

CITY OF GLADSTONE, MICHIGAN

**BASIC FINANCIAL STATEMENTS
with Supplemental Information**

March 31, 2023

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	19
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	21
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	22
Statement of Net Position - Proprietary Funds	23
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25
Statement of Fiduciary Net Position	26
Statement of Changes in Fiduciary Net Position	27
Notes to the Basic Financial Statements	28
Required Supplementary Information:	
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
General Fund	70
Major Street Fund	71
Local Street Fund	72
Schedule of Changes in Net Pension Liability and Related Ratios-Retirement System	73
Schedule of Employer Contributions Retirement System	74

TABLE OF CONTENTS

	<u>Page</u>
Other Supplementary Information:	
Combining Balance Sheet - Nonmajor Governmental Funds	75
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	77
Combining Statement of Net Position - Nonmajor Proprietary Funds	79
Combining Statement of Revenues, Expenses and Changes in Net Position - Nonmajor Proprietary Funds	80
Combining Statement of Cash Flows - Nonmajor Proprietary Funds	81
Other Information:	
Utility Funds Schedule of Operating Statistics (Unaudited)	82
Schedule of State Equalized Valuation & Taxable Values (Unaudited)	83
Schedule of Annual Tax Rates (Per \$1,000 Valuation) (Unaudited)	84
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	86
Schedule of Findings and Responses.....	88



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

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

"A Regional Firm Within the Upper Peninsula of Michigan"

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan (the "City"), as of and for the year ended March 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan, as of March 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note A to the financial statements, during 2023, the City adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our report and the report of the other auditors, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.



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

September 12, 2023

Management's Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Gladstone's financial performance provides an overview of the City's financial activities for the fiscal year ending March 31, 2023. Please read it in conjunction with the City's financial statements, which begin on page 16.

FINANCIAL HIGHLIGHTS

- The City's net position was reported at \$22,426,761. Net position increased \$2,373,843 from March 31, 2022. Net position for our business-type activities was \$14,098,295, an increase of \$2,041,083 from 2022, while net position in our governmental activities was \$8,328,466, an increase of \$332,760 from 2022.
- The City's expenses for the year totaled \$12,068,640, an increase of \$280,758 over 2022. Revenue from all sources was \$14,442,483, an increase of \$1,807,900 from 2022.
- In the City's business-type activities, total revenues were \$8,930,433, an increase of 23% over the previous year. Business-type activity revenues as a percentage of total revenues were 62% for 2023 compared to 57% for 2022.
- The City closed on revenue bonds, funded through the Clean Water State Revolving Fund, with a total amount of \$21,305,000 to be used to pay for improvements to the City's wastewater treatment plant. As the City was determined by the State of Michigan to be a disadvantaged community, 15 percent of the final principal has been forgiven. As of March 31, 2023, the outstanding principal related to this loan, net of forgiveness, was \$5,484,993. The City Wastewater Fund recognized \$967,940 in capital contributions for fiscal year 2023 reflecting the forgiven portion of the loan principal.
- The General Fund finished the year with a decrease in fund balance of \$40,635 and an ending fund balance of \$546,021. This was after revenues of \$3,781,575 compared to \$3,779,624 in 2022, and expenditures of \$3,918,015 compared to expenditures of \$3,889,142 in 2022, exclusive of other financing sources and uses. The General Fund had net other financing sources/uses of \$95,805 in 2023 compared to \$188,395 in 2022.
- The North Bluff Special Assessment was assessed in 2023 with a certified roll of \$249,907 of which \$126,467 was collected in fiscal year 2023 and recognized as revenue in the Local Street Fund.
- In 2023, the City received \$158,433 from the Dr. Mary Cretens Trust which was budgeted for expenditure in the 2024 fiscal year. In 2022, the City received \$159,776 from the Trust which was budgeted for expenditure in the 2023 fiscal year.
- In a prior year, the City eliminated its net OPEB liability by reaching buyout agreements with all retirees and making those payments. The City also negotiated buyout agreements with active employees. Depending on the agreement, these buyouts will be paid over the next several years and are shown on the Statement of Net Position.

USING THIS REPORT

This annual report consists of financial statements. The Statement of Net Position and Statement of Activities (on pages 16 through 18) provide information about the activities of the City as a whole and present a longer term view of the City's finances. Fund financial statements start on page 19. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's Major Funds begins on page 11. The fund financial statements begin on page 19 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that the Commission is meeting legal requirements for certain taxes, grants and other money. The City's two primary types 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 left available for spending at year end. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.

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

The City as a Trustee

The City is the trustee, *or fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position on pages 26 and 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 \$2,373,843.

Table 1
Net Position

	Governmental Activities		Business-Type Activities	
	2023	2022	2023	2022
Current and other assets	\$ 3,479,914	\$ 3,617,573	\$ 9,794,988	\$ 6,016,528
Capital assets (net)	13,520,201	13,990,062	14,482,391	9,019,882
Total Assets	<u>\$ 17,000,115</u>	<u>\$ 17,607,635</u>	<u>\$ 24,277,379</u>	<u>\$ 15,036,410</u>
Deferred outflows	<u>\$ 1,152,232</u>	<u>\$ 326,802</u>	<u>\$ 514,943</u>	<u>\$ 143,402</u>
Long-term obligations	\$ 5,113,806	\$ 5,081,832	\$ 5,993,771	\$ 360,718
Other liabilities	4,325,138	4,295,169	4,405,982	2,520,098
Total Liabilities	<u>\$ 9,438,944</u>	<u>\$ 9,377,001</u>	<u>\$ 10,399,753</u>	<u>\$ 2,880,816</u>
Deferred inflows	<u>\$ 384,937</u>	<u>\$ 561,730</u>	<u>\$ 294,274</u>	<u>\$ 241,784</u>
Net Position:				
Net investment in capital assets	\$ 8,789,558	\$ 9,195,097	\$ 8,195,350	\$ 8,659,164
Restricted:				
Expendable	1,455,544	1,494,132	-	-
Nonexpendable	275,134	274,074	-	-
Unrestricted	<u>(2,191,770)</u>	<u>(2,967,597)</u>	<u>5,902,945</u>	<u>3,398,048</u>
Total net position	<u>\$ 8,328,466</u>	<u>\$ 7,995,706</u>	<u>\$ 14,098,295</u>	<u>\$ 12,057,212</u>

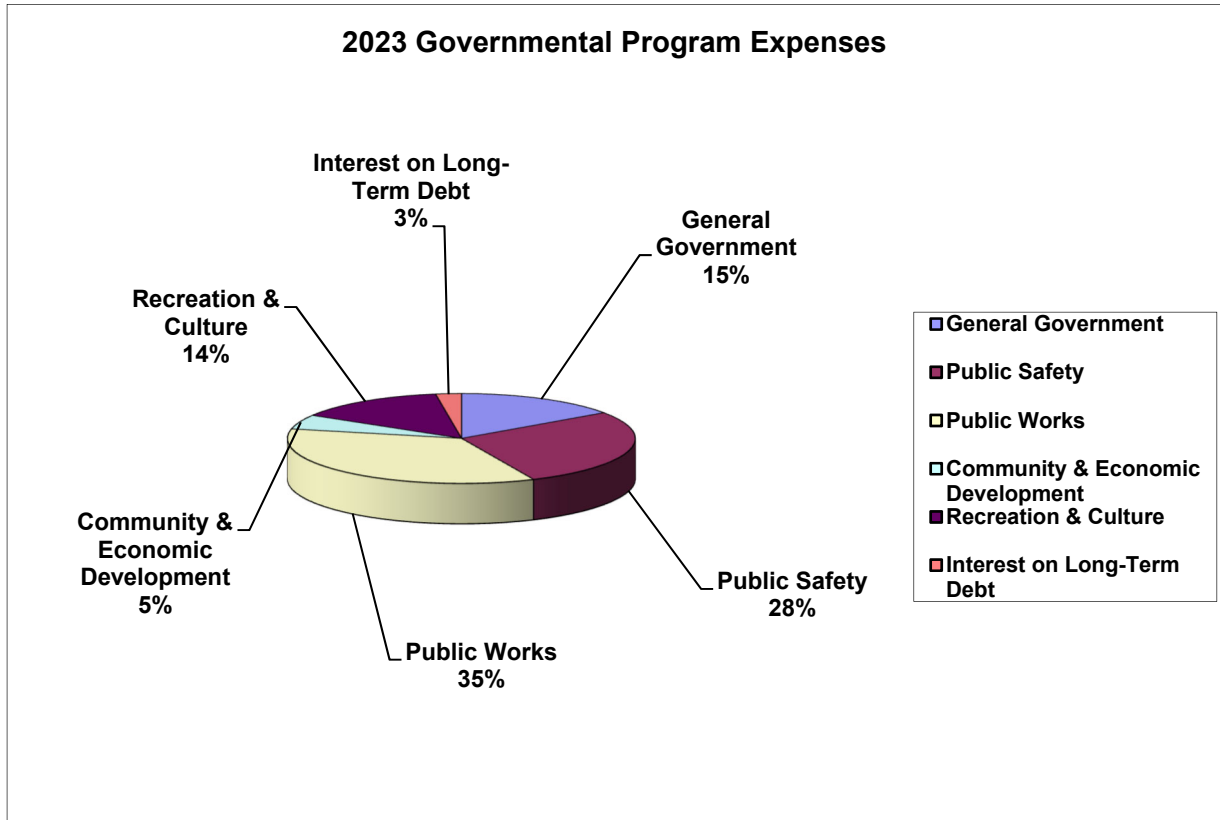
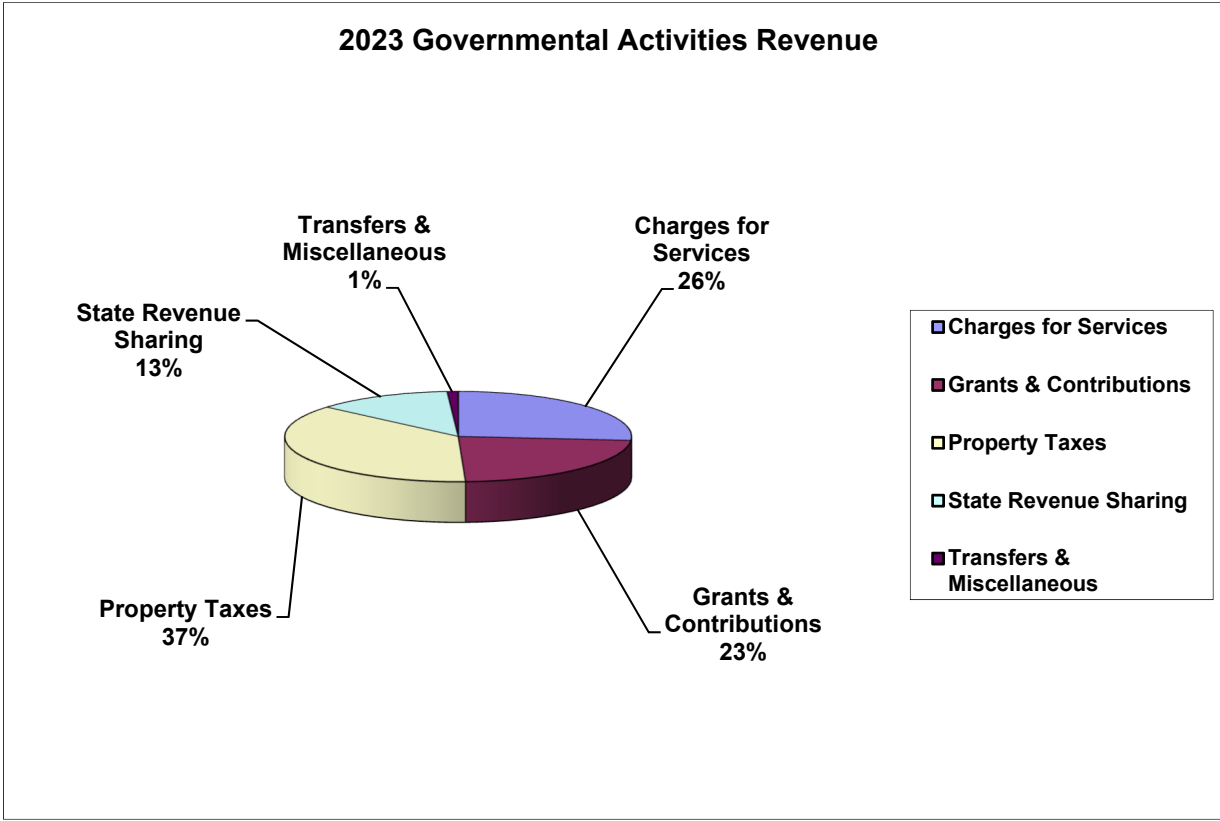
Net position of the City's governmental activities stood at \$8,328,466, up from \$7,995,706 in 2022 (4%). Total assets in governmental activities decreased by 3%, and total liabilities increased by 1%. The ratio of assets to liabilities decreased slightly from 1.88 in 2022 to 1.80 in 2023. Despite that decrease, net position is higher than last year because of the effect of deferred outflows and deferred inflows of resources, which relate mostly to the City's pension plan as detailed in Note I to the financial statements.

Net position in our business-type activities stood at \$14,098,295, up from \$12,057,212 in 2022 (17%). Total assets increased by 61%, while liabilities increased by 261% from the prior year. These increases are due to the new wastewater revenue bonds and related construction in progress for the treatment plant upgrade project. Unrestricted net position increased to \$5,902,945 from \$3,398,048 while net position invested in capital assets (net of related debt) decreased to \$8,195,350 from \$8,659,164 in 2022.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities	
	2023	2022	2023	2022
Revenues:				
Program Revenues:				
Charges for services	\$ 1,466,948	\$ 1,484,897	\$ 7,819,435	\$ 7,237,729
Operating grants	1,066,400	913,341	-	-
Capital grants	7,720	29,540	1,062,953	3,522
General Revenues:				
Property taxes	2,054,370	2,108,199	-	-
State revenue sharing	704,005	671,236	-	-
Unrestricted grants	200,849	173,300	-	-
Unrestricted investment earnings	3,334	(14,384)	40,745	(6,953)
Gain on disposal of assets	-	-	7,300	-
Miscellaneous	5,624	32,156	-	-
Total Revenues	<u>5,509,250</u>	<u>5,398,285</u>	<u>8,930,433</u>	<u>7,234,298</u>
Program Expenses:				
General government	799,328	852,856	-	-
Public safety	1,459,707	1,613,138	-	-
Public works	1,835,440	1,866,397	-	-
Community development	272,427	335,730	-	-
Recreation and culture	733,125	725,327	-	-
Interest on long-term debt	124,770	119,006	-	-
Electric	-	-	4,372,131	4,074,563
Wastewater	-	-	1,116,663	974,492
Water	-	-	835,524	701,469
Solid waste	-	-	443,870	446,765
Harbor	-	-	75,655	78,139
Total Expenses	<u>5,224,797</u>	<u>5,512,454</u>	<u>6,843,843</u>	<u>6,275,428</u>
Excess (deficiency) before transfers and contributions	284,453	(114,169)	2,086,590	958,870
Transfers	45,507	43,000	(45,507)	(43,000)
Contributions to permanent fund	2,800	2,000	-	-
Gain/(loss) on sale of fixed assets	-	-	-	-
Increase (decrease) in net position	<u>332,760</u>	<u>(69,169)</u>	<u>2,041,083</u>	<u>915,870</u>
Net position - beginning	7,995,706	7,948,324	12,057,212	11,257,893
Prior period adjustment	-	116,551	-	(116,551)
Net position - beginning, as restated	<u>7,995,706</u>	<u>8,064,875</u>	<u>12,057,212</u>	<u>11,141,342</u>
Net position - ending	<u>\$ 8,328,466</u>	<u>\$ 7,995,706</u>	<u>\$ 14,098,295</u>	<u>\$ 12,057,212</u>

GOVERNMENTAL ACTIVITIES



The City's total revenues were \$14,442,483, up from \$12,634,583 in 2022. The total cost of all programs and services was \$12,068,640, up from \$11,787,882 in 2022. There was an overall excess of revenues over expenses of \$2,373,843, compared to \$846,701 in 2022. The overall increase was due to capital contributions in the waste water fund and increased charges for services for utilities.

