

CITY OF GLADSTONE, MICHIGAN

BASIC FINANCIAL STATEMENTS

MARCH 31, 2015

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Gladstone, Michigan, as of and for the year ended March 31, 2015, 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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress for the retirement system and other post-employment benefits, 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 10, 2015, 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 10, 2015

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, 2015. 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 \$21,073,440. This is an increase of \$685,965 from March 31, 2014. This resulted from an increase in total assets of \$39,917 (+0.2%) and a decrease in liabilities of \$646,048 (-17.6%). The decrease in liabilities is due to the paying off of long-term debts.. Net position for our business-type activities were \$13,351,625, an increase of \$206,073 from 2014, while net position in our governmental activities were \$7,721,815, an increase of \$479,892.
- The City's expenses for the year totaled \$9,948,593 a decrease of \$82,835 over 2014. Revenue from all sources was \$10,634,558, a decrease of \$41,669 (-0.3%) from 2014.
- In the City's business-type activities, total revenues were \$6,124,664 a decrease of 8.5% over the previous year. Business-type activity revenues decreased slightly as a percentage of total revenues at 58% for 2015 and 63% for 2014. Much of the revenue decrease in the business-type activities relates to less capital contributions in the current year and a large transfer was made from the Electric Fund to the General Fund in order to pay off the public safety building bonds.
- In 2014 the City received a distribution from the Dr. Mary Cretens Trust in the amount of \$166,980, which was budgeted for expenditure in the 2015 fiscal year. In 2015 the City received \$175,297 from the Trust which was budgeted for expenditure in the 2016 fiscal year.
- The General Fund finished the year with an increase in fund balance of \$199,865 and an ending fund balance of \$695,084. This was after revenues of \$2,558,108 compared to \$2,371,395 in 2014, and expenditures of \$3,129,054 compared to expenditures of \$2,699,601 in 2014, 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 \$685,965.

Table 1
Net Position

	Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Current and other assets	\$ 1,861,320	\$ 1,819,661	\$ 6,896,607	\$ 6,590,394
Capital assets (net)	6,997,581	7,128,705	8,325,731	8,502,562
Total Assets	<u>8,858,901</u>	<u>8,948,366</u>	<u>15,222,338</u>	<u>15,092,956</u>
Long-term debt outstanding	171,126	609,192	1,097,403	1,202,532
Other liabilities	965,960	1,097,251	773,310	744,872
Total Liabilities	<u>1,137,086</u>	<u>1,706,443</u>	<u>1,870,713</u>	<u>1,947,404</u>
Net Position:				
Net investment in capital assets	6,826,455	6,519,513	7,228,328	7,300,030
Restricted:				
Expendable	900,989	726,452	-	-
Nonexpendable	260,527	256,508	-	-
Unrestricted	(266,156)	(260,550)	6,123,297	5,845,522
Total net position	<u>\$ 7,721,815</u>	<u>\$ 7,241,923</u>	<u>\$ 13,351,625</u>	<u>\$ 13,145,552</u>

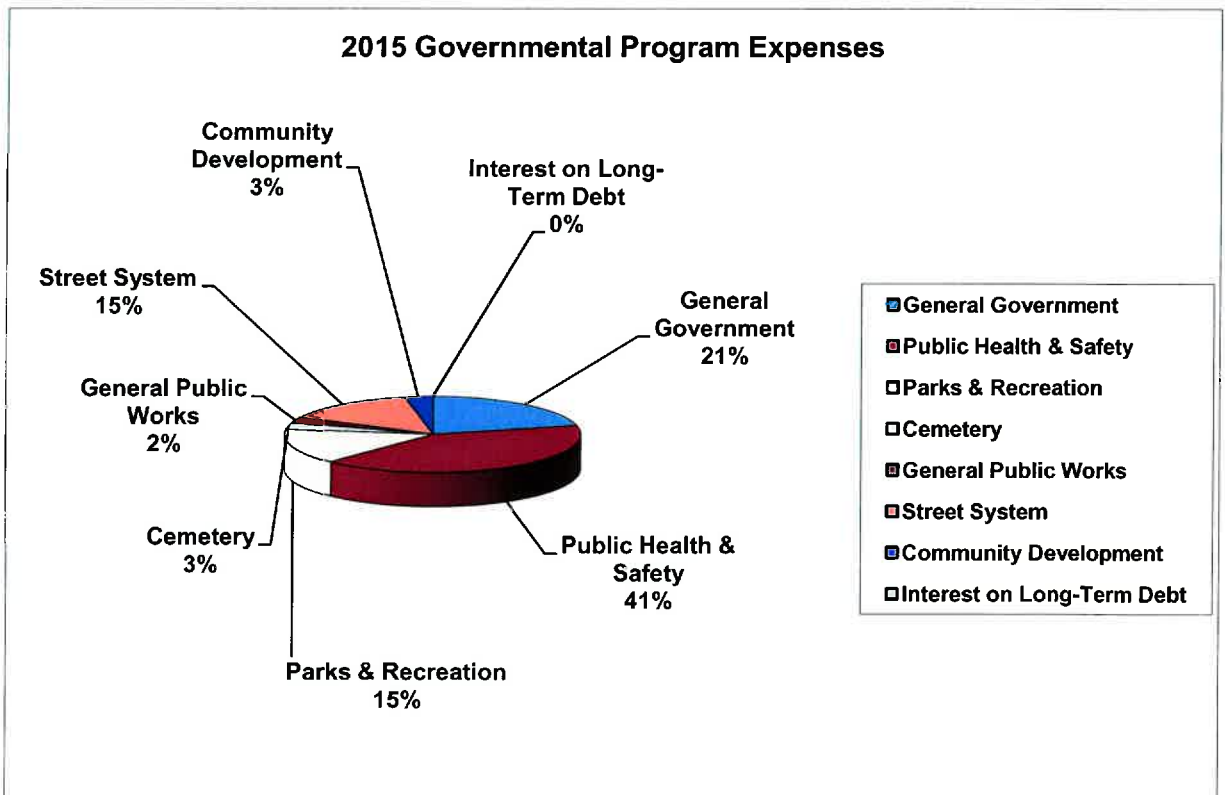
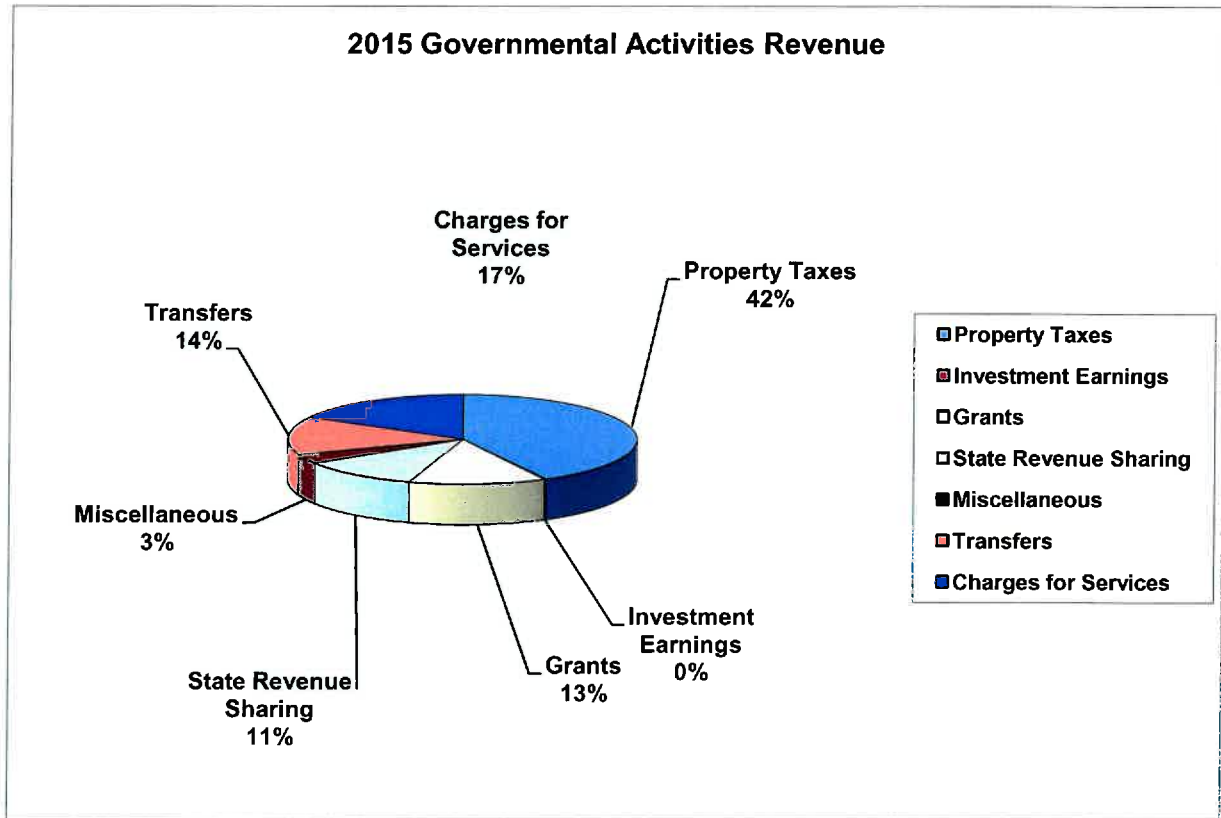
Net position of the City's governmental activities stood at \$7,721,815, up from \$7,241,923 in 2014 (+6.6%). Total of the governmental activities assets decreased by 1.0%, and total liabilities decreased by 33.4%. The ratio of assets to liabilities increased from 5.24 in 2014 to 7.79 in 2015. The large decrease in liabilities relates to a transfer from the Electric Fund which was used to pay off the Building Authority Bonds in the amount of \$420,000.

