	-	-
Community development	97,323	179,695	-	-
Interest on long-term debt	28,767	28,918	-	-
Electric	-	-	3,925,856	3,995,140
Wastewater	-	-	754,675	804,437
Water	-	-	629,352	621,402
Harbor	-	-	51,960	-
Economic development	-	-	12,634	7,220
Total Expenses	<u>4,075,796</u>	<u>4,020,494</u>	<u>5,374,477</u>	<u>5,428,199</u>
Excess (deficiency) before transfers and contributions	(118,123)	(224,644)	795,167	951,366
Transfers	193,781	142,339	(193,781)	(142,339)
Contributions to permanent fund	<u>5,095</u>	<u>5,400</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	80,753	(76,905)	601,386	809,027
Net assets - beginning	<u>7,399,886</u>	<u>7,476,791</u>	<u>11,569,493</u>	<u>10,760,467</u>
Net assets - ending	<u>\$ 7,480,639</u>	<u>\$ 7,399,886</u>	<u>\$ 12,170,879</u>	<u>\$ 11,569,494</u>

Governmental Activities



The City's total revenues were \$10,129,473, down from \$10,180,815 in 2012 (a decrease of 0.05%). The cost of all programs and services was \$9,450,273, up from \$9,448,693 in 2012 (a slight increase). For 2012, there was an overall excess of revenues over expenses of \$679,200, compared to \$732,122 in 2012.

Governmental Activities

Revenues for the City's governmental activities totaled \$4,156,549, up 5.4% from \$3,943,589 in 2012. Expenses increased by 1.3% (\$55,302) with the largest increase (\$210,482) in general government.

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	
	2013	2012	2013	2012
Public health & safety	\$ 1,253,696	\$ 1,252,534	\$ 1,080,173	\$ 1,145,823
Street systems	629,755	624,203	166,928	74,073
Parks & recreation	521,897	521,639	359,333	315,569
General public works	394,758	495,911	(8,438)	258,352
General government	1,062,609	852,127	779,725	767,682
Totals	<u>\$ 3,862,715</u>	<u>\$ 3,746,414</u>	<u>\$ 2,377,721</u>	<u>\$ 2,561,499</u>

Business-Type Activities

Revenues for the City's business-type activities totaled \$5,975,863 down from \$6,237,226 in 2012 (-4.2%). The primary reason for the decrease in revenue can be tied to energy conservation. Business-type activity expenses increased by 1%.

THE CITY'S FUNDS

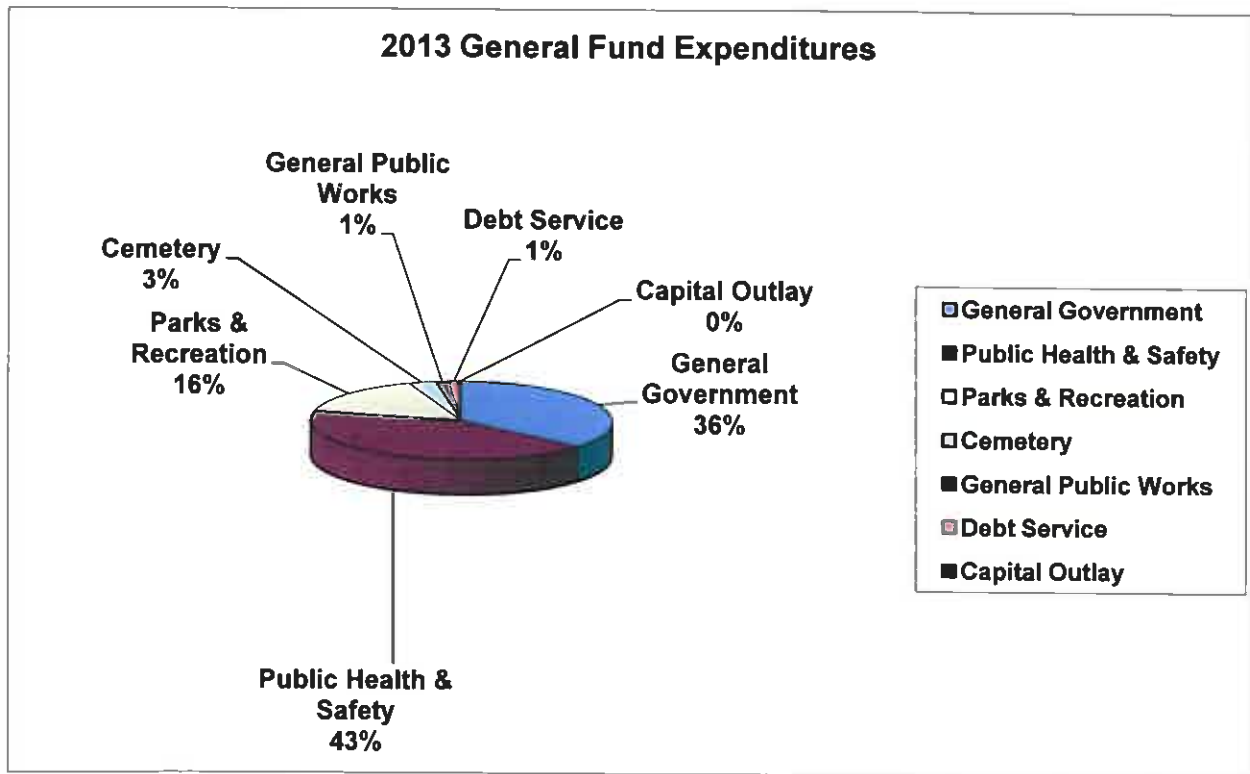
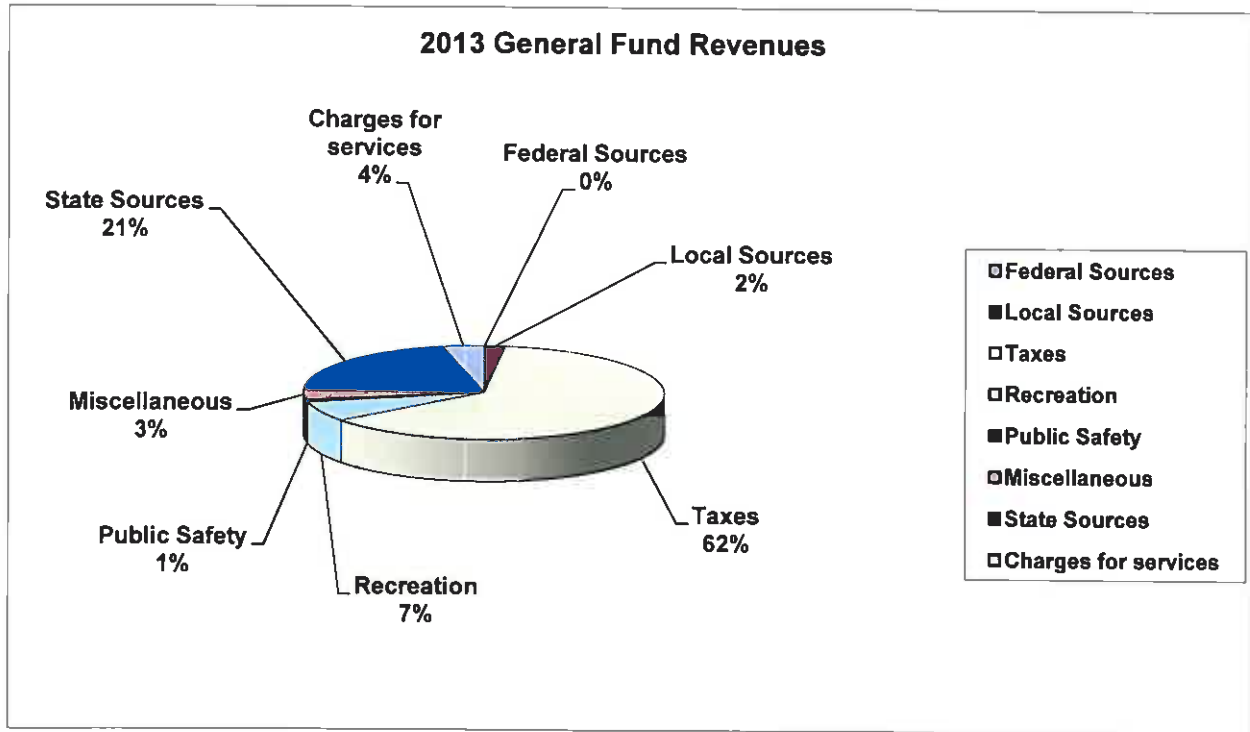
As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$2,012,385, an increase of \$433,164 from 2012. The combined increase in fund balance in large part comes from the street funds doing very little projects, trying to return to a positive fund balance in both major and local streets. The city needs to come up with a long term plan on how to fund street projects. The Public Works department has downsized through attrition, but will have to continue to pay the legacy costs for retiree health insurance. The solid waste fund balance increased by \$92,000 and no RLF loans this year also contributed to this.

General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenditures. The final revenue number of \$2,313,371 was less than the amended budget. Expenditures were less than the amended budget by \$173,980. The final expenditure number of \$2,692,196 was 1% lower than the revised expenditure estimate of \$2,866,176. Total expenses exceeded revenues by \$378,825 for the year.