Governmental Activities

Revenues for the City's governmental activities totaled \$5,557,557, up 2.1% from \$5,443,285 in 2022. Expenses decreased by 5.2% or \$287,657 in 2023 as compared to 2022. Most departments saw a decrease in program expenses. Public works and public safety expenses in particular were higher in the prior year due to greater costs for repair and maintenance projects and related equipment costs.

Table 3 below reflects the cost of each of the City's governmental programs or activities, as well as each program's net cost (total cost less revenues generated by the activities). The net cost represents the financial burden that each function placed on the taxpayers.

Table 3
Government Activities

	Total Cost of Services		Net Cost of Services	
	2023	2022	2023	2022
General government	\$ 799,328	\$ 852,856	\$ 244,842	\$ 287,607
Public safety	1,459,707	1,613,138	1,396,002	1,565,917
Public works	1,835,440	1,866,397	243,220	369,332
Economic development	272,427	335,730	248,851	332,818
Recreation and culture	733,125	725,327	426,044	409,996
Interest on long-term debt	124,770	119,006	124,770	119,006
Totals	<u>\$ 5,224,797</u>	<u>\$ 5,512,454</u>	<u>\$ 2,683,729</u>	<u>\$ 3,084,676</u>

Business-Type Activities

Revenues for the City's business-type activities totaled \$8,930,433, up from \$7,234,298 in 2022 (23%). Business-type activity expenses increased by \$568,415 (9%). The increased revenues were primarily a result of the loan forgiveness in connection with the City's wastewater bonds. Both revenues and expenses also increased in the Electric Fund due to greater rates charged by the City for electric service and greater costs imposed on the City for the provision of electric power.

THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 19) reported a combined fund balance of \$2,209,170, a decrease of \$145,692 from 2022. The combined decrease in fund balance, in large part, comes from capital outlays for the road system.

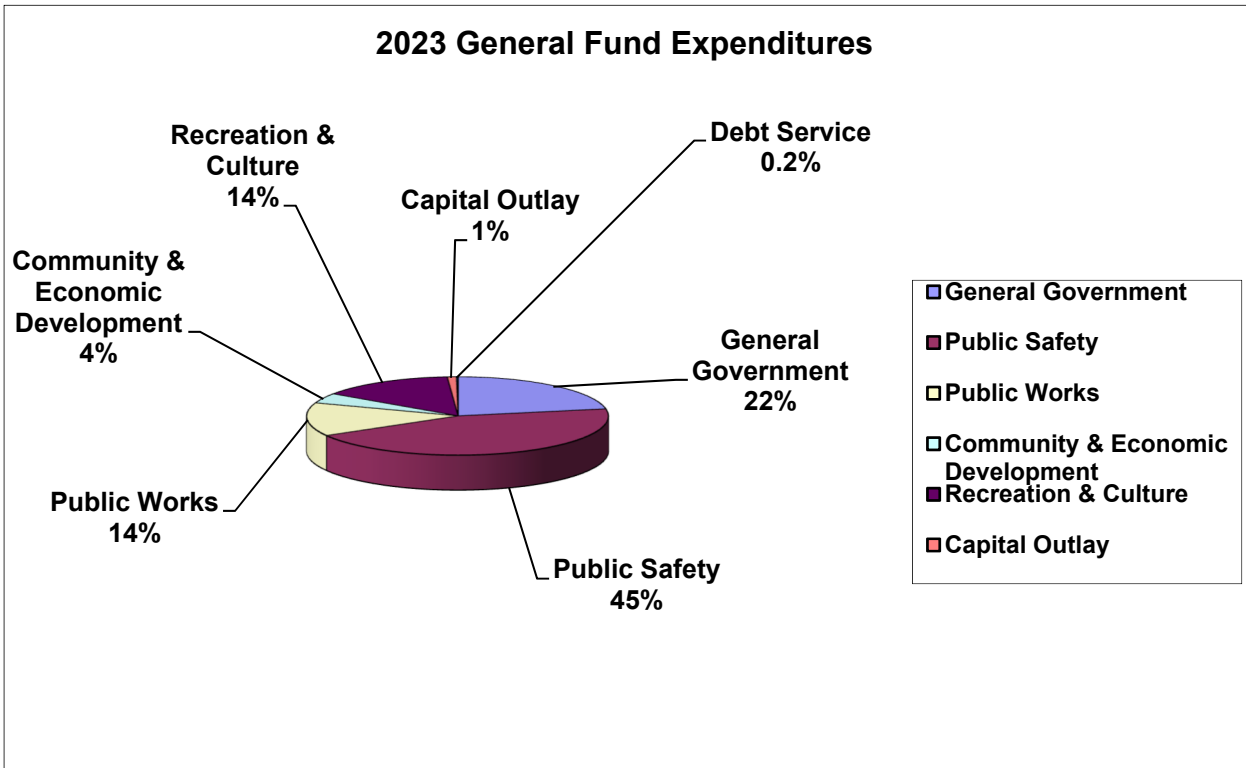
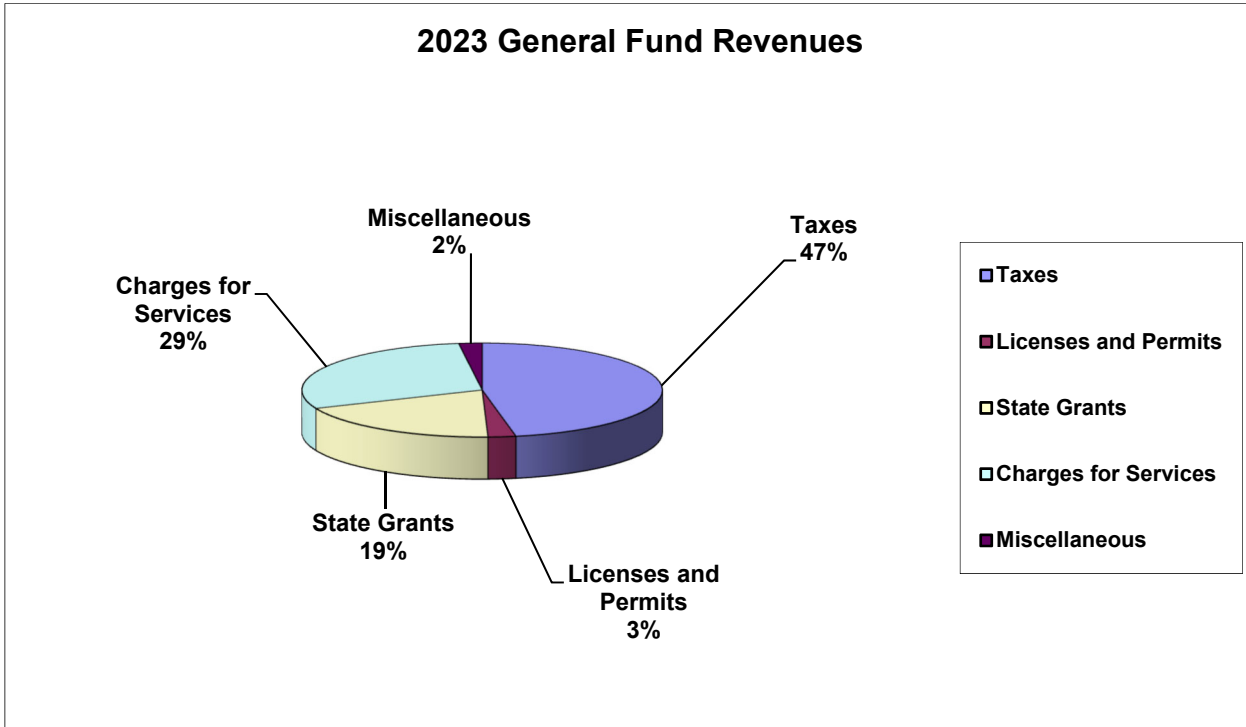
General Fund Budgetary Highlights

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 \$78,715. Total General Fund revenue of \$3,781,575 was 2% less than the revised revenue estimate of \$3,860,290. The final revenue amount was less than revised estimates primarily due to grant revenue being budgeted, but not yet recognized, in connection with the American Rescue Plan Act. Total revenue in the General Fund for 2023 was \$2,311 greater than in 2022.

Expenditures were less than the amended budget by \$275,141. Total General Fund expenditures of \$3,918,015 were 7% less than the revised expenditure estimate of \$4,193,156. Final expenditures were less than budgeted primarily due to police department expenditures being less than expected. The total General Fund expenditures for 2023 were \$28,873 more than the 2022 fiscal year expenditures.

The final expenditures exceeded revenues by \$136,440 for the year before other financing sources and uses. After factoring in the net increase of \$95,805 from other financing sources and uses, General Fund outflows exceeded inflows by \$40,635 compared to a budgeted net change in fund balance of zero.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2023, the City had \$28,002,592, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was up from \$23,009,944 in 2022. The increase primarily related to construction in progress for improvements to the wastewater treatment facility (see Table 4 below). Additional information on the City's capital assets can be found in Note E.

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

	Governmental Activities		Business-Type Activities	
	2023	2022	2023	2022
Land	\$ 2,394,627	\$ 2,394,627	\$ 236,836	\$ 236,836
Construction in progress	16,473	-	6,800,105	1,265,110
Land improvements	299,513	332,123	7,943	-
Utilities distribution/collection	-	-	5,565,943	5,636,884
Street system	7,182,430	7,279,348	-	-
Industrial park	22,067	23,822	-	-
Other infrastructure	856,739	929,405	226,289	247,504
Buildings	1,223,819	1,303,902	687,716	710,534
Machinery and equipment	228,850	272,279	287,235	183,468
Mobile equipment	626,176	693,453	24,138	26,798
Vehicles	669,507	761,103	646,186	712,748
Total	<u>\$ 13,520,201</u>	<u>\$ 13,990,062</u>	<u>\$ 14,482,391</u>	<u>\$ 9,019,882</u>

Debt

At year-end, the City had \$10,516,354 in long-term liabilities, bonds and notes outstanding. This is a net increase of \$5,073,905 in total long-term debt. The increase is due to the issuance of wastewater bonds as described above. The State of Michigan limits the amount of general obligation debt that municipalities may issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt is well below the 10% limit. Additional information on the City's debt can be found in Note F.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2023	2022	2023	2022	2023	2022
General obligation bonds/premium (backed by the City)	\$ 3,976,631	\$ 4,256,766	\$ -	\$ -	\$ 3,976,631	\$ 4,256,766
Other liabilities	-	25,000	-	-	-	25,000
Notes payable	754,012	799,965	-	-	754,012	799,965
Revenue bonds and notes (backed by specific tax and fee revenues)	-	-	5,785,711	360,718	5,785,711	360,718
Totals	\$ 4,730,643	\$ 5,081,731	\$ 5,785,711	\$ 360,718	\$ 10,516,354	\$ 5,442,449

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials will consider many factors when setting the fiscal year budget and fees that will be charged for business type activities. One of those factors is the economy. Most Michigan municipalities, including Gladstone are still struggling with the State's outdated financial system; the cost of doing business is still increasing sometimes beyond our control. Gladstone takes pride in being the "year round playground" and we will endeavor to maintain the services currently offered to our residents in the most efficient, cost effective manner to continue to make our City the community of choice in the Upper Peninsula.

The two largest sources of revenue for the General Fund are taxes and state shared revenue. The City has had development to increase the tax base, but state shared revenue is expected to remain flat or increase. Unfortunately, we were not able to attain the Commission-directed General Fund undesignated fund balance goal of 20 to 30% of the previous years audited non-capital expenditures. However, going from \$30,000 negative fund balance in 2009 to a positive unrestricted fund balance in 2023 of \$346,467 says a great deal for the General Fund. The City strives to continue to deliver the same level of service our residents expect. We continue to rely on staff and citizen input to provide ideas and opportunities for better and more efficient services.

The Major Street and Local Street Funds continue to be a concern. Over the past couple years, the Act 51 revenue has been slightly increasing but is not back to where it was a number of years ago while the cost of materials doubles. Therefore, special assessments are necessary to maintain the roads we have.

Business-type activities budgets saw rate increases. With these rate increases the city strives to maintain quality, yet affordable services to our community. The city will continually monitor costs; however, it appears that certain business type activities accounts are not yet producing enough cash to adequately plan for long-term maintenance projects. We will plan for these projects mindful of maintaining an affordable rate structure for our residents and businesses.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
March 31, 2023

	Primary Government			Component Unit
	Governmental	Business-Type		Housing
	Activities	Activities	Total	Commission
ASSETS				
Current assets:				
Cash, cash equivalents and investments	\$ 916,883	\$ 3,641,678	\$ 4,558,561	\$ 29,306
Receivables:				
Accounts and miscellaneous	23,999	13,030	37,029	76,548
Taxes	47,883	-	47,883	-
Utilities	-	1,197,983	1,197,983	-
Special assessments	688,943	-	688,943	-
Leases	-	21,307	21,307	-
Due from other governmental units	354,269	1,527,242	1,881,511	-
Internal balances	(67,009)	67,009	-	-
Prepaid items	62,966	32,031	94,997	5,023
Inventory	69,559	406,226	475,785	-
Restricted cash, cash equivalents and investments	526,307	-	526,307	-
Total current assets	<u>2,623,800</u>	<u>6,906,506</u>	<u>9,530,306</u>	<u>110,877</u>
Noncurrent assets:				
Investments	1,087,406	2,073,680	3,161,086	-
Leases receivable	-	110,759	110,759	-
Mortgage receivable	-	-	-	1,128,596
Internal balances	(704,043)	704,043	-	-
Restricted investments	472,751	-	472,751	-
Non-depreciable capital assets	2,411,100	7,036,941	9,448,041	15,325
Capital assets, net of accumulated depreciation	11,109,101	7,445,450	18,554,551	168,714
Total noncurrent assets	<u>14,376,315</u>	<u>17,370,873</u>	<u>31,747,188</u>	<u>1,312,635</u>
Total assets	<u>\$ 17,000,115</u>	<u>\$ 24,277,379</u>	<u>\$ 41,277,494</u>	<u>\$ 1,423,512</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - pension plan	<u>\$ 1,152,232</u>	<u>\$ 514,943</u>	<u>\$ 1,667,175</u>	<u>\$ -</u>

See accompanying notes to financial statements.

