

GLADSTONE



GLADSTONE CITY COMMISSION WORK SESSION - FISCAL YEAR 2023-2024 AUDIT PRESENTATION

City Hall Chambers – 1100 Delta Avenue
October 28, 2024
5:00 PM

AGENDA

CALL TO ORDER

1. Roll Call

PUBLIC COMMENT

NEW BUSINESS

2. Fiscal Year 2023-2024 Audit Presentation - Anderson Tackman

ADJOURNMENT

The City of Gladstone will provide all necessary, reasonable aids and services, such as signers for the hearing impaired and audiotapes of printed materials being considered at the meeting to individuals with disabilities at the meeting/hearing upon five days notice to the City of Gladstone. Individuals with disabilities requiring auxiliary aids or services should contact the City of Gladstone by writing or calling City Hall at (906) 428-2311.

Posted: 09-18-2024

Kimberly Berry, MiPMC

906-428-2311

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RULES FOR PUBLIC COMMENT/ PUBLIC HEARINGS

(Excerpt from City Commission Rules of Procedure Adopted: 11-25-2019)

A. Public Comment / Public Hearings

At regular and special meetings of the commission, individuals wishing to be heard may address the commission during the public comment/public hearing periods as set forth in the agenda under the following rules:

1. Each speaker shall state name and address for the record.
2. Each speaker is limited to three (3) minutes of comment unless the presiding officer decides more time is necessary
3. Each speaker shall try to be concise and refrain from repeating comments already addressed by the commission.
4. Speakers who do not cease speaking when asked to do so will be deemed out of order and will not be allowed to address the commission again for the remainder of the meeting; continued disruption will warrant removal from the meeting.
5. The commission shall not decide issues that arise during public comment.
6. Speakers should address the commission through the presiding officer.
7. Commissioners and staff will not debate with the public.
8. Speakers will not verbally attack City Commissioners, City Staff or members of the public attending the meeting. Any such behavior will not be tolerated and any person presenting in this manner will be warned by the Mayor and shall be removed by Public Safety for noncompliance.
9. No vulgar or obscene language will be used by the speakers.
10. Any information the speaker wants to distribute to the Commission must first ask the Chair (Mayor) if they may present the Commission written comments at the meeting.
11. Speakers may not ask questions of the board during this time as the Commission or Staff will not address them during this public comment period.



City of Gladstone, MI

1100 Delta Avenue
Gladstone, MI. 49837
www.gladstonemi.org

Staff Report

Agenda Date: 10-28-2024 Eric Buckman, City Manager: _____

Department: City Commission Department Head Name: _____

Presenter: Manager Buckman Kim Berry, City Clerk: _____

This form and any background material must be approved by the City Manager then delivered to the City Clerk by 4:00 PM the Tuesday prior to the Commission Meeting.

AGENDA ITEM TITLE:

Work Session for Audit Presentation of Fiscal Year 2023-2024 Audit

BACKGROUND:

Presentation of FY 2023-2024 Audit by Anderson Tackman.

FISCAL EFFECT:

SUPPORTING DOCUMENTATION:

The audit is available on the City Website along with hard copies provided to Commissioners.

RECOMMENDATION:

No action as presentation – information only

CITY OF GLADSTONE, MICHIGAN

**BASIC FINANCIAL STATEMENTS
with Supplemental Information**

March 31, 2024

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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, 2024, 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, 2024, 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.

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 23, 2024, 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 23, 2024

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, 2024. 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 \$25,846,580. Net position increased \$3,419,819 from March 31, 2023. Net position for our business-type activities was \$16,727,418, an increase of \$2,629,123 from 2023, while net position in our governmental activities was \$9,119,162, an increase of \$790,696 from 2023.
- The City's expenses for the year totaled \$12,274,758, an increase of \$206,118 over 2023. Revenue from all sources was \$15,694,577, an increase of \$1,252,094 from 2023.
- In the City's business-type activities, total revenues were \$9,698,463, an increase of 9% over the previous year. Business-type activity revenues as a percentage of total revenues were 62% for 2024 compared to 62% for 2023.
- In a prior year, 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. Construction continued in 2024. 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, 2024, the outstanding principal related to this loan, net of forgiveness, was \$12,964,558. The City Wastewater Fund recognized \$1,319,923 in capital contributions for fiscal year 2024 reflecting the forgiven portion of the loan principal.
- The General Fund finished the year with an increase in fund balance of \$100,233 and an ending fund balance of \$646,254. This was after revenues of \$4,176,751 compared to \$3,781,575 in 2023, and expenditures of \$4,253,335 compared to expenditures of \$3,918,015 in 2023, exclusive of other financing sources and uses. The General Fund had net other financing sources/uses of \$176,817 in 2024 compared to \$95,805 in 2023.
- The South West Gladstone Paving Special Assessment was assessed in 2024 with a certified roll of \$113,160 of which \$93,181 was collected in fiscal year 2024 and recognized as revenue in the Major Street Fund.
- In 2024, the City received \$155,380 from the Dr. Mary Cretens Trust which was budgeted for expenditure in the 2025 fiscal year. In 2023, the City received \$158,433 from the Trust which was budgeted for expenditure in the 2024 fiscal year.
- In 2024, the City was awarded a Protecting MI Pension Grant in the amount of \$259,619, which was directly deposited with MERS. The Protecting MI Pension Program was created to help Michigan's underfunded municipal pension systems and was awarded to qualified retirement systems with a funded ratio below 60%.
- 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 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 \$3,419,819.

Table 1
Net Position

	Governmental Activities		Business-Type Activities	
	2024	2023	2024	2023
Current and other assets	\$ 3,818,137	\$ 3,479,914	\$ 9,721,335	\$ 9,794,988
Capital assets (net)	13,080,441	13,520,201	24,001,277	14,482,391
Total Assets	\$ 16,898,578	\$ 17,000,115	\$ 33,722,612	\$ 24,277,379
Deferred outflows	\$ 916,609	\$ 1,152,232	\$ 408,736	\$ 514,943
Long-term obligations	\$ 4,665,658	\$ 5,113,806	\$ 13,340,891	\$ 5,993,771
Other liabilities	3,623,708	4,325,138	3,779,870	4,405,982
Total Liabilities	\$ 8,289,366	\$ 9,438,944	\$ 17,120,761	\$ 10,399,753
Deferred inflows	\$ 406,659	\$ 384,937	\$ 283,169	\$ 294,274
Net Position:				
Net investment in capital assets	\$ 8,722,783	\$ 8,789,558	\$ 8,985,751	\$ 8,195,350
Restricted:				
Expendable	1,807,975	1,455,544	-	-
Nonexpendable	276,309	275,134	-	-
Unrestricted	(1,687,905)	(2,191,770)	7,741,667	5,902,945
Total net position	\$ 9,119,162	\$ 8,328,466	\$ 16,727,418	\$ 14,098,295