The final revenue number was \$20,964 less than 2012 and expenditures were \$144,469 higher than 2012. The City received less in statutory sales tax, which is now the new EVIP program that the state has implemented. We received a waterways grant to install a new docking system in the harbor and in doing so, it was required that a separate harbor fund be created, pulling the harbor income out of the General Fund. On the expense side, increases in MERS retirement and healthcare are the major contributing factors to increased expenses.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2012, the City had \$15,033,699, 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 down from \$15,446,828 in 2012. (See table 4 below)

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

	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Land	\$ 1,619,627	\$ 1,619,627	\$ 236,513	\$ 236,513
Construction in progress	-	-	-	-
Land Improvements	124,232	132,927	-	-
Buildings	1,191,061	1,252,352	791,253	822,044
Machinery & Equipment	898,871	837,626	302,025	305,015
Infrastructure - Road System	2,184,215	2,320,826	-	-
Infrastructure - Other	1,062,108	1,127,817	-	-
Distribution/Collection System	-	-	6,623,794	6,792,081
Total	<u>\$ 7,080,114</u>	<u>\$ 7,291,175</u>	<u>\$ 7,953,585</u>	<u>\$ 8,155,653</u>

DEBT

At year-end the City had \$2,346,246 in bonds and notes outstanding. This is a net decrease of \$148,602 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 of \$1,035,013 is well below the 10% limit.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
General obligation bonds/ notes(backed by the City)	\$ 526,061	\$ 593,480	\$ 511,850	\$ 485,758	\$ 1,037,911	\$ 1,079,238
Internally financed notes	462,617	512,743	-	-	462,617	512,743
Revenue bonds and notes (backed by specific tax and fee revenues)	2,898	7,149	845,718	895,718	848,616	902,867
Totals	<u>\$ 991,576</u>	<u>\$ 1,113,372</u>	<u>\$ 1,357,568</u>	<u>\$ 1,381,476</u>	<u>\$ 2,349,144</u>	<u>\$ 2,494,848</u>

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 in the State's weak economic environment; the cost of doing business is still increasing sometimes beyond our control. Gladstone takes pride in being the "year round playground" and we will endeavor to maintain the services currently offered to our residents in the most efficient, cost effective manner to continue to make our City the community of choice in the Upper Peninsula.

The two largest sources of revenue for the General Fund, Taxes and State Shared Revenue, are expected to decline or at minimum stay flat for up to two more years. In the General Fund, we have been able to attain the commission directed new target of two months operating expenses of \$298,000. From \$30,000 negative fund balance in 2009 to a positive unassigned \$319,404 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 came a long way this year to improve the deficit balance. The lack of snow during the winter months in previous years really helped in both of these funds. The combined fund balance is \$208,875.

Business type activities budgets saw minimal rate increases. With these rate increases the city strives to maintain quality, yet affordable services to our community. The city will continue to 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, P.O. Box 32, Gladstone, Michigan, 49837.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
March 31, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,185,095	\$ 3,339,327	\$ 4,524,422	\$ 191,634
Receivables :				
Accounts	104,299	-	104,299	175
Utilities	-	1,310,724	1,310,724	-
Special assessments	1,796	-	1,796	-
Notes	18,119	62,078	80,197	-
Miscellaneous	25,395	29,698	55,093	-
Due from other governmental units	285,093	-	285,093	-
Prepaid expense	51,155	19,044	70,199	18,612
Inventory	-	217,578	217,578	-
Total current assets	<u>1,670,952</u>	<u>4,978,449</u>	<u>6,649,401</u>	<u>210,421</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	562,918	-	562,918	-
Investments	-	543,663	543,663	165,905
Notes receivable	145,147	503,684	648,831	-
Internal balances	-	224,564	224,564	-
Capital assets	22,137,389	18,698,189	40,835,578	5,051,029
Accumulated depreciation	(15,057,275)	(10,744,604)	(25,801,879)	(3,525,879)
Total noncurrent assets	<u>7,788,179</u>	<u>9,225,496</u>	<u>17,013,675</u>	<u>1,691,055</u>
Total assets	<u>\$ 9,459,131</u>	<u>\$ 14,203,945</u>	<u>\$ 23,663,076</u>	<u>\$ 1,901,476</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 20,711	\$ 138,686	\$ 159,397	\$ 80,992
Accrued payroll	61,814	33,715	95,529	7,144
Accrued interest	12,617	-	12,617	-
Customer deposits	-	77,000	77,000	9,765
Deferred revenue	6,440	10,956	17,396	9
Other liabilities	3,103	-	3,103	12,670
Compensated absences	29,532	26,322	55,854	4,098
Bonds payable	50,000	50,000	100,000	-
Notes payable	87,998	28,653	116,651	-
Total current liabilities	<u>272,215</u>	<u>365,332</u>	<u>637,547</u>	<u>114,678</u>
Noncurrent liabilities:				
Compensated absences	118,129	105,287	223,416	143
OPEB obligation	512,904	283,532	796,436	-
Internal balances	224,564	-	224,564	-
Bonds payable	420,000	795,718	1,215,718	-
Notes payable	430,680	483,197	913,877	-
Total noncurrent liabilities	<u>1,706,277</u>	<u>1,667,734</u>	<u>3,374,011</u>	<u>143</u>
Total liabilities	<u>\$ 1,978,492</u>	<u>\$ 2,033,066</u>	<u>\$ 4,011,558</u>	<u>\$ 114,821</u>
NET POSITION				
Invested in capital assets, net of related debt	\$ 6,091,436	\$ 6,596,017	\$ 12,687,453	\$ 1,525,150
Restricted for:				
Expendable	1,110,608	-	1,110,608	-
Nonexpendable	252,693	-	252,693	-
Unrestricted	<u>25,902</u>	<u>5,574,862</u>	<u>5,600,764</u>	<u>261,505</u>
Total net position	<u>\$ 7,480,639</u>	<u>\$ 12,170,879</u>	<u>\$ 19,651,518</u>	<u>\$ 1,786,655</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2013

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component Unit
					Primary Government		Total	
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities		
Primary governmental activities:								
General government:								
General government	\$ 1,062,609	\$ 80,788	\$ 179,671	\$ 22,425	\$ (779,725)	\$ -	\$ (779,725)	\$ -
Public health and safety	1,253,696	90,475	72,873	10,175	(1,080,173)	-	(1,080,173)	-
Parks and recreation	521,897	162,564	-	-	(359,333)	-	(359,333)	-
Cemetery	86,991	37,050	-	-	(49,941)	-	(49,941)	-
General public works	394,758	403,196	-	-	8,438	-	8,438	-
Street system	629,755	2,953	459,874	-	(166,928)	-	(166,928)	-
Community development	97,323	14,112	13,125	-	(70,086)	-	(70,086)	-
Interest on long-term debt	28,767	-	-	-	(28,767)	-	(28,767)	-
Total governmental activities	4,075,796	791,138	725,543	32,600	(2,526,515)	-	(2,526,515)	-
Business-type activities:								
Electric utility	3,925,856	4,348,751	-	177	-	423,072	423,072	-
Waste water utility	754,675	819,115	-	9,278	-	73,718	73,718	-
Water utility	629,352	830,648	-	6,805	-	208,101	208,101	-
Harbor	51,960	60,889	-	16,391	-	25,320	25,320	-
Economic development	12,634	9,557	-	-	-	(3,077)	(3,077)	-
Total business-type activities	5,374,477	6,068,960	-	32,651	-	727,134	727,134	-
Total primary government	\$ 9,450,273	\$ 6,860,098	\$ 725,543	\$ 65,251	(2,526,515)	727,134	(1,799,381)	-
Component unit:								
Housing commission	\$ 664,385	\$ 346,589	\$ 145,943	\$ 96,752	-	-	-	(75,101)
General revenues:								
Property taxes					1,677,811	-	1,677,811	-
State revenue sharing					468,119	-	468,119	-
Grants and contributions not restricted to specific programs					5,246	-	5,246	-
Contributions to permanent fund					5,095	-	5,095	-
Unrestricted investment earnings					13,436	68,033	81,469	2,198
Miscellaneous					243,780	-	243,780	2,131
Transfers					193,781	(193,781)	-	-
Total general revenues and transfers					2,607,268	(125,748)	2,481,520	4,329
Changes in net position					80,753	601,386	682,139	(70,772)
Net position - beginning					7,399,886	11,569,493	18,969,379	1,857,427
Net position - ending					\$ 7,480,639	\$ 12,170,879	\$ 19,651,518	\$ 1,786,655

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2013

	<u>General</u>	<u>Solid Waste</u>	<u>Revolving Loan</u>
ASSETS			
Cash and equivalents:			
Restricted	\$ -	\$ -	\$ -
Unrestricted	490,384	14,295	218,613
Receivables:			
Accounts	22,500	78,227	-
Special assessments	-	-	-
Notes	-	-	163,266
Miscellaneous	25,395	-	-
Due from other governmental units	180,147	-	-
Prepaid expenditures	45,689	871	-
	<u>764,115</u>	<u>93,393</u>	<u>381,879</u>
Total assets	<u>\$ 764,115</u>	<u>\$ 93,393</u>	<u>\$ 381,879</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 10,759	\$ 168	\$ -
Accrued payroll	49,702	2,066	-
Due to other funds	158,662	-	-
Due to other governmental units	-	-	-
Deferred revenue	28,940	-	163,266
Other liabilities	3,103	-	-
	<u>251,166</u>	<u>2,234</u>	<u>163,266</u>
Total liabilities	<u>251,166</u>	<u>2,234</u>	<u>163,266</u>
Fund balances:			
Nonspendable	45,689	871	-
Restricted	-	-	218,613
Committed	147,856	90,288	-
Assigned	-	-	-
Unassigned	319,404	-	-
	<u>512,949</u>	<u>91,159</u>	<u>218,613</u>
Total fund balances	<u>512,949</u>	<u>91,159</u>	<u>218,613</u>
Total liabilities and fund balances	<u>\$ 764,115</u>	<u>\$ 93,393</u>	<u>\$ 381,879</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 562,918	\$ 562,918
589,688	1,312,980
3,572	104,299
1,796	1,796
-	163,266
-	25,395
104,946	285,093
1,768	48,328
<u>\$ 1,264,688</u>	<u>\$ 2,504,075</u>

\$ 2,255	\$ 13,182
6,867	58,635
65,902	224,564
-	-
-	192,206
-	3,103
<u>75,024</u>	<u>491,690</u>

254,461	301,021
891,995	1,110,608
43,208	281,352
-	-
-	319,404
<u>1,189,664</u>	<u>2,012,385</u>
<u>\$ 1,264,688</u>	<u>\$ 2,504,075</u>

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
March 31, 2013

Total fund balances for governmental funds	\$ 2,012,385
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Total net assets reported for governmental activities in the statement of net assets 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	\$ 20,187,499	
Accumulated depreciation	(13,495,273)	
Total capital assets		6,692,226

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

41,366

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 assets.