Net position in our business-type activities stood at \$13,351,625, up from \$13,145,552 in 2014. Total assets increased to \$15,222,338 from \$15,092,956 in 2014, while liabilities decreased from \$1,947,404 in 2014 to \$1,870,713 in 2015. Unrestricted net position increased from \$5,845,522 to \$6,123,297, while the amount invested in capital assets (net of related debt) decreased slightly from \$7,300,030 in 2014 to \$7,228,328 in 2015. In summary, the net position of the business lines became a little more liquid, but investments in infrastructure will pay dividends in the future.

Table 2
Changes in Net Position

Governmental Activities	Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Revenues:				
Program Revenues:				
Charges for services	\$ 763,365	\$ 447,239	\$ 6,661,557	\$ 6,499,483
Operating grants	525,087	525,859	-	-
Capital grants	40,000	391,933	14,997	298,379
General Revenues:				
Property taxes	1,896,539	1,696,314	-	-
State revenue sharing	494,359	474,906	-	-
Unrestricted grants	5,303	5,309	-	-
Unrestricted investment earnings	8,706	7,386	63,684	93,705
Miscellaneous	156,935	231,899	-	-
Total Revenues	<u>3,890,294</u>	<u>3,780,845</u>	<u>6,740,238</u>	<u>6,891,567</u>
Program Expenses:				
General government	855,145	962,620	-	-
Public health & safety	1,646,077	1,299,112	-	-
Parks & recreation	602,819	540,700	-	-
Cemetery	114,155	65,236	-	-
General public works	98,574	227,599	-	-
Street system	587,573	615,662	-	-
Community development	122,646	488,087	-	-
Interest on long-term debt	3,013	23,598	-	-
Electric	-	-	3,819,250	3,928,586
Wastewater	-	-	900,798	800,927
Water	-	-	770,638	695,415
Solid waste	-	-	355,195	322,654
Harbor	-	-	61,975	51,897
Economic development	-	-	10,735	9,335
Total Expenses	<u>4,030,002</u>	<u>4,222,614</u>	<u>5,918,591</u>	<u>5,808,814</u>
Excess (deficiency) before transfers and contributions	(139,708)	(441,769)	821,647	1,082,753
Transfers	615,574	199,238	(615,574)	(199,238)
Contributions to permanent fund	<u>4,026</u>	<u>3,815</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	479,892	(238,716)	206,073	883,515
Net position - beginning	<u>7,241,923</u>	<u>7,480,639</u>	<u>13,145,552</u>	<u>12,262,037</u>
Net position - ending	<u>\$ 7,721,815</u>	<u>\$ 7,241,923</u>	<u>\$ 13,351,625</u>	<u>\$ 13,145,552</u>

Governmental Activities



The City's total revenues were \$10,634,558, down from \$10,676,227 in 2014 (a decrease of 0.3%). The cost of all programs and services was \$9,948,593, down from \$10,031,428 in 2014 (a decrease of 0.8%). For 2015, there was an overall excess of revenues over expenses of \$685,965, compared to \$644,799 in 2014.

Governmental Activities

Revenues for the City's governmental activities totaled \$4,509,894, up 13% from \$3,983,898 in 2014 due to a transfer of approximately \$430,000 used to pay off the Building Authority bonds used to construct the public safety building. Expenses decreased by 4.6% in 2015 as compared to 2014 due in part to the transfer of revolving loan funds to a regional loan administrator in 2014.

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	
	2015	2014	2015	2014
Public health & safety	\$ 1,646,077	\$ 1,299,112	\$ 1,188,261	\$ 1,187,931
Street systems	587,573	615,662	67,375	(200,295)
Parks & recreation	602,819	540,700	392,018	295,125
General public works	98,574	227,599	98,574	227,599
General government	855,145	962,621	767,578	867,064
Totals	<u>\$ 3,790,188</u>	<u>\$ 3,645,694</u>	<u>\$ 2,513,806</u>	<u>\$ 2,377,424</u>

Business-Type Activities

Revenues for the City's business-type activities totaled \$6,124,664 down from \$6,692,329 in 2014 (-8.5%). The primary reason for the decrease in revenue relates to the large transfer from the Electric Fund to the General Fund which was used to pay off the Building Authority bonds. Business-type activity expenses increased by 1.9%.

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 \$1,916,647, an increase of \$283,189 from 2014. The combined increase in fund balance in large part comes from the street funds doing very little projects, trying to return to a positive fund balance in both major and local streets. The city needs to come up with a long term plan on how to fund street projects. The Public Works department has downsized through attrition, but will have to continue to pay the legacy costs for retiree health insurance.

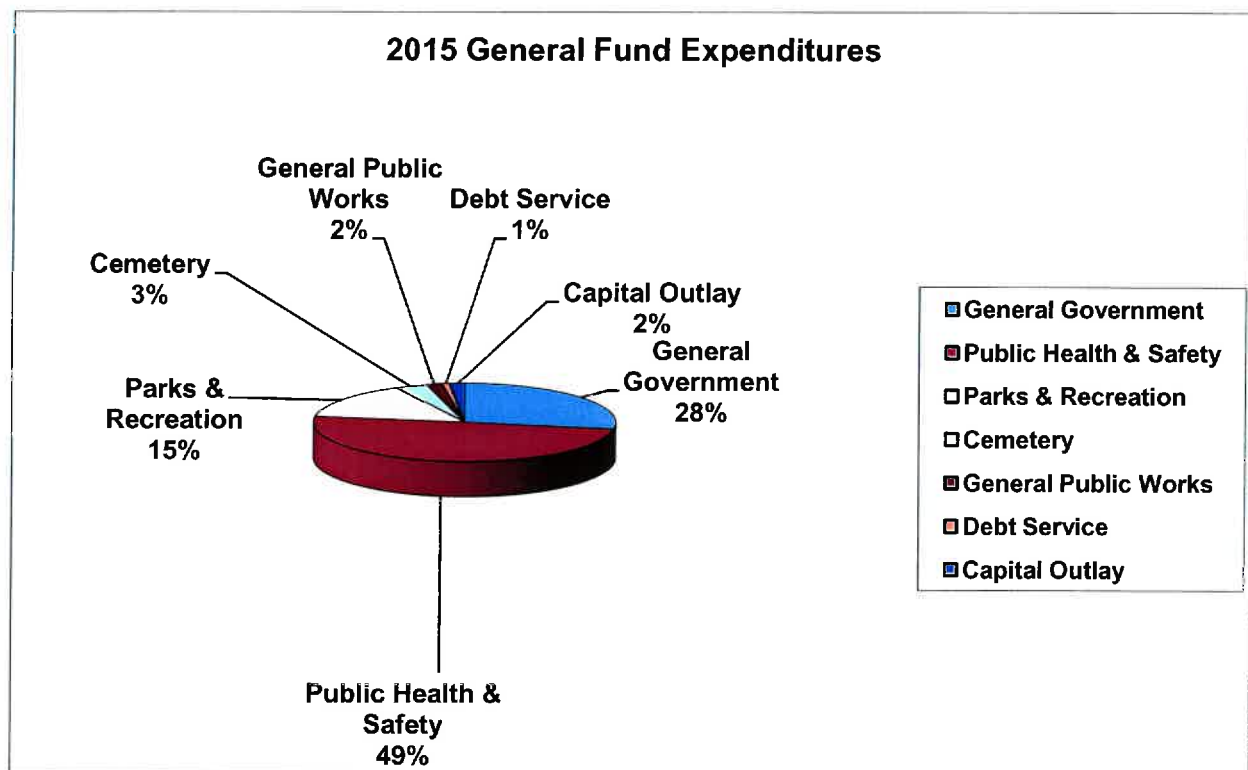
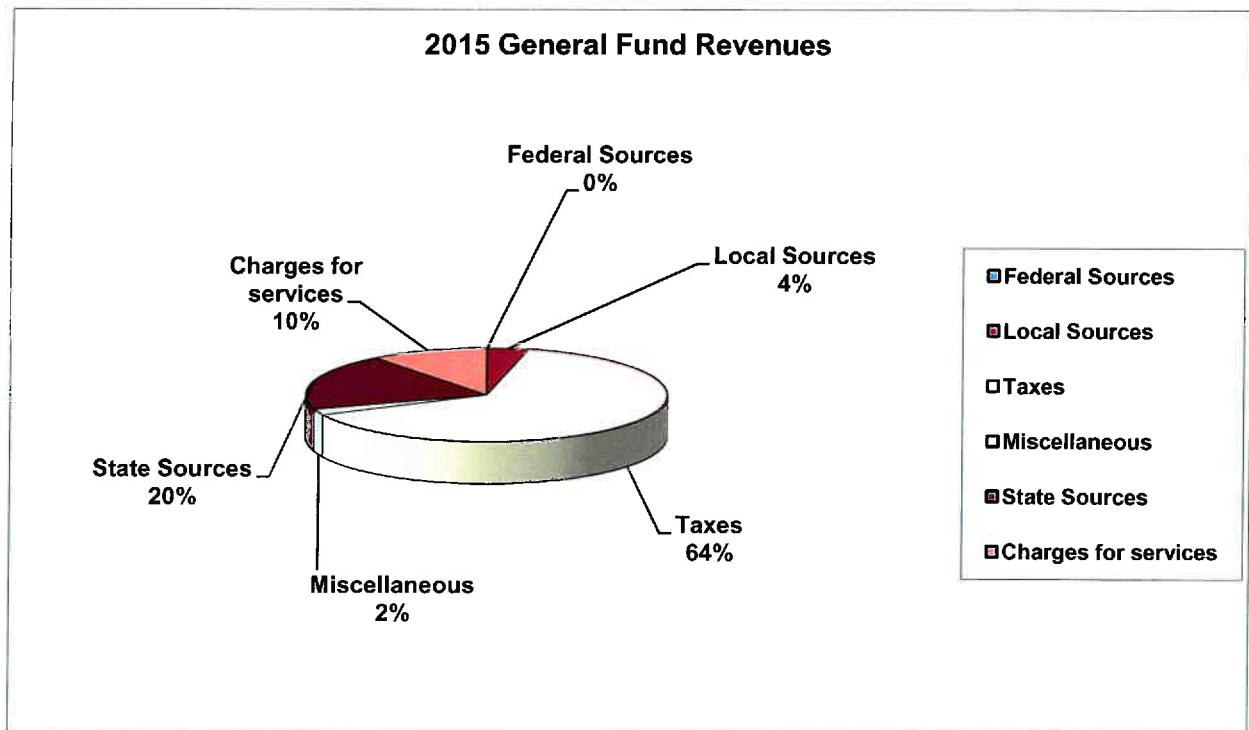
General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenditures. Revenues were less than the amended budget by \$259,690. The final revenue number of \$3,377,139 was 7% lower than the revised revenue estimate of \$3,636,829. Final revenue number being less than budget were an affect of less real property tax and Charter franchise fee revenue and less statutory and constitutional revenue sharing. The final revenue number when compared to the 2014 fiscal year was \$128,612 more than 2014. The contributing factors were increases in real and personal property taxes and statutory and constitutional revenue sharing.