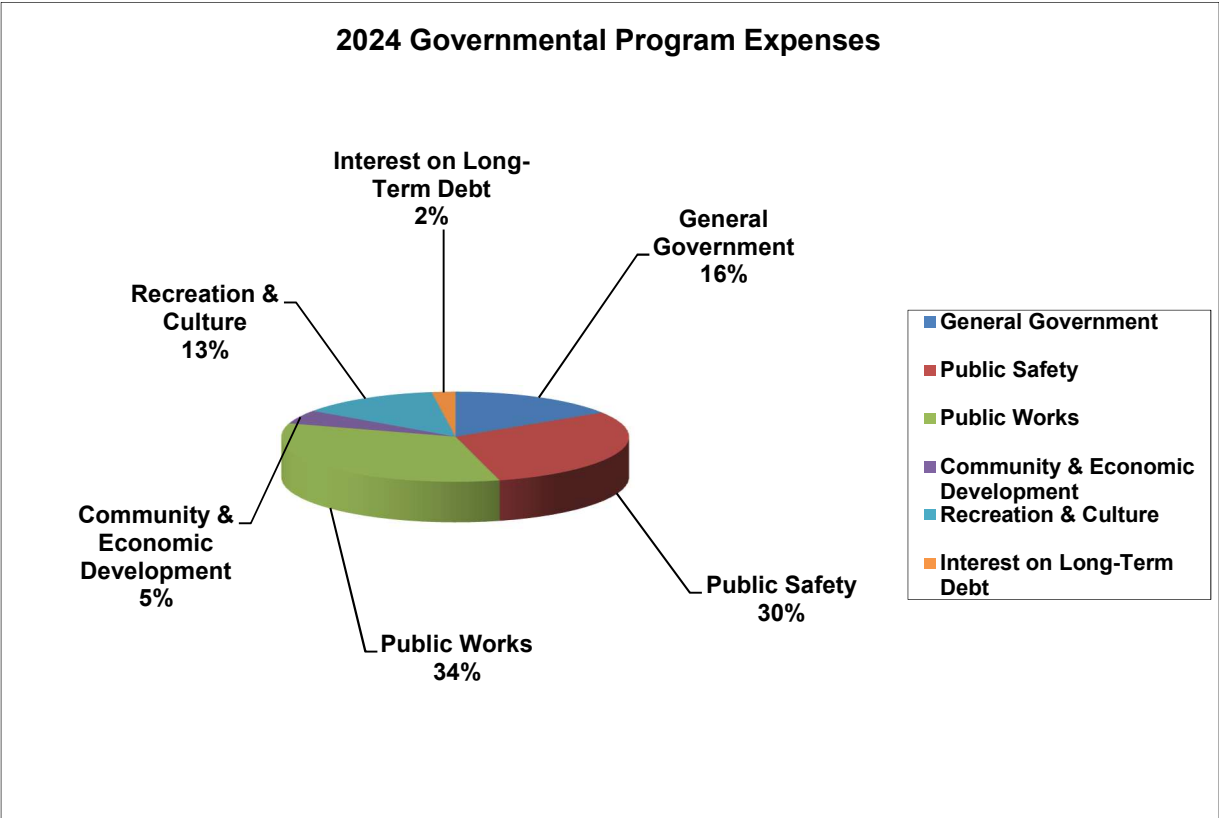
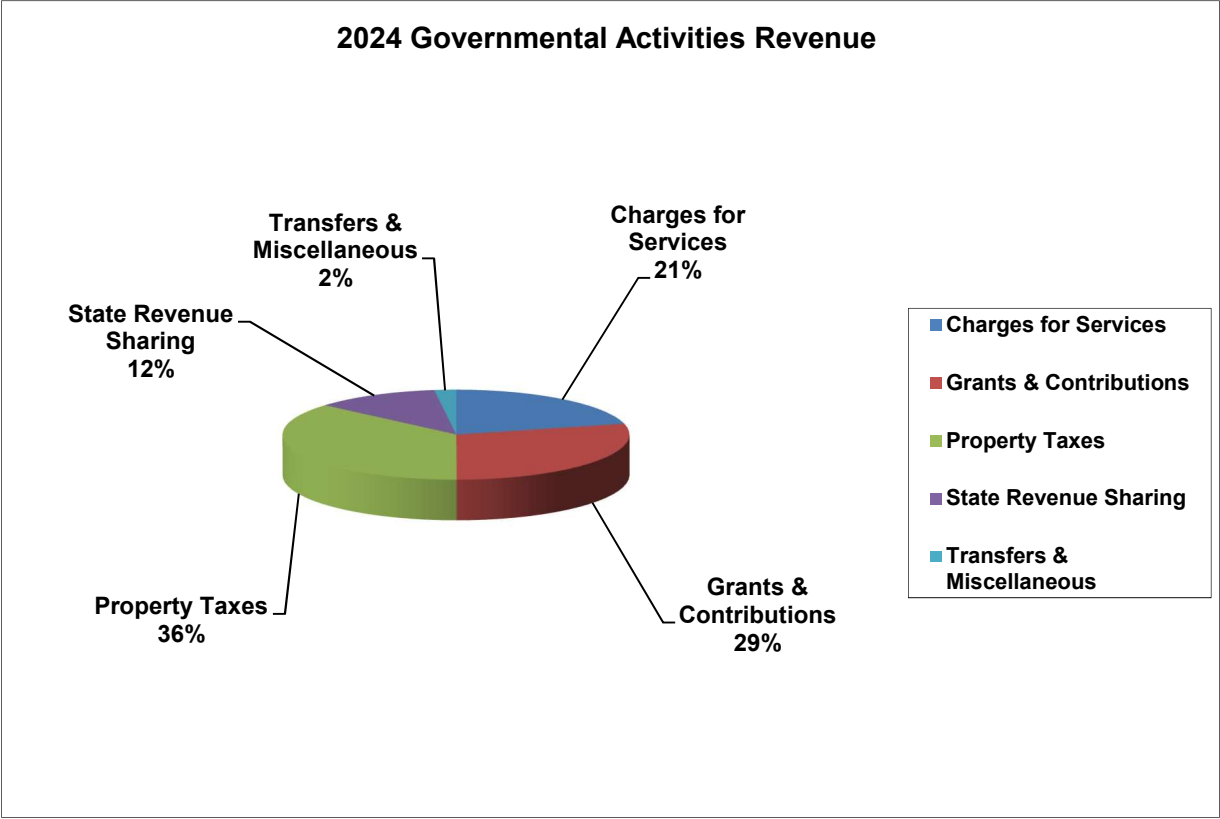
Net position of the City's governmental activities stood at \$9,119,162, up from \$8,328,466 in 2023 (9%). Total assets in governmental activities decreased by 1%, and total liabilities decreased by 12%. The decrease in total liabilities primarily relates to paying down debt and a decrease in the net pension liability. The ratio of assets to liabilities increased slightly from 1.80 in 2023 to 2.04 in 2024. 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 \$16,727,418, up from \$14,098,295 in 2023 (19%). Total assets increased by 39%, while liabilities increased by 65% 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 that began in 2023. Unrestricted net position increased to \$7,741,667 from \$5,902,945 while net position invested in capital assets (net of related debt) increased to \$8,985,751 from \$8,195,350 in 2023.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities	
	2024	2023	2024	2023
Revenues:				
Program Revenues:				
Charges for services	\$ 1,275,105	\$ 1,466,948	\$ 7,852,335	\$ 7,819,435
Operating grants	1,082,607	1,066,400	109,447	-
Capital grants	319,225	7,720	1,492,417	1,062,953
General Revenues:				
Property taxes	2,195,465	2,054,370	-	-
State revenue sharing	703,587	704,005	-	-
Unrestricted grants	340,416	200,849	-	-
Unrestricted investment earnings	70,844	3,334	244,264	40,745
Gain on disposal of assets	-	-	-	7,300
Miscellaneous	6,865	5,624	-	-
Total Revenues	<u>5,994,114</u>	<u>5,509,250</u>	<u>9,698,463</u>	<u>8,930,433</u>
Program Expenses:				
General government	840,231	799,328	-	-
Public safety	1,570,417	1,459,707	-	-
Public works	1,775,381	1,835,440	-	-
Community development	259,123	272,427	-	-
Recreation and culture	688,109	733,125	-	-
Interest on long-term debt	115,157	124,770	-	-
Electric	-	-	4,169,601	4,372,131
Wastewater	-	-	1,379,767	1,116,663
Water	-	-	944,703	835,524
Solid waste	-	-	451,256	443,870
Harbor	-	-	81,013	75,655
Total Expenses	<u>5,248,418</u>	<u>5,224,797</u>	<u>7,026,340</u>	<u>6,843,843</u>
Excess (deficiency) before transfers and contributions	745,696	284,453	2,672,123	2,086,590
Transfers	43,000	45,507	(43,000)	(45,507)
Contributions to permanent fund	2,000	2,800	-	-
Increase (decrease) in net position	790,696	332,760	2,629,123	2,041,083
Net position - beginning	8,328,466	7,995,706	14,098,295	12,057,212
Net position - ending	<u>\$ 9,119,162</u>	<u>\$ 8,328,466</u>	<u>\$ 16,727,418</u>	<u>\$ 14,098,295</u>

GOVERNMENTAL ACTIVITIES



The City’s total revenues were \$15,694,577, up from \$14,442,483 in 2023. The total cost of all programs and services was \$12,274,758, up from \$12,068,640 in 2023. There was an overall excess of revenues over expenses of \$3,419,819, compared to \$2,373,843 in 2023. The overall increase was due to capital contributions in the waste water fund, investment earnings, increased taxable value, and other grants while controlling costs.

Governmental Activities

Revenues for the City’s governmental activities totaled \$6,039,114, up 8.7% from \$5,557,557 in 2023. Expenses increased by 0.5% or \$23,621 in 2024 as compared to 2023. Most departments saw expenses comparable to prior year.

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	
	2024	2023	2024	2023
General government	\$ 840,231	\$ 799,328	\$ 319,919	\$ 244,842
Public safety	1,570,417	1,459,707	1,496,922	1,396,002
Public works	1,775,381	1,835,440	213,157	243,220
Economic development	259,123	272,427	224,164	248,851
Recreation and culture	688,109	733,125	202,162	426,044
Interest on long-term debt	115,157	124,770	115,157	124,770
Totals	\$ 5,248,418	\$ 5,224,797	\$ 2,571,481	\$ 2,683,729

Business-Type Activities

Revenues for the City’s business-type activities totaled \$9,698,463, up from \$8,930,433 in 2023 (9%). Business-type activity expenses increased by \$182,497 (3%). The increased revenues were primarily a result of the loan forgiveness in connection with the City’s wastewater bonds, the Protecting MI Pension Grant, and investment earnings. The increase in expenses resulted from standard increases to personnel costs and additional supplies and contracted services necessary for operations offset by decreased purchased power costs.

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 \$2,453,176, an increase of \$244,006 from 2023. The combined increase in fund balance, in large part, comes from additional grants, increased taxable value, and controlling costs.