Accrued interest on long-term debt	\$ (12,617)	
Bonds payable	(470,000)	
Notes payable	(339,779)	
OPEB obligation	(481,047)	
Compensated absences	(147,661)	(1,451,104)

A prepaid debt service payment which was recorded as a prepaid expense in the fund financial statements, has been shown as a reduction in the outstanding debt balance.

Deferred revenue reported as a liability on the balance sheet of the fund financial statements and has been recognized as revenue in the statement of activities have been removed from the statement of net assets.

185,766

Total net position of governmental activities	<u><u>\$ 7,480,639</u></u>
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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, 2013

	General Fund	Solid Waste	Revolving Loan
REVENUES:			
Federal sources	\$ -	\$ -	\$ -
State sources	475,740	-	-
Local sources	42,902	-	-
Taxes	1,442,455	-	-
Charges for services	84,562	397,978	-
Recreation	158,790	-	-
Public safety	17,693	-	-
Loan repayment	-	-	94,714
Lease income	-	-	-
Interest income	5,976	-	13,579
Miscellaneous	85,253	5,218	-
	<u>2,313,371</u>	<u>403,196</u>	<u>108,293</u>
Total revenues			
EXPENDITURES:			
General government	969,107	-	-
Public health and safety	1,152,522	-	-
Parks and recreation	419,433	-	-
Cemetery	76,327	-	-
General public works	41,278	252,477	-
Street system	-	-	-
Community development	-	-	2,027
Capital outlay	8,047	-	-
Debt service:			
Principal	22,441	11,094	-
Interest and other charges	3,041	2,325	-
	<u>2,692,196</u>	<u>265,896</u>	<u>2,027</u>
Total expenditures			
Excess revenues (expenditures)	<u>(378,825)</u>	<u>137,300</u>	<u>106,266</u>
OTHER FINANCING SOURCES (USES):			
Loan proceeds	-	-	-
Transfers in	355,183	-	-
Transfers out	(16,822)	(45,254)	-
	<u>338,361</u>	<u>(45,254)</u>	<u>-</u>
Total other financing sources (uses)			
Net changes in fund balances	(40,464)	92,046	106,266
Fund balances - beginning	553,413	(887)	112,347
Fund balances - ending	<u>\$ 512,949</u>	<u>\$ 91,159</u>	<u>\$ 218,613</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 54,553	\$ 54,553
459,874	935,614
236,186	279,088
235,356	1,677,811
-	482,540
-	158,790
-	17,693
-	94,714
69,625	69,625
7,460	27,015
144,264	234,735
1,207,318	4,032,178
-	969,107
64,189	1,216,711
-	419,433
270	76,597
-	293,755
406,074	406,074
94,357	96,384
241,011	249,058
45,000	78,535
24,625	29,991
875,526	3,835,645
331,792	196,533
47,350	47,350
115,670	470,853
(219,496)	(281,572)
(56,476)	236,631
275,316	433,164
914,348	1,579,221
\$ 1,189,664	\$ 2,012,385

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, 2013

Net changes in fund balances - total governmental funds	\$ 433,164
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$208,235) were exceeded by depreciation expense (\$340,897)	(132,662)
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An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities.	(161,626)
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Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:

Bond principal	45,000	
Note principal	84,574	129,574

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities.	(97,699)
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Remove loan proceeds recorded as revenue in the fund financial statements	(47,350)
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Net book value of assets transferred from internal service fund	32,910
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Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	9,018	
OPEB obligation	(85,800)	
Accrued interest on bonds	1,224	(75,558)

Changes in net position of governmental activities	\$ 80,753
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See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
March 31, 2013

	Electric Utility	Waste Water Utility	Water Utility
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,332,744	\$ 402,291	\$ 507,975
Receivables:			
Utilities	964,690	214,952	131,082
Special assessments	-	-	-
Notes	49,937	-	-
Miscellaneous	-	16,486	12,459
Prepaid expense	8,330	5,893	4,821
Inventory	217,578	-	-
Total current assets	<u>3,573,279</u>	<u>639,622</u>	<u>656,337</u>
Noncurrent assets:			
Investments	543,663	-	-
Notes receivable	412,680	-	-
Due from other funds	224,564	-	-
Capital assets	8,373,414	5,362,690	4,805,212
Less accumulated depreciation	(4,195,052)	(2,832,603)	(3,601,381)
Total noncurrent assets	<u>5,359,269</u>	<u>2,530,087</u>	<u>1,203,831</u>
Total assets	<u><u>\$ 8,932,548</u></u>	<u><u>\$ 3,169,709</u></u>	<u><u>\$ 1,860,168</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 40,995	\$ 89,520	\$ 8,171
Accrued payroll	15,047	9,818	8,850
Customer deposits	77,000	-	-
Compensated absences	11,098	6,293	8,931
Deferred revenue	-	-	-
Bonds payable	-	50,000	-
Notes payable	25,755	2,898	-
Total current liabilities	<u>169,895</u>	<u>158,529</u>	<u>25,952</u>
Noncurrent liabilities:			
Due to other funds	-	-	-
Compensated absences	44,390	25,171	35,726
OPEB obligation	112,298	89,997	81,237
Bonds payable	-	795,718	-
Notes payable	483,197	-	-
Total noncurrent liabilities	<u>639,885</u>	<u>910,886</u>	<u>116,963</u>
Total liabilities	<u><u>\$ 809,780</u></u>	<u><u>\$ 1,069,415</u></u>	<u><u>\$ 142,915</u></u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 3,669,410	\$ 1,681,471	\$ 1,203,831
Unrestricted	<u>4,453,358</u>	<u>418,823</u>	<u>513,422</u>
Total net position	<u><u>\$ 8,122,768</u></u>	<u><u>\$ 2,100,294</u></u>	<u><u>\$ 1,717,253</u></u>

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 96,317	\$ 3,339,327	\$ (127,885)
-	1,310,724	-
-	-	-
12,141	62,078	-
753	29,698	-
-	19,044	2,827
-	217,578	-
<u>109,211</u>	<u>4,978,449</u>	<u>(125,058)</u>
-	543,663	-
91,004	503,684	-
-	224,564	-
156,873	18,698,189	1,949,890
<u>(115,568)</u>	<u>(10,744,604)</u>	<u>(1,562,002)</u>
<u>132,309</u>	<u>9,225,496</u>	<u>387,888</u>
<u>\$ 241,520</u>	<u>\$ 14,203,945</u>	<u>\$ 262,830</u>
\$ -	\$ 138,686	\$ 7,529
-	33,715	3,179
-	77,000	-
-	26,322	-
10,956	10,956	-
-	50,000	-
-	28,653	18,327
<u>10,956</u>	<u>365,332</u>	<u>29,035</u>
-	-	-
-	105,287	-
-	283,532	31,857
-	795,718	-
-	483,197	160,572
<u>-</u>	<u>1,667,734</u>	<u>192,429</u>
<u>\$ 10,956</u>	<u>\$ 2,033,066</u>	<u>\$ 221,464</u>
\$ 41,305	\$ 6,596,017	\$ 208,989
<u>189,259</u>	<u>5,574,862</u>	<u>(167,623)</u>
<u>\$ 230,564</u>	<u>\$ 12,170,879</u>	<u>\$ 41,366</u>

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended March 31, 2013

	Electric Utility	Waste Water Utility	Water Utility
OPERATING REVENUES:			
Charges for services	\$ 4,134,892	\$ 775,851	\$ 791,787
Miscellaneous	213,859	43,264	38,861
Total operating revenue	4,348,751	819,115	830,648
OPERATING EXPENSES:			
Salaries and fringes	588,231	362,337	317,292
Supplies	73,064	43,972	61,329
Contracted services	131,515	92,463	38,892
Repairs and maintenance	102	10,910	16,005
Utilities	17,441	42,595	55,171
Purchased power	2,696,432	-	-
Rent	3,073	10,512	2,526
Memberships and dues	5,724	4,224	680
Travel	1,060	215	346
Insurance	24,367	11,752	12,492
Education and training	35,901	3,211	4,529
In lieu of taxes	52,030	31,290	29,720
Energy optimization program	81,225	-	-
Depreciation	181,914	118,824	82,166
Miscellaneous	5,957	3,989	8,204
Total operating expenses	3,898,036	736,294	629,352
Operating income (loss)	450,715	82,821	201,296
NONOPERATING REVENUES (EXPENSES):			
Interest income	61,261	3,063	3,232
Interest expense	(27,820)	(13,565)	-
Total nonoperating revenue (expense)	33,441	(10,502)	3,232
Income (loss) before transfers, contributions and special items	484,156	72,319	204,528
Gain/(loss) on asset disposal	-	(4,816)	-
Capital contributions	177	9,278	6,805
Transfer in	-	-	-
Transfer out	(135,851)	(28,430)	(25,500)
Change in net position	348,482	48,351	185,833
Total net position - beginning	7,774,286	2,051,943	1,531,420
Total net position - ending	\$ 8,122,768	\$ 2,100,294	\$ 1,717,253

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 60,599	\$ 5,763,129	\$ 260,074
9,847	305,831	24,695
70,446	6,068,960	284,769
13,678	1,281,538	177,372
14,597	192,962	78,512
21,001	283,871	23,128
369	27,386	54,732
3,813	119,020	10,199
-	2,696,432	-
1,267	17,378	113
-	10,628	-
-	1,621	-
1,286	49,897	5,852
-	43,641	10
-	113,040	9,680
-	81,225	-
4,831	387,735	48,234
3,752	21,902	492
64,594	5,328,276	408,324
5,852	740,684	(123,555)
477	68,033	79
-	(41,385)	(3,767)
477	26,648	(3,688)
6,329	767,332	(127,243)
-	(4,816)	(38,883)
16,391	32,651	-
-	-	9,500
(4,000)	(193,781)	(5,000)
18,720	601,386	(161,626)
211,844	11,569,493	202,992
\$ 230,564	\$ 12,170,879	\$ 41,366