	Primary Government			Component
	Governmental	Business-Type	Total	Unit
	Activities	Activities		Housing
				Commission
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 42,085	\$ 2,361,523	\$ 2,403,608	\$ 15,824
Accrued interest	14,368	-	14,368	-
Accrued payroll	81,927	53,474	135,401	12,094
Customer deposits	-	76,643	76,643	4,400
Unearned revenue	183,442	208,168	391,610	683
Compensated absences	39,133	46,546	85,679	-
Employment benefits	65,000	81,000	146,000	-
Bonds payable	265,000	60,000	325,000	-
Bond premium	20,135	-	20,135	-
Notes payable	87,849	-	87,849	-
Total current liabilities	798,939	2,887,354	3,686,293	33,001
Noncurrent liabilities:				
Compensated absences	156,530	80,514	237,044	3,376
Employment benefits	122,500	-	122,500	-
Net pension liability	4,003,316	1,706,174	5,709,490	-
Bonds payable	3,470,000	5,725,711	9,195,711	-
Bond premium	221,496	-	221,496	-
Notes payable	666,163	-	666,163	-
Other liabilities	-	-	-	-
Total noncurrent liabilities	8,640,005	7,512,399	16,152,404	3,376
Total liabilities	\$ 9,438,944	\$ 10,399,753	\$ 19,838,697	\$ 36,377
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow - pension plan	\$ 384,937	\$ 162,208	\$ 547,145	\$ -
Future lease payments	-	132,066	132,066	-
Total deferred inflows of resources	\$ 384,937	\$ 294,274	\$ 679,211	\$ -
NET POSITION				
Net investment in capital assets	\$ 8,789,558	\$ 8,195,350	\$ 16,984,908	\$ 184,039
Restricted:				
Expendable	1,455,544	-	1,455,544	-
Nonexpendable	275,134	-	275,134	-
Unrestricted	(2,191,770)	5,902,945	3,711,175	1,203,096
Total net position	\$ 8,328,466	\$ 14,098,295	\$ 22,426,761	\$ 1,387,135

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2023

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Housing Commission
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 799,328	\$ 554,486	\$ -	\$ -	\$ (244,842)	\$ -	\$ (244,842)	\$ -
Public safety	1,459,707	26,956	36,749	-	(1,396,002)	-	(1,396,002)	-
Public works	1,835,440	571,726	1,020,494	-	(243,220)	-	(243,220)	-
Community and economic development	272,427	9,999	6,157	7,420	(248,851)	-	(248,851)	-
Recreation and culture	733,125	303,781	3,000	300	(426,044)	-	(426,044)	-
Interest on long-term debt	124,770	-	-	-	(124,770)	-	(124,770)	-
Total governmental activities	5,224,797	1,466,948	1,066,400	7,720	(2,683,729)	-	(2,683,729)	-
Business-type activities:								
Electric utility	4,372,131	4,568,027	-	-	-	195,896	195,896	-
Waste water utility	1,116,663	1,613,682	-	1,016,363	-	1,513,382	1,513,382	-
Water utility	835,524	1,037,191	-	46,590	-	248,257	248,257	-
Solid waste	443,870	515,848	-	-	-	71,978	71,978	-
Harbor	75,655	84,687	-	-	-	9,032	9,032	-
Total business-type activities	6,843,843	7,819,435	-	1,062,953	-	2,038,545	2,038,545	-
Total primary government	\$ 12,068,640	\$ 9,286,383	\$ 1,066,400	\$ 1,070,673	(2,683,729)	2,038,545	(645,184)	-
Component unit:								
Housing commission	\$ 346,155	\$ 125,183	\$ 50,403	\$ -	-	-	-	(170,569)
General revenues:								
Property taxes					2,054,370	-	2,054,370	-
State revenue sharing					704,005	-	704,005	-
Grants and contributions not restricted to specific programs					200,849	-	200,849	-
Contributions to permanent fund					2,800	-	2,800	-
Unrestricted investment earnings (loss)					3,334	40,745	44,079	16
Miscellaneous					5,624	-	5,624	44,365
Gain on disposal of capital assets					-	7,300	7,300	-
Transfers					45,507	(45,507)	-	-
Total general revenues and transfers					3,016,489	2,538	3,019,027	44,381
Changes in net position					332,760	2,041,083	2,373,843	(126,188)
Net position - beginning					7,995,706	12,057,212	20,052,918	1,513,323
Net position - ending					\$ 8,328,466	\$ 14,098,295	\$ 22,426,761	\$ 1,387,135

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2023

	General	Major Streets	Local Streets	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash, cash equivalents and investments	\$ 958,684	\$ 370,979	\$ 102,851	\$ 196,678	\$ 1,629,192
Receivables:					
Accounts	10,315	1,035	356	9,968	21,674
Taxes	47,883	-	-	-	47,883
Special assessments	21,259	46,398	208,035	413,251	688,943
Due from other governmental units	200,034	112,196	42,039	-	354,269
Due from other funds	108,194	-	-	-	108,194
Prepaid items	62,466	-	-	500	62,966
Inventory	69,559	-	-	-	69,559
Restricted cash, cash equivalents and investments	64,224	-	-	934,834	999,058
Total assets	<u>\$ 1,542,618</u>	<u>\$ 530,608</u>	<u>\$ 353,281</u>	<u>\$ 1,555,231</u>	<u>\$ 3,981,738</u>
LIABILITIES					
Accounts payable	\$ 36,298	\$ 2,190	\$ -	\$ 3,597	\$ 42,085
Accrued payroll	73,444	2,868	2,509	3,106	81,927
Due to other funds	705,150	46,013	19,889	-	771,052
Unearned revenue	155,327	-	28,115	-	183,442
Total liabilities	<u>970,219</u>	<u>51,071</u>	<u>50,513</u>	<u>6,703</u>	<u>1,078,506</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable special assessments	-	46,398	208,035	413,251	667,684
Unavailable taxes	26,378	-	-	-	26,378
Total deferred inflows of resources	<u>26,378</u>	<u>46,398</u>	<u>208,035</u>	<u>413,251</u>	<u>694,062</u>
FUND BALANCES					
Nonspendable	132,025	-	-	275,134	407,159
Restricted	67,529	433,139	94,733	860,143	1,455,544
Committed	255,872	-	-	-	255,872
Unassigned	90,595	-	-	-	90,595
Total fund balances	<u>546,021</u>	<u>433,139</u>	<u>94,733</u>	<u>1,135,277</u>	<u>2,209,170</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,542,618</u>	<u>\$ 530,608</u>	<u>\$ 353,281</u>	<u>\$ 1,555,231</u>	<u>\$ 3,981,738</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, 2023

Total fund balances for governmental funds	\$ 2,209,170
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.	
Nondepreciable capital assets	2,411,100
Capital assets being depreciated, net	11,109,101
Internal service funds are used by the City to charge costs of retiree benefits to individual departments of the City. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	
Total net position of internal service funds	269,228
Certain pension-related amounts are not due and payable in the current period or do not represent current financial resources and are therefore not reported in the governmental funds.	
Deferred outflows of resources - pension	1,152,232
Net pension liability	(4,003,316)
Deferred inflows of resources - pension	(384,937)
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.	
Accrued interest	(14,368)
Notes payable	(754,012)
Bonds payable	(3,735,000)
Bond premium	(241,631)
Employment benefits	(187,500)
Compensated absences	(195,663)
Resource inflows not meeting the availability criterion for revenue recognition on the modified accrual basis are reported as deferred inflows of resources in governmental funds but recognized as revenue in the government-wide financial statements.	
Unavailable special assessments	667,684
Unavailable taxes	26,378
Total net position of governmental activities	<u><u>\$ 8,328,466</u></u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2023

	General Fund	Major Streets	Local Streets	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 1,777,809	\$ -	\$ -	\$ 279,534	\$ 2,057,343
Special assessments	-	18,944	150,006	66,003	234,953
Licenses and permits	93,664	-	-	-	93,664
Federal grants	-	86,227	8,839	-	95,066
State grants	722,393	649,883	278,552	-	1,650,828
Local grants	-	-	-	166,473	166,473
Charges for services	1,109,106	1,100	550	2,800	1,113,556
Fines and forfeits	1,273	1,893	2,961	-	6,127
Leases and rentals	4,000	-	-	-	4,000
Investment gain (loss)	1,716	(2,024)	1,250	(7,403)	(6,461)
Miscellaneous	71,614	200	748	12,526	85,088
Total revenues	3,781,575	756,223	442,906	519,933	5,500,637
EXPENDITURES:					
Current:					
General government	866,759	-	-	-	866,759
Public safety	1,745,777	-	-	-	1,745,777
Public works	537,713	406,957	400,455	8	1,345,133
Community & economic development	161,712	-	-	102,520	264,232
Recreation and culture	560,693	-	-	-	560,693
Capital outlay	38,643	-	413,716	-	452,359
Debt service:					
Principal	4,582	-	-	326,370	330,952
Interest and other charges	2,136	-	-	123,795	125,931
Total expenditures	3,918,015	406,957	814,171	552,693	5,691,836
Excess revenues (expenditures)	(136,440)	349,266	(371,265)	(32,760)	(191,199)
OTHER FINANCING SOURCES (USES):					
Transfers in	131,656	-	279,000	403,995	814,651
Transfers out	(35,851)	(269,400)	(9,600)	(454,293)	(769,144)
Total other financing sources (uses)	95,805	(269,400)	269,400	(50,298)	45,507
Net changes in fund balances	(40,635)	79,866	(101,865)	(83,058)	(145,692)
Fund balances - beginning	586,656	353,273	196,598	1,218,335	2,354,862
Fund balances - ending	\$ 546,021	\$ 433,139	\$ 94,733	\$ 1,135,277	\$ 2,209,170

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, 2023

Net changes in fund balances - total governmental funds \$ (145,692)

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

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

Capital outlay	452,359
Depreciation expense	(917,013)
Net book value of disposed assets	(5,207)

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

Net change in deferred inflows of resources for unavailable revenues	11,412
--	--------

Internal service funds are used by the City to charge costs of retiree benefits to individual departments of the City. The net revenue (expense) of internal service funds are included in governmental activities in the statement of net position.

Change in net position of internal service funds	92,915
--	--------

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, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest and bond premiums on long-term debt are not recognized under the modified accrual basis of accounting until due, rather than as they accrue or amortize.

Net change in:

Accrued interest	\$ 1,161
Other liabilities	25,000
Notes payable	45,953
Bonds payable	260,000
Bond premium	20,136
Compensated absences	15,382
Employment benefits	89,000
Net pension liability and deferrals	387,354

Changes in net position of governmental activities	\$ 332,760
--	------------

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
March 31, 2023

	Enterprise Funds			Nonmajor	Total	Internal Service Fund
	Electric Utility	Waste Water Utility	Water Utility	Enterprise Funds	Enterprise Funds	Retirement System Fund
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 971,107	\$ 1,053,077	\$ 363,037	\$ 213,527	\$ 2,600,748	\$ -
Investments	561,260	125,385	252,075	102,210	1,040,930	154,672
Receivables:						
Utilities	670,315	275,172	167,081	85,415	1,197,983	-
Leases	21,307	-	-	-	21,307	-
Miscellaneous	5,494	4,076	2,429	1,031	13,030	2,325
Due from other government units	-	1,527,242	-	-	1,527,242	-
Due from other funds	53,959	-	-	13,050	67,009	-
Prepaid items	16,891	8,492	4,414	2,234	32,031	-
Inventory	406,226	-	-	-	406,226	-
Total current assets	<u>2,706,559</u>	<u>2,993,444</u>	<u>789,036</u>	<u>417,467</u>	<u>6,906,506</u>	<u>156,997</u>
Noncurrent assets:						
Investments	1,390,097	178,687	359,235	145,661	2,073,680	220,425
Leases receivable	110,759	-	-	-	110,759	-
Advances due from other funds	625,743	-	-	78,300	704,043	-
Non-depreciable capital assets	245,667	6,791,274	-	-	7,036,941	-
Capital assets, net of accumulated depreciation	<u>3,198,166</u>	<u>2,043,233</u>	<u>1,703,106</u>	<u>500,945</u>	<u>7,445,450</u>	<u>-</u>
Total noncurrent assets	<u>5,570,432</u>	<u>9,013,194</u>	<u>2,062,341</u>	<u>724,906</u>	<u>17,370,873</u>	<u>220,425</u>
Total assets	<u>\$ 8,276,991</u>	<u>\$ 12,006,638</u>	<u>\$ 2,851,377</u>	<u>\$ 1,142,373</u>	<u>\$ 24,277,379</u>	<u>\$ 377,422</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflow - pension plan	<u>\$ 280,977</u>	<u>\$ 75,783</u>	<u>\$ 138,200</u>	<u>\$ 19,983</u>	<u>\$ 514,943</u>	<u>\$ -</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 242,733	\$ 22,803	\$ 15,450	\$ 18,445	\$ 299,431	\$ -
Due to contractors	-	2,028,571	33,521	-	2,062,092	-
Accrued payroll	30,578	13,333	6,880	2,683	53,474	-
Customer deposits	76,643	-	-	-	76,643	-
Compensated absences	34,478	9,114	2,954	-	46,546	-
Employment benefits	27,000	27,000	27,000	-	81,000	-
Unearned revenue	-	76,591	76,591	54,986	208,168	-
Due to other funds	-	-	-	-	-	108,194
Bonds payable	-	60,000	-	-	60,000	-
Total current liabilities	<u>411,432</u>	<u>2,237,412</u>	<u>162,396</u>	<u>76,114</u>	<u>2,887,354</u>	<u>108,194</u>
Noncurrent liabilities:						
Compensated absences	32,242	36,454	11,818	-	80,514	-
Net pension liability	936,584	259,319	432,976	77,295	1,706,174	-
Bonds payable	-	5,725,711	-	-	5,725,711	-
Total noncurrent liabilities	<u>968,826</u>	<u>6,021,484</u>	<u>444,794</u>	<u>77,295</u>	<u>7,512,399</u>	<u>-</u>
Total liabilities	<u>\$ 1,380,258</u>	<u>\$ 8,258,896</u>	<u>\$ 607,190</u>	<u>\$ 153,409</u>	<u>\$ 10,399,753</u>	<u>\$ 108,194</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflow - pension plan	\$ 88,310	\$ 24,889	\$ 41,954	\$ 7,055	\$ 162,208	\$ -
Future lease payments	<u>132,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,066</u>	<u>-</u>
Total deferred inflows of resources	<u>\$ 220,376</u>	<u>\$ 24,889</u>	<u>\$ 41,954</u>	<u>\$ 7,055</u>	<u>\$ 294,274</u>	<u>\$ -</u>
NET POSITION						
Net investment in capital assets	\$ 3,443,833	\$ 2,547,466	\$ 1,703,106	\$ 500,945	\$ 8,195,350	\$ -
Unrestricted	<u>3,513,501</u>	<u>1,251,170</u>	<u>637,327</u>	<u>500,947</u>	<u>5,902,945</u>	<u>269,228</u>
Total net position	<u>\$ 6,957,334</u>	<u>\$ 3,798,636</u>	<u>\$ 2,340,433</u>	<u>\$ 1,001,892</u>	<u>\$ 14,098,295</u>	<u>\$ 269,228</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended March 31, 2023

	Enterprise Funds			Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund Retirement System Fund
	Electric Utility	Waste Water Utility	Water Utility			
OPERATING REVENUES:						
Charges for services	\$ 4,519,402	\$ 1,607,179	\$ 1,028,663	\$ 594,437	\$ 7,749,681	\$ 100,000
Miscellaneous	48,625	6,503	8,528	6,098	69,754	-
Total operating revenue	4,568,027	1,613,682	1,037,191	600,535	7,819,435	100,000
OPERATING EXPENSES:						
Salaries and fringes	811,505	500,738	428,801	207,223	1,948,267	-
Supplies	80,874	94,859	112,419	63,702	351,854	-
Contracted services	368,581	153,427	96,983	57,482	676,473	-
Repairs and maintenance	240	-	-	-	240	-
Utilities	126,188	61,116	57,122	8,278	252,704	-
Purchased power	2,728,282	-	-	-	2,728,282	-
Rent	1,563	527	1,888	13,500	17,478	-
Memberships and dues	5,258	4,662	3,634	-	13,554	-
Travel	1,018	36	85	-	1,139	-
Insurance	8,154	8,630	13,437	949	31,170	-
Education and training	6,097	5,916	5,274	-	17,287	-
Landfill tipping fees	-	3,121	-	109,310	112,431	-
Depreciation	226,758	127,556	107,158	58,617	520,089	-
Miscellaneous	7,613	8,747	8,723	464	25,547	-
Total operating expenses	4,372,131	969,335	835,524	519,525	6,696,515	-
Operating income (loss)	195,896	644,347	201,667	81,010	1,122,920	100,000
NONOPERATING REVENUES (EXPENSES):						
Investment gain (loss)	47,826	(595)	(4,991)	(1,495)	40,745	(7,085)
Gain/(loss) on asset disposal	-	4,800	-	2,500	7,300	-
Bond issuance costs	-	(138,625)	-	-	(138,625)	-
Interest expense	-	(8,703)	-	-	(8,703)	-
Total nonoperating revenue (expense)	47,826	(143,123)	(4,991)	1,005	(99,283)	(7,085)
Income (loss) before transfers, contributions and special items	243,722	501,224	196,676	82,015	1,023,637	92,915
Capital contributions	-	1,016,363	46,590	-	1,062,953	-
Transfers out	-	(27,507)	(18,000)	-	(45,507)	-
Change in net position	243,722	1,490,080	225,266	82,015	2,041,083	92,915
Total net position - beginning	6,713,612	2,308,556	2,115,167	919,877	12,057,212	176,313
Total net position - ending	\$ 6,957,334	\$ 3,798,636	\$ 2,340,433	\$ 1,001,892	\$ 14,098,295	\$ 269,228