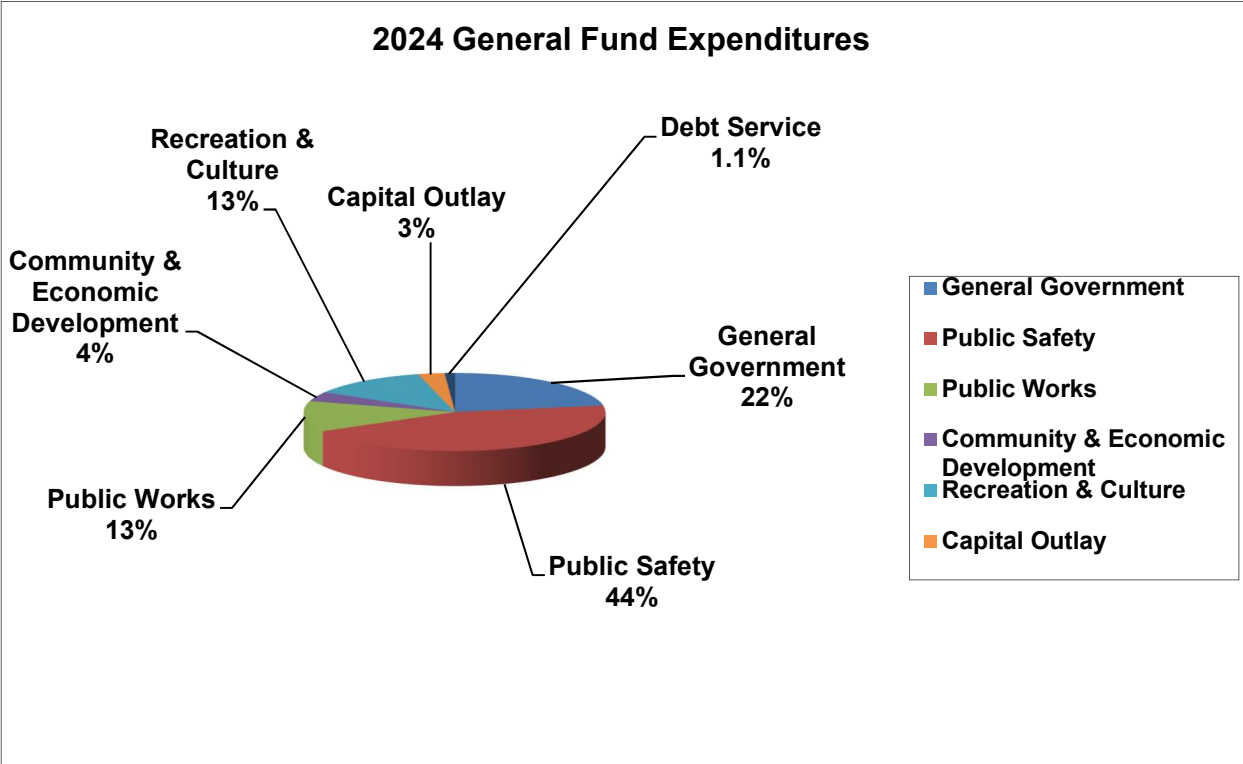
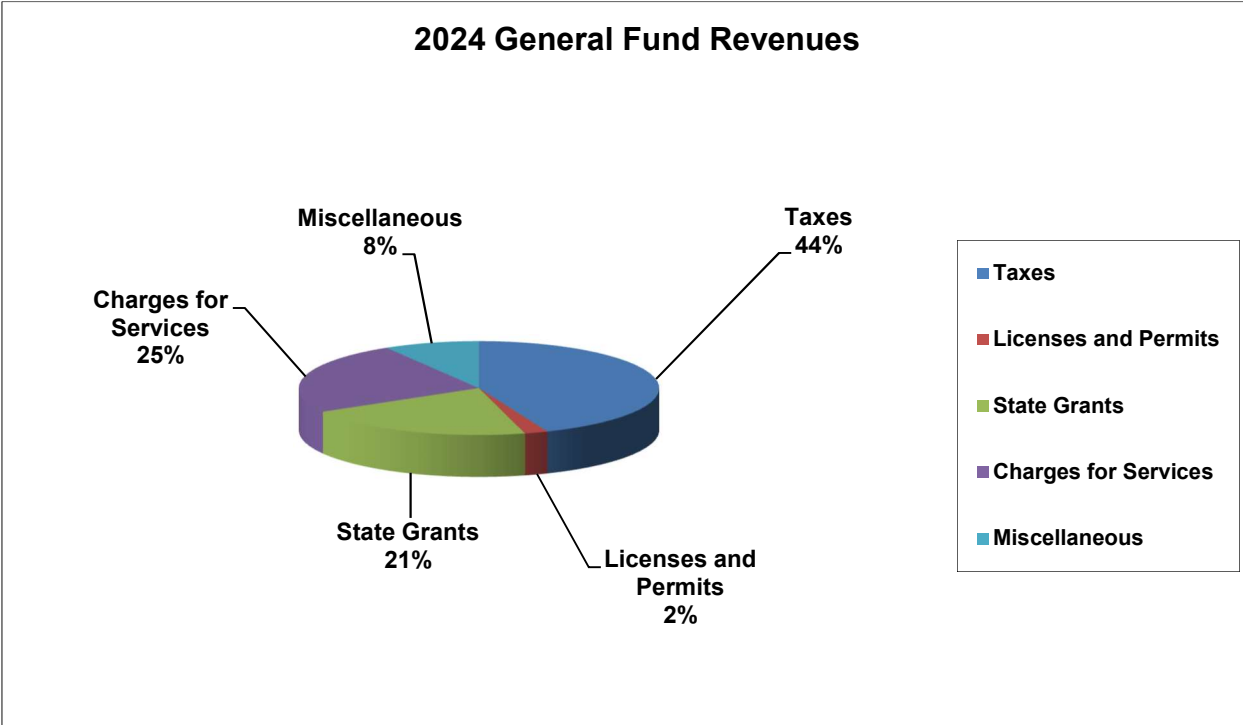
General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenditures. Revenues were more than the amended budget by \$337,500. Total General Fund revenue of \$4,176,751 was 9% more than the revised revenue estimate of \$3,839,251. The final revenue amount was more than revised estimates primarily due to unexpected grant revenue in connection with the Protecting MI Pension Grant and donations for a pickleball project.

Expenditures were less than the amended budget by \$67,901. Total General Fund expenditures of \$4,253,335 were 2% less than the revised expenditure estimate of \$4,321,236. Final expenditures were less than budgeted primarily due to capital outlay being less than expected.

The final expenditures exceeded revenues by \$76,584 for the year before other financing sources and uses. After factoring in the net increase of \$176,817 from other financing sources and uses, General Fund inflows exceeded outflows by \$100,233 compared to a budgeted net decrease in fund balance of \$238,121.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2024, the City had \$37,081,718, 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 \$28,002,592 in 2023. 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	
	2024	2023	2024	2023
Land	\$ 2,394,627	\$ 2,394,627	\$ 236,836	\$ 236,836
Construction in progress	6,198	16,473	16,032,278	6,800,105
Land improvements	266,908	299,513	7,395	7,943
Utilities distribution/collection	-	-	5,872,212	5,565,943
Street system	7,023,293	7,182,430	4,909	-
Industrial park	20,312	22,067	-	-
Other infrastructure	767,615	856,739	205,074	226,289
Buildings	1,143,743	1,223,819	588,079	687,716
Machinery and equipment	274,392	228,850	483,900	287,235
Mobile equipment	600,496	626,176	21,478	24,138
Vehicles	582,857	669,507	549,116	646,186
Total	\$ 13,080,441	\$ 13,520,201	\$ 24,001,277	\$ 14,482,391

Debt

At year-end, the City had \$17,562,934 in long-term liabilities, bonds and notes outstanding. This is a net increase of \$7,046,580 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	
	2024	2023	2024	2023	2024	2023
General obligation bonds/premium (backed by the City)	\$ 3,691,495	\$ 3,976,631	\$ -	\$ -	\$ 3,691,495	\$ 3,976,631
Notes payable	666,163	754,012	-	-	666,163	754,012
Revenue bonds and notes (backed by specific tax and fee revenues)	-	-	13,205,276	5,785,711	13,205,276	5,785,711
Totals	\$ 4,357,658	\$ 4,730,643	\$ 13,205,276	\$ 5,785,711	\$ 17,562,934	\$ 10,516,354

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, at the end of 2024, the City has an unassigned fund balance of \$107,264 in the General Fund as well as \$154,124 in committed fund balance. 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.

During fiscal year 2025, the City will assess a special assessment of 2.00 mills levied with summer taxes and 2.5 mills levied with winter taxes as allowed by Act 33 of 1951 for police and fire protection. This special assessment is anticipated to provide funding in the amount of \$564,232.

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, 2024

Item 2.

ASSETS	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
	Current assets:			
Cash, cash equivalents and investments	\$ 1,175,823	\$ 4,350,068	\$ 5,525,891	\$ 665,791
Receivables:				
Accounts and miscellaneous	106,249	32,968	139,217	96,832
Taxes	26,260	-	26,260	-
Utilities	-	1,232,397	1,232,397	-
Special assessments	590,684	-	590,684	-
Leases	-	23,150	23,150	-
Due from other governmental units	394,117	885,961	1,280,078	-
Internal balances	(67,009)	67,009	-	-
Prepaid items	44,036	18,493	62,529	3,366
Inventory	63,468	310,652	374,120	-
Restricted cash, cash equivalents and investments	517,357	-	517,357	-
Total current assets	2,850,985	6,920,698	9,771,683	765,989
Noncurrent assets:				
Investments	1,117,951	2,076,135	3,194,086	-
Leases receivable	-	87,609	87,609	-
Mortgage receivable	-	-	-	1,162,454
Internal balances	(636,893)	636,893	-	-
Restricted investments	486,094	-	486,094	-
Non-depreciable capital assets	2,400,825	16,269,114	18,669,939	15,325
Capital assets, net of accumulated depreciation	10,679,616	7,732,163	18,411,779	148,834
Total noncurrent assets	14,047,593	26,801,914	40,849,507	1,326,613
Total assets	\$ 16,898,578	\$ 33,722,612	\$ 50,621,190	\$ 2,092,602
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - pension plan	\$ 916,609	\$ 408,736	\$ 1,325,345	\$ -

See accompanying notes to financial statements.

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Housing Commission
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 148,048	\$ 2,239,951	\$ 2,387,999	\$ 32,065
Accrued interest	12,407	-	12,407	-
Accrued payroll	91,046	56,096	147,142	11,393
Customer deposits	-	83,126	83,126	4,789
Unearned revenue	147,124	55,606	202,730	227
Compensated absences	37,100	27,123	64,223	-
Employment benefits	31,000	-	31,000	-
Bonds payable	275,000	500,000	775,000	-
Bond premium	20,136	-	20,136	-
Notes payable	43,592	-	43,592	-
Total current liabilities	<u>805,453</u>	<u>2,961,902</u>	<u>3,767,355</u>	<u>48,474</u>
Noncurrent liabilities:				
Compensated absences	148,400	108,492	256,892	2,342
Employment benefits	91,500	-	91,500	-
Net pension liability	3,225,083	1,345,091	4,570,174	-
Bonds payable	3,195,000	12,705,276	15,900,276	-
Bond premium	201,359	-	201,359	-
Notes payable	622,571	-	622,571	-
Other liabilities	-	-	-	-
Total noncurrent liabilities	<u>7,483,913</u>	<u>14,158,859</u>	<u>21,642,772</u>	<u>2,342</u>
Total liabilities	<u>\$ 8,289,366</u>	<u>\$ 17,120,761</u>	<u>\$ 25,410,127</u>	<u>\$ 50,816</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow - pension plan	\$ 406,659	\$ 172,410	\$ 579,069	\$ -
Future lease payments	-	110,759	110,759	-
Total deferred inflows of resources	<u>\$ 406,659</u>	<u>\$ 283,169</u>	<u>\$ 689,828</u>	<u>\$ -</u>
NET POSITION				
Net investment in capital assets	\$ 8,722,783	\$ 8,985,751	\$ 17,708,534	\$ 164,159
Restricted:				
Expendable	1,807,975	-	1,807,975	-
Nonexpendable	276,309	-	276,309	-
Unrestricted	(1,687,905)	7,741,667	6,053,762	1,877,627
Total net position	<u>\$ 9,119,162</u>	<u>\$ 16,727,418</u>	<u>\$ 25,846,580</u>	<u>\$ 2,041,786</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2024**

Item 2.