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2013

	Electric Utility	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 4,271,063	\$ 755,581	\$ 774,959
Cash receipts from interfund services provided	-	-	-
Payments to suppliers	(3,075,260)	(227,488)	(206,701)
Payments for wages and related benefits	(561,185)	(343,852)	(301,819)
Cash paid for interfund services used	(52,030)	(31,290)	(29,720)
Other receipts (payments)	3,480	43,264	38,861
Net cash provided (used) by operating activities	586,068	196,215	275,580
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(135,851)	(28,430)	(25,500)
Interfund loan (net)	50,133	-	-
Cash received (paid) on customer deposits	26,531	-	-
Net cash provided (used) by noncapital financing activities	(59,187)	(28,430)	(25,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	(109,561)	(19,872)	(26,067)
Principal paid on debt instruments	(24,155)	(54,251)	-
Interest paid on debt instruments	(27,820)	(13,565)	-
Loan proceeds	47,350	-	-
Proceed from sale of capital assets	-	-	-
Capital contributions	177	-	4,639
Net cash provided (used) by capital and related financing activities	(114,009)	(87,688)	(21,428)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net transfers from/(to) investments	80,389	-	-
Interest earnings	61,254	3,063	3,232
Net cash provided (used) by investing activities	141,643	3,063	3,232
Net increase (decrease) in cash and equivalents	554,515	83,160	231,884
Cash and equivalents, beginning of year	1,778,229	319,131	276,091
Cash and equivalents, end of year	\$ 2,332,744	\$ 402,291	\$ 507,975
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 450,715	\$ 82,821	\$ 201,296
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	181,914	118,824	82,166
Changes in assets and liabilities:			
(Increase) decrease in receivables	(77,688)	(20,270)	(16,828)
(Increase) decrease in due from other funds	3,480	-	-
(Increase) decrease in prepaid expense	(7,806)	(5,893)	(4,297)
(Increase) decrease in inventory	(13,646)	-	-
Increase (decrease) in accounts payable	22,053	2,248	(2,230)
Increase (decrease) in accrued payroll	7,016	2,433	983
Increase (decrease) in OPEB liability	20,030	16,052	14,490
Increase (decrease) in due to other funds	-	-	-
Increase (decrease) in deferred revenue	-	-	-
Net cash provided by operating activities	\$ 586,068	\$ 196,215	\$ 275,580

See accompanying notes to financial statements.

Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 146,830	\$ 5,948,433	\$ -
-	-	260,074
(47,606)	(3,557,055)	(174,087)
(13,678)	(1,220,534)	(171,505)
-	(113,040)	(9,680)
(3,480)	82,125	24,695
<u>82,066</u>	<u>1,139,929</u>	<u>(70,503)</u>
(4,000)	(193,781)	4,500
-	50,133	-
-	26,531	-
<u>(4,000)</u>	<u>(117,117)</u>	<u>4,500</u>
-	(155,500)	-
-	(78,406)	(17,972)
-	(41,385)	(3,767)
-	47,350	-
-	-	-
-	4,816	-
<u>-</u>	<u>(223,125)</u>	<u>(21,739)</u>
-	80,389	-
477	68,026	79
<u>477</u>	<u>148,415</u>	<u>79</u>
78,543	948,102	(87,663)
-	-	-
17,774	2,391,225	(40,222)
<u>\$ 96,317</u>	<u>\$ 3,339,327</u>	<u>\$ (127,885)</u>
\$ 5,852	\$ 740,684	\$ (123,555)
4,831	387,735	48,234
65,427	(49,359)	-
-	3,480	-
-	(17,996)	(2,302)
-	(13,646)	-
(1,520)	20,551	1,253
-	10,432	185
-	50,572	5,682
(3,480)	(3,480)	-
10,956	10,956	-
<u>\$ 82,066</u>	<u>\$ 1,139,929</u>	<u>\$ (70,503)</u>

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
March 31, 2013

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 18,813
Receivables:	
Delinquent taxes	<u>95,075</u>
Total assets	<u><u>\$ 113,888</u></u>
LIABILITIES	
Due to other governmental units	<u><u>\$ 113,888</u></u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) REPORTING ENTITY

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

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services.

Component Units – 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.

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 O for additional information.

Delta Solid Waste Management Authority
1100 Delta Avenue
Gladstone, MI 49837

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

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

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

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
2. Total assets, liabilities, 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 Solid Waste Fund which is used to account for garbage collection activities

The Revolving Loan Fund which accounts for activity relating to loans made to local business.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Proprietary Funds

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

Internal Service Fund – The Internal Service Fund is 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 Equipment Fund is the City's only internal service fund and is included with the governmental activities and accounts for equipment usage activity used by various City departments.

Fiduciary Funds

Agency Fund - The Tax Fund is the City's only agency fund and is used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 assets, 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. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

As allowed by GASB Statement No. 20, the City has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds.

(4) ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Position are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less or where there is no loss of principal upon early withdrawal.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. The City has not recorded an allowance for uncollectables as the City does not anticipate any material uncollectable accounts.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Inventory – Materials inventory in the Electric Utility Fund and supplies inventory in the General Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

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

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

Fund Financial Statements

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$28,940 in the General Fund for prepaid service revenue and the sale of city residential lots and advanced revenue collections and \$163,266 in the Revolving Loan Fund for long-term contracts receivable. These amounts have been deemed measurable, but not currently available.
- j. Equity Classification

Government-Wide Statements

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

Fund Statements

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

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriated opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

(5) REVENUES AND EXPENDITURES/EXPENSES

Revenues

Government-Wide Statements

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and 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, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Other Financing Sources (Uses)

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

(6) OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Property Taxes

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE

Budget Violations – Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The General Fund had several activities where expenditures exceeded the budgeted amounts.

- (1) The following funds had deficit unassigned fund balances/unrestricted net assets:

Proprietary funds:

Equipment Fund	\$ 167,623
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Public Act 140 of 1971, as amended and Public Act 34 of 2001, as amended, requires the City to file a deficit elimination plan with the Department of Treasury for the fund deficits listed above.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS

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

Imprest Cash		\$	840
Deposits:			
Checking accounts	\$	4,708,114	
Savings		112,599	
Certificate of Deposit		<u>284,600</u>	<u>5,105,313</u>
Total cash and equivalents		\$	<u><u>5,106,153</u></u>

Government-wide Statement of
Net Assets Presentation:

Unrestricted	\$	4,524,422	
Restricted		<u>562,918</u>	\$ <u>5,087,340</u>

Statement of Fiduciary Net Assets		<u>18,813</u>
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Total cash and equivalents	\$	<u><u>5,106,153</u></u>
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Investments:

U.S. government agency securities	\$	250,383
Upper Peninsula Public Power Agency		<u>293,280</u>
Total investments	\$	<u><u>543,663</u></u>

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE C – 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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

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

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 647,199	\$ 647,199
Uninsured	4,513,666	4,458,954
Total	<u>\$ 5,160,865</u>	<u>\$ 5,106,153</u>

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As noted in the preceding table, the City has \$4,513,666 of bank deposits that were uninsured and uncollateralized.

Custodial Credit Risk of Investments

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

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 250,383	Counter party

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Interest Rate Risk

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

<u>Investments</u>	<u>Fair Value</u>	<u>Maturities</u>
U.S. government and agency securities:		
Federal National Mortgage Assn Notes	\$ 250,383	6/28/2018

Credit Risk

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$ 250,383	AA+	S & P

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$252,768 for cemetery care as required by the nature of the fund.
2. The Mary Cretens Trust Fund in the amount of \$310,150 for community maintenance and improvements as required by the nature of the fund.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

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 contributed \$266,183 in cash and \$27,097 in equipment for a total investment of \$293,280. Neither UPPPA or ATC are publicly traded companies, therefore, the City has recorded this investment at cost, which the City feels approximates market value given the annual return on this investment.

NOTE D – PROPERTY TAXES

(1) Tax information:

Assessment Date. December 31

Taxes payable July 10

Taxes Delinquent March 1 following date payable

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

On August 15, a 4% penalty is added.

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE D – PROPERTY TAXES (continued)

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE D – PROPERTY TAXES (continued)

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.

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE D – PROPERTY TAXES (continued)

Year	City Tax	School *	Schools			Total	Community College	County Taxes	I.S.D.	Total
			Non-Homestead	State	Debt	Local Taxes				
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	2.3735	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
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

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

(4) City's Share of Current Property Taxes – The City's share of current real and personal property taxes for the year ended March 31, 2013 were as follows: General Fund \$1,221,349 and the DDA Fund capture from the summer and winter levy's was \$235,356.

NOTE E – LONG-TERM RECEIVABLES

Governmental Activities:

Revolving Loan Fund – The City has received various grants from the State of Michigan Small Cities Grant Program which it has loaned to local businesses on installment contracts for building and equipment acquisition. The primary purpose for the loans was job retention and creation within the City.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE E – LONG-TERM RECEIVABLES (continued)

The Revolving Loan Fund has recorded as deferred revenue the amount of the loans in the fund financial statements. As the contract payments are received by the Revolving Loan Fund, they will be shown as revenues in accordance with generally accepted accounting principles.

In the statement of net position the deferred revenue has been eliminated. Remaining principal payments to be received as of March 31, 2013 are as follows:

Year Ending March 31	Amount
2014	\$ 18,119
2015	12,141
2016	13,007
2017	13,970
2018	12,458
Thereafter	93,571
Total	<u>\$ 163,266</u>

The General Fund has also recorded accounts receivable in the amount of \$22,500 for the sale of residential lots.

