

CITY OF GLADSTONE, MICHIGAN
BASIC FINANCIAL STATEMENTS
MARCH 31, 2014

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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, 2014, 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, 2014, 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 and schedule of operating statistics, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2014, 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

August 14, 2014

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, 2014. 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 \$20,387,475. This is an increase of \$644,799 from March 31, 2013. This resulted from an increase in total assets of \$378,246 (or +1.6%) and a decrease in liabilities of \$357,711 (-8.9%). The upgrading of the docks in the harbor primarily contributed to the increase in assets. The decrease in liabilities is due to the paying off of long-term debts.. Net position for our business-type activities were \$13,145,552, an increase of \$883,515 from 2013, while net position in our governmental activities were \$7,241,923, a decrease of \$238,716.
- The City's expenses for the year totaled \$10,031,428 an increase of \$581,155 over 2013. Revenue from all sources was \$10,676,227, an increase of \$644,799 (+6.4%) from 2013.
- In the City's business-type activities, total revenues were \$6,692,329 an increase of 12% over the previous year. Business-type activity revenues increased slightly as a percentage of total revenues at 63% for 2014 and 59% for 2013. Much of the revenue increase in the business-type activities relates to the conversion of the Solid Waste Fund from a special revenue fund to an enterprise fund and a capital grant received for new docks in the Harbor Fund.
- In 2013 the City received a distribution from the Dr. Mary Cretens Trust in the amount of \$162,841, which was budgeted for expenditure in the 2014 fiscal year. In 2014 the City received \$166,980 from the Trust which was budgeted for expenditure in the 2015 fiscal year.
- The General Fund finished the year with a decrease in fund balance of \$17,730 and an ending fund balance of \$495,219. This was after revenues of \$2,371,395 compared to \$2,313,371 in 2013, and expenditures of \$2,699,601 compared to expenditures of \$2,692,196 in 2013, 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 position as, the difference between assets and liabilities, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

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

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

The City 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 27. 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 \$644,799.

Table 1
Net Position

	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
Current and other assets	\$ 1,819,661	\$ 2,379,017	\$ 6,590,394	\$ 6,250,360
Capital assets (net)	7,128,705	7,080,114	8,502,562	7,953,585
Total Assets	8,948,366	9,459,131	15,092,956	14,203,945
Long-term debt outstanding	609,192	988,678	1,202,532	1,357,568
Other liabilities	1,097,251	989,814	744,872	675,498
Total Liabilities	1,706,443	1,978,492	1,947,404	2,033,066
Net Position:				
Net investment in capital assets	6,519,513	6,091,436	7,300,030	6,596,017
Restricted:				
Expendable	726,452	1,110,608	-	-
Nonexpendable	256,508	252,693	-	-
Unrestricted	(260,550)	25,902	5,845,522	5,574,862
Total net position	\$ 7,241,923	\$ 7,480,639	\$ 13,145,552	\$ 12,170,879

Net position of the City's governmental activities stood at \$7,241,923, down from \$7,480,639 in 2013 (-3.2%). Total of the governmental activities assets decreased by 5.4%, and total liabilities decreased by 13.8%. The ratio of assets to liabilities increased from 4.78 in 2013 to 5.24 in 2014.

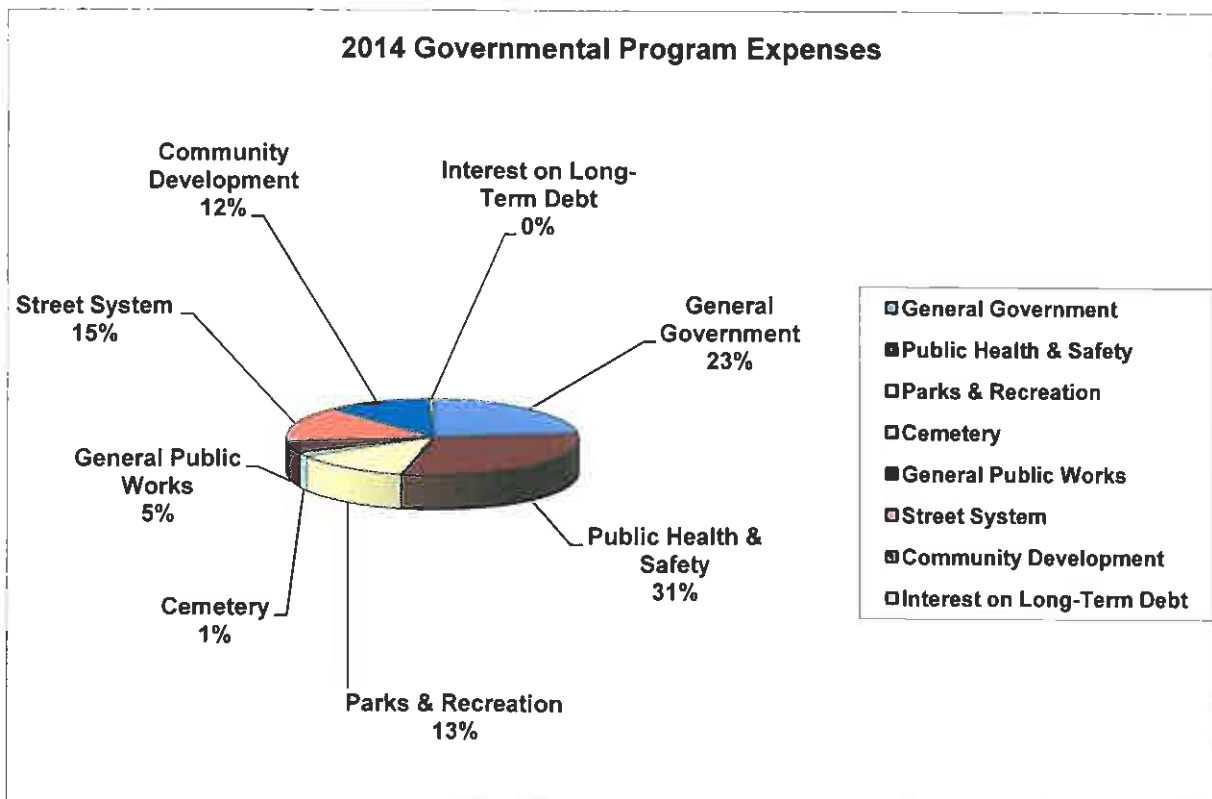
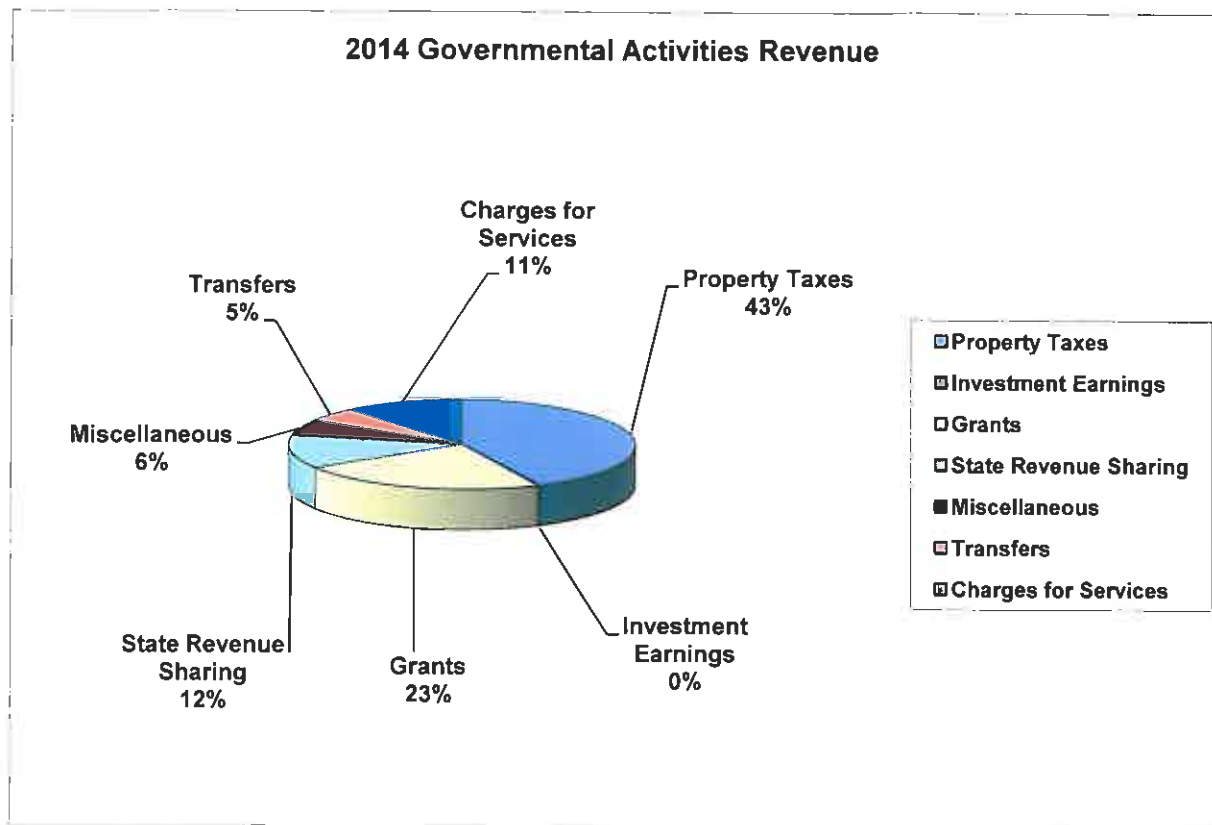
Net position in our business-type activities stood at \$13,145,552, up from \$12,170,879 in 2013. Total assets increased to \$15,092,956 from \$14,203,945 in 2013, while liabilities decreased from \$2,033,066 in 2013 to \$1,947,404 in 2014 (-4.2%). Unrestricted net position increased from \$5,574,862 to \$5,845,522, while the amount invested in capital assets (net of related debt) increased from \$6,596,017 in 2013 to \$5,845,522 in 2014. In summary, the net position of the business lines became a little more liquid, but investments in infrastructure will pay dividends in the future.

Effective April 1, 2014, the Solid Waste Fund was converted from a special revenue fund to an enterprise fund due to this activity being solely funded through user fees. This change had the effect of decreasing governmental activities assets, liabilities and net position and increased the same in the business-type activities.