Expenditures were less than the amended budget by \$299,912. The final expenditure number of \$3,177,274 was 8% lower than the revised expenditure estimate of \$3,477,186. Final expenditure numbers being less than budget were an effect of reduced expenses in public safety and community development. The final expenditure number when compared to the 2014 fiscal year was \$412,119 more than 2014. The contributing factors were increases in MERS retirement and healthcare.

The final revenues exceeded expenditures by \$199,865 for the year. This allowed us to increase our General Fund fund balance.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2015, the City had \$15,323,312, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was down from \$15,631,267 in 2014. (See table 4 below)

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

	Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Land	\$ 1,619,627	\$ 1,619,627	\$ 236,513	\$ 236,513
Construction in progress	-	-	-	25,000
Land Improvements	350,670	249,851	-	-
Buildings	1,230,653	1,179,938	780,627	750,058
Machinery & Equipment	495,940	571,220	654,294	615,081
Infrastructure - Road System	2,329,300	2,511,670	-	-
Infrastructure - Other	971,391	996,399	396,007	417,221
Distribution/Collection System	-	-	6,258,290	6,458,689
Total	\$ 6,997,581	\$ 7,128,705	\$ 8,325,731	\$ 8,502,562

DEBT

At year-end the City had \$1,268,529 in bonds and notes outstanding. This is a net decrease of \$543,195 in total long-term debt. In 2015, the City decided to use Electric Fund cash to pay off the Building Authority bonds in the amount of \$420,000 due to the high interest rates on the bonds in relation to the low interest rate earned on deposits. 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	
	2015	2014	2015	2014	2015	2014
General obligation bonds/ notes(backed by the City)	\$ 27,662	\$ 456,439	\$ 37,486	\$ 42,220	\$ 65,148	\$ 498,659
Internally financed notes	143,464	152,753	314,199	364,594	457,663	517,347
Revenue bonds and notes (backed by specific tax and fee revenues)	-	-	745,718	795,718	745,718	795,718
Totals	<u>\$ 171,126</u>	<u>\$ 609,192</u>	<u>\$ 1,097,403</u>	<u>\$ 1,202,532</u>	<u>\$ 1,268,529</u>	<u>\$ 1,811,724</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 \$348,000. From \$30,000 negative fund balance in 2009 to a positive unassigned \$484,762 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 \$371,989.

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, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,046,108	\$ 3,935,798	\$ 4,981,906	\$ 226,788
Receivables :				
Accounts	6	-	6	508
Utilities	-	1,452,744	1,452,744	-
Special assessments	26,025	-	26,025	-
Notes	-	76,425	76,425	-
Miscellaneous	29,844	15,935	45,779	-
Due from other governmental units	304,885	-	304,885	-
Prepaid items	34,039	17,312	51,351	23,665
Inventory	15,134	179,672	194,806	-
Total current assets	<u>1,456,041</u>	<u>5,677,886</u>	<u>7,133,927</u>	<u>250,961</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	629,843	-	629,843	-
Investments	-	612,919	612,919	167,973
Notes receivable	-	381,238	381,238	-
Internal balances	(224,564)	224,564	-	-
Capital assets, net of accumulated depreciation	<u>6,997,581</u>	<u>8,325,731</u>	<u>15,323,312</u>	<u>1,291,254</u>
Total noncurrent assets	<u>7,402,860</u>	<u>9,544,452</u>	<u>16,947,312</u>	<u>1,459,227</u>
Total assets	<u>\$ 8,858,901</u>	<u>\$ 15,222,338</u>	<u>\$ 24,081,239</u>	<u>\$ 1,710,188</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 49,577	\$ 109,356	\$ 158,933	\$ 6,583
Accrued payroll	63,048	37,251	100,299	-
Customer deposits	-	95,444	95,444	-
Unearned revenue	14,971	19,465	34,436	-
Other liabilities	4,564	-	4,564	57,840
Compensated absences	28,766	26,076	54,842	3,525
Bonds payable	-	55,000	55,000	-
Notes payable	33,860	56,144	90,004	-
Total current liabilities	<u>194,786</u>	<u>398,736</u>	<u>593,522</u>	<u>67,948</u>
Noncurrent liabilities:				
Compensated absences	115,066	104,305	219,371	269
OPEB obligation	689,968	381,413	1,071,381	-
Bonds payable	-	690,718	690,718	-
Notes payable	137,266	295,541	432,807	-
Total noncurrent liabilities	<u>942,300</u>	<u>1,471,977</u>	<u>2,414,277</u>	<u>269</u>
Total liabilities	<u>\$ 1,137,086</u>	<u>\$ 1,870,713</u>	<u>\$ 3,007,799</u>	<u>\$ 68,217</u>
NET POSITION				
Net investment in capital assets	\$ 6,826,455	\$ 7,228,328	\$ 14,054,783	\$ 1,291,254
Restricted for:				
Expendable	900,989	-	900,989	-
Nonexpendable	260,527	-	260,527	-
Unrestricted	<u>(266,156)</u>	<u>6,123,297</u>	<u>5,857,141</u>	<u>350,717</u>
Total net position	<u>\$ 7,721,815</u>	<u>\$ 13,351,625</u>	<u>\$ 21,073,440</u>	<u>\$ 1,641,971</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2015

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component Unit
					Primary Government			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 855,145	\$ 87,567	\$ -	\$ -	\$ (767,578)	\$ -	\$ (767,578)	\$ -
Public health and safety	1,646,077	457,301	515	-	(1,188,261)	-	(1,188,261)	-
Parks and recreation	602,819	170,801	-	40,000	(392,018)	-	(392,018)	-
Cemetery	114,155	37,930	-	-	(76,225)	-	(76,225)	-
General public works	98,574	-	-	-	(98,574)	-	(98,574)	-
Street system	587,573	6,156	514,042	-	(67,375)	-	(67,375)	-
Community development	122,647	3,610	10,530	-	(108,507)	-	(108,507)	-
Interest on long-term debt	3,013	-	-	-	(3,013)	-	(3,013)	-
Total governmental activities	4,030,002	763,365	525,087	40,000	(2,701,550)	-	(2,701,550)	-
Business-type activities:								
Electric utility	3,819,250	4,301,107	-	2,181	-	484,038	484,038	-
Waste water utility	900,798	989,602	-	1,351	-	90,155	90,155	-
Water utility	770,638	785,832	-	11,465	-	26,659	26,659	-
Solid waste	355,195	462,004	-	-	-	106,809	106,809	-
Harbor	61,975	62,390	-	-	-	415	415	-
Economic development	10,735	60,622	-	-	-	49,887	49,887	-
Total business-type activities	5,918,591	6,661,557	-	14,997	-	757,963	757,963	-
Total primary government	\$ 9,948,593	\$ 7,424,922	\$ 525,087	\$ 54,997	(2,701,550)	757,963	(1,943,587)	-
Component unit:								
Housing commission	\$ 673,902	\$ 384,443	\$ 119,494	\$ -	-	-	-	(169,965)
General revenues:								
Property taxes					1,896,539	-	1,896,539	-
State revenue sharing					494,359	-	494,359	-
Grants and contributions not restricted to specific programs					5,303	-	5,303	-
Contributions to permanent fund					4,026	-	4,026	-
Unrestricted investment earnings					8,706	63,684	72,390	1,017
Miscellaneous					156,935	-	156,935	6,399
Transfers					615,574	(615,574)	-	-
Total general revenues and transfers					3,181,442	(551,890)	2,629,552	7,416
Changes in net position					479,892	206,073	685,965	(162,549)
Net position - beginning					7,241,923	13,145,552	20,387,475	1,804,520
Net position - ending					\$ 7,721,815	\$ 13,351,625	\$ 21,073,440	\$ 1,641,971