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Unit
					Governmental Activities	Business-type Activities	Total	Housing Commission
Primary government:								
Governmental activities:								
General government	\$ 840,231	\$ 520,312	\$ -	\$ -	\$ (319,919)	\$ -	\$ (319,919)	\$ -
Public safety	1,570,417	31,353	9,087	33,055	(1,496,922)	-	(1,496,922)	-
Public works	1,775,381	460,368	1,058,486	43,370	(213,157)	-	(213,157)	-
Community and economic development	259,123	19,825	15,034	100	(224,164)	-	(224,164)	-
Recreation and culture	688,109	243,247	-	242,700	(202,162)	-	(202,162)	-
Interest on long-term debt	115,157	-	-	-	(115,157)	-	(115,157)	-
Total governmental activities	5,248,418	1,275,105	1,082,607	319,225	(2,571,481)	-	(2,571,481)	-
Business-type activities:								
Electric utility	4,169,601	4,336,304	55,996	-	-	222,699	222,699	-
Waste water utility	1,379,767	1,819,790	17,817	1,410,792	-	1,868,632	1,868,632	-
Water utility	944,703	1,068,271	22,908	76,591	-	223,067	223,067	-
Solid waste	451,256	535,595	12,726	-	-	97,065	97,065	-
Harbor	81,013	92,375	-	5,034	-	16,396	16,396	-
Total business-type activities	7,026,340	7,852,335	109,447	1,492,417	-	2,427,859	2,427,859	-
Total primary government	\$ 12,274,758	\$ 9,127,440	\$ 1,192,054	\$ 1,811,642	(2,571,481)	2,427,859	(143,622)	-
Component unit:								
Housing commission	\$ 351,604	\$ 163,132	\$ 797,289	\$ -	-	-	-	608,817
General revenues:								
Property taxes					2,195,465	-	2,195,465	-
State revenue sharing					703,587	-	703,587	-
Grants and contributions not restricted to specific programs					340,416	-	340,416	-
Contributions to permanent fund					2,000	-	2,000	-
Unrestricted investment earnings (loss)					70,844	244,264	315,108	11,160
Miscellaneous					6,865	-	6,865	34,674
Gain on disposal of capital assets					-	-	-	-
Transfers					43,000	(43,000)	-	-
Total general revenues and transfers					3,362,177	201,264	3,563,441	45,834
Changes in net position					790,696	2,629,123	3,419,819	654,651
Net position - beginning					8,328,466	14,098,295	22,426,761	1,387,135
Net position - ending					\$ 9,119,162	\$ 16,727,418	\$ 25,846,580	\$ 2,041,786

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2024

Item 2.

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash, cash equivalents and investments	\$ 1,140,701	\$ 300,188	\$ 442,822	\$ 1,883,711
Receivables:				
Accounts	69,431	2,054	30,152	101,637
Taxes	26,260	-	-	26,260
Special assessments	11,170	58,933	520,581	590,684
Notes	-	-	-	-
Due from other governmental units	237,051	114,191	42,875	394,117
Due from other funds	41,706	-	-	41,706
Prepaid items	43,705	-	331	44,036
Inventory	63,468	-	-	63,468
Restricted cash, cash equivalents and investments	51,686	-	951,765	1,003,451
Total assets	\$ 1,685,178	\$ 475,366	\$ 1,988,526	\$ 4,149,070
LIABILITIES				
Accounts payable	\$ 144,980	\$ -	\$ 3,068	\$ 148,048
Accrued payroll	85,960	1,529	3,557	91,046
Due to other funds	638,000	46,013	19,889	703,902
Unearned revenue	143,724	-	3,400	147,124
Total liabilities	1,012,664	47,542	29,914	1,090,120
DEFERRED INFLOWS OF RESOURCES				
Unavailable special assessments	-	58,933	520,581	579,514
Unavailable taxes	26,260	-	-	26,260
Total deferred inflows of resources	26,260	58,933	520,581	605,774
FUND BALANCES				
Nonspendable	107,173	-	276,640	383,813
Restricted	277,693	368,891	1,161,391	1,807,975
Committed	154,124	-	-	154,124
Assigned	-	-	-	-
Unassigned	107,264	-	-	107,264
Total fund balances	646,254	368,891	1,438,031	2,453,176
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,685,178	\$ 475,366	\$ 1,988,526	\$ 4,149,070

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, 2024

Item 2.

Total fund balances for governmental funds	\$ 2,453,176
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	2,400,825
Capital assets being depreciated, net	10,679,616
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	372,969
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	916,609
Net pension liability	(3,225,083)
Deferred inflows of resources - pension	(406,659)
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	(12,407)
Notes payable	(666,163)
Bonds payable	(3,470,000)
Bond premium	(221,495)
Employment benefits	(122,500)
Compensated absences	(185,500)
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	579,514
Unavailable taxes	26,260
Total net position of governmental activities	\$ 9,119,162

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, 2024

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 1,828,805	\$ -	\$ 366,778	\$ 2,195,583
Special assessments	-	98,736	105,940	204,676
Licenses and permits	87,511	-	-	87,511
Federal grants	-	43,370	28,115	71,485
State grants	866,599	696,160	304,006	1,866,765
Local grants	22,755	-	157,340	180,095
Charges for services	1,035,230	-	2,550	1,037,780
Fines and forfeits	1,217	189	25	1,431
Interest and rentals	50,374	11,577	66,965	128,916
Miscellaneous	284,260	30	25,873	310,163
	<u>4,176,751</u>	<u>850,062</u>	<u>1,057,592</u>	<u>6,084,405</u>
EXPENDITURES:				
Current:				
General government	948,252	-	-	948,252
Public safety	1,895,445	-	-	1,895,445
Public works	535,885	322,115	435,583	1,293,583
Community & economic development	168,949	-	86,398	255,347
Recreation and culture	536,601	-	804	537,405
Capital outlay	120,605	362,795	-	483,400
Debt service:				
Principal	45,382	-	307,467	352,849
Interest and other charges	2,216	-	114,902	117,118
	<u>4,253,335</u>	<u>684,910</u>	<u>945,154</u>	<u>5,883,399</u>
Excess revenues (expenditures)	<u>(76,584)</u>	<u>165,152</u>	<u>112,438</u>	<u>201,006</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	201,817	-	534,000	735,817
Transfers out	(25,000)	(229,400)	(438,417)	(692,817)
	<u>176,817</u>	<u>(229,400)</u>	<u>95,583</u>	<u>43,000</u>
Net changes in fund balances	100,233	(64,248)	208,021	244,006
Fund balances - beginning	<u>546,021</u>	<u>433,139</u>	<u>1,230,010</u>	<u>2,209,170</u>
Fund balances - ending	<u>\$ 646,254</u>	<u>\$ 368,891</u>	<u>\$ 1,438,031</u>	<u>\$ 2,453,176</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2024

Net changes in fund balances - total governmental funds	\$ 244,006
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	483,400
Depreciation expense	(923,160)
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	(88,288)
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	103,741
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	\$ 1,961
Notes payable	87,849
Bonds payable	265,000
Bond premium	20,136
Compensated absences	10,163
Employment benefits	65,000
Net pension liability and deferrals	520,888
Changes in net position of governmental activities	<u>\$ 790,696</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
March 31, 2024

Item 2.

	Enterprise Funds			Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
	Electric Utility	Waste Water Utility	Water Utility			Retirement System Fund
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,078,760	\$ 1,605,285	\$ 55,548	\$ 374,632	\$ 3,114,225	\$ -
Investments	666,357	148,817	299,315	121,354	1,235,843	183,577
Receivables:						
Utilities	683,921	285,009	172,084	91,383	1,232,397	-
Leases	23,150	-	-	-	23,150	-
Miscellaneous	21,484	5,083	4,391	2,010	32,968	4,612
Due from other government units	-	885,961	-	-	885,961	-
Due from other funds	53,959	-	-	13,050	67,009	-
Prepaid items	5,778	7,134	3,717	1,864	18,493	-
Inventory	310,652	-	-	-	310,652	-
Total current assets	<u>2,844,061</u>	<u>2,937,289</u>	<u>535,055</u>	<u>604,293</u>	<u>6,920,698</u>	<u>188,189</u>
Noncurrent assets:						
Investments	1,373,537	183,601	369,277	149,720	2,076,135	226,486
Leases receivable	87,609	-	-	-	87,609	-
Advances due from other funds	571,643	-	-	65,250	636,893	-
Non-depreciable capital assets	291,719	15,953,316	24,079	-	16,269,114	-
Capital assets, net of accumulated depreciation	3,297,535	1,953,650	2,033,480	447,498	7,732,163	-
Total noncurrent assets	<u>5,622,043</u>	<u>18,090,567</u>	<u>2,426,836</u>	<u>662,468</u>	<u>26,801,914</u>	<u>226,486</u>
Total assets	<u>\$ 8,466,104</u>	<u>\$ 21,027,856</u>	<u>\$ 2,961,891</u>	<u>\$ 1,266,761</u>	<u>\$ 33,722,612</u>	<u>\$ 414,675</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflow - pension plan	\$ 223,104	\$ 60,295	\$ 109,284	\$ 16,053	\$ 408,736	\$ -
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 246,720	\$ 102,806	\$ 89,904	\$ 14,350	\$ 453,780	\$ -
Due to contractors	-	1,786,171	-	-	1,786,171	-
Accrued payroll	25,766	16,629	9,019	4,682	56,096	-
Customer deposits	77,457	3,240	1,800	629	83,126	-
Compensated absences	13,009	10,014	4,100	-	27,123	-
Unearned revenue	-	-	-	55,606	55,606	-
Due to other funds	-	-	-	-	-	41,706
Bonds payable	-	500,000	-	-	500,000	-
Total current liabilities	<u>362,952</u>	<u>2,418,860</u>	<u>104,823</u>	<u>75,267</u>	<u>2,961,902</u>	<u>41,706</u>
Noncurrent liabilities:						
Compensated absences	52,035	40,056	16,401	-	108,492	-
Net pension liability	741,224	207,546	332,047	64,274	1,345,091	-
Bonds payable	-	12,705,276	-	-	12,705,276	-
Total noncurrent liabilities	<u>793,259</u>	<u>12,952,878</u>	<u>348,448</u>	<u>64,274</u>	<u>14,158,859</u>	<u>-</u>
Total liabilities	<u>\$ 1,156,211</u>	<u>\$ 15,371,738</u>	<u>\$ 453,271</u>	<u>\$ 139,541</u>	<u>\$ 17,120,761</u>	<u>\$ 41,706</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflow - pension plan	\$ 93,813	\$ 26,341	\$ 44,836	\$ 7,420	\$ 172,410	\$ -
Future lease payments	110,759	-	-	-	110,759	-
Total deferred inflows of resources	<u>\$ 204,572</u>	<u>\$ 26,341</u>	<u>\$ 44,836</u>	<u>\$ 7,420</u>	<u>\$ 283,169</u>	<u>\$ -</u>
NET POSITION						
Net investment in capital assets	\$ 3,589,254	\$ 2,915,519	\$ 2,033,480	\$ 447,498	\$ 8,985,751	\$ -
Unrestricted	3,739,171	2,774,553	539,588	688,355	7,741,667	372,969
Total net position	<u>\$ 7,328,425</u>	<u>\$ 5,690,072</u>	<u>\$ 2,573,068</u>	<u>\$ 1,135,853</u>	<u>\$ 16,727,418</u>	<u>\$ 372,969</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, 2024

Item 2.