Table 2
Changes in Net Position

Governmental Activities	Governmental Activities		Business-Type Activities	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:				
Program Revenues:				
Charges for services	\$ 447,239	\$ 791,138	\$ 6,499,483	\$ 6,068,960
Operating grants	525,859	725,543	-	-
Capital grants	391,933	32,600	298,379	32,651
General Revenues:				
Property taxes	1,696,314	1,677,811	-	-
State revenue sharing	474,906	468,119	-	-
Unrestricted grants	5,309	5,246	-	-
Unrestricted investment earnings	7,386	13,436	93,705	68,033
Miscellaneous	231,899	243,780	-	-
Total Revenues	<u>3,780,845</u>	<u>3,957,673</u>	<u>6,891,567</u>	<u>6,169,644</u>
Program Expenses:				
General government	962,620	1,062,609	-	-
Public health & safety	1,299,112	1,253,696	-	-
Parks & recreation	540,700	521,897	-	-
Cemetery	65,236	86,991	-	-
General public works	227,599	394,758	-	-
Street system	615,662	629,755	-	-
Community development	488,087	97,323	-	-
Interest on long-term debt	23,598	28,767	-	-
Electric	-	-	3,928,586	3,925,856
Wastewater	-	-	800,927	754,675
Water	-	-	695,415	629,352
Solid waste	-	-	322,654	-
Harbor	-	-	51,897	51,960
Economic development	-	-	9,335	12,634
Total Expenses	<u>4,222,614</u>	<u>4,075,796</u>	<u>5,808,814</u>	<u>5,374,477</u>
Excess (deficiency) before transfers and contributions	(441,769)	(118,123)	1,082,753	795,167
Transfers	199,238	193,781	(199,238)	(193,781)
Contributions to permanent fund	3,815	5,095	-	-
Increase (decrease) in net assets	(238,716)	80,753	883,515	601,386
Net position - beginning	<u>7,480,639</u>	<u>7,399,886</u>	<u>12,262,037</u>	<u>11,569,493</u>
Net position - ending	<u>\$ 7,241,923</u>	<u>\$ 7,480,639</u>	<u>\$ 13,145,552</u>	<u>\$ 12,170,879</u>

Governmental Activities



The City's total revenues were \$10,676,227, up from \$10,132,412 in 2013 (an increase of 5.4%). The cost of all programs and services was \$10,031,428, up from \$9,450,273 in 2013 (an increase of 6.4%). For 2014, there was an overall excess of revenues over expenses of \$644,799, compared to \$682,139 in 2013.

Governmental Activities

Revenues for the City's governmental activities totaled \$3,983,898, down 4.2% from \$4,156,549 in 2013. Expenses increased by 3.6% (\$146,818) with the largest increase (\$390,764) in community development due to the transfer of revolving loan funds to a regional loan administrator.

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	
	2014	2013	2014	2013
Public health & safety	\$ 1,299,112	\$ 1,253,696	\$ 1,187,931	\$ 1,080,173
Street systems	615,662	629,755	(200,295)	166,928
Parks & recreation	540,700	521,897	295,125	359,333
General public works	227,599	394,758	227,599	(8,438)
General government	962,621	1,062,609	867,064	779,725
Totals	<u>\$ 3,645,694</u>	<u>\$ 3,862,715</u>	<u>\$ 2,377,424</u>	<u>\$ 2,377,721</u>

Business-Type Activities

Revenues for the City's business-type activities totaled \$6,692,329 up from \$5,975,863 in 2013 (+12%). The primary reason for the increase in revenue relates to the Solid Waste Fund being reported as an enterprise fund in 2014 and a capital grant received by the Harbor Fund for a new dock system. Business-type activity expenses increased by 8%.

THE CITY'S FUNDS

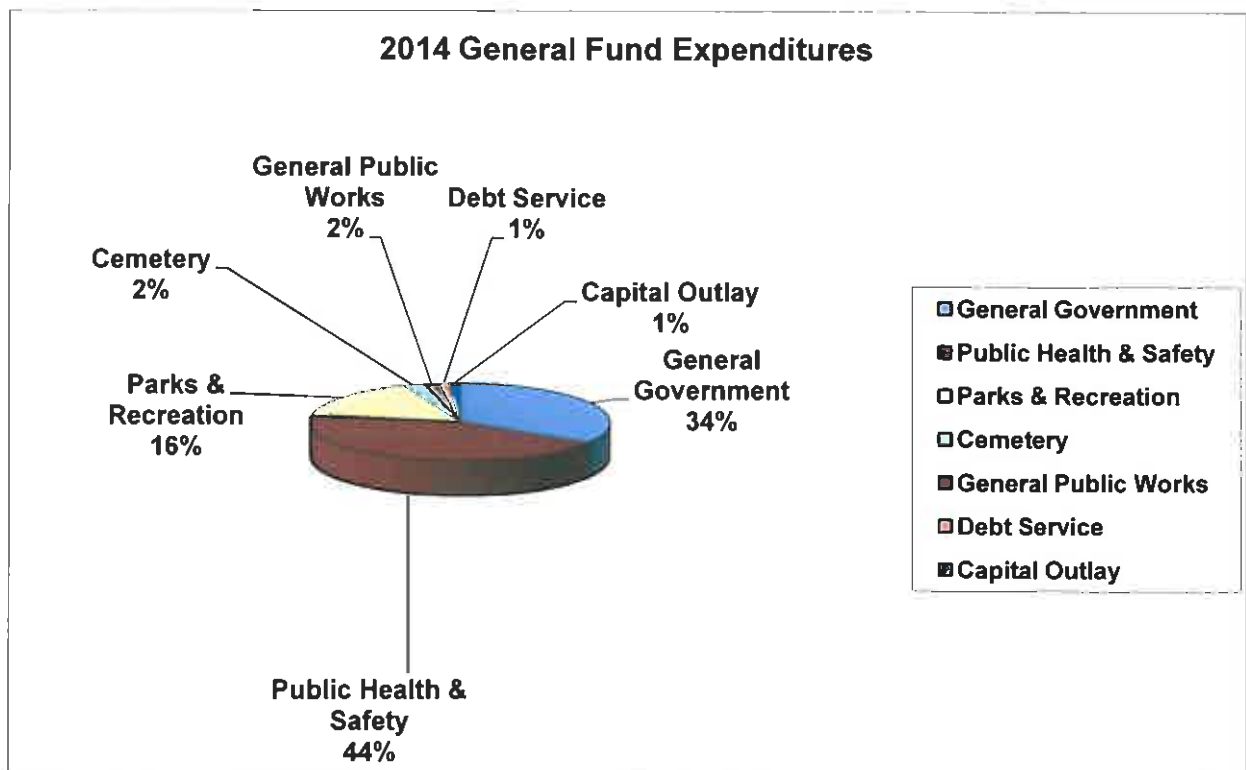
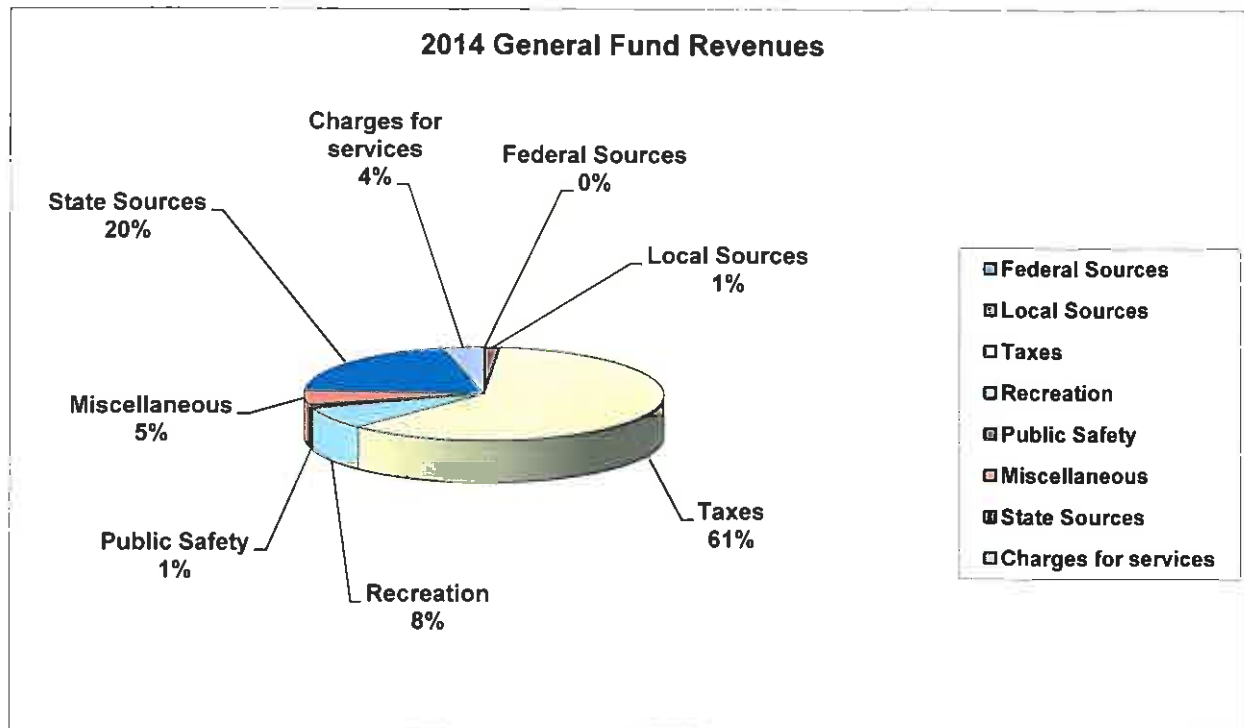
As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$1,633,458, a decrease of \$287,768 from 2013. The combined decrease in fund balance in large part comes from the street funds doing very little projects, 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.

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 \$2,371,395 was less than the amended budget. Expenditures were less than the amended budget by \$220,205. The final expenditure number of \$2,699,601 was 1% lower than the revised expenditure estimate of \$2,919,806. Total expenses exceeded revenues by \$328,206 for the year.