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2015

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and equivalents:			
Restricted	\$ -	\$ 629,843	\$ 629,843
Unrestricted	487,592	558,516	1,046,108
Receivables:			
Accounts	6	-	6
Special assessments	984	25,041	26,025
Notes	-	-	-
Miscellaneous	27,259	-	27,259
Due from other governmental units	199,964	104,921	304,885
Due from other funds	198,506	-	198,506
Prepaid items	31,868	-	31,868
	<u>946,179</u>	<u>1,318,321</u>	<u>2,264,500</u>
Total assets	\$ 946,179	\$ 1,318,321	\$ 2,264,500
LIABILITIES			
Liabilities:			
Accounts payable	\$ 22,199	\$ 11,160	\$ 33,359
Accrued payroll	50,699	9,683	60,382
Due to other funds	158,662	65,902	224,564
Unearned revenue	14,971	-	14,971
Other liabilities	4,564	-	4,564
	<u>251,095</u>	<u>86,745</u>	<u>337,840</u>
Total liabilities	251,095	86,745	337,840
DEFERRED INFLOW OF RESOURCES			
Unearned revenue - other State grants	-	10,013	10,013
	<u>-</u>	<u>10,013</u>	<u>10,013</u>
FUND BALANCES			
Nonspendable	31,868	260,527	292,395
Restricted	-	900,989	900,989
Committed	178,454	60,047	238,501
Assigned	-	-	-
Unassigned	484,762	-	484,762
	<u>695,084</u>	<u>1,221,563</u>	<u>1,916,647</u>
Total fund balances	695,084	1,221,563	1,916,647
Total liabilities, deferred inflow of resources and fund balances	<u>\$ 946,179</u>	<u>\$ 1,318,321</u>	<u>\$ 2,264,500</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, 2015

Total fund balances for governmental funds	\$ 1,916,647
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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	\$ 21,039,460	
Accumulated depreciation	(14,192,624)	
Total capital assets	6,846,836	6,846,836

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.	(105,271)
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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.

Notes payable	\$ (155,464)	
OPEB obligation	(647,114)	
Compensated absences	(143,832)	(946,410)

Amount reported as a deferred inflow of resources in the fund financial statements is reported as revenue in the Statement of Activities.	10,013
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Total net position of governmental activities	\$ 7,721,815
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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, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Federal sources	\$ -	\$ -	\$ -
State sources	499,662	509,410	1,009,072
Local sources	94,879	189,853	284,732
Taxes	1,638,701	257,838	1,896,539
Charges for services	268,777	-	268,777
Lease income	-	430,458	430,458
Interest income	3,674	5,032	8,706
Miscellaneous	52,415	8,986	61,401
	<u>2,558,108</u>	<u>1,401,577</u>	<u>3,959,685</u>
Total revenues			
EXPENDITURES:			
General government	867,969	-	867,969
Public health and safety	1,548,457	-	1,548,457
Parks and recreation	480,240	-	480,240
Cemetery	103,522	-	103,522
General public works	53,996	260	54,256
Street system	-	352,562	352,562
Community development	-	118,117	118,117
Capital outlay	50,870	201,320	252,190
Debt service:			
Principal	20,945	420,000	440,945
Interest and other charges	3,055	10,458	13,513
	<u>3,129,054</u>	<u>1,102,717</u>	<u>4,231,771</u>
Total expenditures			
Excess revenues (expenditures)	<u>(570,946)</u>	<u>298,860</u>	<u>(272,086)</u>
OTHER FINANCING SOURCES (USES):			
Loan proceeds	11,656	-	11,656
Transfers in	807,375	172,890	980,265
Transfers out	(48,220)	(388,426)	(436,646)
	<u>770,811</u>	<u>(215,536)</u>	<u>555,275</u>
Total other financing sources (uses)			
Net changes in fund balances	199,865	83,324	283,189
Fund balances - beginning	<u>495,219</u>	<u>1,138,239</u>	<u>1,633,458</u>
Fund balances - ending	<u>\$ 695,084</u>	<u>\$ 1,221,563</u>	<u>\$ 1,916,647</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, 2015

Net changes in fund balances - total governmental funds	\$ 283,189
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$305,193) was exceeded by depreciation expense (\$393,463)	(88,270)
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An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities.	(88,436)
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Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:

Bond principal	420,000	
Note principal	26,945	446,945

Net change in unearned revenue which was recognized as revenue in the prior year in the Statement of Activities.	(3,423)
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Deferred inflow of resources recognized as revenue in the Statement of Activities.	10,013
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Proceeds from the issuance of debt recognized as revenue in the fund financial statements, but reported as a liability in the Statement of Net Assets.	(11,656)
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Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	(10,032)	
OPEB obligation	(68,938)	
Accrued interest on bonds	10,500	(68,470)

Changes in net position of governmental activities	\$ 479,892

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
March 31, 2015

	Electric Utility	Waste Water Utility	Water Utility
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,438,485	\$ 571,156	\$ 588,463
Receivables:			
Utilities	953,508	241,218	160,656
Special assessments	-	-	-
Notes	76,425	-	-
Miscellaneous	-	10,259	4,924
Prepaid items	6,697	5,445	2,990
Inventory	179,672	-	-
Total current assets	<u>3,654,787</u>	<u>828,078</u>	<u>757,033</u>
Noncurrent assets:			
Investments	612,919	-	-
Notes receivable	381,238	-	-
Due from other funds	224,564	-	-
Capital assets, net of accumulated depreciation	3,960,674	2,374,836	1,226,226
Total noncurrent assets	<u>5,179,395</u>	<u>2,374,836</u>	<u>1,226,226</u>
Total assets	<u><u>\$ 8,834,182</u></u>	<u><u>\$ 3,202,914</u></u>	<u><u>\$ 1,983,259</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 4,742	\$ 93,532	\$ 2,295
Accrued payroll	13,753	9,963	11,342
Customer deposits	95,444	-	-
Compensated absences	9,469	6,733	9,874
Unearned revenue	-	-	-
Bonds payable	-	55,000	-
Notes payable	4,735	-	-
Total current liabilities	<u>128,143</u>	<u>165,228</u>	<u>23,511</u>
Noncurrent liabilities:			
Due to other funds	-	-	-
Compensated absences	37,877	26,930	39,498
OPEB obligation	151,065	121,066	109,282
Bonds payable	-	690,718	-
Notes payable	32,751	-	-
Total noncurrent liabilities	<u>221,693</u>	<u>838,714</u>	<u>148,780</u>
Total liabilities	<u><u>\$ 349,836</u></u>	<u><u>\$ 1,003,942</u></u>	<u><u>\$ 172,291</u></u>
NET POSITION			
Net investment in capital assets	\$ 3,923,188	\$ 1,629,118	\$ 1,226,226
Unrestricted	4,561,158	569,854	584,742
Total net position	<u><u>\$ 8,484,346</u></u>	<u><u>\$ 2,198,972</u></u>	<u><u>\$ 1,810,968</u></u>

See accompanying notes to financial statements.

Solid Waste	Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 48,780	\$ 288,914	\$ 3,935,798	\$ -
97,362	-	1,452,744	-
-	-	-	-
-	-	76,425	-
-	752	15,935	2,585
2,180	-	17,312	2,171
-	-	179,672	15,134
<u>148,322</u>	<u>289,666</u>	<u>5,677,886</u>	<u>19,890</u>
-	-	612,919	-
-	-	381,238	-
-	-	224,564	-
<u>334,735</u>	<u>429,260</u>	<u>8,325,731</u>	<u>150,745</u>
<u>334,735</u>	<u>429,260</u>	<u>9,544,452</u>	<u>150,745</u>
<u>\$ 483,057</u>	<u>\$ 718,926</u>	<u>\$ 15,222,338</u>	<u>\$ 170,635</u>
\$ 8,693	\$ 94	\$ 109,356	\$ 16,218
2,177	16	37,251	2,666
-	-	95,444	-
-	-	26,076	-
-	19,465	19,465	-
-	-	55,000	-
<u>30,848</u>	<u>20,561</u>	<u>56,144</u>	<u>2,844</u>
<u>41,718</u>	<u>40,136</u>	<u>398,736</u>	<u>21,728</u>
-	-	-	198,506
-	-	104,305	-
-	-	381,413	42,854
-	-	690,718	-
<u>198,606</u>	<u>64,184</u>	<u>295,541</u>	<u>12,818</u>
<u>198,606</u>	<u>64,184</u>	<u>1,471,977</u>	<u>254,178</u>
<u>\$ 240,324</u>	<u>\$ 104,320</u>	<u>\$ 1,870,713</u>	<u>\$ 275,906</u>
\$ 105,281	\$ 344,515	\$ 7,228,328	\$ 135,083
<u>137,452</u>	<u>270,091</u>	<u>6,123,297</u>	<u>(240,354)</u>
<u>\$ 242,733</u>	<u>\$ 614,606</u>	<u>\$ 13,351,625</u>	<u>\$ (105,271)</u>