	Enterprise Funds			Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
	Electric Utility	Waste Water Utility	Water Utility			Retirement System Fund
OPERATING REVENUES:						
Charges for services	\$ 4,262,451	\$ 1,813,884	\$ 1,059,456	\$ 623,085	\$ 7,758,876	\$ 87,608
Miscellaneous	73,853	5,906	8,815	4,885	93,459	-
Total operating revenue	4,336,304	1,819,790	1,068,271	627,970	7,852,335	87,608
OPERATING EXPENSES:						
Salaries and fringes	850,343	555,420	443,246	221,596	2,070,605	-
Supplies	58,162	176,824	164,830	37,702	437,518	-
Contracted services	404,059	239,197	96,052	69,655	808,963	-
Repairs and maintenance	7,307	2,970	822	-	11,099	-
Utilities	105,456	57,806	60,451	8,441	232,154	-
Purchased power	2,452,654	-	-	-	2,452,654	-
Rent	96	7,842	2,349	15,214	25,501	-
Memberships and dues	5,508	14,607	3,343	-	23,458	-
Travel	2,549	48	159	-	2,756	-
Insurance	7,524	9,276	14,116	2,242	33,158	-
Education and training	24,432	4,958	4,812	-	34,202	-
Landfill tipping fees	-	570	-	118,516	119,086	-
Depreciation	225,437	128,005	131,972	58,900	544,314	-
Miscellaneous	26,074	34,852	22,551	3	83,480	-
Total operating expenses	4,169,601	1,232,375	944,703	532,269	6,878,948	-
Operating income (loss)	166,703	587,415	123,568	95,701	973,387	87,608
NONOPERATING REVENUES (EXPENSES):						
Investment gain (loss)	148,392	47,804	27,568	20,500	244,264	16,133
State grants	55,996	17,817	22,908	12,726	109,447	-
Interest expense	-	(147,392)	-	-	(147,392)	-
Total nonoperating revenue (expense)	204,388	(81,771)	50,476	33,226	206,319	16,133
Income (loss) before transfers, contributions and special items	371,091	505,644	174,044	128,927	1,179,706	103,741
Capital contributions	-	1,410,792	76,591	5,034	1,492,417	-
Transfers in	-	-	-	-	-	-
Transfers out	-	(25,000)	(18,000)	-	(43,000)	-
Change in net position	371,091	1,891,436	232,635	133,961	2,629,123	103,741
Total net position - beginning	6,957,334	3,798,636	2,340,433	1,001,892	14,098,295	269,228
Total net position - ending	\$ 7,328,425	\$ 5,690,072	\$ 2,573,068	\$ 1,135,853	\$ 16,727,418	\$ 372,969

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2024

Item 2.

	Enterprise Funds			Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
	Electric Utility	Waste Water Utility	Water Utility			Retirement System Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 4,328,829	\$ 1,812,186	\$ 1,063,106	\$ 622,116	\$ 7,826,237	\$ -
Cash receipts from interfund services provided	-	-	-	-	-	87,608
Payments to suppliers	(2,983,147)	(467,589)	(327,855)	(255,498)	(4,034,089)	-
Payments for wages and related benefits	(1,037,122)	(609,455)	(531,509)	(228,323)	(2,406,409)	-
Cash paid for interfund services used	-	-	-	-	-	(2,287)
Other receipts (payments)	-	-	-	156	156	-
Net cash provided (used) by operating activities	<u>308,560</u>	<u>735,142</u>	<u>203,742</u>	<u>138,451</u>	<u>1,385,895</u>	<u>85,321</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers out	-	(25,000)	(18,000)	-	(43,000)	-
Repayments of advances from other funds	-	-	-	13,050	13,050	(66,488)
Receipts from state grants	55,996	17,817	22,908	12,726	109,447	-
Repayments collected of advances made to other funds	54,100	-	-	-	54,100	-
Net cash provided (used) by noncapital financing activities	<u>110,096</u>	<u>(7,183)</u>	<u>4,908</u>	<u>25,776</u>	<u>133,597</u>	<u>(66,488)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of capital assets	(370,857)	(9,442,864)	(486,425)	(5,455)	(10,305,601)	-
Principal paid on debt instruments	-	(60,000)	-	-	(60,000)	-
Interest paid on debt instruments	-	(147,392)	-	-	(147,392)	-
Bond issuance costs	-	-	-	-	-	-
Debt proceeds	-	8,024,654	-	-	8,024,654	-
Proceeds from capital contributions	-	1,430,393	-	5,034	1,435,427	-
Net cash provided (used) by capital and related financing activities	<u>(370,857)</u>	<u>(195,209)</u>	<u>(486,425)</u>	<u>(421)</u>	<u>(1,052,912)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investment securities	(160,932)	(44,514)	(89,800)	(36,386)	(331,632)	(54,910)
Sale of investment securities	72,394	16,168	32,518	13,185	134,265	19,944
Interest earned	148,392	47,804	27,568	20,500	244,264	16,133
Net cash provided (used) by investing activities	<u>59,854</u>	<u>19,458</u>	<u>(29,714)</u>	<u>(2,701)</u>	<u>46,897</u>	<u>(18,833)</u>
Net increase (decrease) in cash and equivalents	107,653	552,208	(307,489)	161,105	513,477	-
Cash and equivalents, beginning of year	971,107	1,053,077	363,037	213,527	2,600,748	-
Cash and equivalents, end of year	<u>\$ 1,078,760</u>	<u>\$ 1,605,285</u>	<u>\$ 55,548</u>	<u>\$ 374,632</u>	<u>\$ 3,114,225</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 166,703	\$ 587,415	\$ 123,568	\$ 95,701	\$ 973,387	\$ 87,608
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation/amortization expense	225,437	128,005	131,972	58,900	544,314	-
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(8,289)	(10,844)	(6,965)	(6,947)	(33,045)	(2,287)
(Increase) decrease in prepaid items	11,113	1,358	697	370	13,538	-
(Increase) decrease in inventory	95,574	-	-	-	95,574	-
(Increase) decrease in pension deferred outflows	57,873	15,488	28,916	3,930	106,207	-
Increase (decrease) in accounts payable	3,987	80,003	40,933	(4,095)	120,828	-
Increase (decrease) in accrued payroll liabilities	(33,488)	(19,202)	(19,132)	1,999	(69,823)	-
Increase (decrease) in net pension liability	(195,360)	(51,773)	(100,929)	(13,021)	(361,083)	-
Increase (decrease) in unearned service revenue and deposits	814	3,240	1,800	1,249	7,103	-
Increase (decrease) in deferred inflows	(15,804)	1,452	2,882	365	(11,105)	-
Net cash provided (used) by operating activities	<u>\$ 308,560</u>	<u>\$ 735,142</u>	<u>\$ 203,742</u>	<u>\$ 138,451</u>	<u>\$ 1,385,895</u>	<u>\$ 85,321</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
March 31, 2024

	<u>Custodial Fund</u> <u>Tax Collection</u>
ASSETS	
Cash and cash equivalents	\$ 8,916
Receivables:	
Delinquent taxes	<u>71,092</u>
Total assets	<u>\$ 80,008</u>
LIABILITIES	
Due to other governmental units	<u>\$ 80,008</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, 2024

Item 2.

	<u>Custodial Fund</u>
	<u>Tax Collection</u>
ADDITIONS	
Property tax collections	\$ 3,829,745
DEDUCTIONS	
Property tax disbursements	3,829,745
NET CHANGE IN FIDUCIARY NET POSITION	-
NET POSITION - beginning	-
NET POSITION - ending	\$ -

See accompanying notes to financial statements.

Notes to Financial Statements

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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 C.

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.”

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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 reports 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.

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OTHER SIGNIFICANT ACCOUNTING POLICIES

Budgets and Budgetary Accounting

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

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

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.

Subsequent Events

Subsequent to year end, the City transferred \$2,964,000 from their First Bank investments to the Michigan Class investments as part of changes to their investment strategy.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent to year end, the City approved a Special Assessment under Act 33 of 1951 for Police and Fire Protection in the amount of \$564,232 with 2.00 mills to be levied on July 1, 2024 and 2.50 mills to be levied on December 1, 2024.

Change in Accounting Principle

The City implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, during the year ended March 31, 2024. These changes had no effect on the City’s beginning fund balances or net position, and no prior statements have been restated.