The final revenue number was \$58,024 more than 2013 and expenditures were \$7,405 higher than 2013. 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 2014, the City had \$15,631,267, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was up from \$15,033,699 in 2013. (See table 4 below)

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

	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
Land	\$ 1,619,627	\$ 1,619,627	\$ 236,513	\$ 236,513
Construction in progress	-	-	25,000	-
Land Improvements	249,851	124,232	-	-
Buildings	1,179,938	1,191,061	750,058	791,253
Machinery & Equipment	571,220	898,871	615,081	302,025
Infrastructure - Road System	2,511,670	2,184,215	-	-
Infrastructure - Other	996,399	1,062,108	417,221	-
Distribution/Collection System	-	-	6,458,689	6,623,794
Total	<u>\$ 7,128,705</u>	<u>\$ 7,080,114</u>	<u>\$ 8,502,562</u>	<u>\$ 7,953,585</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	
	2014	2013	2014	2013	2014	2013
General obligation bonds/ notes(backed by the City) \$	456,439	\$ 526,061	\$ 42,220	\$ 511,850	\$ 498,659	\$ 1,037,911
Internally financed notes	152,753	462,617	364,594	-	517,347	462,617
Revenue bonds and notes (backed by specific tax and fee revenues)	-	2,898	795,718	845,718	795,718	848,616
Totals	<u>\$ 609,192</u>	<u>\$ 991,576</u>	<u>\$ 1,202,532</u>	<u>\$ 1,357,568</u>	<u>\$ 1,811,724</u>	<u>\$ 2,349,144</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 \$303,054 says a great deal for the general fund. The City strives to continue to deliver the same level of service our residents expect. This is where thinking outside the box is key. We continue to rely on staff and citizen input to provide ideas and opportunities for better and more efficient services.

The Major Street and Local Street Funds continue to be a concern. The Act 51 revenue is not sufficient to tackle road projects like we should be. This is why special assessments are necessary to maintain the roads we have. The combined fund balance is \$185,056.

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, 2014

	Primary Government			Component
	Governmental	Business-Type	Total	Unit
	Activities	Activities		Housing
				Commission
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 674,287	\$ 3,597,194	\$ 4,271,481	\$ 238,123
Receivables :				
Accounts	1,897	-	1,897	198
Utilities	-	1,401,649	1,401,649	-
Special assessments	33,103	-	33,103	-
Notes	3,423	71,341	74,764	-
Miscellaneous	33,800	42,872	76,672	-
Due from other governmental units	429,379	-	429,379	-
Prepaid expense	37,619	17,159	54,778	22,595
Inventory	15,134	195,306	210,440	-
Total current assets	<u>1,228,642</u>	<u>5,325,521</u>	<u>6,554,163</u>	<u>260,916</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	591,019	-	591,019	-
Investments	-	594,304	594,304	167,068
Notes receivable	-	446,005	446,005	-
Internal balances	-	224,564	224,564	-
Capital assets	22,265,195	19,860,955	42,126,150	5,133,086
Accumulated depreciation	(15,136,490)	(11,358,393)	(26,494,883)	(3,699,649)
Total noncurrent assets	<u>7,719,724</u>	<u>9,767,435</u>	<u>17,487,159</u>	<u>1,600,505</u>
Total assets	<u>\$ 8,948,366</u>	<u>\$ 15,092,956</u>	<u>\$ 24,041,322</u>	<u>\$ 1,861,421</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 41,829	\$ 134,410	\$ 176,239	\$ 2,784
Accrued payroll	63,043	44,810	107,853	-
Accrued interest	10,500	-	10,500	-
Customer deposits	-	67,649	67,649	-
Unearned revenue	3,919	23,373	27,292	-
Other liabilities	3,131	-	3,131	49,891
Compensated absences	26,760	26,769	53,529	4,111
Bonds payable	50,000	50,000	100,000	-
Notes payable	29,728	55,131	84,859	-
Total current liabilities	<u>228,910</u>	<u>402,142</u>	<u>631,052</u>	<u>56,786</u>
Noncurrent liabilities:				
Compensated absences	107,040	107,080	214,120	115
OPEB obligation	616,465	340,781	957,246	-
Internal balances	224,564	-	224,564	-
Bonds payable	370,000	745,718	1,115,718	-
Notes payable	159,464	351,683	511,147	-
Total noncurrent liabilities	<u>1,477,533</u>	<u>1,545,262</u>	<u>3,022,795</u>	<u>115</u>
Total liabilities	<u>\$ 1,706,443</u>	<u>\$ 1,947,404</u>	<u>\$ 3,653,847</u>	<u>\$ 56,901</u>
NET POSITION				
Net investment in capital assets	\$ 6,519,513	\$ 7,300,030	\$ 13,819,543	\$ 1,433,437
Restricted for:				
Expendable	726,452	-	726,452	-
Nonexpendable	256,508	-	256,508	-
Unrestricted	(260,550)	5,845,522	5,584,972	371,083
Total net position	<u>\$ 7,241,923</u>	<u>\$ 13,145,552</u>	<u>\$ 20,387,475</u>	<u>\$ 1,804,520</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2014

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 962,621	\$ 84,952	\$ 10,605	\$ -	\$ (867,064)	\$ -	\$ (867,064)	\$ -
Public health and safety	1,299,112	106,835	4,346	-	(1,187,931)	-	(1,187,931)	-
Parks and recreation	540,700	182,765	-	62,810	(295,125)	-	(295,125)	-
Cemetery	65,236	30,980	-	-	(34,256)	-	(34,256)	-
General public works	227,599	-	-	-	(227,599)	-	(227,599)	-
Street system	615,662	29,676	507,158	279,123	200,295	-	200,295	-
Community development	488,087	12,031	3,750	50,000	(422,306)	-	(422,306)	-
Interest on long-term debt	23,598	-	-	-	(23,598)	-	(23,598)	-
Total governmental activities	4,222,614	447,239	525,859	391,933	(2,857,583)	-	(2,857,583)	-
Business-type activities:								
Electric utility	3,928,586	4,371,077	-	2,665	-	445,156	445,156	-
Waste water utility	800,927	864,847	-	10,278	-	74,198	74,198	-
Water utility	695,415	764,323	-	13,489	-	82,397	82,397	-
Solid waste	322,654	425,489	-	55,557	-	158,392	158,392	-
Harbor	51,897	67,633	-	216,390	-	232,126	232,126	-
Economic development	9,335	6,114	-	-	-	(3,221)	(3,221)	-
Total business-type activities	5,808,814	6,499,483	-	298,379	-	989,048	989,048	-
Total primary government	\$ 10,031,428	\$ 6,946,722	\$ 525,859	\$ 690,312	(2,857,583)	989,048	(1,868,535)	-
Component unit:								
Housing commission	\$ 647,571	\$ 370,454	\$ 233,252	\$ 53,469	-	-	-	9,604
General revenues:								
Property taxes					1,696,314	-	1,696,314	-
State revenue sharing					474,906	-	474,906	-
Grants and contributions not restricted to specific programs					5,309	-	5,309	-
Contributions to permanent fund					3,815	-	3,815	-
Unrestricted investment earnings					7,386	93,705	101,091	1,294
Miscellaneous					231,899	-	231,899	6,967
Transfers					199,238	(199,238)	-	-
Total general revenues and transfers					2,618,867	(105,533)	2,513,334	8,261
Changes in net position					(238,716)	883,515	644,799	17,865
Net position - beginning					7,480,639	12,262,037	19,742,676	1,786,655
Net position - ending					\$ 7,241,923	\$ 13,145,552	\$ 20,387,475	\$ 1,804,520

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2014

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ 591,019	\$ 591,019
Unrestricted	291,433	-	382,854	674,287
Receivables:				
Accounts	1,823	-	74	1,897
Special assessments	-	23,999	9,104	33,103
Notes	-	-	3,423	3,423
Miscellaneous	31,250	2,550	-	33,800
Due from other governmental units	199,751	140,993	88,635	429,379
Due from other funds	177,473	-	-	177,473
Prepaid expenditures	34,799	-	-	34,799
	<u>34,799</u>	<u>-</u>	<u>-</u>	<u>34,799</u>
Total assets	<u><u>\$ 736,529</u></u>	<u><u>\$ 167,542</u></u>	<u><u>\$ 1,075,109</u></u>	<u><u>\$ 1,979,180</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 21,093	\$ -	\$ 4,901	\$ 25,994
Accrued payroll	54,505	2,572	4,173	61,250
Due to other funds	158,662	69,147	20,196	248,005
Unearned revenue	3,919	-	3,423	7,342
Other liabilities	3,131	-	-	3,131
	<u>3,131</u>	<u>-</u>	<u>-</u>	<u>3,131</u>
Total liabilities	<u>241,310</u>	<u>71,719</u>	<u>32,693</u>	<u>345,722</u>
Fund balances:				
Nonspendable	34,799	-	256,508	291,307
Restricted	-	-	726,452	726,452
Committed	157,366	95,823	59,456	312,645
Assigned	-	-	-	-
Unassigned	303,054	-	-	303,054
	<u>303,054</u>	<u>-</u>	<u>-</u>	<u>303,054</u>
Total fund balances	<u>495,219</u>	<u>95,823</u>	<u>1,042,416</u>	<u>1,633,458</u>
Total liabilities and fund balances	<u><u>\$ 736,529</u></u>	<u><u>\$ 167,542</u></u>	<u><u>\$ 1,075,109</u></u>	<u><u>\$ 1,979,180</u></u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
March 31, 2014

Total fund balances for governmental funds	\$ 1,633,458
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Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Capital assets	\$ 20,763,813	
Accumulated depreciation	(13,828,707)	
Total capital assets		6,935,106

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	(16,835)
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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	\$ (10,500)	
Bonds payable	(420,000)	
Notes payable	(170,753)	
OPEB obligation	(578,176)	
Compensated absences	(133,800)	(1,313,229)

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 position.	3,423
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Total net position of governmental activities	\$ 7,241,923
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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, 2014