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended March 31, 2015

	Electric Utility	Waste Water Utility	Water Utility
OPERATING REVENUES:			
Charges for services	\$ 4,086,310	\$ 868,693	\$ 760,762
Miscellaneous	214,797	120,909	25,070
Total operating revenue	<u>4,301,107</u>	<u>989,602</u>	<u>785,832</u>
OPERATING EXPENSES:			
Salaries and fringes	590,053	390,885	376,711
Supplies	47,849	61,449	108,599
Contracted services	137,331	131,969	35,769
Repairs and maintenance	4,316	99,389	50,147
Utilities	22,214	48,402	56,959
Purchased power	2,643,503	-	-
Rent	460	4,212	9,203
Memberships and dues	6,675	4,338	1,105
Travel	6,050	-	258
Insurance	30,505	8,042	12,995
Education and training	4,985	2,036	3,133
In lieu of taxes	46,197	26,420	24,960
Energy optimization program	81,233	-	-
Landfill tipping fees	-	838	-
Depreciation	184,819	108,880	85,624
Miscellaneous	13,060	1,414	4,175
Total operating expenses	<u>3,819,250</u>	<u>888,274</u>	<u>769,638</u>
Operating income (loss)	<u>481,857</u>	<u>101,328</u>	<u>16,194</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	57,869	2,708	2,943
Interest expense	-	(12,524)	-
Total nonoperating revenue (expense)	<u>57,869</u>	<u>(9,816)</u>	<u>2,943</u>
Income (loss) before transfers, contributions and special items	539,726	91,512	19,137
Gain/(loss) on asset disposal	-	-	(1,000)
Capital contributions	2,181	1,351	11,465
Transfer in	-	11,000	61,000
Transfer out	(539,953)	(43,614)	(44,007)
Change in net position	1,954	60,249	46,595
Total net position - beginning	<u>8,482,392</u>	<u>2,138,723</u>	<u>1,764,373</u>
Total net position - ending	<u><u>\$ 8,484,346</u></u>	<u><u>\$ 2,198,972</u></u>	<u><u>\$ 1,810,968</u></u>

See accompanying notes to financial statements.

Solid Waste	Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 437,492	\$ 62,390	\$ 6,215,647	\$ 225,851
7,647	60,622	429,045	24,488
445,139	123,012	6,644,692	250,339
143,350	9,869	1,510,868	152,566
17,121	10,385	245,403	130,703
3,557	14,984	323,610	28,797
45,942	281	200,075	30,468
49	8,431	136,055	15,546
-	-	2,643,503	-
19,400	69	33,344	52
-	-	12,118	-
-	-	6,308	-
549	618	52,709	5,999
-	-	10,154	100
-	-	97,577	-
-	-	81,233	-
86,791	-	87,629	-
34,827	24,687	438,837	31,494
1,731	1,288	21,668	1,772
353,317	70,612	5,901,091	397,497
91,822	52,400	743,601	(147,158)
91	73	63,684	-
(1,878)	(2,098)	(16,500)	(3,429)
(1,787)	(2,025)	47,184	(3,429)
90,035	50,375	790,785	(150,587)
16,865	-	15,865	(9,804)
-	-	14,997	-
-	-	72,000	71,955
(53,624)	(6,376)	(687,574)	-
53,276	43,999	206,073	(88,436)
189,457	570,607	13,145,552	(16,835)
\$ 242,733	\$ 614,606	\$ 13,351,625	\$ (105,271)

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2015

	Electric Utility	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 4,071,406	\$ 861,633	\$ 755,671
Cash receipts from interfund services provided	-	-	-
Payments to suppliers	(3,013,571)	(355,876)	(288,422)
Payments for wages and related benefits	(590,027)	(375,374)	(362,982)
Cash paid for interfund services used	(46,197)	(26,420)	(24,960)
Other receipts (payments)	214,797	120,909	25,070
Net cash provided (used) by operating activities	636,408	224,872	104,377
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(539,953)	(32,614)	16,993
Interfund loan (net)	59,683	-	-
Cash received (paid) on customer deposits	27,795	-	-
Net cash provided (used) by noncapital financing activities	(452,475)	(32,614)	16,993
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	(64,184)	(16,715)	(127,105)
Principal paid on debt instruments	(4,735)	(50,000)	-
Interest paid on debt instruments	-	(12,524)	-
Loan proceeds	-	-	-
Proceeds from sale of capital assets	-	-	-
Capital contributions	2,181	1,351	11,465
Net cash provided (used) by capital and related financing activities	(66,738)	(77,888)	(115,640)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net transfers from/(to) investments	(18,615)	-	-
Interest earnings	57,869	2,708	2,943
Net cash provided (used) by investing activities	39,254	2,708	2,943
Net increase (decrease) in cash and equivalents	156,449	117,078	8,673
Cash and equivalents, beginning of year	2,282,036	454,078	579,790
Cash and equivalents, end of year	\$ 2,438,485	\$ 571,156	\$ 588,463
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 481,857	\$ 101,328	\$ 16,194
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	184,819	108,880	85,624
Changes in assets and liabilities:			
(Increase) decrease in receivables	(14,904)	(7,060)	(5,091)
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in prepaid items	72	(179)	642
(Increase) decrease in inventory	15,634	-	-
Increase (decrease) in accounts payable	(31,096)	6,392	(6,721)
Increase (decrease) in accrued payroll	(16,067)	2,614	2,087
Increase (decrease) in OPEB liability	16,093	12,897	11,642
Increase (decrease) in due to other funds	-	-	-
Increase (decrease) in unearned revenue	-	-	-
Net cash provided by operating activities	\$ 636,408	\$ 224,872	\$ 104,377

See accompanying notes to financial statements.

Solid Waste	Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 427,521	\$ 131,972	\$ 6,248,203	\$ -
-	-	-	225,851
(168,541)	(36,972)	(3,863,382)	(212,405)
(142,999)	(9,881)	(1,481,263)	(147,128)
-	-	(97,577)	-
7,647	-	368,423	66,377
123,628	85,119	1,174,404	(67,305)
(53,624)	(6,376)	(615,574)	71,955
-	-	59,683	-
-	-	27,795	-
(53,624)	(6,376)	(528,096)	71,955
(55,000)	-	(263,004)	-
(30,237)	(20,159)	(105,131)	(2,783)
(1,878)	(2,098)	(16,500)	(3,429)
-	-	-	-
16,865	-	16,865	1,562
-	-	14,997	-
(70,250)	(22,257)	(352,773)	(4,650)
-	-	(18,615)	-
91	73	63,684	-
91	73	45,069	-
(155)	56,559	338,604	-
48,935	232,355	3,597,194	-
\$ 48,780	\$ 288,914	\$ 3,935,798	\$ -
\$ 91,822	\$ 52,400	\$ 743,601	\$ (147,158)
34,827	24,687	438,837	31,494
(9,971)	12,868	(24,158)	(2,585)
-	-	-	-
(688)	-	(153)	649
-	-	15,634	-
7,287	(916)	(25,054)	383
351	(12)	(11,027)	873
-	-	40,632	4,565
-	-	-	44,474
-	(3,908)	(3,908)	-
\$ 123,628	\$ 85,119	\$ 1,174,404	\$ (67,305)

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
March 31, 2015

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 10,506
Receivables:	
Delinquent taxes	<u>101,519</u>
Total assets	<u>\$ 112,025</u>
LIABILITIES	
Due to other governmental units	<u>\$ 112,025</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

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, 2015

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, 2015

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

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, 2015

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, 2015

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 position, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net position.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. 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, 2015

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

(4) ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS 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.

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

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

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

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

Fund Financial Statements

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

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

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

- 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 \$14,971 in the General Fund and \$19,465 in the Harbor Fund for prepaid service revenue. These amounts have been deemed measurable, but not currently available.
- j. Deferred Outflows of Resources - In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.
- k. Deferred Inflows of Resources - In addition to liabilities, the statement of net position and/or governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has other state grants related to Public Act 252 that qualify for reporting in this category.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

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

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

Fund Statements

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

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

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

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

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

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 appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

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

(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.

Expenses/Expenditures

Government-Wide Statements

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

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

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.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

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

Budgetary 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 unexpendable appropriations lapse at the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS

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

Imprest Cash		\$	918
Deposits:			
Checking accounts	\$	5,317,108	
Savings		8,101	
Certificate of Deposit		296,128	
			<u>5,621,337</u>
Total cash and equivalents			<u>\$ 5,622,255</u>
Government-wide Statement of Net Position Presentation:			
Unrestricted	\$	4,981,906	
Restricted		629,843	
			<u>\$ 5,611,749</u>
Statement of Fiduciary Net Assets			<u>10,506</u>
Total cash and equivalents			<u>\$ 5,622,255</u>
Investments:			
U.S. government agency securities		\$	250,483
Upper Peninsula Public Power Agency			<u>362,436</u>
Total investments			<u>\$ 612,919</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, 2015

NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE B – 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	\$ 554,229	\$ 554,229
Uninsured	<u>5,102,876</u>	<u>5,068,026</u>
Total	<u>\$ 5,657,105</u>	<u>\$ 5,622,255</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 \$5,102,876 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	\$ 250,483	Counter party

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE B – 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 Home Loans Bank	\$ 250,483	5/28/2019

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	\$ 250,483	AA+	S & P

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$260,527 for cemetery care as required by the nature of the fund.
2. The Mary Cretens Trust Fund in the amount of \$369,316 for community maintenance and improvements as required by the nature of the fund.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE B – 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, 2015 the value of the investment was \$362,436 and was based upon the value as reported in UPPPA's December 31, 2014 audit, which the City feels approximates market value given the annual return on this investment.