Business-Type Activities:

The Economic Development Corporation has made loans to various local businesses to assist in capital asset acquisitions or for operational needs. Remaining principal payments to be received as of March 31, 2013 are as follows:

Year Ending March 31	Amount
2014	\$ 62,078
2015	63,953
2016	65,944
2017	67,191
2018	68,611
Thereafter	235,046
Total	<u>\$ 562,823</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE E – LONG-TERM RECEIVABLES (continued)

In 2011, the City refinanced two governmental activities notes payable from financial institutions through the Electric Fund and also financed the purchase of garbage collection equipment in 2012 through the Electric Fund and they are included in the schedule above. The terms of the note receivable to the Electric Fund are the same as listed in Note J.

NOTE F – CAPITAL ASSETS

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended March 31, 2013, was as follows:

	Balance at April 1, 2012	Additions	Transfers/ Disposals	Balance at March 31, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,619,627	\$ -	\$ -	\$ 1,619,627
Construction in progress	-	-	-	-
Total non-depreciable capital assets	<u>1,619,627</u>	<u>-</u>	<u>-</u>	<u>1,619,627</u>
Capital assets being depreciated:				
Land improvements	279,948	-	-	279,948
Buildings	3,038,862	-	39,488	2,999,374
Machinery and equipment	3,216,863	188,135	-	3,404,998
Infrastructure-road system	12,317,463	20,100	97,908	12,239,655
Infrastructure-other	1,593,787	-	-	1,593,787
Total depreciable capital assets	<u>20,446,923</u>	<u>208,235</u>	<u>137,396</u>	<u>20,517,762</u>
Total capital assets	<u>22,066,550</u>	<u>208,235</u>	<u>137,396</u>	<u>22,137,389</u>
Less accumulated depreciation on:				
Land improvements	147,020	8,695	-	155,715
Buildings	1,786,511	50,693	28,891	1,808,313
Machinery and equipment	2,434,427	103,644	78,339	2,459,732
Infrastructure-road system	9,996,634	156,710	-	10,153,344
Infrastructure-other	410,783	69,388	-	480,171
Total accumulated depreciation	<u>14,775,375</u>	<u>389,130</u>	<u>107,230</u>	<u>15,057,275</u>
Net depreciable capital assets	<u>5,671,548</u>	<u>(180,895)</u>	<u>30,166</u>	<u>5,460,487</u>
Governmental activities capital assets, net	<u>\$ 7,291,175</u>	<u>\$ (180,895)</u>	<u>\$ 30,166</u>	<u>\$ 7,080,114</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE F – CAPITAL ASSETS (continued)

	Balance at April 1, 2012	Transfers/ Additions	Transfers/ Disposals	Balance at March 31, 2013
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 236,513	\$ -	\$ -	\$ 236,513
Construction in progress	-	-	-	-
Total non-depreciable capital assets	<u>236,513</u>	<u>-</u>	<u>-</u>	<u>236,513</u>
Capital assets being depreciated:				
Buildings	1,013,724	39,489	-	1,053,213
Machinery and equipment	776,088	126,594	8,238	894,444
Distribution/collection system	16,389,479	126,812	2,272	16,514,019
Total depreciable capital assets	<u>18,179,291</u>	<u>292,895</u>	<u>10,510</u>	<u>18,461,676</u>
Total capital assets	<u>18,415,804</u>	<u>292,895</u>	<u>10,510</u>	<u>18,698,189</u>
Less accumulated depreciation:				
Buildings	191,680	70,280	-	261,960
Machinery and equipment	469,462	131,197	8,238	592,421
Distribution/collection system	9,599,009	293,486	2,272	9,890,223
Total accumulated depreciation	<u>10,260,151</u>	<u>494,963</u>	<u>10,510</u>	<u>10,744,604</u>
Net depreciable capital assets	<u>7,919,140</u>	<u>(202,068)</u>	<u>-</u>	<u>7,717,072</u>
Business-type activities capital assets, net	<u>\$ 8,155,653</u>	<u>\$ (202,068)</u>	<u>\$ -</u>	<u>\$ 7,953,585</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
General government	\$ 12,096
Public health and safety	45,348
Parks and recreation	99,736
Cemetery	328
General public works	19,153
Internal service activity	48,234
Street system	164,236
Total governmental activities depreciation expense	<u>\$ 389,131</u>
Business-type activities:	
Electric	\$ 181,914
Water	118,824
Waste water	82,166
Harbor	3,784
Development	1,047
Total business-type activities depreciation expense	<u>\$ 387,735</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE F – CAPITAL ASSETS (continued)

In 2013, the City reallocated fixed assets between governmental activities and business-type activities. The primary transfer was for assets related to the Harbor fund, which is a new enterprise fund in 2013 and the net book value of those transferred assets was \$12,607. Also in 2013 the City elected to transfer assets out of the Equipment Fund (an internal service fund) to governmental activities and to certain enterprise funds. The net book value of these transfers was approximately \$33,000.

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$2,000 or more as of March 31, 2002. In prior years, the City capitalized fixed assets with a value of \$500 or more.

NOTE G – RETIREMENT PLANS

MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM

(1) Plan Description – The City of Gladstone participates in a defined benefit noncontributory retirement plan administered by the Municipal Employee's Retirement System (MERS) which covers substantially all full-time employees. MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. All full-time employees of the City are eligible to participate in the system that were hired prior to December 1, 1997. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851, MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

The information that follows is based upon the December 31, 2012 actuarial valuation report.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE G – RETIREMENT PLANS (continued)

There are three valuation divisions within the plan which provide different benefit provisions. The General Other division, which covers the non-supervisory employees of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after age 55 with 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final five-year average compensation. Employee's in this division are required to contribute 1% of pay.

The Police-Fire division, which covers the police and fire personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final three-year average compensation with a maximum benefit of 80 percent of a member's final three-year average compensation. Employee's in this division are required to contribute 1% of pay.

The General Supervisor division, which covers the supervisory personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after the age of 55 with 20 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final three-year average compensation, with a maximum benefit of 80 percent of the member's final three-year average compensation.

As of December 1, 1997, all new hires which are part of the General Other and General Supervisor divisions are not covered under the defined benefit plans noted above, they are part of a separate defined contribution plan. During fiscal year 2009, the City elected to close the Police-Fire group to new hires and all new hires will be covered by a defined contribution plan.

All three valuation divisions adopted the Benefit E which provides a onetime benefit increase to present retirees and beneficiaries. The amount of the increase is equal to 2 percent of the present benefit times the number of years since the later of retirement or the last Benefit E increase.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE G – RETIREMENT PLANS (continued)

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2012. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 13.0% per year, depending on age, attributable to seniority/merit. For calendar years 2013, 2014, 2015 and 2016 the wage inflation assumption is 1%, 1%, 2% and 3%, respectively, instead of 4.5%. This assumption was first used for the December 31, 2012 actuarial valuations. For the 2012 valuation, a 6% final average compensation (FAC) increase assumption was used for all divisions and was used to account for higher than normal FAC for employees at retirement.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2012 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (AS OF 12/31/12)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 7,863,815
Terminated employees not yet receiving benefits	120,087
Current Employees:	
Accumulated employee contributions including allocated investment income	9,485
Employer financed	<u>3,591,590</u>
Total actuarial liability	11,584,977
Net assets available for benefits, at actuarial value (market value is \$5,142,604)	<u>5,880,892</u>
Unfunded (overfunded) actuarial accrued liability	<u><u>\$ 5,704,085</u></u>

GASB 27 INFORMATION (AS OF 12/31/12)

Fiscal year beginning	April 1, 2014
Annual required contribution (ARC)	\$ 620,568
Amortization factor used - underfunded liabilities (30 year level \$)	0.085453

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE G – RETIREMENT PLANS (continued)

Funding Policy – For the year ended March 31, 2013, the City was required to contribute for the Police-Fire, General Other and General Supervisors divisions a monthly amount of \$14,000, \$12,025 and \$19,608, respectively, due to the fact that those groups were closed to new hires. During 2013, employee contributions were required for the Police-Fire and General Other groups.

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2012 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities were amortized over 12 years for the General Other and General Supervisors groups and 15 years for the Police-Fire group. The following table provides a schedule of contribution amounts and percentages for recent years.

<u>Year Ended March 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	\$ 371,431	100%	\$ -
2011	426,336	100%	-
2012	488,636	100%	-

The City was required to contribute \$547,596 for the year ended March 31, 2013. Payments were based on contribution calculations made by MERS. Employee contributions for 2013 amounted to \$6,498.

Aggregate Accrued Liabilities – Comparative Schedule

<u>Actuarial Valuation Date December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2010	\$ 5,952,408	\$ 11,164,862	\$ 5,212,454	53%	\$ 831,332	627%
2011	5,894,813	11,437,934	5,543,121	52%	823,644	673%
2012	5,880,892	11,584,977	5,704,085	51%	811,392	703%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE G – RETIREMENT PLANS (continued)

Actuarial assumptions for MERS valuations were revised for the 2000, 2004, 2008, 2009, 2010, 2011 and 2012 valuations.

401 (A) RETIREMENT PLAN

During the year ended March 31, 1998, the City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by the International City/County Management Association. Employees who are hired after December 1, 1997, with the exception of the employees who are members of the POLC union, are eligible to participate in the plan, which requires the City to contribute 8% of the employee's gross wage to the plan. In fiscal year 2010, all new hires of the POLC union are also included in this retirement plan. In addition, if the employee contributes an additional 3.0% to the plan the City will match the employee contribution of 3%. All contributions are held and owned in the name of each employee.

Year Ended March 31,	Number of Participants	City's Share	Employee's Share
2011	23	\$ 117,037	\$ 31,060
2012	22	118,038	30,980
2013	26	113,393	31,051

NOTE H – VESTED EMPLOYEE BENEFITS

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations become vested as a result of employee age and years of employment. Compensated absences in the amount of \$147,661 are reported under governmental activities and \$131,609 is reported under business-type activities in the Statement of Net Position.