	General Fund	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	480,215	590,827	199,016	1,270,058
Local sources	34,117	37,715	247,827	319,659
Taxes	1,441,706	-	254,608	1,696,314
Charges for services	88,946	-	-	88,946
Recreation	178,771	-	-	178,771
Public safety	34,044	-	-	34,044
Loan repayment	-	-	159,843	159,843
Lease income	-	-	72,250	72,250
Interest income	2,451	293	12,631	15,375
Miscellaneous	111,145	29,456	14,867	155,468
	<u>2,371,395</u>	<u>658,291</u>	<u>961,042</u>	<u>3,990,728</u>
Total revenues				
EXPENDITURES:				
General government	903,958	-	-	903,958
Public health and safety	1,200,883	-	3,495	1,204,378
Parks and recreation	428,803	-	-	428,803
Cemetery	59,327	-	-	59,327
General public works	47,555	-	-	47,555
Street system	-	270,046	130,591	400,637
Community development	-	-	454,223	454,223
Capital outlay	35,075	422,013	401,790	858,878
Debt service:				
Principal	20,535	-	50,000	70,535
Interest and other charges	3,465	-	22,250	25,715
	<u>2,699,601</u>	<u>692,059</u>	<u>1,062,349</u>	<u>4,454,009</u>
Total expenditures				
Excess revenues (expenditures)	<u>(328,206)</u>	<u>(33,768)</u>	<u>(101,307)</u>	<u>(463,281)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	432,039	55,000	186,117	673,156
Transfers out	(121,563)	(35,000)	(341,080)	(497,643)
	<u>310,476</u>	<u>20,000</u>	<u>(154,963)</u>	<u>175,513</u>
Total other financing sources (uses)				
Net changes in fund balances	(17,730)	(13,768)	(256,270)	(287,768)
Fund balances - beginning	512,949	109,591	1,298,686	1,921,226
Fund balances - ending	<u>\$ 495,219</u>	<u>\$ 95,823</u>	<u>\$ 1,042,416</u>	<u>\$ 1,633,458</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2014

Net changes in fund balances - total governmental funds \$ (287,768)

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 (\$767,839) exceeded depreciation expense (\$358,971) 408,868

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. (58,201)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:

Bond principal	50,000	
Note principal	58,596	108,596

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities. (182,343)

Net book value of assets transferred from internal service fund (146,716)

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	13,861	
OPEB obligation	(97,130)	
Accrued interest on bonds	2,117	(81,152)

Changes in net position of governmental activities \$ (238,716)

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
March 31, 2014

	Electric Utility	Waste Water Utility	Water Utility
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,282,036	\$ 454,078	\$ 579,790
Receivables:			
Utilities	938,604	227,730	147,924
Special assessments	-	-	-
Notes	71,341	-	-
Miscellaneous	-	16,687	12,565
Prepaid expense	6,769	5,266	3,632
Inventory	195,306	-	-
Total current assets	<u>3,494,056</u>	<u>703,761</u>	<u>743,911</u>
Noncurrent assets:			
Investments	594,304	-	-
Notes receivable	446,005	-	-
Due from other funds	224,564	-	-
Capital assets	8,435,963	5,402,178	4,870,966
Less accumulated depreciation	<u>(4,354,655)</u>	<u>(2,935,177)</u>	<u>(3,685,221)</u>
Total noncurrent assets	<u>5,346,181</u>	<u>2,467,001</u>	<u>1,185,745</u>
Total assets	<u><u>\$ 8,840,237</u></u>	<u><u>\$ 3,170,762</u></u>	<u><u>\$ 1,929,656</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 35,838	\$ 87,140	\$ 9,016
Accrued payroll	21,329	10,020	11,607
Customer deposits	67,649	-	-
Compensated absences	11,167	6,198	9,404
Unearned revenue	-	-	-
Bonds payable	-	50,000	-
Notes payable	4,735	-	-
Total current liabilities	<u>140,718</u>	<u>153,358</u>	<u>30,027</u>
Noncurrent liabilities:			
Due to other funds	-	-	-
Compensated absences	44,670	24,794	37,616
OPEB obligation	134,972	108,169	97,640
Bonds payable	-	745,718	-
Notes payable	37,485	-	-
Total noncurrent liabilities	<u>217,127</u>	<u>878,681</u>	<u>135,256</u>
Total liabilities	<u><u>\$ 357,845</u></u>	<u><u>\$ 1,032,039</u></u>	<u><u>\$ 165,283</u></u>
NET POSITION			
Net investment in capital assets	\$ 4,039,088	\$ 1,671,283	\$ 1,185,745
Unrestricted	<u>4,443,304</u>	<u>467,440</u>	<u>578,628</u>
Total net position	<u><u>\$ 8,482,392</u></u>	<u><u>\$ 2,138,723</u></u>	<u><u>\$ 1,764,373</u></u>

See accompanying notes to financial statements.

Solid Waste	Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 48,935	\$ 232,355	\$ 3,597,194	\$ -
87,391	-	1,401,649	-
-	-	-	-
-	-	71,341	-
-	13,620	42,872	-
1,492	-	17,159	2,820
-	-	195,306	15,134
<u>137,818</u>	<u>245,975</u>	<u>5,325,521</u>	<u>17,954</u>
-	-	594,304	-
-	-	446,005	-
-	-	224,564	-
570,682	581,166	19,860,955	1,501,382
(256,120)	(127,220)	(11,358,393)	(1,307,783)
<u>314,562</u>	<u>453,946</u>	<u>9,767,435</u>	<u>193,599</u>
<u>\$ 452,380</u>	<u>\$ 699,921</u>	<u>\$ 15,092,956</u>	<u>\$ 211,553</u>
\$ 1,406	\$ 1,010	\$ 134,410	\$ 15,835
1,826	28	44,810	1,793
-	-	67,649	-
-	-	26,769	-
-	23,373	23,373	-
-	-	50,000	-
30,238	20,158	55,131	2,783
<u>33,470</u>	<u>44,569</u>	<u>402,142</u>	<u>20,411</u>
-	-	-	154,032
-	-	107,080	-
-	-	340,781	38,289
-	-	745,718	-
229,453	84,745	351,683	15,656
<u>229,453</u>	<u>84,745</u>	<u>1,545,262</u>	<u>207,977</u>
<u>\$ 262,923</u>	<u>\$ 129,314</u>	<u>\$ 1,947,404</u>	<u>\$ 228,388</u>
\$ 54,871	\$ 349,043	\$ 7,300,030	\$ 175,160
134,586	221,564	5,845,522	(191,995)
<u>\$ 189,457</u>	<u>\$ 570,607</u>	<u>\$ 13,145,552</u>	<u>\$ (16,835)</u>

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended March 31, 2014

	Electric Utility	Waste Water Utility	Water Utility
OPERATING REVENUES:			
Charges for services	\$ 4,155,889	\$ 827,493	\$ 740,157
Miscellaneous	215,188	37,354	24,166
Total operating revenue	<u>4,371,077</u>	<u>864,847</u>	<u>764,323</u>
OPERATING EXPENSES:			
Salaries and fringes	591,862	381,472	375,735
Supplies	76,935	56,432	74,881
Contracted services	144,616	104,007	42,321
Repairs and maintenance	3,349	18,673	21,727
Utilities	22,021	50,763	44,533
Purchased power	2,671,828	-	-
Rent	4,238	14,452	5,395
Memberships and dues	6,236	5,693	445
Travel	131	143	175
Insurance	22,614	9,071	15,006
Education and training	3,305	2,521	3,227
In lieu of taxes	46,197	26,420	24,960
Energy optimization program	85,760	-	-
Landfill tipping fees	-	580	-
Depreciation	182,903	115,710	83,840
Miscellaneous	58,705	1,575	3,170
Total operating expenses	<u>3,920,700</u>	<u>787,512</u>	<u>695,415</u>
Operating income (loss)	<u>450,377</u>	<u>77,335</u>	<u>68,908</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	87,489	2,519	3,011
Interest expense	(7,886)	(13,415)	-
Total nonoperating revenue (expense)	<u>79,603</u>	<u>(10,896)</u>	<u>3,011</u>
Income (loss) before transfers, contributions and special items	529,980	66,439	71,919
Gain/(loss) on asset disposal	-	-	-
Capital contributions	2,665	10,278	13,489
Transfer in	-	-	-
Transfer out	(173,021)	(38,288)	(38,288)
Change in net position	359,624	38,429	47,120
Total net position - beginning	<u>8,122,768</u>	<u>2,100,294</u>	<u>1,717,253</u>
Total net position - ending	<u>\$ 8,482,392</u>	<u>\$ 2,138,723</u>	<u>\$ 1,764,373</u>

See accompanying notes to financial statements.

Solid Waste	Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 418,444	\$ 61,065	\$ 6,203,048	\$ 299,257
7,045	12,682	296,435	24,527
425,489	73,747	6,499,483	323,784
136,804	12,778	1,498,651	169,916
12,222	14,082	234,552	88,807
1,150	12,855	304,949	22,852
4,681	371	48,801	60,690
34	7,668	125,019	11,686
-	-	2,671,828	-
49,622	356	74,063	354
-	-	12,374	-
-	-	449	-
-	1,094	47,785	8,236
-	-	9,053	1,525
-	-	97,577	9,805
-	-	85,760	-
78,868	-	79,448	-
32,603	11,652	426,708	33,596
1,152	376	64,978	-
317,136	61,232	5,781,995	407,467
108,353	12,515	717,488	(83,683)
49	639	93,707	-
(5,518)	-	(26,819)	(327)
(5,469)	639	66,888	(327)
102,884	13,154	784,376	(84,010)
-	-	-	2,084
55,557	216,390	298,379	-
2,279	114,500	116,779	31,004
(62,422)	(4,000)	(316,019)	(7,279)
98,298	340,044	883,515	(58,201)
91,159	230,563	12,262,037	41,366
\$ 189,457	\$ 570,607	\$ 13,145,552	\$ (16,835)

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2014

	Electric Utility	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 4,181,975	\$ 814,514	\$ 723,209
Cash receipts from interfund services provided	-	-	-
Payments to suppliers	(3,081,063)	(265,663)	(208,846)
Payments for wages and related benefits	(562,556)	(363,570)	(354,212)
Cash paid for interfund services used	(46,197)	(26,420)	(24,960)
Other receipts (payments)	215,188	37,354	24,166
Net cash provided (used) by operating activities	707,347	196,215	159,357
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(173,021)	(38,288)	(38,288)
Interfund loan (net)	(54,729)	-	-
Cash received (paid) on customer deposits	(9,351)	-	-
Net cash provided (used) by noncapital financing activities	(237,101)	(38,288)	(38,288)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	(85,849)	(54,036)	(65,754)
Principal paid on debt instruments	(466,732)	(52,898)	-
Interest paid on debt instruments	(7,886)	(13,415)	-
Loan proceeds	-	-	-
Proceeds from sale of capital assets	-	-	-
Capital contributions	2,665	11,690	13,489
Net cash provided (used) by capital and related financing activities	(557,802)	(108,659)	(52,265)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net transfers from/(to) investments	(50,641)	-	-
Interest earnings	87,489	2,519	3,011
Net cash provided (used) by investing activities	36,848	2,519	3,011
Net increase (decrease) in cash and equivalents	(50,708)	51,787	71,815
Cash and equivalents, beginning of year	2,332,744	402,291	507,975
Cash and equivalents, end of year	\$ 2,282,036	\$ 454,078	\$ 579,790
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 450,377	\$ 77,335	\$ 68,908
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	182,903	115,710	83,840
Changes in assets and liabilities:			
(Increase) decrease in receivables	26,086	(12,979)	(16,948)
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in prepaid expense	1,561	627	1,189
(Increase) decrease in inventory	22,272	-	-
Increase (decrease) in accounts payable	(5,157)	(2,380)	845
Increase (decrease) in accrued payroll	6,631	(270)	5,120
Increase (decrease) in OPEB liability	22,674	18,172	16,403
Increase (decrease) in due to other funds	-	-	-
Increase (decrease) in unearned revenue	-	-	-
Net cash provided by operating activities	\$ 707,347	\$ 196,215	\$ 159,357

See accompanying notes to financial statements.