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2023

	Enterprise Funds			Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund Retirement System Fund
	Electric Utility	Waste Water Utility	Water Utility			
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 4,455,735	\$ 1,583,815	\$ 1,019,127	\$ 597,094	\$ 7,655,771	\$ -
Cash receipts from interfund services provided	-	-	-	-	-	100,000
Payments to suppliers	(3,400,775)	(575,929)	(293,029)	(241,700)	(4,511,433)	-
Payments for wages and related benefits	(783,958)	(545,621)	(516,347)	(213,872)	(2,059,798)	-
Net cash provided (used) by operating activities	271,002	462,265	209,751	141,522	1,084,540	100,000
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers out	-	(27,507)	(18,000)	-	(45,507)	-
Repayments of advances from other funds	-	(621,894)	-	13,050	(608,844)	(115,907)
Repayments collected of advances made to other funds	54,101	-	-	-	54,101	-
Net cash provided (used) by noncapital financing activities	54,101	(649,401)	(18,000)	13,050	(600,250)	(115,907)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of capital assets	(251,925)	(3,564,775)	(97,695)	(6,110)	(3,920,505)	-
Principal paid on debt instruments	-	(60,000)	-	-	(60,000)	-
Interest paid on debt instruments	-	(8,703)	-	-	(8,703)	-
Bond issuance costs	-	(138,625)	-	-	(138,625)	-
Debt proceeds	-	4,186,837	-	-	4,186,837	-
Proceeds from sale of capital assets	-	4,800	-	-	4,800	-
Proceeds from capital contributions	-	802,154	61,467	-	863,621	-
Net cash provided (used) by capital and related financing activities	(251,925)	1,221,688	(36,228)	(6,110)	927,425	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investment securities	(409,353)	-	(259,396)	(84,946)	(753,695)	-
Sale of investment securities	34,996	13,381	31,360	15,750	95,487	15,907
Interest earned	16,265	5,144	1,853	884	24,146	-
Net cash provided (used) by investing activities	(358,092)	18,525	(226,183)	(68,312)	(634,062)	15,907
Net increase (decrease) in cash and equivalents	(284,914)	1,053,077	(70,660)	80,150	777,653	-
Cash and equivalents, beginning of year	1,256,021	-	433,697	133,377	1,823,095	-
Cash and equivalents, end of year	\$ 971,107	\$ 1,053,077	\$ 363,037	\$ 213,527	\$ 2,600,748	\$ -
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 195,896	\$ 644,347	\$ 201,667	\$ 81,010	\$ 1,122,920	\$ 100,000
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation/amortization expense	226,758	127,556	107,158	58,617	520,089	-
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(111,542)	(29,867)	(18,064)	(7,266)	(166,739)	-
(Increase) decrease in prepaid items	(6,737)	(519)	(2,055)	(246)	(9,557)	-
(Increase) decrease in inventory	(65,220)	-	-	-	(65,220)	-
(Increase) decrease in pension deferred outflows	(202,528)	(54,223)	(101,025)	(13,765)	(371,541)	-
Increase (decrease) in accounts payable	5,050	(234,369)	8,591	12,231	(208,497)	-
Increase (decrease) in accrued payroll liabilities	(9,478)	(19,438)	(40,138)	(189)	(69,243)	-
Increase (decrease) in net pension liability	150,864	40,391	75,254	10,254	276,763	-
Increase (decrease) in unearned service revenue and deposits	(750)	-	-	3,825	3,075	-
Increase (decrease) in deferred inflows	88,689	(11,613)	(21,637)	(2,949)	52,490	-
Net cash provided (used) by operating activities	\$ 271,002	\$ 462,265	\$ 209,751	\$ 141,522	\$ 1,084,540	\$ 100,000

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
March 31, 2023

	<u>Custodial Fund</u> <u>Tax Collection</u>
ASSETS	
Cash and cash equivalents	\$ 29,070
Receivables:	
Delinquent taxes	<u>70,837</u>
Total assets	<u>\$ 99,907</u>
LIABILITIES	
Due to other governmental units	<u>\$ 99,907</u>
NET POSITION	
Restricted	<u>\$ -</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended March 31, 2023

	<u>Custodial Fund</u> <u>Tax Collection</u>
ADDITIONS	
Property tax collections	\$ 3,888,844
DEDUCTIONS	
Property tax disbursements	<u>3,888,844</u>
NET CHANGE IN FIDUCIARY NET POSITION	-
NET POSITION - beginning	<u>-</u>
NET POSITION - ending	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

Notes to Financial Statements

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The City of Gladstone (the “City”) was incorporated March 1, 1889 under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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

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

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Gladstone Area Schools – provides education services to the community.

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

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

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

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

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

BASIS OF PRESENTATION

Government-Wide Financial Statements:

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Most of the effects of interfund activity have been removed from these statements.

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund, and the remaining funds of the City are considered major if they meet the following criteria:

Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

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

The General Fund which is described below.

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

The funds of the City are described below:

Governmental Funds

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

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

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

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

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

Proprietary Funds

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fiduciary Funds

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds and fiduciary funds, as applicable, utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund and fiduciary fund equity are classified as net position.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

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

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

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

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

Receivables and Payables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. The City has not recorded an allowance for uncollectable accounts as the City does not anticipate any material uncollectable accounts.

Interfund receivables and payables which arise from interfund transactions are recorded by all funds affected in the period in which transactions are executed and are reported as “Due to/from other funds” or “Advances to/from other funds.” Any residual balances at year end between the governmental and business-type activities are reported in the government-wide financial statements as “Internal balances.”

Leases – The City is a lessor for noncancellable leases of utility poles. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and proprietary fund financial statements. At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable and adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key estimates and judgments include how the City determines (a) the discount rate it uses to discount the expected lease receipts to present value, (b) lease term, and (c) lease receipts. The City uses the lessee's estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee. The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items, allocating the expenses/expenditures to the accounting period in which they apply, in both the government-wide and fund financial statements. Nonspendable fund balances have been recorded in the applicable governmental funds to indicate the prepayments are not a currently available or spendable component of fund balance.

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

Capital Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

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

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

Buildings and land improvements	25 – 50 years
Machinery and equipment	3 – 20 years
Mobile equipment and vehicles	3 – 20 years
Street system	10 – 50 years
Industrial park and other infrastructure	10 – 50 years
Utilities distribution/collection	10 – 50 years

Fund Financial Statements

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Component Unit Financial Statements

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

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

Deferred Outflows of Resources – In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate financial statement element called deferred outflows of resources, which represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has pension related items that qualify for reporting in this category.

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

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

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements. The General Fund, Debt Service Fund, and Waste Water Fund are generally used to liquidate long-term debt.

Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred Inflows of Resources – In addition to liabilities, the statement of net position and/or governmental funds balance sheet will sometimes report a separate financial statement element called deferred inflows of resources, which represent an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. Revenue that is measurable but unavailable qualifies for reporting in this category and is reported as deferred only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: personal property taxes and special assessments. In addition, the government-wide statements and proprietary funds report deferred inflows of resources related to the pension system, as well as for lease revenues which apply to later periods.

Equity Classification

Government-Wide Statements and Proprietary Fund Statements

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

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

Restricted – Consists of net position with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (b) law through constitutional provisions of enabling legislation.

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Fund Statements

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

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified prepaid items, inventory, and permanent fund principal as nonspendable.

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

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Commission.

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

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 minimum level of General Fund balance that the City strives to maintain as committed, assigned, and unassigned is an amount equal to 20% to 30% of General Fund previous year audited noncapital expenditures.

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (a) charges to customers or applicants for goods or services, (b) operating grants and contributions, and (c) 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.

In the proprietary fund statements, revenues are reported by source and classified as operating or nonoperating, as defined below. Capital contributions are also reported separately from other revenues.

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 or capital outlay) and by government function or program.

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, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating Revenues and Expenses

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

Interfund Transfers and Other Financing Sources (Uses)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenses/expenditures as operating transfers in/(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. In the governmental funds, interfund transfers are reported separately from revenues and expenditures as other financing sources (uses). Certain other inflows and outflows of resources which are outside the City's normal operating activity, such as debt proceeds or sales of capital assets, are also reported as other financing sources (uses) in the governmental funds.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: (a) activities between funds reported as governmental activities and funds reported as business-type activities, and (b) 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.

Change in Accounting Principle

The City adopted GASB Statement No. 87, *Leases*, during the year ended March 31, 2023. In accordance with this Statement, the City has recognized leases receivable and related deferred inflows of resources for lease activity, details of which can be found in Note D. This change in principle had no effect on the City's beginning fund balances or net position, and no adjustments have been made for prior periods.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OTHER SIGNIFICANT ACCOUNTING POLICIES

Budgets and Budgetary Accounting

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

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

Property Taxes

Property taxes levied attach as an enforceable lien on property. The City's annual property tax on real and personal property within the City is levied on July 1, payable by September 15, and is based on the taxable valuation of the property on the preceding December 31. Unpaid property taxes become delinquent on March 1, and all delinquent real property taxes are purchased by the County Treasurer. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District, the Community College, and the County. Collections and remittances for all taxes are accounted for in the Tax (Custodial) Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables, with the exception of delinquent City taxes purchased by the County Treasurer, which are recognized as revenue in the year levied regardless of when the tax settlement is received from the County Treasurer, typically within 90 days of year end.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

NOTE B – BUDGET VIOLATIONS

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget at the activity level. Actual expenditures exceeded budgeted amounts for the following funds and activities:

	Budget	Actual	Variance
General Fund:			
General government:			
City manager	\$ 140,313	\$ 144,195	\$ (3,882)
City clerk	159,170	160,233	(1,063)
City hall	43,710	48,855	(5,145)
Public works:			
Cemetery	73,731	81,595	(7,864)
Grounds maintenance	21,633	26,465	(4,832)
Motor pool	226,441	247,332	(20,891)
Culture and recreation:			
Recreation administrative	165,555	174,343	(8,788)
Parks	98,110	98,639	(529)
Sports park	109,450	114,525	(5,075)
Major Street Fund:			
Public works:			
Surface maintenance	107,875	111,780	(3,905)
Storm drains	84,996	97,005	(12,009)
Traffic control	29,328	31,719	(2,391)
Winter maintenance	93,780	112,218	(18,438)
Sweep/flushing	21,536	24,093	(2,557)
Local Street Fund:			
Public works:			
Surface maintenance	165,619	171,736	(6,117)
Winter maintenance	65,228	90,463	(25,235)
Sweep/flushing	32,351	34,110	(1,759)
Capital outlay	223,000	413,716	(190,716)

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS

The composition of cash and equivalents is presented below:

	Primary Government	Component Unit	Fiduciary Fund	Total
Statement of Net Position:				
Current:				
Cash, cash equivalents and investments (unrestricted)	\$ 4,558,561	\$ 29,306	\$ -	\$ 4,587,867
Restricted cash, cash equivalents and investments	526,307	-	-	526,307
Noncurrent:				
Investments (unrestricted)	3,161,086	-	-	3,161,086
Restricted investments	472,751	-	-	472,751
Statement of Fiduciary Net Position:				
Cash and cash equivalents	-	-	29,070	29,070
Total cash & equivalents and investments	<u>\$ 8,718,705</u>	<u>\$ 29,306</u>	<u>\$ 29,070</u>	<u>\$ 8,777,081</u>

	Primary Government	Component Unit	Fiduciary Fund	Total
Imprest cash	\$ 590	\$ 200	\$ -	\$ 790
Bank deposits:				
Checking and savings accounts	2,733,612	29,106	29,070	2,791,788
Money market accounts	291,616	-	-	291,616
Certificates of deposit	1,021,968	-	-	1,021,968
Investments in securities	4,157,320	-	-	4,157,320
Investment in Upper Peninsula Public Power Agency	513,599	-	-	513,599
Total cash & equivalents and investments	<u>\$ 8,718,705</u>	<u>\$ 29,306</u>	<u>\$ 29,070</u>	<u>\$ 8,777,081</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.
- 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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

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

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

All deposits are carried at cost and are in accordance with statutory authority. The City's cash is subject to the following risk.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of March 31, 2023, the City held \$4,593,586 in checking and savings accounts, money market accounts, and certificates of deposit. Of this amount, \$3,338,586 was uninsured and uncollateralized. Although such deposits exceed federally insured limits, they are, in the opinion of management, subject to minimal risk. The City's component units had no bank deposits that were uninsured and uncollateralized.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

The composition of investments is presented below:

	Fair Value	Moody Credit Rating	S&P Credit Rating	Maturity Date
Primary Government				
Municipal Bonds:				
East Lansing Michigan Go LTD	\$ 35,000	-	NR	4/1/2023
Mount Morris Michigan Consolidated Schools	135,591	AA1	-	5/1/2026
Ferris State University	50,314	A1	-	10/1/2026
Wyandotte Michigan Electric Revenue	14,984	-	AA	10/1/2026
Napoleon Michigan Community Schools	96,985	-	AA	5/1/2028
Genesee Michigan Schools	211,450	-	AA	5/1/2029
Chippewa Valley Michigan Schools	80,558	A2	-	5/1/2032
Grand Rapids Community College	200,087	-	AA+	5/1/2032
Total Municipal Bonds	<u>824,969</u>			
U.S. Government Securities:				
US Treasury Note	254,633	N/A	N/A	4/15/2023
US Treasury Note	263,585	N/A	N/A	5/15/2023
US Treasury Note	19,853	N/A	N/A	5/31/2023
US Treasury Note	247,280	N/A	N/A	6/30/2023
US Treasury Note	255,541	N/A	N/A	8/15/2023
US Treasury Note	268,158	N/A	N/A	10/31/2023
Federal Home Loan Bank Securities	286,653	N/A	N/A	3/8/2024
FHLMC	259,639	N/A	N/A	8/23/2024
Federal Home Loan Bank Securities	250,042	N/A	N/A	3/16/2027
Federal Farm Credit Bank Securities	262,269	N/A	N/A	8/3/2027
Federal Home Loan Mortgage Corporation	126,870	N/A	N/A	7/21/2028
Tennessee Valley Authority	117,936	N/A	N/A	1/15/2029
Tennessee Valley Authority	114,395	N/A	N/A	1/15/2030
Federal Home Loan Mortgage Corporation	205,085	N/A	N/A	7/29/2030
Federal Home Loan Bank Securities	158,550	N/A	N/A	7/29/2031
Total U.S. Government Securities	<u>3,090,489</u>			
Brokered Certificate of Deposit:				
Sallie Mae Bank	241,862	N/A	N/A	8/18/2026
Nonnegotiable Certificates of Deposit:				
CD	254,988	N/A	N/A	7/28/2023
CD	250,000	N/A	N/A	1/25/2024
CD	258,113	N/A	N/A	7/23/2024
CD	258,867	N/A	N/A	7/28/2025
Total Nonnegotiable Certificates of Deposit	<u>1,021,968</u>			
Upper Peninsula Public Power Agency	513,599	N/A	N/A	N/A
Total Investments	<u>\$ 5,692,887</u>			

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Custodial Credit Risk of Investments

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

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy restricts investment maturities to a maturity of no more than twelve years from the date of purchase and commercial paper, which can only be purchased with a 270-day maturity. Investment balances and maturities as of March 31, 2023 are listed in the table above.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the City's investment policy limit the investment in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. Investment balances and the credit quality ratings of debt securities as of March 31, 2023 are listed in the table above.