NOTE I – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

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

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 12 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 requires the City to pay the monthly health insurance premiums for 6 years (for employees retired after April 1, 2011: 10 years if retired before April 1, 2011) after retirement or until age 65, whichever is less. 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. All premium increases during that period of time will be covered by the City. As of March 31, 2013, the City Plan had 32 active plan members and 16 retirees and beneficiaries receiving benefits.

Funding Policy – For the year ended March 31, 2013 the City has not established a Trust to fund the OPEB obligation. The City's funding policy is to pay all premiums as they come due on a pay-as-you-go basis. For fiscal year 2013, the City contributed \$186,827 to the plan. Plan members are not required to make contributions to the Plan.

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's annual net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 335,957
Interest on net OPEB obligation	26,175
Adjustment to annual required contribution	(33,251)
Annual OPEB cost (expense)	<u>328,881</u>
Contributions made	(186,827)
Increase in net OPEB obligation	<u>142,054</u>
Net OPEB obligation - beginning of year	654,382
Net OPEB obligation - end of year	<u>\$ 796,436</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

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

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

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contribution</u>	<u>Net OPEB Obligation</u>
2011	\$ 381,219	44%	\$ 442,339
2012	387,442	45%	654,382
2013	328,881	57%	796,436

Funded Status and Funding Progress – As of April 1, 2012, the actuarial accrued liability for benefits was \$4,076,657, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was unavailable, and the ratio of the unfunded actuarial accrued liability to the covered payroll was unavailable.

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

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

In the April 1, 2012 actuarial valuation, the alternative method as provided under GASB Statement No. 45 was used, which incorporated the entry age cost method. The actuarial assumptions include a 4.0% post retirement interest rate, a discount rate of 4.0%, projected salary increases of 1.0% and healthcare inflation rates which are based on NIH National Health Expenditure Projections, 2005 – 2020.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE J – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2013:

Type of Debt	Balance April 1, 2012	Additions	Deductions	Balance March 31, 2013	Amounts Due Within One Year
Governmental Activities:					
Note - rec building	\$ 2,854	\$ -	\$ 1,380	\$ 1,474	\$ 1,474
Note 1 - Electric Fund	194,348	-	21,061	173,287	20,298
Note 2 - Electric Fund	121,525	-	11,094	110,431	11,312
Note 3 - Electric Fund	196,870	-	17,971	178,899	18,327
Note - MERS	75,626	-	45,039	30,587	30,587
Note - GIS system	-	30,000	6,000	24,000	6,000
2000 B.A. bonds	515,000	-	45,000	470,000	50,000
Compensated absences	156,679	-	9,018	147,661	29,532
Total governmental long-term debt	<u>\$ 1,262,902</u>	<u>\$ 30,000</u>	<u>\$ 156,563</u>	<u>\$ 1,136,339</u>	<u>\$ 167,530</u>

Type of Debt	Balance April 1, 2012	Additions	Deductions	Balance March 31, 2013	Amounts Due Within One Year
Business-type Activities:					
Note - electric garage	\$ 485,758	\$ -	\$ 23,761	\$ 461,997	\$ 21,019
Note - truck	7,149	-	4,251	2,898	2,898
Note - utility software	-	47,350	395	46,955	4,736
2006 Sludge Storage bond	895,718	-	50,000	845,718	50,000
Compensated absences	122,847	8,762	-	131,609	26,322
Total business-type long-term debt	<u>\$ 1,511,472</u>	<u>\$ 56,112</u>	<u>\$ 78,407</u>	<u>\$ 1,489,177</u>	<u>\$ 104,975</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE J – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at March 31, 2013 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2014	\$ 87,998	\$ 9,557	\$ 50,000	\$ 19,750
2015	56,946	8,028	55,000	17,125
2016	57,974	7,001	55,000	14,375
2017	59,024	5,951	60,000	11,500
2018	54,444	4,532	65,000	8,375
2019-2023	202,292	9,602	185,000	6,875
	<u>\$ 518,678</u>	<u>\$ 44,671</u>	<u>\$ 470,000</u>	<u>\$ 78,000</u>
For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2014	\$ 28,653	\$ 23,290	\$ 50,000	\$ 13,743
2015	26,857	22,140	50,000	12,930
2016	27,974	21,023	55,000	12,118
2017	29,277	19,720	55,000	11,224
2018	30,521	18,476	55,000	10,330
2019-2023	173,947	70,632	280,000	38,246
2024-2028	194,621	26,780	300,718	14,683
	<u>\$ 511,850</u>	<u>\$ 202,061</u>	<u>\$ 845,718</u>	<u>\$ 113,274</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE J – LONG-TERM DEBT (continued)

Governmental Activities:

As of March 31, 2013, the governmental activities long-term debt consisted of the following:

Notes Payable:

During the year ended March 31, 2008, the City signed an 84 month note for improvements made to the City's recreation building. The note calls for monthly principal and interest payments of \$124 and bears an interest rate of 4.68%.

Note 1 – Electric Fund - During the year ended March 31, 2011, the City refinanced the campground bathroom and electric upgrade notes in the amount of \$213,851 through the Electric Fund. The note calls for annual principal and interest payments over 10 years and bears an interest rate of 2%. These payments are made from the City's General Fund.

Note 2 – Electric Fund - During the year ended March 31, 2012, the City purchased new garbage cans as part of automating garbage collection within the City and financed them through the Electric Fund in the amount of \$121,525. The note calls for monthly principal and interest payments over 10 years and bears an interest rate of 2%. These payments are made from the Solid Waste Fund.

Note 3 – Electric Fund - During the year ended March 31, 2012, the City purchased a new garbage truck as part of automating garbage collection within the City and financed it through the Electric Fund in the amount of \$196,870. The note calls for annual principal and interest payments over 10 years and bears an interest rate of 2%. These payments are made from the Equipment Fund (internal service fund).

During the year ended March 31, 2009, the City signed a 60 month note which was used as additional funding into the retirement system in order to bring the City up to 60 percent funded. The note calls for monthly principal and interest payments of \$3,948 and bears an interest rate of 4.22%.

During the year ended March 31, 2013, the City signed a 72 month note which was used to purchase GIS software. The note calls for annual principal payments of \$6,000 and bears an interest rate of 0%.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE J – LONG-TERM DEBT (continued)

Bonds Payable:

Bonds were issued May 4, 2000 for a total of \$891,190 at 5% in the name of the Building Authority for the purpose of paying the cost of acquiring, constructing and equipping a public safety building to be used by the City and have a final maturity of May 2020.

Business-type Activities:

As of March 31, 2012, the long-term debt of business-type activities consists of the following:

Note Payable:

During the year ended March 31, 2012, the City finalized the construction note for improvements/construction of a garage for the electric department. The note calls for 205 monthly principal and interest payments of \$3,689, which will be paid off in July 2028 and bears an interest rate of 5.12%.

During the year ended March 31, 2009, the City signed a 60-month note for the purchase of a pickup truck. The note calls for monthly payments of \$373 and bears an interest rate of 4.5%. This note and the related asset were transferred to the Waste Water fund in 2013.

During the year ended March 31, 2013, the City signed a 120 month note which was used to purchase utility billing software. The note calls for monthly principal payments of \$395 and bears an interest rate of 0%.

Bonds Payable:

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE K – FUND BALANCE/RESTRICTED NET ASSETS

The City has implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, in fiscal year 2013. The following is a breakdown of the various fund balances:

	General Fund	Major Special Revenue Funds		Nonmajor Funds
		Solid Waste	Revolving Loan	
Nonspendable:				
Prepaid expense	\$ 45,689	\$ 871	\$ -	\$ 1,768
Permanent fund principal	-	-	-	252,693
Restricted for:				
Street system	-	-	-	207,108
Health & welfare	-	-	-	31,740
Community development	-	-	218,613	310,150
Downtown development	-	-	-	342,997
Committed to:				
Public safety	147,856	-	-	-
Solid waste	-	90,288	-	-
Recreation & culture	-	-	-	43,208
Unassigned:	319,404	-	-	-
Total fund balance	<u>\$ 512,949</u>	<u>\$ 91,159</u>	<u>\$ 218,613</u>	<u>\$ 1,189,664</u>

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

Total net assets which are restricted by enabling legislation amounted to \$1,110,608 for governmental activities.

NOTE L – INTERFUND BALANCES AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund receivables have been classified as noncurrent assets and liabilities in the Statement of Net Position due to the individual funds inability to repay these amounts. Individual fund interfund receivables and payable balances at March 31, 2013 are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
		General Fund	\$ 158,662
		Major Street Fund	46,013
		Local Street Fund	19,889
Electric Fund	<u>\$ 224,564</u>	Total	<u>224,564</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE L – 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, 2013 were as follows:

	Transfers In	Transfers Out
General Fund:		
Electric Utility	\$ 117,144	\$ -
Waste Water Utility	23,430	-
Water Utility	20,500	-
Solid Waste	42,254	
Nonmajor proprietary	4,000	-
Nonmajor governmental	147,855	16,822
Total General Fund	<u>355,183</u>	<u>16,822</u>
 Solid Waste:		
General Fund	-	42,254
Nonmajor proprietary	-	3,000
Total Solid Waste	<u>-</u>	<u>45,254</u>
 Electric Utility:		
General Fund	-	117,144
Nonmajor governmental	-	18,707
Total Electric Fund	<u>-</u>	<u>135,851</u>
 Waste Water Utility:		
General Fund	-	23,430
Nonmajor governmental	-	5,000
Total Waste Water Fund	<u>-</u>	<u>28,430</u>
 Water Utility:		
General Fund	-	20,500
Nonmajor governmental	-	5,000
Total Water Fund	<u>-</u>	<u>25,500</u>
 Total Nonmajor Funds	<u>125,170</u>	<u>228,496</u>
 Totals	<u>\$ 480,353</u>	<u>\$ 480,353</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE M – 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	N/A
3. Property & Crime	\$2,500/Occurrence	N/A

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE M – RISK MANAGEMENT (continued)

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

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

At March 31, 2013, 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 N – 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 agreement and is 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, 2013.