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:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General government:			
City clerk	\$ 164,050	\$ 167,322	\$ (3,272)
Board of review	2,953	3,046	(93)
City assessor	80,176	82,653	(2,477)
Elections	28,840	34,279	(5,439)
City hall	44,775	68,529	(23,754)
Public safety:			
Police department	1,688,947	1,758,621	(69,674)
Public works:			
Cemetery	68,511	81,095	(12,584)
Forestry	60,122	60,773	(651)
DPW Administration	119,961	142,293	(22,332)
Culture and recreation:			
Recreation administrative	209,855	214,617	(4,762)
Major Street Fund:			
Public works:			
Reconstruction	-	6,583	(6,583)
Local Street Fund:			
Public works:			
Reconstruction	9,700	14,010	(4,310)
Surface maintenance	251,046	293,455	(42,409)
Storm drains	23,115	28,214	(5,099)
Winter maintenance	39,161	42,059	(2,898)

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS

The composition of cash and equivalents is presented below:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Statement of Net Position:				
Current:				
Cash, cash equivalents and investments (unrestricted)	\$ 5,525,891	\$ 665,791	\$ -	\$ 6,191,682
Restricted cash, cash equivalents and investments	517,357	-	-	517,357
Noncurrent:				
Investments (unrestricted)	3,194,086	-	-	3,194,086
Restricted investments	486,094	-	-	486,094
Statement of Fiduciary Net Position:				
Cash and cash equivalents	-	-	8,916	8,916
Total cash & equivalents and investments	\$ 9,723,428	\$ 665,791	\$ 8,916	\$ 10,398,135
	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Imprest cash	\$ 590	\$ 200	\$ -	\$ 790
Bank deposits:				
Checking and savings accounts	3,441,106	665,591	8,916	4,115,613
Money market accounts	1,043,210	-	-	1,043,210
Certificates of deposit	789,033	-	-	789,033
Investments in securities	3,552,961	-	-	3,552,961
Investments in MI Class	345,101	-	-	345,101
Investment in Upper Peninsula Public Power Agency	551,427	-	-	551,427
Total cash & equivalents and investments	\$ 9,723,428	\$ 665,791	\$ 8,916	\$ 10,398,135

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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, 2024, the City held \$4,293,235 in checking and savings accounts, money market accounts, and certificates of deposit. Of this amount, \$3,288,235 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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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:				
Mount Morris Michigan Consolidated Schools	\$ 133,851	AA1	-	5/1/2026
Ferris State University	50,023	A1	-	10/1/2026
Wyandotte Michigan Electric Revenue	14,891	-	AA	10/1/2026
Napoleon Michigan Community Schools	95,012	-	AA	5/1/2028
Genesee Michigan Schools	213,540	-	AA	5/1/2029
Chippewa Valley Michigan Schools	81,167	AA1	-	5/1/2032
Grand Rapids Community College	201,287	-	AA+	5/1/2032
Total Municipal Bonds	<u>789,771</u>			
U.S. Government Securities:				
Federal Home Loan Mortgage Corporation	259,675	N/A	N/A	8/23/2024
Federal Home Loan Mortgage Corporation	164,535	N/A	N/A	1/21/2025
Federal Home Loan Bank Securities	119,635	N/A	N/A	4/28/2025
Federal Home Loan Bank Securities	253,501	N/A	N/A	10/17/2025
Federal Home Loan Mortgage Corporation	269,730	N/A	N/A	5/18/2026
Federal Farm Credit Bank Securities	265,719	N/A	N/A	8/3/2027
Federal Home Loan Bank Securities	249,282	N/A	N/A	3/6/2028
Federal Home Loan Mortgage Corporation	129,788	N/A	N/A	7/21/2028
Tennessee Valley Authority	120,877	N/A	N/A	1/15/2029
Federal Home Loan Mortgage Corporation	199,938	N/A	N/A	2/22/2029
Tennessee Valley Authority	115,394	N/A	N/A	1/15/2030
Federal Home Loan Mortgage Corporation	204,420	N/A	N/A	7/29/2030
Federal Home Loan Bank Securities	159,910	N/A	N/A	7/29/2031
Total U.S. Government Securities	<u>2,512,404</u>			
Brokered Certificate of Deposit:				
Sallie Mae Bank	250,786	N/A	N/A	8/18/2026
Nonnegotiable Certificates of Deposit:				
CD	261,236	N/A	N/A	7/23/2024
CD	262,088	N/A	N/A	7/25/2024
CD	265,709	N/A	N/A	7/28/2025
Total Nonnegotiable Certificates of Deposit	<u>789,033</u>			
Investment Pool at Net Asset Value:				
MI Class	345,101	N/A	N/A	N/A
Other Investment:				
Upper Peninsula Public Power Agency	551,427	N/A	N/A	N/A
Total Investments	<u>\$ 5,238,522</u>			

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

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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, 2024 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, 2024 are listed in the table above.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. 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, 2024, 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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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 \$8,288 for donations related to the Little Bay de Noc trail and \$43,398 for costs of the police department as required by the Olson Trust.
2. The Cemetery Perpetual Care Fund in the amount of \$274,883 for cemetery care as required by the nature of the fund.
3. The Mary Cretens Trust Fund in the amount of \$446,117 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 \$179,427 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, 2024, 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, 2024, the value of the investment was \$551,427.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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, 2024:

	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.

Investments in Entities that Calculate Net Asset Value per Share

The City shares in investment pools where the fair value of the investments are measured on a recurring basis using the net asset value per share of the investment pool as a practical expedient. As of March 31, 2024, the fair value of Michigan CLASS pooled account investments was \$345,101. There were no unfunded commitments or redemption rules.

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated ‘A-1’ or better), collateralized bank deposits, repurchase agreements (collateralized at 102% by Treasuries and agencies), and approved money-market funds. As of March 31, 2024, the investments in the Michigan CLASS investment pool were rated AAAM by Standard & Poor’s. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies. The dollar weighted average days to maturity of Michigan CLASS at March 31, 2024 was 37 days and the weighted average life was 81 days.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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 2028 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, 2024, the City’s Electric Fund recognized \$21,307 in principal and \$9,399 in interest for a total of \$30,706 in rental revenue from its long-term lease agreements. The City’s Electric Fund recorded a lease receivable of \$110,759 with \$23,150 due within one year as of March 31, 2024.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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, 2024, was as follows:

	Balance at April 1, 2023	Additions	Transfers/ Disposals	Balance at March 31, 2024
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,394,627	\$ -	\$ -	\$ 2,394,627
Construction in progress	16,473	-	(10,275)	6,198
Total non-depreciable capital assets	<u>2,411,100</u>	<u>-</u>	<u>(10,275)</u>	<u>2,400,825</u>
Capital assets being depreciated:				
Land improvements	598,129	-	-	598,129
Street system	19,938,122	362,795	-	20,300,917
Industrial park	57,132	-	-	57,132
Other infrastructure	1,895,463	-	-	1,895,463
Buildings	3,606,621	-	-	3,606,621
Machinery and equipment	1,215,648	82,957	10,275	1,308,880
Mobile equipment	1,108,400	37,648	-	1,146,048
Vehicles	1,754,583	-	(141,500)	1,613,083
Total depreciable capital assets	<u>30,174,098</u>	<u>483,400</u>	<u>(131,225)</u>	<u>30,526,273</u>
Total capital assets	<u>32,585,198</u>	<u>483,400</u>	<u>(141,500)</u>	<u>32,927,098</u>
Less accumulated depreciation:				
Land improvements	298,616	32,605	-	331,221
Street system	12,755,692	521,932	-	13,277,624
Industrial park	35,065	1,755	-	36,820
Other infrastructure	1,038,724	89,124	-	1,127,848
Buildings	2,382,802	80,076	-	2,462,878
Machinery and equipment	986,798	47,690	-	1,034,488
Mobile equipment	482,224	63,328	-	545,552
Vehicles	1,085,076	86,650	(141,500)	1,030,226
Total accumulated depreciation	<u>19,064,997</u>	<u>923,160</u>	<u>(141,500)</u>	<u>19,846,657</u>
Net depreciable capital assets	<u>11,109,101</u>	<u>(439,760)</u>	<u>10,275</u>	<u>10,679,616</u>
Governmental activities capital assets, net	<u>\$ 13,520,201</u>	<u>\$ (439,760)</u>	<u>\$ -</u>	<u>\$ 13,080,441</u>

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE E – CAPITAL ASSETS (continued)

	Balance at April 1, 2023	Additions	Transfers/ Disposals	Balance at March 31, 2024
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 236,836	\$ -	\$ -	\$ 236,836
Construction in progress	6,800,105	9,256,727	(24,554)	16,032,278
Total non-depreciable capital assets	<u>7,036,941</u>	<u>9,256,727</u>	<u>(24,554)</u>	<u>16,269,114</u>
Capital assets being depreciated:				
Land improvements	8,217	-	-	8,217
Utilities distribution/collection	18,211,563	561,092	62,968	18,835,623
Street system	-	5,454	-	5,454
Other infrastructure	424,293	-	-	424,293
Buildings	1,421,923	-	(38,414)	1,383,509
Machinery and equipment	803,612	239,927	-	1,043,539
Mobile equipment	83,544	-	-	83,544
Vehicles	1,483,974	-	141,500	1,625,474
Total depreciable capital assets	<u>22,437,126</u>	<u>806,473</u>	<u>166,054</u>	<u>23,409,653</u>
Total capital assets	<u>29,474,067</u>	<u>10,063,200</u>	<u>141,500</u>	<u>39,678,767</u>
Less accumulated depreciation:				
Land improvements	274	548	-	822
Utilities distribution/collection	12,645,620	317,791	-	12,963,411
Street system	-	545	-	545
Other infrastructure	198,004	21,215	-	219,219
Buildings	734,207	61,223	-	795,430
Machinery and equipment	516,377	43,262	-	559,639
Mobile equipment	59,406	2,660	-	62,066
Vehicles	837,788	97,070	141,500	1,076,358
Total accumulated depreciation	<u>14,991,676</u>	<u>544,314</u>	<u>141,500</u>	<u>15,677,490</u>
Net depreciable capital assets	<u>7,445,450</u>	<u>262,159</u>	<u>24,554</u>	<u>7,732,163</u>
Business-type activities capital assets, net	<u>\$ 14,482,391</u>	<u>\$ 9,518,886</u>	<u>\$ -</u>	<u>\$ 24,001,277</u>

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE E – CAPITAL ASSETS (continued)

	<u>Balance at</u> <u>April 1, 2023</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at</u> <u>March 31, 2024</u>
Component Unit-Housing Commission:				
Capital assets not being depreciated:				
Land	\$ 15,325	\$ -	\$ -	\$ 15,325
Capital assets being depreciated:				
Buildings	2,591,819	8,436	-	2,600,255
Furniture, equipment, & machinery	149,272	3,765	-	153,037
Total depreciable capital assets	<u>2,741,091</u>	<u>12,201</u>	<u>-</u>	<u>2,753,292</u>
Total capital assets	<u>2,756,416</u>	<u>12,201</u>	<u>-</u>	<u>2,768,617</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>2,572,377</u>	<u>32,081</u>	<u>-</u>	<u>2,604,458</u>
Net depreciable capital assets	<u>168,714</u>	<u>(19,880)</u>	<u>-</u>	<u>148,834</u>
Component unit capital assets, net	<u>\$ 184,039</u>	<u>\$ (19,880)</u>	<u>\$ -</u>	<u>\$ 164,159</u>