Concentration of Credit Risk

The City's investment policy limits the amount that may be invested in a single issuer to no more than 50 percent of the market value of the portfolio and limits the amount that may be invested in a single security type to no more than 50 percent of the market value of the portfolio, with the exception of U.S. Treasury securities and authorized investment pools. As of March 31, 2023, the City had no more than 50 percent of its portfolio invested in a single issuer or in a single security type.

Risks and Uncertainties

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Restricted Cash and Investments

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

1. The General Fund in the amount \$8,168 for donations related to the Little Bay de Noc trail and \$56,056 for costs of the police department as required by the Olson Trust.
2. The Cemetery Perpetual Care Fund in the amount of \$273,880 for cemetery care as required by the nature of the fund.
3. The Mary Cretens Trust Fund in the amount of \$465,182 for community maintenance and improvements as required by the nature of the fund.
4. The MSHDA Homeowners Fund in the amount of \$26,338 for allowable costs under MSDHA homeowner programs as required by the nature of the fund.
5. The MSHDA Habitat Rehab Fund in the amount of \$25,000 for allowable costs under MSDHA habitat rehabilitation programs as required by the nature of the fund.
6. The General Debt Service Fund in the amount of \$144,434 for debt service payments as required by the funding sources of the fund.

Investment in Upper Peninsula Public Power Agency

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. (ATC). The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City has contributed cash and equipment as part of its investment in UPPPA. During the year ended March 31, 2023, the City made additional investments in UPPPA. Neither UPPPA or ATC are publicly traded companies and readily determinable fair market value is not available. The City's investment in UPPPA is recorded and reported at its historical cost. Based on the City's proportional investment held (approximately 7%), the City receives dividends which are distributions from net accumulated earnings which are reported as investment income. If the dividends were to exceed earnings, the dividends would be treated as a return of investment and recorded as a reduction in the original cost of the investment. There were no returns of the investment in the current year. At March 31, 2023, the value of the investment was \$513,599.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Fair Value Measurement

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The City had the following recurring fair value measurements as of March 31, 2023:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
U.S. Government Securities	\$ 3,090,489	\$ -	\$ -	\$ 3,090,489
Municipal Bonds	-	824,969	-	824,969
Brokered Certificates of Deposit	-	241,862	-	241,862
Total	\$ 3,090,489	\$ 1,066,831	\$ -	\$ 4,157,320

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

NOTE D – LEASES RECEIVABLE

The City has various long-term agreements with area utility companies under which the utility companies pay rent for the use of City infrastructure such as utility poles and land for cell towers. The City will not surrender control of the assets at the end of the term and the noncancelable term of the agreements surpasses one year. The current terms of these agreements run through the City's fiscal year 2029 and payments are at fixed rates with escalation in payments over the term of the lease. The City calculates the present value (principal) of its long-term leases using an estimated interest rate that is based on other long-term debt with similar terms held by the lessees. During the year ended March 31, 2023, the City's Electric Fund recognized \$18,060 in principal and \$10,750 in interest for a total of \$28,810 in rental revenue from its long-term lease agreements. The City's Electric Fund recorded a lease receivable of \$132,066 with \$21,307 due within one year as of March 31, 2023.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE E – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The City has adopted a capitalization policy that identifies capital assets as those having a value of \$5,000 or more and a useful life greater than one year. The Gladstone Housing Commission has adopted a capitalization policy that identifies capital assets as those have a cost in excess of \$1,000 that materially add to the productive capacity and extend the life of an asset longer than one year. Capital asset activity for the year ended March 31, 2023, was as follows:

	Balance at April 1, 2022	Additions	Transfers/ Disposals	Balance at March 31, 2023
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,394,627	\$ -	\$ -	\$ 2,394,627
Construction in progress	-	16,473	-	16,473
Total non-depreciable capital assets	2,394,627	16,473	-	2,411,100
Capital assets being depreciated:				
Land improvements	598,129	-	-	598,129
Street system	19,524,405	413,717	-	19,938,122
Industrial park	57,132	-	-	57,132
Other infrastructure	1,879,334	16,129	-	1,895,463
Buildings	3,606,621	-	-	3,606,621
Machinery and equipment	1,209,608	6,040	-	1,215,648
Mobile equipment	1,160,475	-	(52,075)	1,108,400
Vehicles	1,776,070	-	(21,487)	1,754,583
Total depreciable capital assets	29,811,774	435,886	(73,562)	30,174,098
Total capital assets	32,206,401	452,359	(73,562)	32,585,198
Less accumulated depreciation:				
Land improvements	266,006	32,610	-	298,616
Street system	12,245,057	510,635	-	12,755,692
Industrial park	33,310	1,755	-	35,065
Other infrastructure	949,929	88,795	-	1,038,724
Buildings	2,302,719	80,083	-	2,382,802
Machinery and equipment	937,329	49,469	-	986,798
Mobile equipment	467,022	62,070	(46,868)	482,224
Vehicles	1,014,967	91,596	(21,487)	1,085,076
Total accumulated depreciation	18,216,339	917,013	(68,355)	19,064,997
Net depreciable capital assets	11,595,435	(481,127)	(5,207)	11,109,101
Governmental activities capital assets, net	\$ 13,990,062	\$ (464,654)	\$ (5,207)	\$ 13,520,201

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE E – CAPITAL ASSETS (continued)

	Balance at April 1, 2022	Additions	Transfers/ Disposals	Balance at March 31, 2023
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 236,836	\$ -	\$ -	\$ 236,836
Construction in progress	1,265,110	5,534,995	-	6,800,105
Total non-depreciable capital assets	1,501,946	5,534,995	-	7,036,941
Capital assets being depreciated:				
Land improvements	-	8,217	-	8,217
Utilities distribution/collection	17,973,343	238,220	-	18,211,563
Other infrastructure	424,293	-	-	424,293
Buildings	1,383,510	38,413	-	1,421,923
Machinery and equipment	673,587	130,025	-	803,612
Mobile equipment	88,822	-	(5,278)	83,544
Vehicles	1,471,239	32,728	(19,993)	1,483,974
Total depreciable capital assets	22,014,794	447,603	(25,271)	22,437,126
Total capital assets	23,516,740	5,982,598	(25,271)	29,474,067
Less accumulated depreciation:				
Land improvements	-	274	-	274
Utilities distribution/collection	12,336,459	309,161	-	12,645,620
Other infrastructure	176,789	21,215	-	198,004
Buildings	672,976	61,231	-	734,207
Machinery and equipment	490,119	26,258	-	516,377
Mobile equipment	62,024	2,660	(5,278)	59,406
Vehicles	758,491	99,290	(19,993)	837,788
Total accumulated depreciation	14,496,858	520,089	(25,271)	14,991,676
Net depreciable capital assets	7,517,936	(72,486)	-	7,445,450
Business-type activities capital assets, net	\$ 9,019,882	\$ 5,462,509	\$ -	\$ 14,482,391

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE E – CAPITAL ASSETS (continued)

	Balance at April 1, 2022	Additions	Transfers/ Disposals	Balance at March 31, 2023
Component Unit-Housing Commission:				
Capital assets not being depreciated:				
Land	\$ 15,325	\$ -	\$ -	\$ 15,325
Capital assets being depreciated:				
Buildings	2,582,746	9,073	-	2,591,819
Furniture, equipment, & machinery	148,773	499	-	149,272
Total depreciable capital assets	2,731,519	9,572	-	2,741,091
Total capital assets	2,746,844	9,572	-	2,756,416
Less accumulated depreciation:				
Total accumulated depreciation	2,538,287	34,090	-	2,572,377
Net depreciable capital assets	193,232	(24,518)	-	168,714
Component unit capital assets, net	\$ 208,557	\$ (24,518)	\$ -	\$ 184,039

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

Governmental activities:

General government	\$ 32,148
Public safety	97,378
Public works	610,747
Community development	8,196
Recreation and culture	168,544
Total governmental activities depreciation expense	\$ 917,013

Business-type activities:

Electric	\$ 226,758
Waste water	127,556
Water	107,158
Solid waste	34,829
Harbor	23,788
Total business-type activities depreciation expense	\$ 520,089

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE E – CAPITAL ASSETS (continued)

Component Unit – RAD Conversion

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

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

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

NOTE F – LONG-TERM OBLIGATIONS

The City issued general obligation bonds to provide for acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City's contractual agreements are also general obligations of the City. One of the installment purchase agreements related to the governmental activities is secured with collateral of the Caterpillar Backhoe that was purchased with the proceeds from the installment purchase agreement.

The City issued revenue bonds to provide for the construction and installation of improvements to the City's sludge storage tank as well as improvements to the sewage disposal system. The City has pledged the revenues of its sewage disposal system after provision has been made for reasonable and necessary expenses of operation, maintenance, and administration for the revenue bonds. As additional security on the revenue bonds, the City has pledged its limited tax full faith and credit.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE F – LONG-TERM OBLIGATIONS (continued)

The following is a summary of changes in long-term debt for the year ended March 31, 2023:

Type of Debt	Balance April 1, 2022	Additions	Deductions	Balance March 31, 2023	Amounts Due Within One Year
Governmental Activities:					
Direct Borrowings & Placements:					
Limited Tax General Obligation Bonds:					
2020 Capital Improvement bond	\$ 3,995,000	\$ -	\$ 260,000	\$ 3,735,000	\$ 265,000
Contractual Agreements:					
Installment purchase agreements	799,965	-	45,953	754,012	87,849
Other liabilities	25,000	-	25,000	-	-
Unamortized bond premium	261,766	-	20,135	241,631	20,135
Other obligations:					
Employment benefits	276,500	-	89,000	187,500	65,000
Compensated absences	211,044	176,831	192,212	195,663	39,133
Total governmental long-term debt	<u>\$ 5,569,275</u>	<u>\$ 176,831</u>	<u>\$ 632,300</u>	<u>\$ 5,113,806</u>	<u>\$ 477,117</u>
Type of Debt	Balance April 1, 2022	Additions	Deductions	Balance March 31, 2023	Amounts Due Within One Year
Business-type Activities:					
Direct Borrowings & Placements:					
Revenue Bonds:					
2006 Sludge Storage Bond	\$ 360,718	\$ -	\$ 60,000	\$ 300,718	\$ 60,000
Sewage Disposal System					
Revenue Bonds, Series 2022	-	5,484,993	-	5,484,993	-
Other obligations:					
Employment benefits	162,000	-	81,000	81,000	81,000
Compensated absences	132,916	94,695	100,551	127,060	46,546
Total business-type long-term debt	<u>\$ 655,634</u>	<u>\$ 5,579,688</u>	<u>\$ 241,551</u>	<u>\$ 5,993,771</u>	<u>\$ 187,546</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE F – LONG-TERM OBLIGATIONS (continued)

Debt service requirements on long-term debt at March 31, 2023 are as follows:

For the Year Ended March 31,	Governmental Activities					
	Direct Borrowings & Placements					
	Bonds Payable		Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 265,000	\$ 95,050	\$ 87,849	\$ 20,720	\$ 352,849	\$ 115,770
2025	275,000	87,100	43,592	17,653	318,592	104,753
2026	280,000	78,850	44,747	16,498	324,747	95,348
2027	290,000	70,450	45,933	15,312	335,933	85,762
2028	300,000	61,750	47,150	14,095	347,150	75,845
2029-2033	1,625,000	178,500	255,168	51,058	1,880,168	229,558
2034-2038	700,000	21,100	229,573	15,408	929,573	36,508
	<u>\$ 3,735,000</u>	<u>\$ 592,800</u>	<u>\$ 754,012</u>	<u>\$ 150,744</u>	<u>\$ 4,489,012</u>	<u>\$ 743,544</u>

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

For the Year Ended March 31,	Business-type Activities	
	Direct Borrowings & Placements	
	Bonds Payable	
	Principal	Interest
2024	\$ 60,000	\$ 63,165
2025	192,587	120,468
2026	195,162	116,675
2027	197,736	112,828
2028	201,029	108,926
2029-2033	751,757	493,524
2034-2038	835,428	410,176
2039-2043	926,823	317,582
2044-2048	1,032,378	214,703
2049-2053	1,148,231	100,198
2054-2058	244,580	5,197
	<u>\$ 5,785,711</u>	<u>\$ 2,063,442</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE F – LONG-TERM OBLIGATIONS (continued)

Governmental Activities

As of March 31, 2023, the long-term debt of governmental activities consists of the following:

Bonds Payable

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

Notes Payable

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

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

Business-type Activities

As of March 31, 2023, the long-term debt of business-type activities consists of the following:

Bonds Payable

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

Sewage Disposal System Revenue Bonds, Series 2022 – On June 6, 2022, the City closed on the Sewage Disposal System Revenue Bond, Series 2022, in the amount of \$21,305,000. The bonds mature in 2053 and bear an interest rate of 2.125%. The bonds were purchased by the Michigan Finance Authority in connection with the Michigan Department of Environment, Great Lakes and Energy (“EGLE”) Clean Water State Revolving Fund loan program. The bonds are being used to pay for improvements to the City’s sewage disposal system including the wastewater treatment plant.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE F – LONG-TERM OBLIGATIONS (continued)

As the City was determined by EGLE to be a disadvantaged community, 15 percent of the final principal will be forgiven. As of March 31, 2023, the City has drawn \$6,452,933 related to this loan, with the outstanding principal, net of forgiveness, totaling \$5,484,993 and a capital contribution of \$967,940 for the portion forgiven. As of March 31, 2023, there were \$1,527,242 of construction costs incurred but not yet reimbursed, and the total amount available to be drawn was \$14,852,067. Proceeds for the two draws totaling \$1,527,242 were received subsequent to year end.

The City awarded a contract to Staab Construction Corp. for this project in the amount of \$17,864,547, after change orders. The balance to finish the contract including retainage of \$501,330 is \$13,352,581 as of March 31, 2023. The remaining available bond proceeds will be used for engineering and other project costs. Subsequent to year end and as of the report date, additional draws have been made and proceeds of \$3,004,024 have been received by the City in connection with this loan.

NOTE G – VESTED EMPLOYEE BENEFITS

Compensated Absences

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Compensated absences in the amount of \$195,663 under governmental activities and \$127,060 under business-type activities are reported in the Statement of Net Position. For governmental activities, compensated absences are liquidated by the fund to which the employee's regular payroll is charged.

Employment Benefits

The City has negotiated buyouts with active employees who were previously entitled to post-employment health benefits based on various union and employment agreements. These buyout agreements are for varying amounts and terms. The City expects to complete the final buyout payment in fiscal year 2027. Employment benefits in the amount of \$187,500 under governmental activities and \$81,000 under business-type activities are reported in the Statement of Net Position. For governmental activities, employment benefits are liquidated by the fund to which the employee's regular payroll is charged.