NOTE O – JOINT VENTURE – DELTA SOLID WASTE LANDFILL

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

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

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

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

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

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

NOTE P – SINGLE AUDIT

OMB Circular A-133 requires entities that expend more than \$500,000 in federal awards to have a single audit as outlined in the OMB Circular. For the year ended March 31, 2013, the City did not expend more than \$500,000 in federal awards and therefore a single audit was not required in 2013.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE Q - CHANGE IN PRESENTATION

During 2013, the entity implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that was included in Financial Accounting Standards Board and predecessor organization's pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements, and also implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. There were no significant changes to the financial statements as a result of adopting these Statements. The City did not adopt provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Effects on the financial statements as a result of adopting this standard are limited to financial presentation.

NOTE R – UPCOMING REPORTING CHANGES

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASBS No. 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This Statement is effective for periods beginning after June 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the City financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statement periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the City as of fiscal year 2014.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2013

NOTE R – UPCOMING REPORTING CHANGES (continued)

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measure the liability of employers and certain non-employer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the City, this standard will be adopted for the 2015 fiscal year.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component unit statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). 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 financial statements for the 2016 fiscal year.

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, 2013

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	398,530	424,755	475,740	50,985
Local sources	46,800	45,728	42,902	(2,826)
Taxes	1,403,610	1,429,913	1,442,455	12,542
Recreation	240,280	177,117	158,790	(18,327)
Public safety	52,750	38,750	17,693	(21,057)
Charges for services	81,250	81,250	84,562	3,312
Interest income	4,000	5,742	5,976	234
Miscellaneous	33,500	83,204	85,253	2,049
Total revenues	<u>2,260,720</u>	<u>2,286,459</u>	<u>2,313,371</u>	<u>26,912</u>
EXPENDITURES:				
General government:				
City commission	461,105	461,105	469,559	(8,454)
City manager	114,210	113,710	114,549	(839)
Elections	8,700	9,532	11,632	(2,100)
City assessor	53,750	53,750	59,519	(5,769)
Board of review	1,914	1,914	1,222	692
City treasurer	74,418	74,418	75,232	(814)
City clerk	82,910	82,910	84,432	(1,522)
City hall	52,573	143,573	152,962	(9,389)
Public health and safety:				
Police department	963,575	984,675	879,381	105,294
Fire department	175,880	220,130	188,344	31,786
Building and housing inspections	114,576	114,576	84,797	29,779
Parks and recreation:				
Recreation administrative	116,710	116,710	117,606	(896)
Harbor	39,810	-	-	-
Parks	54,750	61,750	61,366	384
Beach	31,390	34,240	32,579	1,661
Sports park	111,280	111,280	87,206	24,074
Campground	55,100	62,400	59,546	2,854
Miscellaneous	65,925	65,925	62,612	3,313
Cemetery:				
Cemetery administrative	13,674	13,674	21,843	(8,169)
Ground maintenance and burials	42,280	56,985	54,484	2,501
General public works:				
Forestry	9,306	16,255	16,159	96
Sidewalks & alley maintenance	18,921	20,785	14,308	6,477
Grounds maintenance	6,960	11,380	10,498	882
Beautification	-	-	313	(313)
Capital outlay	9,000	9,000	8,047	953
Debt service	24,000	24,000	24,000	-
Total expenditures	<u>2,702,717</u>	<u>2,864,677</u>	<u>2,692,196</u>	<u>172,481</u>
Excess revenues (expenditures)	<u>(441,997)</u>	<u>(578,218)</u>	<u>(378,825)</u>	<u>199,393</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	400,215	380,242	355,183	(25,059)
Transfer out	<u>(1,500)</u>	<u>(1,500)</u>	<u>(16,822)</u>	<u>(15,322)</u>
Total other financing sources (uses)	<u>398,715</u>	<u>378,742</u>	<u>338,361</u>	<u>(40,381)</u>
Net changes in fund balances	<u>(43,282)</u>	<u>(199,476)</u>	<u>(40,464)</u>	<u>159,012</u>
Fund balances - beginning	<u>553,413</u>	<u>553,413</u>	<u>553,413</u>	<u>-</u>
Fund balances - ending	<u>\$ 510,131</u>	<u>\$ 353,937</u>	<u>\$ 512,949</u>	<u>\$ 159,012</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SOLID WASTE FUND
For the Year Ended March 31, 2013

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Taxes	\$ 160,000	\$ -	\$ -	\$ -
Charges for services	220,500	398,670	397,978	(692)
Interest income	300	300	-	(300)
Miscellaneous	2,000	3,530	5,218	1,688
Total revenues	382,800	402,500	403,196	696
EXPENDITURES:				
General public works	330,778	313,227	252,477	(60,750)
Capital outlay	-	2,400	-	
Debt service	-	12,000	13,419	(1,419)
Total expenditures	330,778	327,627	265,896	(62,169)
Excess revenues (expenditures)	52,022	74,873	137,300	62,865
OTHER FINANCING SOURCES (USES):				
Transfer out	(36,441)	(45,254)	(45,254)	-
Total other financing sources (uses)	(36,441)	(45,254)	(45,254)	-
Net changes in fund balances	15,581	29,619	92,046	62,865
Fund balances - beginning	(887)	(887)	(887)	-
Fund balances - ending	\$ 14,694	\$ 28,732	\$ 91,159	\$ 62,865

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REVOLVING LOAN
For the Year Ended March 31, 2013

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Loan repayment	\$ -	\$ 96,200	\$ 94,714	\$ (1,486)
Interest income	-	13,800	13,579	(221)
Total revenues	-	110,000	108,293	(1,707)
EXPENDITURES:				
Community development	-	2,120	2,027	93
Excess revenues (expenditures)	-	107,880	106,266	(1,614)
OTHER FINANCING SOURCES (USES):				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Net change in fund balance	-	107,880	106,266	(1,614)
Fund balances - beginning	112,347	112,347	112,347	-
Fund balances - ending	<u>\$ 112,347</u>	<u>\$ 220,227</u>	<u>\$ 218,613</u>	<u>\$ (1,614)</u>

CITY OF GLADSTONE, MICHIGAN

**SCHEDULE OF FUNDING PROGRESS FOR THE
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM**

March 31, 2013

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b - a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
12/31/08	\$ 6,190,015	\$ 10,614,912	\$ 4,424,897	58%	\$ 983,310	450%
12/31/09	6,042,437	10,986,694	4,944,257	55%	859,871	575%
12/31/10	5,952,408	11,164,862	5,212,454	53%	831,332	627%
12/31/11	5,894,813	11,437,934	5,543,121	52%	823,644	673%
12/31/12	5,880,892	11,584,977	5,704,085	51%	811,392	703%

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

March 31, 2013

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

COMBINING FUND FINANCIAL STATEMENTS

**CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2013**

	Special Revenue Funds			
	Major Street	Local Street	State Trunkline	MSHDA Rental Property MSC-06-0717-NPP
ASSETS				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ -	\$ -
Unrestricted	102,115	98,295	(2,066)	2,306
Receivables:				
Accounts	-	26	-	3,096
Special assessments	1,225	571	-	-
Interest	-	-	-	-
Due from other governmental units	55,851	21,904	2,067	-
Prepaid expenditures	884	884	-	-
	<u>884</u>	<u>884</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 160,075</u>	<u>\$ 121,680</u>	<u>\$ 1</u>	<u>\$ 5,402</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 169	\$ 79	\$ -	\$ -
Accrued payroll	4,302	2,428	-	-
Due to other funds	46,013	19,889	-	-
Deferred revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>50,484</u>	<u>22,396</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable	884	884	-	-
Restricted	108,707	98,400	1	5,402
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>109,591</u>	<u>99,284</u>	<u>1</u>	<u>5,402</u>
Total liabilities and fund balances	<u>\$ 160,075</u>	<u>\$ 121,680</u>	<u>\$ 1</u>	<u>\$ 5,402</u>

See accompanying notes to financial statements.

Special Revenue Funds				Debt Service Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
MSHDA Homeowner	MSHDA Habitat Rehab MSC-11-0717	Mary Cretens Trust	Downtown Development Authority	Building Authority	Capital Projects	Cemetery Perpetual Care	
\$ -	\$ -	\$ 310,150	\$ -	\$ -	\$ -	\$ 252,768	\$ 562,918
26,338	(375)	-	321,701	-	41,374	-	589,688
-	375	-	75	-	-	-	3,572
-	-	-	-	-	-	-	1,796
-	-	-	-	-	-	-	-
-	-	-	22,181	-	2,943	-	104,946
-	-	-	-	-	-	-	1,768
<u>\$ 26,338</u>	<u>\$ -</u>	<u>\$ 310,150</u>	<u>\$ 343,957</u>	<u>\$ -</u>	<u>\$ 44,317</u>	<u>\$ 252,768</u>	<u>\$ 1,264,688</u>
\$ -	\$ -	\$ -	\$ 960	\$ -	\$ 972	\$ 75	\$ 2,255
-	-	-	-	-	137	-	6,867
-	-	-	-	-	-	-	65,902
-	-	-	-	-	-	-	-
-	-	-	960	-	1,109	75	75,024
-	-	-	-	-	-	252,693	254,461
26,338	-	310,150	342,997	-	-	-	891,995
-	-	-	-	-	43,208	-	43,208
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>26,338</u>	<u>-</u>	<u>310,150</u>	<u>342,997</u>	<u>-</u>	<u>43,208</u>	<u>252,693</u>	<u>1,189,664</u>
<u>\$ 26,338</u>	<u>\$ -</u>	<u>\$ 310,150</u>	<u>\$ 343,957</u>	<u>\$ -</u>	<u>\$ 44,317</u>	<u>\$ 252,768</u>	<u>\$ 1,264,688</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended March 31, 2013