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

Governmental activities:

General government	\$ 22,198
Public safety	98,376
Public works	622,862
Community development	8,194
Recreation and culture	171,530
Total governmental activities depreciation expense	<u>\$ 923,160</u>

Business-type activities:

Electric	\$ 225,437
Waste water	128,005
Water	131,972
Solid waste	34,820
Harbor	24,080
Total business-type activities depreciation expense	<u>\$ 544,314</u>

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE F – LONG-TERM OBLIGATIONS (continued)

The following is a summary of changes in long-term debt for the year ended March 31, 2024:

Type of Debt	Balance April 1, 2023	Additions	Deductions	Balance March 31, 2024	Amounts Due Within One Year
Governmental Activities:					
Direct Borrowings & Placements:					
Limited Tax General Obligation Bonds:					
2020 Capital Improvement bond	\$ 3,735,000	\$ -	\$ 265,000	\$ 3,470,000	\$ 275,000
Contractual Agreements:					
Installment purchase agreements	754,012	-	87,849	666,163	43,592
Unamortized bond premium	241,631	-	20,136	221,495	20,136
Other obligations:					
Employment benefits	187,500	-	65,000	122,500	31,000
Compensated absences	195,663	190,190	200,353	185,500	37,100
Total governmental long-term debt	\$ 5,113,806	\$ 190,190	\$ 638,338	\$ 4,665,658	\$ 406,828
Type of Debt	Balance April 1, 2023	Additions	Deductions	Balance March 31, 2024	Amounts Due Within One Year
Business-type Activities:					
Direct Borrowings & Placements:					
Revenue Bonds:					
2006 Sludge Storage Bond Sewage Disposal System	\$ 300,718	\$ -	\$ 60,000	\$ 240,718	\$ 60,000
Revenue Bonds, Series 2022	5,484,993	7,479,565	-	12,964,558	440,000
Other obligations:					
Employment benefits	81,000	-	81,000	-	-
Compensated absences	127,060	106,231	97,676	135,615	27,123
Total business-type long-term debt	\$ 5,993,771	\$ 7,585,796	\$ 238,676	\$ 13,340,891	\$ 527,123

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE F – LONG-TERM OBLIGATIONS (continued)

Debt service requirements on long-term debt at March 31, 2024 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
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	310,000	52,750	48,400	12,846	358,400	65,596
2030-2034	1,660,000	139,750	261,930	44,296	1,921,930	184,046
2035-2039	355,000	7,100	174,411	9,324	529,411	16,424
	<u>\$ 3,470,000</u>	<u>\$ 497,750</u>	<u>\$ 666,163</u>	<u>\$ 130,024</u>	<u>\$ 4,136,163</u>	<u>\$ 627,774</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
2025	\$ 500,000	\$ 131,590
2026	505,000	255,453
2027	515,000	245,022
2028	525,718	234,378
2029	475,000	223,510
2030-2034	2,535,000	961,788
2035-2039	2,820,000	680,545
2040-2044	3,135,000	367,745
2045-2049	2,194,558	56,299
2050-2054	-	-
2055-2059	-	-
	<u>\$ 13,205,276</u>	<u>\$ 3,156,330</u>

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE F – LONG-TERM OBLIGATIONS (continued)

Governmental Activities

As of March 31, 2024, 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 which was made 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, 2024, 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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE F – LONG-TERM OBLIGATIONS (continued)

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.

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, 2024, the City has drawn \$15,252,421 related to this loan, with the outstanding principal, net of forgiveness, totaling \$12,964,558 and capital contributions of \$2,287,863 for the portion forgiven. As of March 31, 2024, there were \$885,961 of construction costs incurred but not yet reimbursed, and the total amount available to be drawn was \$6,052,579. Proceeds for the two draws totaling \$885,961 were received subsequent to year end.

The City awarded a contract to Staab Construction Corp. for this project in the amount of \$18,006,566, after change orders. The balance to finish the contract including retainage of \$900,328 is \$4,957,531 as of March 31, 2024. 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 (excluding the \$885,961 noted above) have been made and proceeds of \$2,686,412 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 \$185,500 under governmental activities and \$135,615 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 \$122,500 under governmental activities are reported in the Statement of Net Position. The final payment of \$81,000 under business-type activities was made during the current year. For governmental activities, employment benefits are liquidated by the fund to which the employee’s regular payroll is charged.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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 \$636,893 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.

Individual fund interfund receivables and payable balances at March 31, 2024 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 41,706	General Fund	\$ 638,000
Major Street Fund	-	Major Street Fund	46,013
Local Street Fund	-	Local Street Fund	19,889
Solid Waste Fund	78,300	Solid Waste Fund	-
Electric Fund	625,602	Electric Fund	-
Retirement System Fund	-	Retirement System Fund	41,706
Total	<u>\$ 745,608</u>	Total	<u>\$ 745,608</u>
<u>Financial Statement Presentation:</u>			
Governmental Funds	\$ 41,706	Governmental Funds	\$ 703,902
Enterprise Funds	703,902	Enterprise Funds	-
Internal Service Funds	-	Internal Service Funds	41,706
	<u>\$ 745,608</u>		<u>\$ 745,608</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, 2024 is \$78,300 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, 2024 is \$219,540 with \$31,363 shown as current.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE H – INTERFUND BALANCES AND TRANSFERS (continued)

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, 2024 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. The General Fund owes the Electric Fund \$159,393.

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, 2024 were as follows:

	TRANSFERS IN		
	Nonmajor		Total
	General	Govern.	
TRANSFERS (OUT)			
General	\$ -	\$ 25,000	\$ 25,000
Major Street	-	229,400	229,400
Local Street	-	9,600	9,600
Nonmajor Govern.	201,817	227,000	428,817
Waste Water	-	25,000	25,000
Water	-	18,000	18,000
Total	<u>\$ 201,817</u>	<u>\$ 534,000</u>	<u>\$ 735,817</u>

Financial Statement Presentation:

	<u>Transfers In</u>		<u>Transfers Out</u>
Governmental Funds	\$ 735,817	Governmental Funds	\$ 692,817
Enterprise Funds	-	Enterprise Funds	43,000
	<u>\$ 735,817</u>		<u>\$ 735,817</u>

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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, 2023.

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 City’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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE I – RETIREMENT PLANS (continued)

	Divisions - For the 2023 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, 2023 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	46
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>1</u>
	48

There were no employees with pending refunds.

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, 2024 was as follows:

01 - General	\$ 24,536
02 – Police/Fire	\$ 32,823
10 – General Supervisor	\$ 44,082
20 – Public Safety Comm. Officers	\$ 6,251

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE I – RETIREMENT PLANS (continued)

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2023, 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, 2023 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	6.93 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, 2023 valuation were based on the results of the most recent actuarial experience study covering the period from 2014 through 2018.

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 were effective for contributions beginning in 2023. Investment performance measured for the one-year period ending December 31, 2023 resulted in current year excess gains for use in lowering the assumed rate of investment return.

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%

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE I – RETIREMENT PLANS (continued)

Discount Rate. The discount rate used to measure the total pension liability is 7.18% for 2023 (down from 7.25% at December 31, 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.

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2022	\$ 14,375,583	\$ 8,666,093	\$ 5,709,490
Service cost	9,806	-	9,806
Interest on total pension liability	997,753	-	997,753
Changes in benefits	-	-	-
Difference between expected and actual experience	294,410	-	294,410
Changes in assumptions	90,021	-	90,021
Employer contributions	-	1,300,041	(1,300,041)
Employee contributions	-	2,219	(2,219)
Nonemployer entity contributions	-	259,619	(259,619)
Net investment income (loss)	-	990,280	(990,280)
Benefit payments, including employee refunds	(1,236,762)	(1,236,762)	-
Administrative expense	-	(20,856)	20,856
Other changes	(3)	-	(3)
Net changes	155,225	1,294,541	(1,139,316)
Balances as of December 31, 2023	\$ 14,530,808	\$ 9,960,634	\$ 4,570,174

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE I – RETIREMENT PLANS (continued)

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 6.18%	Current Discount Rate 7.18%	1% Increase 8.18%
City’s net pension liability at 12/31/23	\$ 4,570,174	\$ 4,570,174	\$ 4,570,174
City’s change in net pension liability at 12/31/23	1,408,699	-	(1,194,104)
	<u>\$ 5,978,873</u>	<u>\$ 4,570,174</u>	<u>\$ 3,376,070</u>

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

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

For the year ended March 31, 2024, the City recognized pension expense of \$786,361. At March 31, 2024, 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	1,002,269	579,069
Contributions subsequent to the measurement date *	<u>323,076</u>	<u>-</u>
Total	<u>\$ 1,325,345</u>	<u>\$ 579,069</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, 2025.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE I – RETIREMENT PLANS (continued)

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>	
2024	\$ 77,582
2025	155,676
2026	262,016
2027	<u>(72,074)</u>
	<u>\$ 423,200</u>

At March 31, 2024, the City had no outstanding contributions to the pension plan.

For the year ended March 31, 2024, the City recognized revenue of \$259,619 for the support provided by a nonemployer contributing entity related to the Protecting MI Pension Grant program established by the State of Michigan.

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, 2024, there are 8 terminated participants and 37 active participants.