NOTE H – INTERFUND BALANCES AND TRANSFERS

Interfund Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund receivables represent short-term borrowings between funds. The balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. The City has also classified \$704,043 as noncurrent assets and liabilities in the Statement of Net Position due to the individual funds' inability to repay these amounts or payback agreements put in place. The noncurrent interfund balances are not expected to be repaid within the next fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE H – INTERFUND BALANCES AND TRANSFERS (continued)

Individual fund interfund receivables and payable balances at March 31, 2023 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 108,194	General Fund	\$ 705,150
Major Street Fund	-	Major Street Fund	46,013
Local Street Fund	-	Local Street Fund	19,889
Solid Waste Fund	91,350	Solid Waste Fund	-
Electric Fund	679,702	Electric Fund	-
Retirement System Fund	-	Retirement System Fund	108,194
Total	<u>\$ 879,246</u>	Total	<u>\$ 879,246</u>

<u>Financial Statement Presentation:</u>			
Governmental Funds	\$ 108,194	Governmental Funds	\$ 771,052
Enterprise Funds	771,052	Enterprise Funds	-
Internal Service Funds	-	Internal Service Funds	108,194
	<u>\$ 879,246</u>		<u>\$ 879,246</u>

On November 25, 2019, the City approved the purchase of equipment to be partially funded with a loan from the Solid Waste Fund to the General Fund in the amount of \$130,500. The loan is to be repaid on a 10-year payback schedule with annual payments of \$13,050 beginning in November 2020 and ending in November 2029. The remaining balance on the internal loan as of March 31, 2023 is \$91,350 with \$13,050 shown as current.

On May 11, 2020, the City approved the purchase of equipment to be partially funded with a loan from the Electric Fund to the General Fund in the amount of \$313,268. The loan is to be repaid on a 10-year payback schedule with annual payments of \$31,363 beginning in December 2021 and ending in December 2030. The remaining balance on the internal loan as of March 31, 2023 is \$219,540 with \$31,363 shown as current.

On March 28, 2022, the City approved the purchase of equipment to be partially funded with a loan from the Electric Fund to the General Fund in the amount of \$225,960. The loan is to be repaid on a 10-year payback schedule with annual payments of \$22,596 beginning in 2023 and ending in 2032. The remaining balance on the internal loan as of March 31, 2023 is \$180,768 with \$22,596 shown as current.

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE H – INTERFUND BALANCES AND TRANSFERS (continued)

Interfund Transfers

The transfers to and from the various funds are made to account for budgetary authorizations, provide funding for operations as needed, and fund debt service payments. Interfund transfers for the year ended March 31, 2023 were as follows:

	TRANSFERS IN			
	General	Local Street	Nonmajor Govern.	Total
TRANSFERS (OUT)				
General	\$ -	\$ -	\$ 35,851	\$ 35,851
Major Street	-	240,000	29,400	269,400
Local Street	-	-	9,600	9,600
Nonmajor Govern.	131,656	39,000	283,637	454,293
Waste Water	-	-	27,507	27,507
Water	-	-	18,000	18,000
Total	<u>\$ 131,656</u>	<u>\$ 279,000</u>	<u>\$ 403,995</u>	<u>\$ 814,651</u>

Financial Statement Presentation:

	Transfers In		Transfers Out
Governmental Funds	\$ 814,651	Governmental Funds	\$ 769,144
Enterprise Funds	-	Enterprise Funds	45,507
	<u>\$ 814,651</u>		<u>\$ 814,651</u>

NOTE I – RETIREMENT PLANS

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

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

The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.5% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2022.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE I – RETIREMENT PLANS (continued)

General Information about the Pension Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS is a nonprofit organization that was granted independence from the State of Michigan pursuant to Public Act 220 of 1996, effective August 15, 1996. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

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

	Divisions - For the 2022 Valuation			
	01-General	02-Plc/Fire	10-General	20-Pub Safety
	Closed	Closed	Supervisor Closed	Comm Officers Closed
Benefit Multiplier:	2.5%-80% max	2.5%-80% max	2.5%-80% max	2.5%-80% max
Normal Retirement Age:	60	60	60	60
Vesting:	10 years	10 years	10 years	10 years
Early Retirement (unreduced):	55/25	25 and out	55/20, 25 and out	25 and out
Early Retirement (reduced):	50/25, 55/15	55/15	55/15	55/15
Final Average Compensation:	5 years	3 years	3 years	3 years
Employee Contributions:	1%	3%	0%	1%
DC Plan for New Hires:	1/1/1998	1/1/2009	1/1/1998	6/1/2015
Act 88:	No	No	No	No

Employees Covered by Benefit Terms

At the December 31, 2022 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	43
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>4</u>
	49

There were no employees with pending refunds.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE I – RETIREMENT PLANS (continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The City is required to contribute at an actuarially determined rate. Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The contribution rate as a monthly dollar amount for the year ended March 31, 2023 was as follows:

01 - General	\$ 27,436
02 – Police/Fire	\$ 35,206
10 – General Supervisor	\$ 40,098
20 – Public Safety Comm. Officers	\$ 7,531

Net Pension Liability

The City's net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of the most recent actuarial experience study covering the period from 2014 through 2018.

Beginning with the actuarial valuation as of December 31, 2019, the investment rate of return assumption was reduced from 7.75 percent to 7.35 percent. Additionally, the inflation assumption was reduced from 3.75 percent to 3.00 percent. Beginning with the actuarial valuation as of December 31, 2020, there were updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates. Beginning with the actuarial valuation as of December 31, 2021, the investment rate of return was reduced from 7.35 percent to 7.00 percent.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE I – RETIREMENT PLANS (continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Gross Rate of Return	Long-Term Expected Gross Return Contribution	Inflation Assumption	Long-Term Expected Real Rate of Return
Global Equity	60.00%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20.00%	4.50%	0.90%	2.50%	0.40%
Private Investments	20.00%	9.50%	1.90%	2.50%	1.40%

Discount Rate. The discount rate used to measure the total pension liability is 7.25% for 2022. The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because, for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE I – RETIREMENT PLANS (continued)

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2021	\$ 14,234,885	\$ 9,417,027	\$ 4,817,858
Service cost	33,387	-	33,387
Interest on total pension liability	994,654	-	994,654
Changes in benefits	-	-	-
Difference between expected and actual experience	177,078	-	177,078
Changes in assumptions	-	-	-
Employer contributions	-	1,304,985	(1,304,985)
Employee contributions	-	5,677	(5,677)
Net investment income	-	(979,433)	979,433
Benefit payments, including employee refunds	(1,064,421)	(1,064,421)	-
Administrative expense	-	(17,743)	17,743
Other changes	-	1	(1)
Net changes	140,698	(750,934)	891,632
Balances as of December 31, 2022	\$ 14,375,583	\$ 8,666,093	\$ 5,709,490

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
City's net pension liability at 12/31/22	\$ 5,709,490	\$ 5,709,490	\$ 5,709,490
City's change in net pension liability at 12/31/22	1,418,750	-	(1,203,068)
	\$ 7,128,240	\$ 5,709,490	\$ 4,506,422

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE I – RETIREMENT PLANS (continued)

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

For the year ended March 31, 2023, the City recognized pension expense of \$761,545. At March 31, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,336,360	547,145
Contributions subsequent to the measurement date *	330,815	-
Total	<u>\$ 1,667,175</u>	<u>\$ 547,145</u>

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending March 31, 2024.

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

<u>Plan Year Ended December 31:</u>	
2023	\$ 77,719
2024	149,656
2025	227,750
2026	334,090
	<u>\$ 789,215</u>

At March 31, 2023, the City had no outstanding contributions to the pension plan.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE I – RETIREMENT PLANS (continued)

401 (A) RETIREMENT PLAN

The City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by Municipal Employees' Retirement System of Michigan. Employees who are hired after December 1, 1997, with the exception of the employees who are members of the POLC union, are eligible to participate in the plan, which requires the City to contribute 8% of the employee's gross wage to the plan. As of fiscal year 2010, all new hires of the POLC union are also included in this retirement plan. In addition, if the employee contributes an additional 3% to the plan the City will match the employee contribution of 3% for a total employer contribution of 11%. All contributions are held and owned in the name of each employee and are immediately vested. There are no forfeitures in the Plan. Loans are permitted under the Plan. At March 31, 2023, there are 9 terminated participants and 35 active participants.

<u>Year Ended March 31,</u>	<u>Number of Participants</u>	<u>City's Share</u>	<u>Employee's Share</u>
2019	31	187,837	52,500
2020	33	198,360	55,497
2021	36	203,002	54,905
2022	39	215,518	59,989
2023	44	233,631	65,363

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE J – FUND BALANCE/NET POSITION

As of March 31, 2023, fund balances are composed of the following:

	General Fund	Major Streets	Local Streets	Nonmajor Funds	Total Funds
Nonspendable:					
Prepaid items	\$ 62,466	\$ -	\$ -	\$ 500	\$ 62,966
Inventory	69,559	-	-	-	69,559
Permanent fund principal	-	-	-	274,634	274,634
Restricted for:					
Public safety equipment	40,194	-	-	-	40,194
Public safety K-9	19,166	-	-	-	19,166
Little Bay de Noc Trail	8,169	-	-	-	8,169
Debt service payments	-	-	-	144,434	144,434
Street system	-	433,139	94,733	-	527,872
Health & welfare	-	-	-	51,338	51,338
Community development	-	-	-	466,212	466,212
Economic development	-	-	-	10,962	10,962
Industrial development	-	-	-	39,727	39,727
Downtown development	-	-	-	147,470	147,470
Committed to:					
Public safety equipment	23,517	-	-	-	23,517
Public safety fire truck	105,843	-	-	-	105,843
Facilities	126,512	-	-	-	126,512
Unassigned:	90,595	-	-	-	90,595
Total fund balance	<u>\$ 546,021</u>	<u>\$ 433,139</u>	<u>\$ 94,733</u>	<u>\$ 1,135,277</u>	<u>\$ 2,209,170</u>

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

NOTE K – PROPERTY TAXES

Tax information:

Assessment Date. December 31

Taxes payable July 1

Taxes Delinquent March 1 following date payable

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

On August 15, a 4% penalty is added.

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE K – PROPERTY TAXES (continued)

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

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

The State of Michigan, beginning in 1967, required that taxes be levied on state equalized valuations rather than on assessed valuation. The valuations for the years 1961 through 1966, inclusive, are City assessed valuations, the year 1967 are state equalized valuations, and the year 1968 are City assessed valuations. In 1968, the City was allowed to assess on City valuations because they were almost equal to that of State equalized valuations.

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

City's Share of Current Property Taxes – The 2022 taxable valuation of the City totaled \$119,024,952, on which taxes levied consisted of 15.4773 mills for City operating purposes. The City's share of current real and personal property taxes for the year ended March 31, 2023 was recognized in the funds as follows:

- General Fund: \$1,687,456
- DDA Fund: \$149,771

For the year ended March 31, 2023, the city had no material tax abatements.

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 OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE L – RISK MANAGEMENT (continued)

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

Table I
City Deductibles and Self Insured Retentions

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

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

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

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, 2023, 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, 2023.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

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.

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 – FUTURE CHANGES IN ACCOUNTING PRINCIPLE

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE O – FUTURE CHANGES IN ACCOUNTING PRINCIPLE (continued)

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

As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2023-2024 fiscal year.

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

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

The Governmental Accounting Standards Board issued GASB Statement No. 101, *Compensated Absences*, the objective of which is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2023

NOTE O – FUTURE CHANGES IN ACCOUNTING PRINCIPLE (continued)

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2024-2025 fiscal year.

Required Supplementary Information

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2023

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Taxes	\$ 1,716,286	\$ 1,718,875	\$ 1,777,809	\$ 58,934
Licenses and permits	97,050	94,100	93,664	(436)
Federal grants	245,867	245,867	-	(245,867)
State grants	594,196	600,304	722,393	122,089
Local grants	8,500	-	-	-
Charges for services	867,337	1,110,256	1,109,106	(1,150)
Fines and forfeits	3,000	3,000	1,273	(1,727)
Leases and rentals	233,500	3,000	4,000	1,000
Investment gain (loss)	3,000	3,000	1,716	(1,284)
Miscellaneous	51,975	81,888	71,614	(10,274)
Total revenues	<u>3,820,711</u>	<u>3,860,290</u>	<u>3,781,575</u>	<u>(78,715)</u>
EXPENDITURES:				
Current:				
General government:				
City commission	105,062	167,047	146,525	20,522
City manager	140,313	140,313	144,195	(3,882)
Elections	21,366	21,366	18,180	3,186
City assessor	82,789	89,589	88,214	1,375
Board of review	2,953	2,953	2,215	738
City treasurer	154,201	154,201	147,811	6,390
City clerk	159,170	159,170	160,233	(1,063)
City hall	30,110	43,710	48,855	(5,145)
Office clerk	83,810	88,770	85,531	3,239
Pension	25,000	25,000	25,000	-
Public safety:				
Police department	1,693,415	1,693,415	1,590,531	102,884
Fire department	147,225	147,225	135,129	12,096
Canine	3,125	20,625	20,117	508
Public works:				
Cemetery	67,431	73,731	81,595	(7,864)
Forestry	16,172	44,372	41,846	2,526
Public works administration	96,840	186,050	128,562	57,488
Sidewalks & alley maintenance	26,315	26,315	11,913	14,402
Grounds maintenance	21,633	21,633	26,465	(4,832)
Motor pool	144,941	226,441	247,332	(20,891)
Community and economic development:				
Planning	169,186	169,786	161,712	8,074
Culture and recreation:				
Recreation administrative	144,355	165,555	174,343	(8,788)
Beautification	14,100	14,100	13,880	220
Parks	81,560	98,110	98,639	(529)
Beach	27,900	27,950	27,427	523
Sports park	84,280	109,450	114,525	(5,075)
Ice rink	12,350	4,190	3,711	479
Campground	78,875	84,675	83,743	932
Other recreation facilities	52,050	52,000	42,012	9,988
Recreation programs	1,750	3,030	2,413	617
Capital outlay	32,541	54,144	38,643	15,501
Debt service:				
Principal	49,134	71,734	4,582	67,152
Interest	2,136	2,136	2,136	-
Total expenditures	<u>3,796,058</u>	<u>4,193,156</u>	<u>3,918,015</u>	<u>275,141</u>
Excess revenues (expenditures)	<u>24,653</u>	<u>(332,866)</u>	<u>(136,440)</u>	<u>196,426</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	216,476	542,267	131,656	(410,611)
Transfers out	(251,129)	(209,401)	(35,851)	173,550
Total other financing sources (uses)	<u>(24,653)</u>	<u>332,866</u>	<u>95,805</u>	<u>(237,061)</u>
Net changes in fund balances	-	-	(40,635)	(40,635)
Fund balances - beginning	<u>586,656</u>	<u>586,656</u>	<u>586,656</u>	<u>-</u>
Fund balances - ending	<u>\$ 586,656</u>	<u>\$ 586,656</u>	<u>\$ 546,021</u>	<u>\$ (40,635)</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND
For the Year Ended March 31, 2023

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Special assessments	\$ -	\$ -	\$ 18,944	\$ 18,944
Federal grants	-	-	86,227	86,227
State grants	649,947	649,947	649,883	(64)
Charges for services	-	-	1,100	1,100
Fines and forfeits	500	500	1,893	1,393
Investment gain (loss)	5,000	5,000	(2,024)	(7,024)
Miscellaneous	43,027	43,027	200	(42,827)
Total revenues	698,474	698,474	756,223	57,749
EXPENDITURES:				
Current:				
Public works:				
Nonmotorized	7,192	1,707	682	1,025
Surface maintenance	119,375	107,875	111,780	(3,905)
Storm drains	42,096	84,996	97,005	(12,009)
Traffic control	29,328	29,328	31,719	(2,391)
Winter maintenance	125,760	93,780	112,218	(18,438)
Sweep/flushing	21,536	21,536	24,093	(2,557)
Administrative	98,365	98,365	29,460	68,905
Total expenditures	443,652	437,587	406,957	30,630
Excess revenues (expenditures)	254,822	260,887	349,266	88,379
OTHER FINANCING SOURCES (USES):				
Transfers in	14,578	14,578	-	(14,578)
Transfers out	(269,400)	(269,400)	(269,400)	-
Total other financing sources (uses)	(254,822)	(254,822)	(269,400)	(14,578)
Net changes in fund balances	-	6,065	79,866	73,801
Fund balances - beginning	353,273	353,273	353,273	-
Fund balances - ending	\$ 353,273	\$ 359,338	\$ 433,139	\$ 73,801