Solid Waste	Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 409,280	\$ 169,874	\$ 6,298,852	\$ -
-	-	-	299,257
(147,112)	(21,038)	(3,723,722)	(210,776)
(137,044)	(27,504)	(1,444,886)	(164,870)
-	-	(97,577)	-
7,045	6,568	290,321	178,559
132,169	127,900	1,322,988	102,170
(62,422)	110,500	(201,519)	26,004
-	-	(54,729)	-
-	-	(9,351)	-
(62,422)	110,500	(265,599)	26,004
-	(424,293)	(629,932)	(20,484)
(29,638)	-	(549,268)	(2,046)
(5,518)	-	(26,819)	(327)
-	104,903	104,903	20,484
-	-	-	2,084
-	216,390	244,234	-
(35,156)	(103,000)	(856,882)	(289)
-	-	(50,641)	-
49	639	93,707	-
49	639	43,066	-
34,640	136,039	243,573	127,885
14,295	96,316	3,353,621	(127,885)
\$ 48,935	\$ 232,355	\$ 3,597,194	\$ -
\$ 108,353	\$ 12,515	\$ 717,488	\$ (83,683)
32,603	11,652	426,708	33,596
(9,164)	90,278	77,273	-
-	-	-	-
(621)	-	2,756	7
-	-	22,272	(15,134)
1,238	1,010	(4,444)	8,306
(240)	28	11,269	(1,386)
-	-	57,249	6,432
-	-	-	154,032
-	12,417	12,417	-
\$ 132,169	\$ 127,900	\$ 1,322,988	\$ 102,170

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
March 31, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 13,342
Receivables:	
Delinquent taxes	<u>94,966</u>
Total assets	<u>\$ 108,308</u>
LIABILITIES	
Due to other governmental units	<u>\$ 108,308</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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, 2014

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, 2014

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 Major Street Fund which is used to account for activity related to the major street system.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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 Solid Waste Fund which is used to account for garbage collection activities.

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, 2014

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, 2014

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, 2014

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 the Equipment Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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, 2014

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. Unearned Revenues – In the government-wide statements and proprietary fund financial statements unearned revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements unearned revenue is recognized when revenue is unearned or unavailable. The City has reported unearned revenue of \$3,919 in the General Fund for prepaid service revenue and advanced revenue collections and \$3,423 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. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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, 2014

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, 2014

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, 2014

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, 2014

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 expenditures that exceeded appropriations:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Major Street	\$ 490,539	\$ 727,059	\$ (236,520)
Revolving Loan	500	385,500	(385,000)

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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		\$	808
Deposits:			
Checking accounts	\$	4,473,533	
Savings		186,578	
Certificate of Deposit		<u>214,923</u>	<u>4,875,034</u>
Total cash and equivalents			<u>\$ 4,875,842</u>

Government-wide Statement of
Net Position Presentation:

Unrestricted	\$	4,271,481	
Restricted		<u>591,019</u>	\$ 4,862,500

Statement of Fiduciary Net Assets		<u>13,342</u>
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Total cash and equivalents		<u>\$ 4,875,842</u>
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Investments:

U.S. government agency securities	\$	250,090
Upper Peninsula Public Power Agency		<u>344,214</u>
Total investments		<u>\$ 594,304</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, 2014

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, 2014

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	\$ 651,501	\$ 651,501
Uninsured	<u>4,224,341</u>	<u>4,178,570</u>
Total	<u>\$ 4,875,842</u>	<u>\$ 4,830,071</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 \$4,178,570 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	\$ 250,090	Counter party

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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	\$ 250,090	7/30/2018

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	\$ 250,090	AA+	S & P

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$256,508 for cemetery care as required by the nature of the fund.
2. The Mary Cretens Trust Fund in the amount of \$334,511 for community maintenance and improvements as required by the nature of the fund.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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 has contributed cash and equipment as part of its investment in UPPPA. Neither UPPPA or ATC are publicly traded companies, therefore, the investment is non-risk categorized and the City is at risk for the underlying value of the issuer, including all related risks. At March 31, 2014 the value of the investment was \$344,214 and was based upon the value as reported in UPPPA's December 31, 2013 audit, 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, 2014

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
2013	94,803,405	6,911,937	101,715,342

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, 2014

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	L.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, 2014

NOTE D – PROPERTY TAXES (continued)

Year	City Tax	School *	Schools			Total Local Taxes	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt					
1991	17.0000	37.0772	-	-	-	54.0772	2.5000	7.1000	2.6500	66.3272
1992	17.0000	37.0522	-	-	-	54.0522	2.5000	7.1000	2.6500	66.3022
1993	16.6575	35.6443	-	-	-	52.3018	2.4055	7.0873	2.5501	64.3447
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	53.7508
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	3.2735	7.0483	2.5124	54.6508
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	3.3735	7.0483	2.5124	54.2748
1997	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1998	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1999	16.1065	-	18.0000	6.0000	8.5600	48.6665	3.3600	7.0107	2.4917	61.5289
2000	15.9180	-	18.0000	6.0000	8.5600	48.4780	3.3585	6.6319	2.4807	60.9491
2001	15.6744	-	18.0000	6.0000	8.5600	48.2344	3.3511	6.6112	2.4695	60.6662
2002	15.6680	-	18.0000	6.0000	8.5600	48.2280	3.3506	6.6097	2.4596	60.6479
2003	15.6303	-	18.0000	5.0000	8.5600	47.1903	3.5000	6.5719	2.4375	59.6997
2004	15.6303	-	18.0000	6.0000	8.5600	48.1903	3.5000	6.5455	2.4191	60.6549
2005	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2006	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2007	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5225	7.5897	2.3854	61.5597
2008	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5149	7.5897	2.3851	61.5518
2009	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5109	7.4397	2.3851	61.3978
2010	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5111	7.4317	2.3851	61.3900
2011	15.5021	-	17.5669	6.0000	7.0000	46.0690	3.3076	7.6317	2.3851	59.3934
2012	13.6785	-	17.5669	6.0000	6.6500	43.8954	3.3076	7.6317	2.3851	57.2198
2013	13.6785	-	18.0000	6.0000	6.6500	44.3285	3.3076	7.4317	2.3851	57.4529

* 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, 2014 were as follows: General Fund \$1,242,224 and the DDA Fund capture from the summer and winter levy's was \$254,605.

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. In 2014 all of the loans were repaid with the exception of one (which will be paid off in 2015) and the City approved pooling their revolving loan funds with other municipalities which will be administered by a third party.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

NOTE E – LONG-TERM RECEIVABLES (continued)

Business-Type Activities:

The Economic Development Corporation has made loans to various local businesses to assist in capital asset acquisitions or for operational needs. All of these loans were repaid in 2014.

The City has elected to internally finance four different capital purchases through the Electric Fund. The terms of the note receivable to the Electric Fund are the same as listed in Note J.

Remaining principal payments to be received as of March 31, 2014 are as follows:

Year Ending March 31	Amount
2015	\$ 71,341
2016	72,773
2017	74,234
2018	75,725
2019	77,249
Thereafter	146,024
Total	\$ 517,346

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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, 2014, was as follows:

	Balance at April 1, 2013	Additions	Transfers/ Disposals	Balance at March 31, 2014
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	136,014	-	415,962
Buildings	2,999,374	40,015	36,844	3,002,545
Machinery and equipment	2,809,994	119,201	52,992	2,876,203
Infrastructure-road system	12,337,562	493,093	-	12,830,655
Infrastructure-other	1,520,203	-	-	1,520,203
Total depreciable capital assets	<u>19,947,081</u>	<u>788,323</u>	<u>89,836</u>	<u>20,645,568</u>
Total capital assets	<u>21,566,708</u>	<u>788,323</u>	<u>89,836</u>	<u>22,265,195</u>
Less accumulated depreciation:				
Land improvements	155,716	10,395	-	166,111
Buildings	1,808,313	51,138	36,844	1,822,607
Machinery and equipment	2,258,288	99,687	52,992	2,304,983
Infrastructure-road system	10,153,347	165,638	-	10,318,985
Infrastructure-other	458,095	65,709	-	523,804
Total accumulated depreciation	<u>14,833,759</u>	<u>392,567</u>	<u>89,836</u>	<u>15,136,490</u>
Net depreciable capital assets	<u>5,113,322</u>	<u>395,756</u>	<u>-</u>	<u>5,509,078</u>
Governmental activities capital assets, net	<u>\$ 6,732,949</u>	<u>\$ 395,756</u>	<u>\$ -</u>	<u>\$ 7,128,705</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

NOTE F – CAPITAL ASSETS (continued)