NOTE C – PROPERTY TAXES

(1) Tax information:

Assessment Date. December 31
Taxes payable July 10
Taxes Delinquent March 1 following date payable

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

On August 15, a 4% penalty is added.

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE C – 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
2014	95,117,711	8,423,595	103,541,306

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, 2015

NOTE C – 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, 2015

NOTE C – 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
2014	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.4317	2.3851	59.2165

* 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, 2015 were as follows: General Fund \$1,439,497 and the DDA Fund capture from the summer and winter levy's was \$264,014.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE D – LONG-TERM RECEIVABLES

Business-Type Activities:

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 I.

Remaining principal payments to be received as of March 31, 2015 are as follows:

Year Ending March 31	Amount
2016	\$ 76,425
2017	77,959
2018	80,004
2019	77,249
2020	56,958
Thereafter	89,068
Total	<u>\$ 457,663</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE E – 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, 2015, was as follows:

	Balance at April 1, 2014	Additions	Transfers/ Disposals	Balance at March 31, 2015
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,619,627	\$ -	\$ -	\$ 1,619,627
Construction in progress	-	-	-	-
Total non-depreciable capital assets	1,619,627	-	-	1,619,627
Capital assets being depreciated:				
Land improvements	415,962	116,385	-	532,347
Buildings	3,002,545	112,552	19,544	3,095,553
Machinery and equipment	2,876,203	34,539	82,671	2,828,071
Infrastructure-road system	12,830,655	-	-	12,830,655
Infrastructure-other	1,520,203	41,716	-	1,561,919
Total depreciable capital assets	20,645,568	305,192	102,215	20,848,545
Total capital assets	22,265,195	305,192	102,215	22,468,172
Less accumulated depreciation:				
Land improvements	166,111	15,566	-	181,677
Buildings	1,822,607	52,065	9,772	1,864,900
Machinery and equipment	2,304,983	108,231	81,083	2,332,131
Infrastructure-road system	10,318,985	182,370	-	10,501,355
Infrastructure-other	523,804	66,724	-	590,528
Total accumulated depreciation	15,136,490	424,956	90,855	15,470,591
Net depreciable capital assets	5,509,078	(119,764)	11,360	5,377,954
Governmental activities capital assets, net	\$ 7,128,705	\$ (119,764)	\$ 11,360	\$ 6,997,581

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE E – CAPITAL ASSETS (continued)

	Balance at April 1, 2014	Transfers/ Additions	Transfers/ Disposals	Balance at March 31, 2015
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	261,836	-	25,000	236,836
Capital assets being depreciated:				
Buildings	1,053,213	72,667	-	1,125,880
Machinery and equipment	1,489,213	123,404	224,189	1,388,428
Infrastructure - other	424,293	91,935	-	516,228
Distribution/collection system	16,632,400	-	52,039	16,580,361
Total depreciable capital assets	19,599,119	288,006	276,228	19,610,897
Total capital assets	19,860,955	288,006	301,228	19,847,733
Less accumulated depreciation:				
Buildings	303,156	42,098	-	345,254
Machinery and equipment	874,133	84,189	224,189	734,133
Infrastructure - other	7,072	21,215	-	28,287
Distribution/collection system	10,174,032	291,335	51,039	10,414,328
Total accumulated depreciation	11,358,393	438,837	275,228	11,522,002
Net depreciable capital assets	8,240,726	(150,831)	1,000	8,088,895
Business-type activities capital assets, net	<u>\$ 8,502,562</u>	<u>\$ (150,831)</u>	<u>\$ 26,000</u>	<u>\$ 8,325,731</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
General government	\$ 24,435
Public health and safety	58,379
Parks and recreation	111,611
Cemetery	5,125
Community development	4,016
Internal service activity	31,494
Street system	189,896
Total governmental activities	
depreciation expense	<u>\$ 424,956</u>
Business-type activities:	
Electric	\$ 184,819
Waste water	108,880
Water	85,624
Solid waste	34,827
Harbor	23,640
Development	1,047
Total business-type activities	
depreciation expense	<u>\$ 438,837</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE E – CAPITAL ASSETS (continued)

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 F – 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 1134 Municipal Way, Lansing, Michigan 48917.

The information that follows is based upon the December 31, 2014 actuarial valuation report.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE F – 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 2% 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, 2015

NOTE F – 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 2015 and 2016 the wage inflation assumption is 2% and 3%, respectively, instead of 4.5%. This assumption was first used for the December 31, 2012 actuarial valuations. For the 2014 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, 2014 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 12/31/14)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 8,104,150
Vested former employees not yet receiving benefits	77,221
Current Employees:	
Accumulated employee contributions including allocated investment income	28,586
Employer financed	3,997,135
	<hr/>
Total actuarial liability	12,207,092
Net assets available for benefits, at actuarial value (market value is \$5,677,689)	6,017,993
	<hr/>
Unfunded (overfunded) actuarial accrued liability	\$ 6,189,099
	<hr/>

GASB 27 INFORMATION (AS OF 12/31/14)

Fiscal year beginning	April 1, 2016
Annual required contribution (ARC)	\$ 713,160
Amortization factor used - underfunded liabilities (30 year level \$)	0.085453

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE F – RETIREMENT PLANS (continued)

Funding Policy – For the year ended March 31, 2015, the City was required to contribute for the Police-Fire, General Other and General Supervisors divisions a monthly amount of \$16,055, \$11,730 and \$17,693, respectively, due to the fact that those groups were closed to new hires. During 2015, 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, 2014 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities were amortized over 10 years for the General Other and General Supervisors groups and 16 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>
2012	\$ 488,636	100%	\$ -
2013	547,596	100%	-
2014	552,888	100%	-

The City was required to contribute \$545,395 for the year ended March 31, 2015. Payments were based on contribution calculations made by MERS. Employee contributions for 2015 amounted to \$9,991.

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>
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%
2014	6,017,993	12,207,092	6,189,099	49%	726,599	852%

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, 2015

NOTE F – 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>
2013	26	\$ 113,393	\$ 31,051
2014	24	127,136	34,811
2015	26	130,467	35,710

NOTE G – VESTED EMPLOYEE BENEFITS

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations become vested as a result of employee age and years of employment. Compensated absences in the amount of \$143,832 are reported under governmental activities and \$130,381 is reported under business-type activities in the Statement of Net Position. For governmental activities, compensated absences are liquidated by the fund the employee's regular payroll is charged to.

NOTE H – 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, 2015

NOTE H – 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 does not provide a provision for post employment health benefits. The City has agreed to provide the Supervisors group with post employment health benefits for a period of 10 years or until the age of 65, whichever comes first for those employees hired prior to March 31, 2008. Supervisory employees hired after that date are not eligible for post employment health benefits. All premium increases during that period of time will be covered by the City. As of March 31, 2015, the City Plan had 32 active plan members and 16 retirees and beneficiaries receiving benefits.

Funding Policy – For the year ended March 31, 2015 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 2015, the City contributed \$211,470 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	38,290
Adjustment to annual required contribution	(48,641)
Annual OPEB cost (expense)	<u>325,606</u>
Contributions made	(211,470)
Increase in net OPEB obligation	<u>114,136</u>
Net OPEB obligation - beginning of year	957,245
Net OPEB obligation - end of year	<u><u>\$ 1,071,381</u></u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE H – 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>
2013	\$ 328,881	57%	\$ 796,436
2014	327,345	51%	957,248
2015	325,606	65%	1,071,381

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, 2015

NOTE I – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2015:

Type of Debt	Balance April 1, 2014	Additions	Deductions	Balance March 31, 2015	Amounts Due Within One Year
Governmental Activities:					
Note 5 - Electric Fund	\$ -	\$ 11,656	\$ -	\$ 11,656	\$ 3,652
Note 1 - Electric Fund	152,753	-	20,945	131,808	21,364
Note - DPW truck	18,445	-	2,783	15,662	2,844
Note - GIS system	18,000	-	6,000	12,000	6,000
2000 B.A. bonds	420,000	-	420,000	-	-
Compensated absences	133,800	10,032	-	143,832	28,766
Total governmental long-term debt	<u>\$ 742,998</u>	<u>\$ 21,688</u>	<u>\$ 449,728</u>	<u>\$ 314,958</u>	<u>\$ 62,626</u>

Type of Debt	Balance April 1, 2014	Additions	Deductions	Balance March 31, 2015	Amounts Due Within One Year
Business-type Activities:					
Note - utility software	\$ 42,221	\$ -	\$ 4,735	\$ 37,486	\$ 4,735
Note 2 - Electric Fund	99,119	-	11,541	87,578	11,774
Note 3 - Electric Fund	160,573	-	18,697	141,876	19,074
Note 4 - Electric Fund	104,903	-	20,158	84,745	20,561
2006 Sludge Storage bond	795,718	-	50,000	745,718	55,000
Compensated absences	133,849	-	3,468	130,381	26,076
Total business-type long-term debt	<u>\$ 1,336,383</u>	<u>\$ -</u>	<u>\$ 108,599</u>	<u>\$ 1,227,784</u>	<u>\$ 137,220</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE I – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at March 31, 2015 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2016	\$ 33,860	\$ 3,185	\$ -	\$ -
2017	34,424	2,622	-	-
2018	29,478	2,047	-	-
2019	25,709	997	-	-
2020	26,565	1,386	-	-
2021	23,124	875	-	-
	<u>\$ 173,160</u>	<u>\$ 11,112</u>	<u>\$ -</u>	<u>\$ -</u>

For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
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	38,149	1,740	55,000	8,542
2021-2025	82,668	1,444	290,000	33,696
2026-2028	-	-	180,718	9,796
	<u>\$ 351,685</u>	<u>\$ 20,906</u>	<u>\$ 745,718</u>	<u>\$ 95,143</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE I – LONG-TERM DEBT (continued)

Governmental Activities:

As of March 31, 2015, the governmental activities long-term debt consisted of the following:

Notes Payable:

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, 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%.