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREET FUND
For the Year Ended March 31, 2023

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Special assessments	\$ -	\$ -	\$ 150,006	\$ 150,006
Federal grants	-	-	8,839	8,839
State grants	269,335	269,335	278,552	9,217
Charges for services	-	-	550	550
Fines and forfeits	1,000	1,000	2,961	1,961
Investment gain (loss)	1,200	1,200	1,250	50
Miscellaneous	256,922	256,922	748	(256,174)
Total revenues	528,457	528,457	442,906	(85,551)
EXPENDITURES:				
Current:				
Public works:				
Reconstruction	177,440	192,440	51,107	141,333
Nonmotorized	7,192	1,692	884	808
Surface maintenance	165,619	165,619	171,736	(6,117)
Storm drains	30,018	10,286	8,839	1,447
Traffic control	21,574	21,574	18,671	2,903
Winter maintenance	98,178	65,228	90,463	(25,235)
Sweep/flushing	39,251	32,351	34,110	(1,759)
Administrative	82,529	94,029	24,645	69,384
Capital outlay	201,210	223,000	413,716	(190,716)
Total expenditures	823,011	806,219	814,171	(190,716)
Excess revenues (expenditures)	(294,554)	(277,762)	(371,265)	(276,267)
OTHER FINANCING SOURCES (USES):				
Transfers in	304,154	304,154	279,000	(25,154)
Transfers out	(9,600)	(9,600)	(9,600)	-
Total other financing sources (uses)	294,554	294,554	269,400	(25,154)
Net changes in fund balances	-	16,792	(101,865)	(301,421)
Fund balances - beginning	196,598	196,598	196,598	-
Fund balances - ending	\$ 196,598	\$ 213,390	\$ 94,733	\$ (301,421)

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

	2015	2016	2017	2018	2019	2020	2021	2022
Total pension liability								
Service cost	\$ 84,917	\$ 85,502	\$ 58,336	\$ 46,590	\$ 47,899	\$ 53,632	\$ 46,554	\$ 33,387
Interest	953,137	979,922	1,019,988	1,016,964	1,016,752	998,326	1,020,015	994,654
Change in benefits	3,739	-	-	-	-	-	-	-
Difference between expected and actual experience	(30,084)	335,350	(138,780)	(44,558)	(54,199)	(10,976)	(166,912)	177,078
Change in assumptions	523,082	-	-	-	447,771	269,813	443,678	-
Benefit payments, including refund of member contributions	(842,391)	(836,086)	(936,653)	(1,006,283)	(1,038,320)	(1,030,906)	(1,012,847)	(1,064,421)
Other	-	-	(4)	-	1	-	1	-
Net change in total pension liability	692,400	564,688	2,887	12,713	419,904	279,889	330,489	140,698
Total pension liability - beginning	11,931,915	12,624,315	13,189,003	13,191,890	13,204,603	13,624,507	13,904,396	14,234,885
Total pension liability - ending	\$ 12,624,315	\$ 13,189,003	\$ 13,191,890	\$ 13,204,603	\$ 13,624,507	\$ 13,904,396	\$ 14,234,885	\$ 14,375,583
Plan fiduciary net position								
Contributions - employer	\$ 642,574	\$ 841,312	\$ 768,951	\$ 956,931	\$ 1,022,538	\$ 1,025,388	\$ 1,200,939	\$ 1,304,985
Contributions - employee	12,492	12,791	8,995	6,601	6,625	6,824	6,236	5,677
Net investment income (loss)	(83,968)	615,682	792,296	(259,575)	864,446	934,276	1,152,890	(979,433)
Benefit payments, including refunds of member contributions	(842,391)	(836,086)	(936,653)	(1,006,283)	(1,038,320)	(1,030,906)	(1,012,847)	(1,064,421)
Administrative expense	(12,265)	(12,163)	(12,544)	(12,842)	(14,899)	(14,497)	(13,210)	(17,743)
Other	-	-	-	-	-	-	-	1
Net change in plan fiduciary net position	(283,558)	621,536	621,045	(315,168)	840,390	921,085	1,334,008	(750,934)
Plan fiduciary net position - beginning	5,677,689	5,394,131	6,015,667	6,636,712	6,321,544	7,161,934	8,083,019	9,417,027
Plan fiduciary net position - ending	\$ 5,394,131	\$ 6,015,667	\$ 6,636,712	\$ 6,321,544	\$ 7,161,934	\$ 8,083,019	\$ 9,417,027	\$ 8,666,093
City's net pension liability - ending	\$ 7,230,184	\$ 7,173,336	\$ 6,555,178	\$ 6,883,059	\$ 6,462,573	\$ 5,821,377	\$ 4,817,858	\$ 5,709,490
Plan fiduciary net position as a percentage of the total pension liability	43%	46%	50%	48%	53%	58%	66%	60%
Covered - employee payroll	\$ 760,520	\$ 751,993	\$ 525,382	\$ 434,047	\$ 447,960	\$ 504,170	\$ 497,752	\$ 303,167
City's net pension liability as a percentage of covered-employee payroll	951%	954%	1248%	1586%	1443%	1155%	968%	1883%
Annual money-weighted rate of return, net of investment expense	-1%	11%	13%	-4%	14%	13%	14%	-10%

Notes to schedule:

Schedule prepared based on measurement date of December 31, which does not tie to the fiscal year.

Changes in assumptions:

2019 reflects a change in the investment rate of return assumption from 7.75 percent to 7.35 percent and the assumed rate of wage inflation from 3.75 percent to 3.00 percent.

2020 reflects a change in the demographic assumptions including mortality, retirement, disability, and termination rates based on a recent experience study.

2021 reflects a change in the investment rate of return assumption from 7.35 percent to 7.00 percent.

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actuarially determined contribution	\$ 545,395	\$ 674,856	\$ 721,620	\$ 784,728	\$ 889,332	\$ 941,940	\$ 1,053,204	\$ 1,250,184	\$ 1,323,252
Contributions in relation to the actuarially determined contribution	545,395	674,856	721,620	784,728	1,076,832	941,940	1,053,204	1,250,184	1,323,252
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (187,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 726,599	\$ 760,520	\$ 751,993	\$ 525,382	\$ 434,047	\$ 447,960	\$ 504,170	\$ 497,752	\$ 303,167
Contributions as a percentage of covered-employee payroll	75%	89%	96%	149%	248%	210%	209%	251%	436%

Notes to Schedule:

Methods and assumptions used to determine contribution rates:

Valuation Date	Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	10 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.00%, average, including inflation
Investment rate of return	7.00%
Retirement age	50-60 years of age depending on years of credited service
Mortality	Pub-2010 and fully generational MP-2019
Assumption changes	In the 2021 MERS valuation, the investment rate of return was reduced from 7.35 percent to 7.00 percent, which first impacted 2023 contributions. In the 2020 MERS valuation, demographic assumptions including mortality, retirement, disability, and termination rates were updated based on the recent experience study, which first impacted 2022 contributions. In the 2019 MERS valuation, the investment rate of return was reduced from 7.75 percent to 7.35 percent, which first impacted 2021 contributions. Additionally, the inflation assumption was changed from 3.75 percent to 3.00 percent.

Note Above dates are based on fiscal year and not the measurement date.

Other Supplementary Information

CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2023

	Special Revenue Funds			
	MSDHA Homeowner	MSHDA Habitat Rehab	Mary Cretens Trust	Economic Development Corporation
ASSETS				
Cash, cash equivalents and investments	\$ -	\$ -	\$ -	\$ 50,381
Receivables:				
Accounts	-	-	1,030	308
Special assessments	-	-	-	-
Prepaid items	-	-	-	-
Restricted cash, cash equivalents and investments	26,338	25,000	465,182	-
Total assets	<u>\$ 26,338</u>	<u>\$ 25,000</u>	<u>\$ 466,212</u>	<u>\$ 50,689</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable special assessments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	26,338	25,000	466,212	50,689
Total fund balances	<u>26,338</u>	<u>25,000</u>	<u>466,212</u>	<u>50,689</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 26,338</u>	<u>\$ 25,000</u>	<u>\$ 466,212</u>	<u>\$ 50,689</u>

See accompanying notes to financial statements.

<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Downtown Development Authority</u>	<u>General Debt Service</u>	<u>Capital Projects</u>	<u>Cemetery Perpetual Care</u>	
\$ 146,297	\$ -	\$ -	\$ -	\$ 196,678
7,876	-	-	754	9,968
-	413,251	-	-	413,251
-	500	-	-	500
-	144,434	-	273,880	934,834
<u>\$ 154,173</u>	<u>\$ 558,185</u>	<u>\$ -</u>	<u>\$ 274,634</u>	<u>\$ 1,555,231</u>
\$ 3,597	\$ -	\$ -	\$ -	\$ 3,597
3,106	-	-	-	3,106
6,703	-	-	-	6,703
-	413,251	-	-	413,251
-	500	-	274,634	275,134
147,470	144,434	-	-	860,143
147,470	144,934	-	274,634	1,135,277
<u>\$ 154,173</u>	<u>\$ 558,185</u>	<u>\$ -</u>	<u>\$ 274,634</u>	<u>\$ 1,555,231</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended March 31, 2023

	Special Revenue Funds			
	MSDHA Homeowner	MSHDA Habitat Rehab	Mary Cretens Trust	Economic Development Corporation
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Local grants	-	-	158,433	-
Charges for services	-	-	-	-
Investment gain (loss)	-	-	(1,445)	(936)
Miscellaneous	-	-	-	6,465
Total revenues	-	-	156,988	5,529
EXPENDITURES:				
Current:				
Public works	-	-	-	-
Community development	-	-	-	19,902
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	-	-	-	19,902
Excess revenues (expenditures)	-	-	156,988	(14,373)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	(131,656)	-
Total other financing sources (uses)	-	-	(131,656)	-
Net changes in fund balances	-	-	25,332	(14,373)
Fund balances - beginning	26,338	25,000	440,880	65,062
Fund balances - ending	<u>\$ 26,338</u>	<u>\$ 25,000</u>	<u>\$ 466,212</u>	<u>\$ 50,689</u>

See accompanying notes to financial statements.

Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
Downtown Development Authority	General Debt Service	Capital Projects	Cemetery Perpetual Care	
\$ 279,534	\$ -	\$ -	\$ -	\$ 279,534
-	66,003	-	-	66,003
8,040	-	-	-	166,473
-	-	-	2,800	2,800
(2,883)	93	-	(2,232)	(7,403)
6,061	-	-	-	12,526
290,752	66,096	-	568	519,933
-	-	-	8	8
82,618	-	-	-	102,520
66,370	260,000	-	-	326,370
19,875	103,920	-	-	123,795
168,863	363,920	-	8	552,693
121,889	(297,824)	-	560	(32,760)
-	390,637	13,358	-	403,995
(266,000)	-	(56,637)	-	(454,293)
(266,000)	390,637	(43,279)	-	(50,298)
(144,111)	92,813	(43,279)	560	(83,058)
291,581	52,121	43,279	274,074	1,218,335
\$ 147,470	\$ 144,934	\$ -	\$ 274,634	\$ 1,135,277

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
March 31, 2023

	Solid Waste	Harbor	Total Nonmajor Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 155,980	\$ 57,547	\$ 213,527
Investments	48,971	53,239	102,210
Receivables:			
Utilities	85,415	-	85,415
Miscellaneous	729	302	1,031
Due from other funds	13,050	-	13,050
Prepaid items	2,234	-	2,234
Total current assets	<u>306,379</u>	<u>111,088</u>	<u>417,467</u>
Noncurrent assets:			
Investments	69,790	75,871	145,661
Advance due from other funds	78,300	-	78,300
Capital assets, net of accumulated depreciation	265,909	235,036	500,945
Total noncurrent assets	<u>413,999</u>	<u>310,907</u>	<u>724,906</u>
Total assets	<u><u>\$ 720,378</u></u>	<u><u>\$ 421,995</u></u>	<u><u>\$ 1,142,373</u></u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow - pension plan	<u><u>\$ 19,983</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,983</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 18,125	\$ 320	\$ 18,445
Accrued payroll	2,661	22	2,683
Unearned revenue	-	54,986	54,986
Total current liabilities	<u>20,786</u>	<u>55,328</u>	<u>76,114</u>
Noncurrent liabilities:			
Net pension liability	77,295	-	77,295
Total noncurrent liabilities	<u>77,295</u>	<u>-</u>	<u>77,295</u>
Total liabilities	<u><u>\$ 98,081</u></u>	<u><u>\$ 55,328</u></u>	<u><u>\$ 153,409</u></u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow - pension plan	<u><u>\$ 7,055</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,055</u></u>
NET POSITION			
Net investment in capital assets	\$ 265,909	\$ 235,036	\$ 500,945
Unrestricted	369,316	131,631	500,947
Total net position	<u><u>\$ 635,225</u></u>	<u><u>\$ 366,667</u></u>	<u><u>\$ 1,001,892</u></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, 2023

	Solid Waste	Harbor	Total Nonmajor Enterprise Funds
OPERATING REVENUES:			
Charges for services	\$ 509,750	\$ 84,687	\$ 594,437
Miscellaneous	6,098	-	6,098
	<u>515,848</u>	<u>84,687</u>	<u>600,535</u>
OPERATING EXPENSES:			
Salaries and fringes	190,841	16,382	207,223
Supplies	46,453	17,249	63,702
Contracted services	48,621	8,861	57,482
Utilities	23	8,255	8,278
Rent	13,500	-	13,500
Insurance	293	656	949
Landfill tipping fees	109,310	-	109,310
Depreciation	34,829	23,788	58,617
Miscellaneous	-	464	464
	<u>443,870</u>	<u>75,655</u>	<u>519,525</u>
Total operating expenses	<u>443,870</u>	<u>75,655</u>	<u>519,525</u>
Operating income (loss)	<u>71,978</u>	<u>9,032</u>	<u>81,010</u>
NONOPERATING REVENUES (EXPENSES):			
Investment gain (loss)	(1,374)	(121)	(1,495)
Gain (loss) on sale of assets	2,500	-	2,500
	<u>1,126</u>	<u>(121)</u>	<u>1,005</u>
Total nonoperating revenue (expense)	<u>1,126</u>	<u>(121)</u>	<u>1,005</u>
Change in net position	73,104	8,911	82,015
Total net position - beginning	<u>562,121</u>	<u>357,756</u>	<u>919,877</u>
Total net position - ending	<u><u>\$ 635,225</u></u>	<u><u>\$ 366,667</u></u>	<u><u>\$ 1,001,892</u></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, 2023

	Solid Waste	Harbor	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 508,517	\$ 88,577	\$ 597,094
Payments to suppliers	(206,412)	(35,288)	(241,700)
Payments for wages and related benefits	(197,432)	(16,440)	(213,872)
Net cash provided (used) by operating activities	<u>104,673</u>	<u>36,849</u>	<u>141,522</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Repayments of advances made to other funds	<u>13,050</u>	<u>-</u>	<u>13,050</u>
Net cash provided (used) by noncapital financing activities	<u>13,050</u>	<u>-</u>	<u>13,050</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	<u>-</u>	<u>(6,110)</u>	<u>(6,110)</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(6,110)</u>	<u>(6,110)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities	-	(84,946)	(84,946)
Sale of investment securities	8,106	7,644	15,750
Interest earned	835	49	884
Net cash provided (used) by investing activities	<u>8,941</u>	<u>(77,253)</u>	<u>(68,312)</u>
Net increase (decrease) in cash and equivalents	126,664	(46,514)	80,150
Cash and equivalents, beginning of year	<u>29,316</u>	<u>104,061</u>	<u>133,377</u>
Cash and equivalents, end of year	<u><u>\$ 155,980</u></u>	<u><u>\$ 57,547</u></u>	<u><u>\$ 213,527</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 71,978	\$ 9,032	\$ 81,010
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	34,829	23,788	58,617
Changes in assets and liabilities:			
(Increase) decrease in receivables	(7,331)	65	(7,266)
(Increase) decrease in prepaid items	(246)	-	(246)
(Increase) decrease in deferred outflows	(13,765)	-	(13,765)
Increase (decrease) in accounts payable	12,034	197	12,231
Increase (decrease) in accrued payroll	(131)	(58)	(189)
Increase (decrease) in net pension liability	10,254	-	10,254
Increase (decrease) in unearned revenue	-	3,825	3,825
Increase (decrease) in deferred inflows	(2,949)	-	(2,949)
Net cash provided by operating activities	<u><u>\$ 104,673</u></u>	<u><u>\$ 36,849</u></u>	<u><u>\$ 141,522</u></u>

See accompanying notes to financial statements.