	Balance at April 1, 2013	Transfers/ Additions	Transfers/ Disposals	Balance at March 31, 2014
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 236,836	\$ -	\$ -	\$ 236,836
Construction in progress	-	25,000	-	25,000
Total non-depreciable capital assets	<u>236,836</u>	<u>25,000</u>	<u>-</u>	<u>261,836</u>
Capital assets being depreciated:				
Buildings	1,053,213	-	-	1,053,213
Machinery and equipment	1,463,854	48,658	23,299	1,489,213
Infrastructure - other	-	424,293	-	424,293
Distribution/collection system	16,513,695	131,979	13,274	16,632,400
Total depreciable capital assets	<u>19,030,762</u>	<u>604,930</u>	<u>36,573</u>	<u>19,599,119</u>
Total capital assets	<u>19,267,598</u>	<u>629,930</u>	<u>36,573</u>	<u>19,860,955</u>
Less accumulated depreciation:				
Buildings	261,960	41,196	-	303,156
Machinery and equipment	814,664	82,768	23,299	874,133
Infrastructure - other	-	7,072	-	7,072
Distribution/collection system	9,890,223	295,672	11,863	10,174,032
Total accumulated depreciation	<u>10,966,847</u>	<u>426,708</u>	<u>35,162</u>	<u>11,358,393</u>
Net depreciable capital assets	<u>8,063,915</u>	<u>178,222</u>	<u>1,411</u>	<u>8,240,726</u>
Business-type activities capital assets, net	<u>\$ 8,300,751</u>	<u>\$ 203,222</u>	<u>\$ 1,411</u>	<u>\$ 8,502,562</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
General government	\$ 24,399
Public health and safety	52,379
Parks and recreation	105,631
Cemetery	2,284
Community development	1,115
Internal service activity	33,596
Street system	<u>173,163</u>
Total governmental activities	
depreciation expense	<u>\$ 392,567</u>
Business-type activities:	
Electric	\$ 182,903
Waste water	115,710
Water	83,840
Solid waste	32,603
Harbor	10,605
Development	<u>1,047</u>
Total business-type activities	
depreciation expense	<u>\$ 426,708</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

NOTE F – CAPITAL ASSETS (continued)

In 2014, the City reallocated fixed assets between governmental activities and business-type activities. The primary transfer was for assets related to the Solid Waste fund, which was converted from a special revenue fund to an enterprise fund which had a net book value of approximately 347,000.

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.

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, 2013 actuarial valuation report.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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, 2013. 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 2014, 2015 and 2016 the wage inflation assumption is 1%, 2% and 3%, respectively, instead of 4.5%. This assumption was first used for the December 31, 2013 actuarial valuations. For the 2013 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, 2013 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 12/31/13)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 7,846,577
Terminated employees not yet receiving benefits	71,330
Current Employees:	
Accumulated employee contributions including allocated investment income	18,470
Employer financed	4,133,260
	<hr/>
Total actuarial liability	12,069,637
	<hr/>
Net assets available for benefits, at actuarial value (market value is \$5,623,632)	5,971,397
	<hr/>
Unfunded (overfunded) actuarial accrued liability	\$ 6,098,240
	<hr/>

GASB 27 INFORMATION (AS OF 12/31/13)

Fiscal year beginning	April 1, 2015
Annual required contribution (ARC)	\$ 697,812
Amortization factor used - underfunded liabilities (30 year level \$)	0.085453

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

NOTE G – RETIREMENT PLANS (continued)

Funding Policy – For the year ended March 31, 2014, the City was required to contribute for the Police-Fire, General Other and General Supervisors divisions a monthly amount of \$15,065, \$11,352 and \$19,657, respectively, due to the fact that those groups were closed to new hires. During 2014, 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, 2013 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities were amortized over 11 years for the General Other and General Supervisors groups and 18 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>
2011	\$ 426,336	100%	\$ -
2012	488,636	100%	-
2013	547,596	100%	-

The City was required to contribute \$552,888 for the year ended March 31, 2014. Payments were based on contribution calculations made by MERS. Employee contributions for 2014 amounted to \$9,870.

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>
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%
2013	5,971,397	12,069,637	6,098,240	50%	860,118	709%

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, 2014

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.

<u>Year Ended March 31,</u>	<u>Number of Participants</u>	<u>City's Share</u>	<u>Employee's Share</u>
2012	22	\$ 118,038	\$ 30,980
2013	26	113,393	31,051
2014	24	127,136	34,811

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 \$133,800 are reported under governmental activities and \$133,849 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, 2014

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, 2014, the City Plan had 32 active plan members and 16 retirees and beneficiaries receiving benefits.

Funding Policy – For the year ended March 31, 2014 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 2014, the City contributed \$166,533 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	31,857
Adjustment to annual required contribution	(40,469)
Annual OPEB cost (expense)	<u>327,345</u>
Contributions made	(166,533)
Increase in net OPEB obligation	<u>160,812</u>
Net OPEB obligation - beginning of year	<u>796,434</u>
Net OPEB obligation - end of year	<u><u>\$ 957,246</u></u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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>
2012	\$ 387,442	45%	\$ 654,382
2013	328,881	57%	796,436
2014	327,345	51%	957,248

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, 2014

NOTE J – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2014:

Type of Debt	Balance April 1, 2013	Additions	Deductions	Balance March 31, 2014	Amounts Due Within One Year
Governmental Activities:					
Note - rec building	\$ 1,474	\$ -	\$ 1,474	\$ -	\$ -
Note 1 - Electric Fund	173,287	-	20,534	152,753	20,945
Note - DPW truck	-	20,485	2,046	18,439	2,783
Note - MERS	30,587	-	30,587	-	-
Note - GIS system	24,000	-	6,000	18,000	6,000
2000 B.A. bonds	470,000	-	50,000	420,000	50,000
Compensated absences	147,661	-	13,861	133,800	26,760
Total governmental long-term debt	<u>\$ 847,009</u>	<u>\$ 20,485</u>	<u>\$ 124,502</u>	<u>\$ 742,992</u>	<u>\$ 106,488</u>

Type of Debt	Balance April 1, 2013	Additions	Deductions	Balance March 31, 2014	Amounts Due Within One Year
Business-type Activities:					
Note - electric garage	\$ 461,997	\$ -	\$ 461,997	\$ -	\$ -
Note - truck	2,898	-	2,898	-	-
Note - utility software	46,955	-	4,735	42,220	4,735
Note 2 - Electric Fund	110,431	-	11,313	99,118	11,541
Note 3 - Electric Fund	178,899	-	18,327	160,572	18,697
Note 4 - Electric Fund	-	104,903	-	104,903	20,158
2006 Sludge Storage bond	845,718	-	50,000	795,718	50,000
Compensated absences	131,609	2,240	-	133,849	26,769
Total business-type long-term debt	<u>\$ 1,778,507</u>	<u>\$ 107,143</u>	<u>\$ 549,270</u>	<u>\$ 1,336,380</u>	<u>\$ 131,900</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

NOTE J – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at March 31, 2014 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2015	\$ 29,728	\$ 9,557	\$ 50,000	\$ 19,750
2016	30,208	8,028	55,000	17,125
2017	30,699	7,001	55,000	14,375
2018	25,199	5,951	60,000	11,500
2019	25,709	4,532	65,000	8,375
2020-2024	47,649	9,602	135,000	6,875
	<u>\$ 189,192</u>	<u>\$ 44,671</u>	<u>\$ 420,000</u>	<u>\$ 78,000</u>
For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2015	\$ 55,131	\$ 7,016	\$ 50,000	\$ 12,930
2016	56,144	6,002	55,000	12,118
2017	57,178	4,968	55,000	11,224
2018	58,233	3,914	55,000	10,330
2019	59,313	2,838	55,000	9,437
2020-2024	120,815	3,184	285,000	33,696
2025-2029	-	-	240,718	9,797
	<u>\$ 406,814</u>	<u>\$ 27,922</u>	<u>\$ 795,718</u>	<u>\$ 99,532</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

NOTE J – LONG-TERM DEBT (continued)

Governmental Activities:

As of March 31, 2014, 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%. This note was paid off in 2014.

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.

During the year ended March 31, 2014, the City signed an 84 month note which was used to purchase a truck. The note calls for monthly principal and interest payments of \$264 and bears an interest rate of 2.2%.

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%. This note was paid off in 2014.

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%.

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

NOTE J – LONG-TERM DEBT (continued)

Business-type Activities:

As of March 31, 2014, 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%. This note was paid off in 2014.

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. This note was paid off in 2014.

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, which was converted from a special revenue fund to an enterprise fund in 2014, therefore the debt was reclassified from governmental activities to business-type activities.

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 Solid Waste Fund, which was converted from a special revenue fund to an enterprise fund in 2014, therefore the debt was reclassified from governmental activities to business-type activities.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

NOTE J – LONG-TERM DEBT (continued)

Note 4 – Electric Fund - During the year ended March 31, 2014, the City purchased a new dock system for the harbor and financed the City's share of the project cost through the Electric Fund in the amount of \$104,903. The note calls for annual principal and interest payments of \$22,256 over 5 years and bears an interest rate of 2%. These payments are made from the Harbor Fund.

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, 2014

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 2014. The following is a breakdown of the various fund balances:

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>Major Street</u>	<u>Nonmajor Funds</u>
Nonspendable:			
Prepaid expense	\$ 34,799	\$ -	\$ -
Permanent fund principal	-	-	256,508
Restricted for:			
Street system	-	95,823	89,235
Health & welfare	-	-	29,728
Community development	-	-	335,456
Downtown development	-	-	272,033
Committed to:			
Public safety	157,366	-	-
Solid waste	-	-	-
Recreation & culture	-	-	59,456
Unassigned:	<u>303,054</u>	<u>-</u>	<u>-</u>
Total fund balance	<u><u>\$ 495,219</u></u>	<u><u>\$ 95,823</u></u>	<u><u>\$ 1,042,416</u></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 \$726,452 for governmental activities.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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, 2014 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
		General Fund	\$ 158,662
		Major Street Fund	46,013
		Local Street Fund	19,889
Electric Fund	\$ 224,564	Total	224,564
		Major Street Fund	23,134
		State Trunkline Fund	307
		Equipment Fund	154,032
General Fund	177,473		177,473
	<u>\$ 402,037</u>		<u>\$ 402,037</u>
Financial Statement Presentation:			
Governmental Funds	177,473	Governmental Funds	248,005
Enterprise Funds	224,564	Enterprise Funds	-
Internal Service Funds	-	Internal Service Funds	154,032
	<u>\$ 402,037</u>		<u>\$ 402,037</u>

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, 2014 were as follows:

		TRANSFERS IN						
		General	Major Street	Nonmajor Governmental	Solid Waste	Nonmajor Enterprise	Internal Service	Total
TRANSFERS (OUT)	General	\$ -	\$ -	\$ 116,979	\$ -	\$ -	\$ 4,582	\$ 121,561
	Major Street	-	-	35,000	-	-	-	35,000
	Nonmajor Governmental	157,943	55,000	13,637	-	114,500	-	341,080
	Electric	161,754	-	5,103	-	-	6,164	173,021
	Waste Water	30,100	-	2,949	-	-	5,239	38,288
	Water	30,100	-	2,949	-	-	5,239	38,288
	Solid Waste	43,142	-	9,500	-	-	9,780	62,422
	Nonmajor Enterprise	4,000	-	-	-	-	-	4,000
	Internal Service	5,000	-	-	2,279	-	-	7,279
	Total	\$ 432,039	\$ 55,000	\$ 186,117	\$ 2,279	\$ 114,500	\$ 31,004	\$ 820,939

TRANSFERS (OUT)

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

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	\$1,000/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, 2014

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, 2014, 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, 2014

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, 2014, the City did not expend more than \$500,000 in federal awards and therefore a single audit was not required in 2014.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

NOTE Q - CHANGE IN PRESENTATION

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. The adoption of this statement has had no significant effect 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 was implemented by the City as of fiscal year 201 and has had no significant impact on the City's financial statements.