Note 5 – Electric Fund - During the year ended March 31, 2015, the City purchased a Kubota tractor and financed part of the purchase through the Electric Fund in the amount of \$11,656. The note calls for annual principal and interest payments over 3 years and bears an interest rate of 2%. These payments are made from the City's General Fund.

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. The City paid these bonds off in 2015 in the amount of \$420,000, which is early, by a transfer from the City's Electric Fund.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE I – LONG-TERM DEBT (continued)

Business-type Activities:

As of March 31, 2015, the long-term debt of business-type activities consists of the following:

Note Payable:

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.

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%.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE I – LONG-TERM DEBT (continued)

Bonds Payable:

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

NOTE J – FUND BALANCE/RESTRICTED NET ASSETS

The City has implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, in fiscal year 2015. The following is a breakdown of the various fund balances:

	General Fund	Nonmajor Funds
Nonspendable:		
Prepaid items	\$ 31,868	\$ -
Permanent fund principal	-	260,527
Restricted for:		
Street system	-	371,989
Health & welfare	-	29,728
Community development	-	369,316
Downtown development	-	129,956
Committed to:		
Public safety	178,454	-
Solid waste	-	
Recreation & culture	-	60,047
Unassigned:	484,762	-
Total fund balance	<u>\$ 695,084</u>	<u>\$ 1,221,563</u>

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

Total net position which is restricted by enabling legislation amounted to \$900,989 for governmental activities.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE K – 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, 2015 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
General Fund	198,506	Equipment Fund	198,506
	<u>\$ 423,070</u>		<u>\$ 423,070</u>
Financial Statement Presentation:			
Governmental Funds	198,506	Governmental Funds	224,564
Enterprise Funds	224,564	Enterprise Funds	-
Internal Service Funds	-	Internal Service Funds	198,506
	<u>\$ 423,070</u>		<u>\$ 423,070</u>

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

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, 2015 were as follows:

		TRANSFERS IN				
		General	Nonmajor Governmental	Waste Water	Water	Internal Service
TRANSFERS (OUT)	General	\$ -	\$ 10,162	\$ -	\$ -	\$ 38,058
	Nonmajor Governmental	169,091	147,335	11,000	61,000	-
	Electric	526,098	5,000	-	-	8,855
	Waste Water	31,880	5,000	-	-	6,734
	Water	31,880	5,393	-	-	6,734
	Solid Waste	42,050	-	-	-	11,574
	Nonmajor Enterprise	6,376	-	-	-	-
	Internal Service	-	-	-	-	-
	Total	<u>\$ 807,375</u>	<u>\$ 172,890</u>	<u>\$ 11,000</u>	<u>\$ 61,000</u>	<u>\$ 71,955</u>
						<u>\$ 1,124,220</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE K – INTERFUND BALANCES AND TRANSFERS (continued)

A transfer from the Electric Fund to the General Fund in the amount of \$430,458 was made for the purpose of paying off the Public Safety building bonds and is considered a one-time transfer.

NOTE L – 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, 2015

NOTE L – 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, 2015, 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 M – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion on management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City at March 31, 2015.

NOTE N – 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, 2015

NOTE N – 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 O – 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, 2015, the City did not expend more than \$500,000 in federal awards and therefore a single audit was not required in 2015.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2015

NOTE P – UPCOMING REPORTING CHANGES

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.

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2015

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final	(See Note A)	
REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	483,870	483,870	499,662	15,792
Local sources	49,000	94,500	94,879	379
Taxes	1,444,915	1,644,505	1,638,701	(5,804)
Charges for services	345,100	345,100	268,777	(76,323)
Interest income	5,000	5,000	3,674	(1,326)
Miscellaneous	108,200	132,200	52,415	(79,785)
Total revenues	2,436,085	2,705,175	2,558,108	(147,067)
EXPENDITURES:				
General government:				
City commission	470,609	479,409	467,996	11,413
City manager	124,570	124,570	124,071	499
Elections	12,695	12,695	10,100	2,595
City assessor	47,190	51,607	52,784	(1,177)
Board of review	2,553	2,553	2,008	545
City treasurer	76,671	84,077	83,437	640
City clerk	90,360	90,360	90,040	320
City hall	47,434	47,434	37,533	9,901
Public health and safety:				
Police department	1,051,080	1,051,080	913,973	137,107
Fire department	128,180	558,639	531,408	27,231
Building and housing inspections	128,132	128,132	103,076	25,056
Parks and recreation:				
Recreation administrative	140,939	140,939	140,231	708
Parks	68,560	68,560	64,946	3,614
Beach	32,920	32,920	24,910	8,010
Sports park	109,100	109,100	105,877	3,223
Campground	63,970	63,970	53,851	10,119
Miscellaneous	133,015	133,673	90,425	43,248
Cemetery:				
Cemetery administrative	14,536	20,907	19,276	1,631
Ground maintenance and burials	78,653	86,094	84,246	1,848
General public works:				
Forestry	17,120	17,120	12,950	4,170
Sidewalks & alley maintenance	33,667	33,667	20,718	12,949
Grounds maintenance	15,728	24,223	20,328	3,895
Capital outlay	57,000	57,000	50,870	6,130
Debt service	24,000	24,000	24,000	-
Total expenditures	2,968,682	3,442,729	3,129,054	313,675
Excess revenues (expenditures)	(532,597)	(737,554)	(570,946)	166,608
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	11,656	11,656
Transfer in	501,195	931,654	807,375	(124,279)
Transfer out	(5,375)	(34,457)	(48,220)	(13,763)
Total other financing sources (uses)	495,820	897,197	770,811	(126,386)
Net changes in fund balances	(36,777)	159,643	199,865	40,222
Fund balances - beginning	495,219	495,219	495,219	-
Fund balances - ending	\$ 458,442	\$ 654,862	\$ 695,084	\$ 40,222

CITY OF GLADSTONE, MICHIGAN

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

March 31, 2015

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
12/31/10	\$ 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%
12/31/14	6,017,993	12,207,092	6,189,099	49%	726,599	852%

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

March 31, 2015

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, 2015

	Special Revenue Funds				
	Major Street	Local Street	State Trunkline	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
ASSETS					
Cash and equivalents:					
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	195,775	134,456	-	3,390	26,338
Receivables:					
Accounts	-	-	-	-	-
Special assessments	18,252	6,789	-	-	-
Notes	-	-	-	-	-
Interest	-	-	-	-	-
Due from other governmental units	75,475	29,446	-	-	-
Prepaid expenditures	-	-	-	-	-
Total assets	<u>\$ 289,502</u>	<u>\$ 170,691</u>	<u>\$ -</u>	<u>\$ 3,390</u>	<u>\$ 26,338</u>
LIABILITIES					
Liabilities:					
Accounts payable	\$ 3,062	\$ 803	\$ -	\$ -	\$ -
Accrued payroll	4,209	4,215	-	-	-
Due to other funds	46,013	19,889	-	-	-
Unearned revenue	-	-	-	-	-
Total liabilities	<u>53,284</u>	<u>24,907</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOW OF RESOURCES					
Unearned revenue - other State grants	<u>7,009</u>	<u>3,004</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Nonspendable	-	-	-	-	-
Restricted	229,209	142,780	-	3,390	26,338
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	<u>229,209</u>	<u>142,780</u>	<u>-</u>	<u>3,390</u>	<u>26,338</u>
Total liabilities, deferred inflow of resources and fund balances	<u>\$ 289,502</u>	<u>\$ 170,691</u>	<u>\$ -</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	
\$ 369,316	\$ -	\$ -	\$ -	\$ -	\$ 260,527	\$ 629,843
-	-	138,005	-	60,552	-	558,516
-	-	-	-	-	-	-
-	-	-	-	-	-	25,041
-	-	-	-	-	-	-
-	-	-	-	-	-	104,921
-	-	-	-	-	-	-
<u>\$ 369,316</u>	<u>\$ -</u>	<u>\$ 138,005</u>	<u>\$ -</u>	<u>\$ 60,552</u>	<u>\$ 260,527</u>	<u>\$ 1,318,321</u>
\$ -	\$ -	\$ 7,295	\$ -	\$ -	\$ -	\$ 11,160
-	-	754	-	505	-	9,683
-	-	-	-	-	-	65,902
-	-	-	-	-	-	-
-	-	8,049	-	505	-	86,745
-	-	-	-	-	-	10,013
-	-	-	-	-	260,527	260,527
369,316	-	129,956	-	-	-	900,989
-	-	-	-	60,047	-	60,047
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>369,316</u>	<u>-</u>	<u>129,956</u>	<u>-</u>	<u>60,047</u>	<u>260,527</u>	<u>1,221,563</u>
<u>\$ 369,316</u>	<u>\$ -</u>	<u>\$ 138,005</u>	<u>\$ -</u>	<u>\$ 60,552</u>	<u>\$ 260,527</u>	<u>\$ 1,318,321</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended March 31, 2015