	Special Revenue Funds			
	Major Street	Local Street	State Trunkline	MSHDA Rental Property MSC-11-0717
REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ 54,553
State sources	314,457	140,374	5,043	-
Local sources	-	-	-	15,625
Taxes	-	-	-	-
Charges for services	-	-	-	-
Lease income	-	-	-	-
Interest income	233	187	-	-
Miscellaneous	2,837	116	-	-
	<u>\$ 317,527</u>	<u>\$ 140,677</u>	<u>\$ 5,043</u>	<u>\$ 70,178</u>
EXPENDITURES:				
Public health and safety	\$ -	\$ -	\$ -	\$ 64,189
Cemetery	-	-	-	-
General public works	-	-	-	-
Street system	251,762	150,961	3,351	-
Community development	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
	<u>251,762</u>	<u>150,961</u>	<u>3,351</u>	<u>64,189</u>
Total expenditures	<u>251,762</u>	<u>150,961</u>	<u>3,351</u>	<u>64,189</u>
Excess revenues (expenditures)	<u>65,765</u>	<u>(10,284)</u>	<u>1,692</u>	<u>5,989</u>
OTHER FINANCING SOURCES (USES):				
Loan proceeds	-	-	-	-
Transfers in	22,641	49,000	-	-
Transfers out	(51,500)	(2,500)	(1,691)	(7,746)
	<u>(28,859)</u>	<u>46,500</u>	<u>(1,691)</u>	<u>(7,746)</u>
Total other financing sources (uses)	<u>(28,859)</u>	<u>46,500</u>	<u>(1,691)</u>	<u>(7,746)</u>
Net changes in fund balances	36,906	36,216	1	(1,757)
Fund balances - beginning	<u>72,685</u>	<u>63,068</u>	<u>-</u>	<u>7,159</u>
Fund balances - ending	<u>\$ 109,591</u>	<u>\$ 99,284</u>	<u>\$ 1</u>	<u>\$ 5,402</u>

See accompanying notes to financial statements.

Special Revenue Funds				Debt Service Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
MSHDA Homeowner	MSHDA Habitat Rehab M-2006-0717	Mary Cretens Trust	Downtown Development Authority	Building Authority	Capital Projects	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,553
-	-	-	-	-	-	-	459,874
-	-	162,841	13,125	-	39,500	5,095	236,186
-	-	-	235,356	-	-	-	235,356
-	-	-	-	-	-	-	-
-	-	-	-	69,625	-	-	69,625
-	-	2,466	2,360	-	-	2,214	7,460
-	-	-	3,515	-	137,796	-	144,264
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,307</u>	<u>\$ 254,356</u>	<u>\$ 69,625</u>	<u>\$ 177,296</u>	<u>\$ 7,309</u>	<u>\$ 1,207,318</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,189
-	-	-	-	-	-	270	270
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	406,074
-	-	-	94,357	-	-	-	94,357
-	-	-	424	-	240,587	-	241,011
-	-	-	-	45,000	-	-	45,000
-	-	-	-	24,625	-	-	24,625
-	-	-	94,781	69,625	240,587	270	875,526
-	-	165,307	159,575	-	(63,291)	7,039	331,792
-	-	-	-	-	47,350	-	47,350
-	-	-	-	-	44,029	-	115,670
-	-	(106,168)	(47,641)	-	-	(2,250)	(219,496)
-	-	(106,168)	(47,641)	-	91,379	(2,250)	(56,476)
-	-	59,139	111,934	-	28,088	4,789	275,316
26,338	-	251,011	231,063	-	15,120	247,904	914,348
<u>\$ 26,338</u>	<u>\$ -</u>	<u>\$ 310,150</u>	<u>\$ 342,997</u>	<u>\$ -</u>	<u>\$ 43,208</u>	<u>\$ 252,693</u>	<u>\$ 1,189,664</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
March 31, 2013

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 73,401	\$ 22,916	\$ 96,317
Receivables:			
Accounts	-	753	753
Notes	12,141	-	12,141
Total current assets	<u>85,542</u>	<u>23,669</u>	<u>109,211</u>
Noncurrent assets:			
Notes receivable	91,004	-	91,004
Capital assets	60,994	95,879	156,873
Less accumulated depreciation	(32,296)	(83,272)	(115,568)
Total noncurrent assets	<u>119,702</u>	<u>12,607</u>	<u>132,309</u>
Total assets	<u>\$ 205,244</u>	<u>\$ 36,276</u>	<u>\$ 241,520</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Deferred revenue	<u>-</u>	<u>10,956</u>	<u>10,956</u>
Total liabilities	<u>\$ -</u>	<u>\$ 10,956</u>	<u>\$ 10,956</u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 28,698	\$ 12,607	\$ 41,305
Unrestricted	<u>176,546</u>	<u>12,713</u>	<u>189,259</u>
Total net position	<u>\$ 205,244</u>	<u>\$ 25,320</u>	<u>\$ 230,564</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, 2013

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
OPERATING REVENUES:			
Charges for services	\$ -	\$ 60,599	\$ 60,599
Miscellaneous	9,557	290	9,847
	<u>9,557</u>	<u>60,889</u>	<u>70,446</u>
Total operating revenue	<u>9,557</u>	<u>60,889</u>	<u>70,446</u>
OPERATING EXPENSES:			
Salaries and fringes	\$ -	\$ 13,678	\$ 13,678
Supplies	-	14,597	14,597
Contracted services	8,371	12,630	21,001
Repairs and maintenance	-	369	369
Utilities	-	3,813	3,813
Rent	16	1,251	1,267
Insurance	-	1,286	1,286
Depreciation	1,047	3,784	4,831
Miscellaneous	3,200	552	3,752
	<u>12,634</u>	<u>51,960</u>	<u>64,594</u>
Total operating expenses	<u>12,634</u>	<u>51,960</u>	<u>64,594</u>
Operating income (loss)	<u>(3,077)</u>	<u>8,929</u>	<u>5,852</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	477	-	477
	<u>477</u>	<u>-</u>	<u>477</u>
Total nonoperating revenue (expense)	<u>477</u>	<u>-</u>	<u>477</u>
Income (loss) before transfers, contributions and special items	(2,600)	8,929	6,329
Capital contributions	-	16,391	16,391
Transfer in	-	-	-
Transfer out	(4,000)	-	(4,000)
	<u>(6,600)</u>	<u>25,320</u>	<u>18,720</u>
Change in net position	<u>(6,600)</u>	<u>25,320</u>	<u>18,720</u>
Total net position - beginning	<u>211,844</u>	<u>-</u>	<u>211,844</u>
Total net position - ending	<u>\$ 205,244</u>	<u>\$ 25,320</u>	<u>\$ 230,564</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2013

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 75,738	\$ 71,092	\$ 146,830
Payments to suppliers	(13,108)	(34,498)	(47,606)
Payments for wages and related benefits	-	(13,678)	(13,678)
Other receipts (payments)	(3,480)	-	(3,480)
	<u>59,150</u>	<u>22,916</u>	<u>82,066</u>
Net cash provided (used) by operating activities			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(4,000)	-	(4,000)
	<u>(4,000)</u>	<u>-</u>	<u>(4,000)</u>
Net cash provided (used) by noncapital financing activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	477	-	477
	<u>477</u>	<u>-</u>	<u>477</u>
Net cash provided (used) by investing activities			
Net increase (decrease) in cash and equivalents	55,627	22,916	78,543
Cash and equivalents, beginning of year	17,774	-	17,774
Cash and equivalents, end of year	<u>\$ 73,401</u>	<u>\$ 22,916</u>	<u>\$ 96,317</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (3,077)	\$ 8,929	\$ 5,852
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,047	3,784	4,831
Changes in assets and liabilities:			
(Increase) decrease in receivables	66,180	(753)	65,427
Increase (decrease) in accounts payable	(1,520)	-	(1,520)
Increase (decrease) in due to other funds	(3,480)	-	(3,480)
Increase (decrease) in deferred revenue	-	10,956	10,956
	<u>59,150</u>	<u>22,916</u>	<u>82,066</u>
Net cash provided by operating activities			

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2013

ALL UTILITIES:

Population served	5,000
Average number of meters in service	5,401

ELECTRIC UTILITY FUND:

K.W.H. purchased	33,887,710
K.W.H. sold	<u>32,652,193</u>
K.W.H. lost (5.9%)	<u>1,235,517</u>
Revenue from sales	<u>\$ 4,303,049</u>
Average number of meters	3,130
Estimated street light K.W.H. used	297,783

WATER UTILITY FUND:

Gallons pumped into plant	124,619,500
Gallons used in plant and for system maintenance	<u>5,622,652</u>
Gallons pumped to mains	118,996,848
Gallons sold	<u>108,189,200</u>
Gallons lost (9.1%)	<u>10,807,648</u>
Revenue from sales	<u>\$ 830,648</u>
Average number of meters in service	2,270

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 775,851</u>
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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal

Kevin C. Pascoe, CPA
Brandy M. Olson, CPA
Lisa A. Callahan, CPA

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Gladstone, Michigan, as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise City of Gladstone, Michigan's basic financial statements and have issued our report thereon dated September 11, 2013.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 2013-1, 2013-2 and 2013-3 to be material weaknesses.

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.

2013-1 Deficiency – Material audit adjustments were required to properly classify activity.

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

2013-2 Deficiency – Cash was not reconciled timely and there were unresolved variances in the bank reconciliation throughout the year.

Management Response – The City has made changes to adhere to the auditor recommendation regarding bank reconciliations to the best of our ability. We will continue to work on reconciliations in a timely manner.

2013-3 Deficiency – Journal entries are not being reviewed and approved by an individual independent of the journal entry activity.

Management Response – It would be optimal to have checks and balances in place for journal entries, however, due to staffing levels we will make every effort to verify all journal entries.

Compliance and Other Matters

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

Condition – The City has deficit unreserved unrestricted net assets in the Equipment Fund.

Management Response – Deficit elimination plans will be filed with the Michigan Department of Treasury.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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
Escanaba, Michigan

September 11, 2013