NOTE R – UPCOMING REPORTING CHANGES

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2014

NOTE R – UPCOMING REPORTING CHANGES (continued)

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.

NOTE S – CHANGE IN FUND CLASSIFICATION

Effective April 1, 2013 the City elected to change the classification of the Solid Waste Fund from a special revenue fund to an enterprise fund. The change was made to reflect the nature of the funding source for the solid waste operations. Historically the operation was funded in part by user charges and a tax levy. In 2013 the City elected to no longer levy the tax and increase the user fee charge to cover the cost of the service as a more equitable methodology to deliver solid waste services. The City has elected to show the ending fund balance from fiscal year 2013 of \$91,159 as the beginning net position in the new enterprise fund. All assets and related debt which were reported in the governmental activities in 2013 have been transferred into the new enterprise fund for 2014.

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2014

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	465,030	465,030	480,215	15,185
Local sources	52,450	52,450	34,117	(18,333)
Taxes	1,443,332	1,443,332	1,441,706	(1,626)
Recreation	175,450	180,450	178,771	(1,679)
Public safety	79,000	71,000	34,044	(36,956)
Charges for services	80,050	80,050	88,946	8,896
Interest income	6,600	6,600	2,451	(4,149)
Miscellaneous	50,000	132,300	111,145	(21,155)
Total revenues	<u>2,351,912</u>	<u>2,431,212</u>	<u>2,371,395</u>	<u>(59,817)</u>
EXPENDITURES:				
General government:				
City commission	514,850	514,850	511,729	3,121
City manager	113,790	120,790	127,611	(6,821)
Elections	6,450	6,450	3,746	2,704
City assessor	52,250	52,250	49,718	2,532
Board of review	2,553	2,553	2,323	230
City treasurer	75,338	75,338	77,541	(2,203)
City clerk	85,015	85,015	90,042	(5,027)
City hall	39,230	39,230	41,248	(2,018)
Public health and safety:				
Police department	1,028,278	1,032,278	935,233	97,045
Fire department	187,010	190,310	167,407	22,903
Building and housing inspections	130,825	130,825	98,243	32,582
Parks and recreation:				
Recreation administrative	120,326	130,326	132,740	(2,414)
Parks	54,800	54,800	58,446	(3,646)
Beach	25,780	28,280	26,668	1,612
Sports park	97,950	97,950	104,036	(6,086)
Campground	53,100	57,400	54,045	3,355
Miscellaneous	73,265	61,865	52,868	8,997
Cemetery:				
Cemetery administrative	13,720	13,720	10,336	3,384
Ground maintenance and burials	62,800	62,800	48,991	13,809
General public works:				
Forestry	11,505	12,505	11,884	621
Sidewalks & alley maintenance	20,460	21,960	16,692	5,268
Grounds maintenance	8,685	14,335	15,954	(1,619)
Administration	-	-	3,025	(3,025)
Capital outlay	45,000	88,476	35,075	53,401
Debt service	24,000	24,000	24,000	-
Total expenditures	<u>2,846,980</u>	<u>2,918,306</u>	<u>2,699,601</u>	<u>218,705</u>
Excess revenues (expenditures)	<u>(495,068)</u>	<u>(487,094)</u>	<u>(328,206)</u>	<u>158,888</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	432,449	435,449	432,039	(3,410)
Transfer out	<u>(1,500)</u>	<u>(1,500)</u>	<u>(121,563)</u>	<u>(120,063)</u>
Total other financing sources (uses)	<u>430,949</u>	<u>433,949</u>	<u>310,476</u>	<u>(123,473)</u>
Net changes in fund balances	<u>(64,119)</u>	<u>(53,145)</u>	<u>(17,730)</u>	<u>35,415</u>
Fund balances - beginning	<u>512,949</u>	<u>512,949</u>	<u>512,949</u>	<u>-</u>
Fund balances - ending	<u>\$ 448,830</u>	<u>\$ 459,804</u>	<u>\$ 495,219</u>	<u>\$ 35,415</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND
For the Year Ended March 31, 2014

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
State sources	\$ 298,310	\$ 306,816	\$ 590,827	\$ 284,011
Local sources	38,109	37,715	37,715	-
Interest income	-	-	293	293
Miscellaneous	64,898	64,898	29,456	(35,442)
Total revenues	401,317	409,429	658,291	248,862
EXPENDITURES:				
Street system	204,255	205,476	270,046	64,570
Capital outlay	178,742	250,063	422,013	(171,950)
Total expenditures	382,997	455,539	692,059	(107,380)
Excess revenues (expenditures)	18,320	(46,110)	(33,768)	141,482
OTHER FINANCING SOURCES (USES):				
Transfer in	55,000	55,000	55,000	-
Transfer out	(45,000)	(35,000)	(35,000)	-
Total other financing sources (uses)	10,000	20,000	20,000	-
Net changes in fund balances	28,320	(26,110)	(13,768)	141,482
Fund balances - beginning	109,591	109,591	109,591	-
Fund balances - ending	\$ 137,911	\$ 83,481	\$ 95,823	\$ 141,482

CITY OF GLADSTONE, MICHIGAN

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

March 31, 2014

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
12/31/09	\$ 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%
12/31/13	5,971,397	12,069,637	6,098,240	50%	860,118	709%

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

March 31, 2014

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	-

**CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2014**

	Special Revenue Funds			
	Local Street	State Trunkline	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
ASSETS				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ -	\$ -
Unrestricted	82,436	-	3,390	26,338
Receivables:				
Accounts	-	-	-	-
Special assessments	9,104	-	-	-
Notes	-	-	-	-
Interest	-	-	-	-
Due from other governmental units	22,325	308	-	-
Prepaid expenditures	-	-	-	-
Total assets	<u>\$ 113,865</u>	<u>\$ 308</u>	<u>\$ 3,390</u>	<u>\$ 26,338</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,420	\$ -	\$ -	\$ -
Accrued payroll	3,322	-	-	-
Due to other funds	19,889	307	-	-
Unearned revenue	-	-	-	-
Total liabilities	<u>24,631</u>	<u>307</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable	-	-	-	-
Restricted	89,234	1	3,390	26,338
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	<u>89,234</u>	<u>1</u>	<u>3,390</u>	<u>26,338</u>
Total liabilities and fund balances	<u>\$ 113,865</u>	<u>\$ 308</u>	<u>\$ 3,390</u>	<u>\$ 26,338</u>

See accompanying notes to financial statements.

Special Revenue Funds			Debt Service Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Revolving Loan	Downtown Development Authority	Building Authority	Capital Projects	Cemetery Perpetual Care	
\$ 334,511	\$ -	\$ -	\$ -	\$ -	\$ 256,508	\$ 591,019
-	945	231,686	-	38,059	-	382,854
-	-	74	-	-	-	74
-	-	-	-	-	-	9,104
-	3,423	-	-	-	-	3,423
-	-	-	-	-	-	-
-	-	41,002	-	25,000	-	88,635
-	-	-	-	-	-	-
<u>\$ 334,511</u>	<u>\$ 4,368</u>	<u>\$ 272,762</u>	<u>\$ -</u>	<u>\$ 63,059</u>	<u>\$ 256,508</u>	<u>\$ 1,075,109</u>
\$ -	\$ -	\$ 469	\$ -	\$ 3,012	\$ -	\$ 4,901
-	-	260	-	591	-	4,173
-	-	-	-	-	-	20,196
-	3,423	-	-	-	-	3,423
-	3,423	729	-	3,603	-	32,693
-	-	-	-	-	256,508	256,508
334,511	945	272,033	-	-	-	726,452
-	-	-	-	59,456	-	59,456
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>334,511</u>	<u>945</u>	<u>272,033</u>	<u>-</u>	<u>59,456</u>	<u>256,508</u>	<u>1,042,416</u>
<u>\$ 334,511</u>	<u>\$ 4,368</u>	<u>\$ 272,762</u>	<u>\$ -</u>	<u>\$ 63,059</u>	<u>\$ 256,508</u>	<u>\$ 1,075,109</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended March 31, 2014

	Special Revenue Funds			
	Local Street	State Trunkline	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	144,747	4,269	-	-
Local sources	8,723	-	1,750	-
Taxes	-	-	-	-
Loan repayment	-	-	-	-
Lease income	-	-	-	-
Interest income	22	-	-	-
Miscellaneous	220	-	-	-
Total revenues	\$ 153,712	\$ 4,269	\$ 1,750	\$ -
EXPENDITURES:				
Public health and safety	\$ -	\$ -	\$ 3,495	\$ -
Cemetery	-	-	-	-
General public works	-	-	-	-
Street system	127,682	2,909	-	-
Community development	-	-	-	-
Capital outlay	71,080	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	198,762	2,909	3,495	-
Excess revenues (expenditures)	(45,050)	1,360	(1,745)	-
OTHER FINANCING SOURCES (USES):				
Loan proceeds	-	-	-	-
Transfers in	35,000	-	-	-
Transfers out	-	(1,360)	(267)	-
Total other financing sources (uses)	35,000	(1,360)	(267)	-
Net changes in fund balances	(10,050)	-	(2,012)	-
Fund balances - beginning	99,284	1	5,402	26,338
Fund balances - ending	\$ 89,234	\$ 1	\$ 3,390	\$ 26,338

See accompanying notes to financial statements.