	Special Revenue Funds				
	Major Street	Local Street	State Trunkline	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
REVENUES:					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	347,694	156,335	5,381	-	-
Local sources	-	-	-	-	-
Taxes	-	-	-	-	-
Loan repayment	-	-	-	-	-
Lease income	-	-	-	-	-
Interest income	-	45	-	-	-
Miscellaneous	1,811	1,457	-	-	-
Total revenues	\$ 349,505	\$ 157,837	\$ 5,381	\$ -	\$ -
EXPENDITURES:					
Public health and safety	\$ -	\$ -	\$ -	\$ -	\$ -
Cemetery	-	-	-	-	-
General public works	-	-	-	-	-
Street system	193,396	154,291	4,875	-	-
Community development	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Total expenditures	193,396	154,291	4,875	-	-
Excess revenues (expenditures)	156,109	3,546	506	-	-
OTHER FINANCING SOURCES (USES):					
Loan proceeds	-	-	-	-	-
Transfers in	27,277	50,000	-	-	-
Transfers out	(50,000)	-	(507)	-	-
Total other financing sources (uses)	(22,723)	50,000	(507)	-	-
Net changes in fund balances	133,386	53,546	(1)	-	-
Fund balances - beginning	95,823	89,234	1	3,390	26,338
Fund balances - ending	\$ 229,209	\$ 142,780	\$ -	\$ 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	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	509,410
175,297	-	10,530	-	-	4,026	189,853
-	-	257,838	-	-	-	257,838
-	-	-	-	-	-	-
-	-	-	430,458	-	-	430,458
2,038	104	1,538	-	-	1,307	5,032
-	-	4,540	-	1,178	-	8,986
<u>\$ 177,335</u>	<u>\$ 104</u>	<u>\$ 274,446</u>	<u>\$ 430,458</u>	<u>\$ 1,178</u>	<u>\$ 5,333</u>	<u>\$ 1,401,577</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
260	-	-	-	-	-	260
-	-	-	-	-	-	352,562
-	1,049	117,068	-	-	-	118,117
-	-	105,120	-	96,200	-	201,320
-	-	-	420,000	-	-	420,000
-	-	-	10,458	-	-	10,458
<u>260</u>	<u>1,049</u>	<u>222,188</u>	<u>430,458</u>	<u>96,200</u>	<u>-</u>	<u>1,102,717</u>
<u>177,075</u>	<u>(945)</u>	<u>52,258</u>	<u>-</u>	<u>(95,022)</u>	<u>5,333</u>	<u>298,860</u>
-	-	-	-	-	-	-
-	-	-	-	95,613	-	172,890
(142,270)	-	(194,335)	-	-	(1,314)	(388,426)
<u>(142,270)</u>	<u>-</u>	<u>(194,335)</u>	<u>-</u>	<u>95,613</u>	<u>(1,314)</u>	<u>(215,536)</u>
34,805	(945)	(142,077)	-	591	4,019	83,324
<u>334,511</u>	<u>945</u>	<u>272,033</u>	<u>-</u>	<u>59,456</u>	<u>256,508</u>	<u>1,138,239</u>
<u>\$ 369,316</u>	<u>\$ -</u>	<u>\$ 129,956</u>	<u>\$ -</u>	<u>\$ 60,047</u>	<u>\$ 260,527</u>	<u>\$ 1,221,563</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
March 31, 2015

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 215,568	\$ 73,346	\$ 288,914
Receivables:			
Accounts	-	752	752
Total current assets	<u>215,568</u>	<u>74,098</u>	<u>289,666</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	<u>26,604</u>	<u>402,656</u>	<u>429,260</u>
Total noncurrent assets	<u>26,604</u>	<u>402,656</u>	<u>429,260</u>
Total assets	<u>\$ 242,172</u>	<u>\$ 476,754</u>	<u>\$ 718,926</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ 94	\$ 94
Accrued payroll	-	16	16
Unearned revenue	-	19,465	19,465
Notes payable	<u>-</u>	<u>20,561</u>	<u>20,561</u>
Total current liabilities	<u>-</u>	<u>40,136</u>	<u>40,136</u>
Noncurrent liabilities:			
Notes payable	<u>-</u>	<u>64,184</u>	<u>64,184</u>
Total liabilities	<u>\$ -</u>	<u>\$ 104,320</u>	<u>\$ 104,320</u>
NET POSITION			
Net investment in capital assets	\$ 26,604	\$ 317,911	\$ 344,515
Unrestricted	<u>215,568</u>	<u>54,523</u>	<u>270,091</u>
Total net position	<u>\$ 242,172</u>	<u>\$ 372,434</u>	<u>\$ 614,606</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, 2015

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
OPERATING REVENUES:			
Charges for services	\$ -	\$ 62,390	\$ 62,390
Miscellaneous	60,622	-	60,622
	<u>60,622</u>	<u>-</u>	<u>60,622</u>
Total operating revenue	60,622	62,390	123,012
OPERATING EXPENSES:			
Salaries and fringes	\$ -	\$ 9,869	\$ 9,869
Supplies	-	10,385	10,385
Contracted services	9,688	5,296	14,984
Repairs and maintenance	-	281	281
Utilities	-	8,431	8,431
Rent	-	69	69
Insurance	-	618	618
Depreciation	1,047	23,640	24,687
Miscellaneous	-	1,288	1,288
	<u>-</u>	<u>1,288</u>	<u>1,288</u>
Total operating expenses	10,735	59,877	70,612
	<u>10,735</u>	<u>59,877</u>	<u>70,612</u>
Operating income (loss)	49,887	2,513	52,400
	<u>49,887</u>	<u>2,513</u>	<u>52,400</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	-	73	73
Interest expense	-	(2,098)	(2,098)
	<u>-</u>	<u>(2,098)</u>	<u>(2,098)</u>
Total nonoperating revenue (expense)	-	(2,025)	(2,025)
	<u>-</u>	<u>(2,025)</u>	<u>(2,025)</u>
Income (loss) before transfers, contributions and special items	49,887	488	50,375
	<u>49,887</u>	<u>488</u>	<u>50,375</u>
Transfer out	(6,376)	-	(6,376)
	<u>(6,376)</u>	<u>-</u>	<u>(6,376)</u>
Change in net position	43,511	488	43,999
	<u>43,511</u>	<u>488</u>	<u>43,999</u>
Total net position - beginning	198,661	371,946	570,607
	<u>198,661</u>	<u>371,946</u>	<u>570,607</u>
Total net position - ending	\$ 242,172	\$ 372,434	\$ 614,606
	<u>\$ 242,172</u>	<u>\$ 372,434</u>	<u>\$ 614,606</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, 2015

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 60,622	\$ 71,350	\$ 131,972
Payments to suppliers	(9,688)	(27,284)	(36,972)
Payments for wages and related benefits	-	(9,881)	(9,881)
Other receipts (payments)	-	-	-
Net cash provided (used) by operating activities	<u>50,934</u>	<u>34,185</u>	<u>85,119</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	<u>(6,376)</u>	<u>-</u>	<u>(6,376)</u>
Net cash provided (used) by noncapital financing activities	<u>(6,376)</u>	<u>-</u>	<u>(6,376)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	-	-	-
Principal paid on debt instruments	-	(20,159)	(20,159)
Interest paid on debt instruments	<u>-</u>	<u>(2,098)</u>	<u>(2,098)</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(22,257)</u>	<u>(22,257)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	<u>-</u>	<u>73</u>	<u>73</u>
Net cash provided (used) by investing activities	<u>-</u>	<u>73</u>	<u>73</u>
Net increase (decrease) in cash and equivalents	44,558	12,001	56,559
Cash and equivalents, beginning of year	<u>171,010</u>	<u>61,345</u>	<u>232,355</u>
Cash and equivalents, end of year	<u><u>\$ 215,568</u></u>	<u><u>\$ 73,346</u></u>	<u><u>\$ 288,914</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 49,887	\$ 2,513	\$ 52,400
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,047	23,640	24,687
Changes in assets and liabilities:			
(Increase) decrease in receivables	-	12,868	12,868
Increase (decrease) in accounts payable	-	(916)	(916)
Increase (decrease) in accrued payroll	-	(12)	(12)
Increase (decrease) in unearned revenue	<u>-</u>	<u>(3,908)</u>	<u>(3,908)</u>
Net cash provided by operating activities	<u><u>\$ 50,934</u></u>	<u><u>\$ 34,185</u></u>	<u><u>\$ 85,119</u></u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2015

ALL UTILITIES:

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

ELECTRIC UTILITY FUND:

K.W.H. purchased	33,145,740
K.W.H. sold	<u>31,689,978</u>
K.W.H. lost (4.4%)	<u>1,455,762</u>
Renueue from sales	<u>\$ 4,086,310</u>
Average number of meters	2,920

WATER UTILITY FUND:

Gallons pumped into plant	131,707,300
Gallons used in plant, system maintenance & let runs	<u>13,654,325</u>
Gallons pumped to mains	118,052,975
Gallons sold	<u>100,796,552</u>
Gallons lost (13%)	<u>17,256,423</u>
Revenue from sales	<u>\$ 760,762</u>
Average number of meters in service	2,270

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 868,693</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

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, 2015, 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 10, 2015.

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 below, 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 deficiency 2015-1 to be a material weakness.

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.

- 2015-1 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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 engagement to 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 10, 2015