Other Information

CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2023

ALL UTILITIES:

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

ELECTRIC UTILITY FUND:

K.W.H. purchased	32,549,326
K.W.H. sold	<u>31,338,501</u>
K.W.H. lost (4%)	<u>1,210,825</u>
Revenue from sales	<u>\$ 4,069,066</u>
Average number of meters	3,132

WATER UTILITY FUND:

Gallons pumped into plant	115,715,000
Gallons used in plant, system maintenance & let runs	<u>4,437,548</u>
Gallons pumped to mains	111,277,452
Gallons sold	<u>91,129,000</u>
Gallons lost (17%)	<u>20,148,452</u>
Revenue from sales	<u>\$ 937,324</u>
Average number of meters in service	2,422

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 1,327,898</u>
--------------------	---------------------

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF STATE EQUALIZED VALUATION & TAXABLE VALUES
(UNAUDITED)
For the Year Ended March 31, 2023

Year	Real	Personal	Total
1980	\$ 22,818,556	\$ 1,416,900	\$ 24,235,456
1981	23,717,233	1,402,900	25,120,133
1982	25,591,300	1,416,100	27,007,400
1983	26,259,100	1,735,400	27,994,500
1984	26,456,400	1,886,300	28,342,700
1985	27,148,200	2,128,500	29,276,700
1986	28,189,600	2,339,400	30,529,000
1987	28,523,700	2,300,100	30,823,800
1988	28,897,200	3,542,000	32,439,200
1989	29,348,900	3,564,000	32,912,900
1990	30,052,800	3,928,000	33,980,800
1991	32,466,100	4,025,000	36,491,100
1992	35,490,200	4,653,700	40,143,900
1993	34,997,900	4,170,900	39,168,800
1994	37,978,900	4,598,000	42,576,900
1995	40,146,600	4,840,200	44,986,800
1996	44,252,300	5,614,100	49,866,400
1997	44,731,000	5,547,450	50,278,450
1998	48,702,846	6,544,900	55,247,746
1999	52,246,500	7,261,900	59,508,400
2000	56,966,800	7,003,200	63,970,000
2001	61,646,100	6,894,200	68,540,300
2002	65,730,220	7,074,246	72,804,466
2003	69,954,964	7,532,830	77,487,794
2004	73,303,100	6,376,000	79,679,100
2005	77,310,900	6,341,200	83,652,100
2006	82,438,553	6,280,247	88,718,800
2007	85,949,610	6,439,250	92,388,860
2008	88,547,733	5,930,894	94,478,627
2009	91,044,442	5,546,476	96,590,918
2010	91,709,532	5,325,444	97,034,976
2011	89,049,581	6,938,949	95,988,530
2012	92,552,022	6,252,741	98,804,763
2013	94,803,405	6,911,937	101,715,342
2014	95,117,711	8,423,595	103,541,306
2015	94,312,251	11,278,862	105,591,113
2016	93,470,914	12,684,877	106,155,791
2017	95,022,933	12,478,411	107,501,344
2018	100,807,552	13,633,954	114,441,506
2019	102,932,237	13,382,676	116,314,913
2020	104,570,911	12,955,838	117,526,749
2021	106,292,654	12,498,100	118,790,754
2022	106,093,552	12,931,400	119,024,952

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

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF ANNUAL TAX RATES (PER \$1,000 VALUATION)
(UNAUDITED)
For the Year Ended March 31, 2023

<u>Year</u>	<u>City</u> <u>Tax</u>	<u>School *</u>	<u>Schools</u>			<u>Total</u>		<u>County</u> <u>Taxes</u>	<u>I.S.D.</u>	<u>DATA</u>	<u>Total</u>
			<u>Non-</u> <u>Homestead</u>	<u>State</u>	<u>Debt</u>	<u>Local</u> <u>Taxes</u>	<u>Community</u> <u>College</u>				
1961	14.7300	17.0000	-	-	-	31.7300	-	7.9300	-	-	39.6600
1962	14.7400	23.6000	-	-	-	38.3400	-	7.9500	-	-	46.2900
1963	14.7700	23.3900	-	-	-	38.1600	1.1410	10.1550	0.1140	-	49.5700
1964	15.9100	23.1200	-	-	-	39.0300	1.1400	8.1600	0.0800	-	48.4100
1965	15.9300	24.2300	-	-	-	40.1600	1.1400	8.2300	0.1000	-	49.6300
1966	15.9000	24.8600	-	-	-	40.7600	1.1400	8.2100	0.6900	-	50.8000
1967	14.0600	21.8000	-	-	-	35.8600	1.0000	6.2000	0.6000	-	43.6600
1968	14.0000	23.3000	-	-	-	37.3000	2.5000	5.2000	0.6000	-	45.6000
1969	15.0000	21.8000	-	-	-	36.8000	2.5000	5.2000	1.1100	-	45.6100
1970	17.0000	19.8000	-	-	-	36.8000	2.5000	5.9000	1.1460	-	46.3460
1971	17.0000	22.0000	-	-	-	39.0000	2.5000	5.9000	2.2200	-	49.6200
1972	17.0000	21.3000	-	-	-	38.3000	2.5000	6.2000	2.6500	-	49.6500
1973	17.0000	27.1000	-	-	-	44.1000	2.5000	5.0000	2.7000	-	54.3000
1974	16.0000	24.1000	-	-	-	40.1000	2.5000	5.0000	2.7000	-	50.3000
1975	17.0000	23.7000	-	-	-	40.7000	2.5000	5.4500	2.6500	-	51.3000
1976	17.0000	27.2000	-	-	-	44.2000	2.5000	5.4500	2.6500	-	54.8000
1977	17.0000	27.2800	-	-	-	44.2800	2.5000	5.4500	2.6500	-	54.8800
1978	17.0000	16.7300	-	-	-	33.7300	2.5000	5.4500	2.6500	-	44.3300
1979	17.0000	27.6000	-	-	-	44.6000	2.5000	5.4500	2.6500	-	55.2000
1980	17.0000	30.1200	-	-	-	47.1200	2.5000	5.4500	2.6500	-	57.7200
1981	17.0000	32.4800	-	-	-	49.4800	2.5000	5.4500	2.6500	-	60.0800
1982	16.9900	31.2800	-	-	-	48.2700	2.5000	5.2000	2.6500	-	58.6200
1983	16.9371	21.2800	-	-	-	38.2171	2.5000	5.0844	2.6500	-	48.4515
1984	16.8867	31.6129	-	-	-	48.4996	2.5000	5.4500	2.6500	-	59.0996
1985	17.0000	33.8496	-	-	-	50.8496	2.5000	5.4500	2.6500	-	61.4496
1986	17.0000	33.4659	-	-	-	50.4659	2.5000	5.4500	2.6500	-	61.0659
1987	17.0000	33.2594	-	-	-	50.2594	2.5000	6.1000	2.6500	-	61.5094
1988	17.0000	33.2732	-	-	-	50.2732	2.5000	5.4500	2.6500	-	60.8732
1989	17.0000	37.5654	-	-	-	54.5654	2.5000	6.1000	2.6500	-	65.8154
1990	17.0000	37.5452	-	-	-	54.5452	2.5000	7.0500	2.6500	-	66.7452
1991	17.0000	37.0772	-	-	-	54.0772	2.5000	7.1000	2.6500	-	66.3272
1992	17.0000	37.0522	-	-	-	54.0522	2.5000	7.1000	2.6500	-	66.3022
1993	16.6575	35.6443	-	-	-	52.3018	2.4055	7.0873	2.5501	-	64.3447
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	-	53.7508
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	3.2735	7.0483	2.5124	-	54.6508
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	3.3735	7.0483	2.5124	-	54.2748
1997	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	-	61.7463
1998	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	-	61.7463
1999	16.1065	-	18.0000	6.0000	8.5600	48.6665	3.3600	7.0107	2.4917	-	61.5289
2000	15.9180	-	18.0000	6.0000	8.5600	48.4780	3.3585	6.6319	2.4807	-	60.9491
2001	15.6744	-	18.0000	6.0000	8.5600	48.2344	3.3511	6.6112	2.4695	-	60.6662
2002	15.6680	-	18.0000	6.0000	8.5600	48.2280	3.3506	6.6097	2.4596	-	60.6479
2003	15.6303	-	18.0000	5.0000	8.5600	47.1903	3.5000	6.5719	2.4375	-	59.6997

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF ANNUAL TAX RATES (PER \$1,000 VALUATION)
(UNAUDITED) - continued
For the Year Ended March 31, 2023

<u>Year</u>	<u>City</u> <u>Tax</u>	<u>School</u> *	<u>Schools</u>			<u>Total</u>		<u>County</u> <u>Taxes</u>	<u>I.S.D.</u>	<u>DATA</u>	<u>Total</u>
			<u>Non-</u> <u>Homestead</u>	<u>State</u>	<u>Debt</u>	<u>Local</u> <u>Taxes</u>	<u>Community</u> <u>College</u>				
2004	15.6303	-	18.0000	6.0000	8.5600	48.1903	3.5000	6.5455	2.4191	-	60.6549
2005	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	-	61.1223
2006	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	0.6000	61.7223
2007	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5225	7.5897	2.3854	0.6000	62.1597
2008	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5149	7.5897	2.3851	0.6000	62.1518
2009	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5109	7.4397	2.3851	0.6000	61.9978
2010	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5111	7.4317	2.3851	0.6000	61.9900
2011	15.5021	-	17.5669	6.0000	7.0000	46.0690	3.3076	7.6317	2.3851	0.6000	59.9934
2012	13.6785	-	17.5669	6.0000	6.6500	43.8954	3.3076	7.6317	2.3851	0.6000	57.8198
2013	13.6785	-	18.0000	6.0000	6.6500	44.3285	3.3076	7.4317	2.3851	0.6000	58.0529
2014	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.4317	2.3851	0.6000	59.8165
2015	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.3317	2.3851	0.6000	59.7165
2016	13.6785	-	18.0000	6.0000	6.3000	43.9785	3.3076	7.6317	2.3851	0.6000	57.9029
2017	15.4897	-	18.0000	6.0000	6.2000	45.6897	3.3076	8.1667	2.3851	0.6000	60.1491
2018	15.4897	-	18.0000	6.0000	6.2000	45.6897	3.3076	8.7167	2.3851	0.6000	60.6991
2019	15.4773	-	18.0000	6.0000	6.2000	45.6773	3.3076	8.7167	2.3851	0.6000	60.6867
2020	15.4773	-	18.0000	6.0000	6.2000	45.6773	3.3076	8.7167	2.3851	0.6000	60.6867
2021	15.4773	-	18.0000	6.0000	6.2000	45.6773	3.3076	9.0341	2.3851	0.6000	61.0041
2022	15.4773	-	18.0000	6.0000	5.9000	45.3773	3.3076	9.0317	2.3851	0.6000	60.7017

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



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

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

"A Regional Firm Within the Upper Peninsula of Michigan"

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan (the "City"), as of and for the year ended March 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Gladstone's basic financial statements and have issued our report thereon dated September 12, 2023. Our report includes a reference to other auditors who audited the financial statements of the Gladstone Housing Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider deficiency 2023-001 described in the accompanying schedule of findings and responses 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. We consider deficiency 2023-002 described in the accompanying schedule of findings and responses to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2023-003.

City of Gladstone, Michigan's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the City of Gladstone's response to the finding identified in our audit is described above. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



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

September 12, 2023

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended

FINDINGS – FINANCIAL STATEMENT AUDIT

2023-001 Material Weakness – Material Audit Adjustments and Financial Close & Reporting (repeat)

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

Criteria: The City is required to have adequate internal controls in place to properly record, process and report accounting data. Furthermore, proper accounting principles should be applied and year-end journal entries should be posted to all financial closing accounts, and processes, thus resulting in proper presentation of all City activities and/or funds.

Cause: The City did not have an adequate process in place to ensure an effective review and reconciliation was conducted of year-end balances to verify the balances were correct and properly supported in all instances. This condition was caused by the City's lack of formal procedures and controls as well as limited staff with necessary skills. External auditors cannot be part of the City's internal control structure

Effect: The financial information as reported by the City following its financial close was not materially correct or presented in accordance with generally accepted accounting principles. There exists a potential for misstatements in the financial statements to go undetected by management.

Recommendation: The City should establish procedures and controls to improve its financial close and reporting process, including the recording of journal entries necessary to record all material financial activity in the trial balances used in the preparation of the year-end financial statements. Also, the City should develop reconciliation processes throughout the year to help management implement preventative measures to mitigate financial recording errors as opposed to detective measures that fix financial reporting errors during the financial closing process.

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

2023-002 Significant Deficiency – Implementation of New Accounting Pronouncements

Condition: Extensive analysis, calculation, and reconciliation by the auditor was necessary to identify and record lease activity as well as compile information for required lease note disclosures in accordance with GASB Statement No. 87. The City was also not recording additions and deductions to the Custodial Tax Fund in its accounting system, requiring further reconciliation and adjustment for compliance with GASB Statement No. 84.

Criteria: The City is required to implement and follow accounting standards as promulgated by the Governmental Accounting Standards Board, including recently applicable Statements No. 84 and 87.

Cause: The City lacks a process for evaluating and implementing new accounting standards. Personnel with the appropriate understanding of the new accounting standards are not provided the adequate resources to ensure a timely and appropriate implementation. Specifically, the City lacked any process for evaluating its contracts to identify leasing arrangements. The City also lacked a process to record additions and deductions in the general ledger for the Custodial Tax Fund rather than recording all of the activity in the asset and liability accounts as allowed prior to the implementation of Statement No. 84.

Effect: The City was understating its assets and deferred inflows of resources and its additions and deductions in the Custodial Tax Fund. The City was not prepared for the required presentation of amounts and disclosures in its financial statements.

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended

Recommendation: The City should monitor new accounting standards, attend training as necessary, and implement procedures as necessary. The City should develop procedures for evaluating agreements involving buildings or equipment to identify potential leasing arrangements. The City should implement procedures to record all Custodial Tax Fund activity in the general ledger system.

Management Response: The City will review its procedures related to leases, custodial tax fund, and future implementation of new accounting standards and make changes or additions as necessary.

2023-003: Compliance Finding – Violation of Public Act 2 of 1968, as Amended (repeat)

Condition: During the fiscal year ended March 31, 2023, expenditures were incurred in excess of amounts appropriated in the amended budgets for certain activities in the General Fund, Major Street Fund, and Local Street Fund (see Note B for detail).

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

Cause: The City did not reallocate budgets prior to year end within certain functions of the General Fund and special revenue funds to cover the excess in specific departments/activities. In some cases, the City failed to amend the budgets of the affected funds prior to processing disbursements.

Effect: Expenditures were incurred in excess of amounts appropriated in the amended budget. The City is not in compliance with state statute.

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

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