Special Revenue Funds			Debt Service Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Revolving Loan	Downtown Development Authority	Building Authority	Capital Projects	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	50,000	-	199,016
166,979	-	3,750	-	62,810	3,815	247,827
-	-	254,608	-	-	-	254,608
-	159,843	-	-	-	-	159,843
-	-	-	72,250	-	-	72,250
1,807	7,989	1,422	-	-	1,391	12,631
-	-	4,042	-	10,605	-	14,867
<u>\$ 168,786</u>	<u>\$ 167,832</u>	<u>\$ 263,822</u>	<u>\$ 72,250</u>	<u>\$ 123,415</u>	<u>\$ 5,206</u>	<u>\$ 961,042</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,495
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	130,591
-	385,500	68,723	-	-	-	454,223
-	-	72,426	-	258,284	-	401,790
-	-	-	50,000	-	-	50,000
-	-	-	22,250	-	-	22,250
<u>-</u>	<u>385,500</u>	<u>141,149</u>	<u>72,250</u>	<u>258,284</u>	<u>-</u>	<u>1,062,349</u>
<u>168,786</u>	<u>(217,668)</u>	<u>122,673</u>	<u>-</u>	<u>(134,869)</u>	<u>5,206</u>	<u>(101,307)</u>
-	-	-	-	-	-	-
-	-	-	-	151,117	-	186,117
(144,425)	-	(193,637)	-	-	(1,391)	(341,080)
<u>(144,425)</u>	<u>-</u>	<u>(193,637)</u>	<u>-</u>	<u>151,117</u>	<u>(1,391)</u>	<u>(154,963)</u>
24,361	(217,668)	(70,964)	-	16,248	3,815	(256,270)
<u>310,150</u>	<u>218,613</u>	<u>342,997</u>	<u>-</u>	<u>43,208</u>	<u>252,693</u>	<u>1,298,686</u>
<u>\$ 334,511</u>	<u>\$ 945</u>	<u>\$ 272,033</u>	<u>\$ -</u>	<u>\$ 59,456</u>	<u>\$ 256,508</u>	<u>\$ 1,042,416</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
March 31, 2014

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 171,010	\$ 61,345	\$ 232,355
Receivables:			
Accounts	-	13,620	13,620
Total current assets	<u>171,010</u>	<u>74,965</u>	<u>245,975</u>
Noncurrent assets:			
Notes receivable	-	-	-
Capital assets	60,994	520,172	581,166
Less accumulated depreciation	<u>(33,343)</u>	<u>(93,877)</u>	<u>(127,220)</u>
Total noncurrent assets	<u>27,651</u>	<u>426,295</u>	<u>453,946</u>
Total assets	<u>\$ 198,661</u>	<u>\$ 501,260</u>	<u>\$ 699,921</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ 1,010	\$ 1,010
Accrued payroll	-	28	28
Unearned revenue	-	23,373	23,373
Notes payable	-	20,158	20,158
Total current liabilities	<u>-</u>	<u>44,569</u>	<u>44,569</u>
Noncurrent liabilities:			
Notes payable	<u>-</u>	<u>84,745</u>	<u>84,745</u>
Total liabilities	<u>\$ -</u>	<u>\$ 129,314</u>	<u>\$ 129,314</u>
NET POSITION			
Net investment in capital assets	\$ 27,651	\$ 321,392	\$ 349,043
Unrestricted	<u>171,010</u>	<u>50,554</u>	<u>221,564</u>
Total net position	<u>\$ 198,661</u>	<u>\$ 371,946</u>	<u>\$ 570,607</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, 2014

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
OPERATING REVENUES:			
Charges for services	\$ -	\$ 61,065	\$ 61,065
Miscellaneous	6,114	6,568	12,682
	<u>6,114</u>	<u>67,633</u>	<u>73,747</u>
Total operating revenue	6,114	67,633	73,747
OPERATING EXPENSES:			
Salaries and fringes	\$ -	\$ 12,778	\$ 12,778
Supplies	-	14,082	14,082
Contracted services	8,279	4,576	12,855
Repairs and maintenance	-	371	371
Utilities	-	7,668	7,668
Rent	-	356	356
Insurance	-	1,094	1,094
Depreciation	1,047	10,605	11,652
Miscellaneous	9	367	376
	<u>9,335</u>	<u>51,897</u>	<u>61,232</u>
Total operating expenses	9,335	51,897	61,232
Operating income (loss)	<u>(3,221)</u>	<u>15,736</u>	<u>12,515</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	639	-	639
	<u>639</u>	<u>-</u>	<u>639</u>
Total nonoperating revenue (expense)	639	-	639
Income (loss) before transfers, contributions and special items	(2,582)	15,736	13,154
Capital contributions	-	216,390	216,390
Transfer in	-	114,500	114,500
Transfer out	(4,000)	-	(4,000)
	<u>(4,000)</u>	<u>-</u>	<u>(4,000)</u>
Change in net position	(6,582)	346,626	340,044
Total net position - beginning	205,243	25,320	230,563
Total net position - ending	<u>\$ 198,661</u>	<u>\$ 371,946</u>	<u>\$ 570,607</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, 2014

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 109,259	\$ 60,615	\$ 169,874
Payments to suppliers	(8,288)	(12,750)	(21,038)
Payments for wages and related benefits	-	(27,504)	(27,504)
Other receipts (payments)	-	6,568	6,568
Net cash provided (used) by operating activities	100,971	26,929	127,900
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(4,000)	114,500	110,500
Net cash provided (used) by noncapital financing activities	(4,000)	114,500	110,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	-	(424,293)	(424,293)
Principal paid on debt instruments	-	-	-
Interest paid on debt instruments	-	-	-
Loan proceeds	-	104,903	104,903
Capital contributions	-	216,390	216,390
Net cash provided (used) by capital and related financing activities	-	(103,000)	(103,000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	639	-	639
Net cash provided (used) by investing activities	639	-	639
Net increase (decrease) in cash and equivalents	97,610	38,429	136,039
Cash and equivalents, beginning of year	73,400	22,916	96,316
Cash and equivalents, end of year	\$ 171,010	\$ 61,345	\$ 232,355
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (3,221)	\$ 15,736	\$ 12,515
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,047	10,605	11,652
Changes in assets and liabilities:			
(Increase) decrease in receivables	103,145	(12,867)	90,278
Increase (decrease) in accounts payable	-	1,010	1,010
Increase (decrease) in accrued payroll	-	28	28
Increase (decrease) in unearned revenue	-	12,417	12,417
Net cash provided by operating activities	\$ 100,971	\$ 26,929	\$ 127,900

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2014

ALL UTILITIES:

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

ELECTRIC UTILITY FUND:

K.W.H. purchased	33,592,723
K.W.H. sold	<u>32,461,274</u>
K.W.H. lost (3.4%)	<u>1,131,449</u>
Revenue from sales	<u>\$ 4,155,889</u>
Average number of meters	3,130
Estimated street light K.W.H. used	297,783

WATER UTILITY FUND:

Gallons pumped into plant	126,169,600
Gallons used in plant and for system maintenance	<u>13,856,218</u>
Gallons pumped to mains	112,313,382
Gallons sold	<u>101,145,400</u>
Gallons lost (9.9%)	<u>11,167,982</u>
Revenue from sales	<u>\$ 740,157</u>
Average number of meters in service	2,270

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 827,493</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
Gary E. Maynard, CPA, PFS

**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, 2014, 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 August 14, 2014.

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 2014-1 and 2014-2 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.

- 2014-1 Deficiency:** Material audit adjustments were required to properly classify and record activity.
- Criteria:** The City is required to have internal controls in place to properly record, process and report accounting data.
- Condition:** Audit adjustments were required to properly classify and record activity to present the financial statements in accordance with generally accepted accounting principles.
- Cause:** This condition was caused by the City's decision to rely on the external auditor to recommend journal entries at year-end and by the City staff not reconciling activity recorded in the general ledger.
- Effect:** The City lacks internal controls over recording and reporting accounting data.
- Recommendation:** The City should record all journal entries necessary to materially record all financial activity prior to final trial balances being produced to be used for preparation of the year-end financial statements. Also, the City should reconcile activity throughout the year to ensure the year-end trial balances are correct.
- Management Response:** Staff has made improvements in the past year. We will continue to make every effort to properly accrue all revenue and expenditures and to properly classify activity.
- 2014-2 Deficiency:** Journal entries are not being reviewed and approved by an individual independent of the journal entry activity.
- Criteria:** The City is required to have internal controls in place to properly record, process and report accounting data.
- Condition:** Journal entries are being posted to the general ledger without being reviewed and approved by an individual independent of the journal entry.
- Cause:** This condition was caused by the City's decision to rely on City Treasurer to create and post journal entries to the general ledger due to staffing limitations.
- Effect:** The City lacks internal controls over recording journal entries to the general ledger.
- Recommendation:** The City should have an individual who is independent of the journal entry review and approve all journal entries.
- 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:

Compliance Finding – Violation of Public Act 2 of 1968, as Amended

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

Condition: During the fiscal year ended March 31, 2014, expenditures were incurred in excess of amounts appropriated in the amended budgets (see footnote B for detail of funds).

Cause: This condition was caused by the City not amending the budget prior to year-end to cover expenditures.

Effect: The City is not compliant with Public Act 2.

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

Management Response: The expenditures in excess of budget occurred in the major street fund in regards to our Delta Avenue project. The other was the revolving loan fund where the money was transferred to the regional pool of money.

Compliance Finding – Timely Distribution of Tax Collections is Accordance with MCL 211.43

Criteria: The City is required to distribute tax collections to other taxing units within 10 business days after the first and fifteenth of each month.

Condition: The City did not distribute all tax collections in accordance with the above criteria.

Cause: The City staff prioritizes their duties and at times during the year they exceed the timing requirement as noted above due to other job requirements.

Effect: The City is not compliant with MCL 211.43.

Recommendation: Taxes should be distributed in accordance with the timing requirements as noted above.

Management Response: We are in compliance with MCL 211.43 but we distributed delinquent personal property taxes yearly which are minimal in total.

City of Gladstone, Michigan's Response to Findings

City of Gladstone, Michigan's response to the findings identified in our audit are described above. 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

August 14, 2014