<u>Year Ended</u> <u>March 31,</u>	<u>Number of</u> <u>Participants</u>	<u>City's</u> <u>Share</u>	<u>Employee's</u> <u>Share</u>
2020	33	198,360	55,497
2021	36	203,002	54,905
2022	39	215,518	59,989
2023	44	233,631	65,363
2024	45	274,737	76,559

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE J – FUND BALANCE/NET POSITION

As of March 31, 2024, fund balances are composed of the following:

	<u>General Fund</u>	<u>Major Streets</u>	<u>Nonmajor Funds</u>	<u>Total Funds</u>
Nonspendable:				
Prepaid items	\$ 43,705	\$ -	\$ 331	\$ 44,036
Inventory	63,468	-	-	63,468
Permanent fund principal	-	-	276,309	276,309
Restricted for:				
Public safety equipment	29,537	-	-	29,537
Public safety K-9	20,121	-	-	20,121
Little Bay de Noc Trail	8,288	-	-	8,288
Pickleball project	219,747	-	-	219,747
Debt service payments	-	-	179,427	179,427
Street system	-	368,891	249,245	618,136
Health & welfare	-	-	51,338	51,338
Community development	-	-	448,136	448,136
Economic development	-	-	22,859	22,859
Industrial development	-	-	39,727	39,727
Downtown development	-	-	170,659	170,659
Committed to:				
Public safety equipment	23,517	-	-	23,517
Public safety fire truck	105,843	-	-	105,843
Facilities	24,764	-	-	24,764
Unassigned:	107,264	-	-	107,264
Total fund balance	<u>\$ 646,254</u>	<u>\$ 368,891</u>	<u>\$ 1,438,031</u>	<u>\$ 2,453,176</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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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 2023 taxable valuation of the City totaled \$125,842,695, 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, 2024 was recognized in the funds as follows:

- General Fund: \$1,737,584
- DDA Fund: \$198,816

For the year ended March 31, 2024, 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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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, 2024, 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, 2024.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

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. 100, *Accounting Changes and Error Corrections*. The objective of this Statement is to improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. More understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

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.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE O – FUTURE CHANGES IN ACCOUNTING PRINCIPLE (continued)

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.

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.

The Governmental Accounting Standards Board issued GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to improve financial reporting by providing users of financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

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 2025-2026 fiscal year.

The Governmental Accounting Standards Board issued GASB Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2024

NOTE O – FUTURE CHANGES IN ACCOUNTING PRINCIPLE (continued)

This statement includes changes to management’s discussion and analysis, unusual or infrequent items, presentation of the proprietary fund statements of revenues, expenses, and changes in fund net position, major component unit information, and budgetary comparison information.

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 2026-2027 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, 2024**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Taxes	\$ 1,769,543	\$ 1,769,543	\$ 1,828,805	\$ 59,262
Licenses and permits	94,800	94,800	87,511	(7,289)
State grants	738,617	738,617	866,599	127,982
Local grants	621,000	-	22,755	22,755
Charges for services	1,164,634	1,176,384	1,035,230	(141,154)
Fines and forfeits	3,000	3,000	1,217	(1,783)
Interest and rentals	-	-	50,374	50,374
Miscellaneous	26,800	56,907	284,260	227,353
Total revenues	<u>4,418,394</u>	<u>3,839,251</u>	<u>4,176,751</u>	<u>337,500</u>
EXPENDITURES:				
Current:				
General government:				
City commission	119,625	161,963	160,019	1,944
City manager	144,820	152,270	147,804	4,466
Elections	17,740	28,840	34,279	(5,439)
City assessor	75,376	80,176	82,653	(2,477)
Board of review	2,953	2,953	3,046	(93)
City treasurer	153,322	176,301	170,270	6,031
City clerk	164,050	164,050	167,322	(3,272)
City hall	35,795	44,775	68,529	(23,754)
Office clerk	92,051	93,956	89,330	4,626
General administrative	25,000	25,000	25,000	-
Public safety:				
Police department	1,688,947	1,688,947	1,758,621	(69,674)
Fire department	153,840	153,840	134,326	19,514
Building and housing inspections	-	-	-	-
Canine	9,875	9,875	2,498	7,377
Public works:				
Cemetery	76,511	68,511	81,095	(12,584)
Forestry	35,215	60,122	60,773	(651)
Public works administration	102,121	119,961	142,293	(22,332)
Sidewalks & alley maintenance	27,156	27,156	15,243	11,913
Grounds maintenance	19,519	40,749	38,226	2,523
Motor pool	197,100	213,899	198,255	15,644
Community and economic development:				
Planning	170,573	170,573	168,949	1,624
Culture and recreation:				
Recreation administrative	174,393	209,855	214,617	(4,762)
Beautification	15,000	15,000	13,059	1,941
Parks	97,850	81,201	75,086	6,115
Beach	30,000	28,338	25,688	2,650
Sports park	89,413	68,498	61,381	7,117
Ice rink	-	-	-	-
Campground	81,780	91,092	88,379	2,713
Other recreation facilities	50,177	67,677	57,620	10,057
Recreation programs	2,850	910	771	139
Capital outlay	850,880	200,880	120,605	80,275
Debt service:				
Principal	73,868	73,868	45,382	28,486
Interest	-	-	2,216	(2,216)
Total expenditures	<u>4,777,800</u>	<u>4,321,236</u>	<u>4,253,335</u>	<u>67,901</u>
Excess revenues (expenditures)	<u>(359,406)</u>	<u>(481,985)</u>	<u>(76,584)</u>	<u>405,401</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	271,710	277,048	201,817	(75,231)
Transfers out	<u>(33,184)</u>	<u>(33,184)</u>	<u>(25,000)</u>	<u>8,184</u>
Total other financing sources (uses)	<u>238,526</u>	<u>243,864</u>	<u>176,817</u>	<u>(67,047)</u>
Net changes in fund balances	(120,880)	(238,121)	100,233	338,354
Fund balances - beginning	546,021	546,021	546,021	-
Fund balances - ending	<u>\$ 425,141</u>	<u>\$ 307,900</u>	<u>\$ 646,254</u>	<u>\$ 338,354</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, 2024

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Special assessments	\$ 113,160	\$ 113,160	\$ 98,736	\$ (14,424)
Federal grants	34,539	34,539	43,370	8,831
State grants	657,100	657,100	696,160	39,060
Fines and forfeits	1,500	1,500	189	(1,311)
Interest and rentals	-	-	11,577	11,577
Miscellaneous	-	-	30	30
	<u>806,299</u>	<u>806,299</u>	<u>850,062</u>	<u>43,763</u>
EXPENDITURES:				
Current:				
Public works:				
Reconstruction	88,981	-	6,583	(6,583)
Nonmotorized	2,132	10,856	2,603	8,253
Surface maintenance	126,274	126,274	106,482	19,792
Storm drains	34,539	34,539	16,393	18,146
Traffic control	31,196	38,436	33,917	4,519
Winter maintenance	143,087	90,279	66,649	23,630
Sweep/flushing	24,131	32,371	25,617	6,754
Administrative	86,148	86,148	63,871	22,277
Capital outlay	181,806	362,800	362,795	5
	<u>718,294</u>	<u>781,703</u>	<u>684,910</u>	<u>96,793</u>
Excess revenues (expenditures)	<u>88,005</u>	<u>24,596</u>	<u>165,152</u>	<u>140,556</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	141,395	141,395	-	(141,395)
Transfers out	(229,400)	(229,400)	(229,400)	-
	<u>(88,005)</u>	<u>(88,005)</u>	<u>(229,400)</u>	<u>(141,395)</u>
Net changes in fund balances	-	(63,409)	(64,248)	(839)
Fund balances - beginning	433,139	433,139	433,139	-
Fund balances - ending	<u>\$ 433,139</u>	<u>\$ 369,730</u>	<u>\$ 368,891</u>	<u>\$ (839)</u>

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total pension liability									
Service cost	\$ 84,917	\$ 85,502	\$ 58,336	\$ 46,590	\$ 47,899	\$ 53,632	\$ 46,554	\$ 33,387	\$ 9,806
Interest	953,137	979,922	1,019,988	1,016,964	1,016,752	998,326	1,020,015	994,654	997,753
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	294,410
Change in assumptions	523,082	-	-	-	447,771	269,813	443,678	-	90,021
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)	(1,236,762)
Other	-	-	(4)	-	1	-	1	-	(3)
Net change in total pension liability	692,400	564,688	2,887	12,713	419,904	279,889	330,489	140,698	155,225
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	14,375,583
Total pension liability - ending	<u>\$ 12,624,315</u>	<u>\$ 13,189,003</u>	<u>\$ 13,191,890</u>	<u>\$ 13,204,603</u>	<u>\$ 13,624,507</u>	<u>\$ 13,904,396</u>	<u>\$ 14,234,885</u>	<u>\$ 14,375,583</u>	<u>\$ 14,530,808</u>
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	\$ 1,300,041
Contributions - employee	12,492	12,791	8,995	6,601	6,625	6,824	6,236	5,677	2,219
Nonemployer entity contributions	-	-	-	-	-	-	-	-	259,619
Net investment income (loss)	(83,968)	615,682	792,296	(259,575)	864,446	934,276	1,152,890	(979,433)	990,280
Benefit payments, including refunds of member contribution	(842,391)	(836,086)	(936,653)	(1,006,283)	(1,038,320)	(1,030,906)	(1,012,847)	(1,064,421)	(1,236,762)
Administrative expense	(12,265)	(12,163)	(12,544)	(12,842)	(14,899)	(14,497)	(13,210)	(17,743)	(20,856)
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)	1,294,541
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	8,666,093
Plan fiduciary net position - ending	<u>\$ 5,394,131</u>	<u>\$ 6,015,667</u>	<u>\$ 6,636,712</u>	<u>\$ 6,321,544</u>	<u>\$ 7,161,934</u>	<u>\$ 8,083,019</u>	<u>\$ 9,417,027</u>	<u>\$ 8,666,093</u>	<u>\$ 9,960,634</u>
City's net pension liability - ending	<u>\$ 7,230,184</u>	<u>\$ 7,173,336</u>	<u>\$ 6,555,178</u>	<u>\$ 6,883,059</u>	<u>\$ 6,462,573</u>	<u>\$ 5,821,377</u>	<u>\$ 4,817,858</u>	<u>\$ 5,709,490</u>	<u>\$ 4,570,174</u>
Plan fiduciary net position as a percentage of the total pension liability	43%	46%	50%	48%	53%	58%	66%	60%	69%
Covered - employee payroll	\$ 760,520	\$ 751,993	\$ 525,382	\$ 434,047	\$ 447,960	\$ 504,170	\$ 497,752	\$ 303,167	\$ 247,365
City's net pension liability as a percentage of covered-employee payroll	951%	954%	1248%	1586%	1443%	1155%	968%	1883%	1848%
Annual money-weighted rate of return, net of investment expense	-1%	11%	13%	-4%	14%	13%	14%	-10%	11%

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.

2021 reflects a change in the investment rate of return assumption from 7.00 percent to 6.93 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	2024
Actuarially determined contribution	\$ 545,395	\$ 674,856	\$ 721,620	\$ 784,728	\$ 889,332	\$ 941,940	\$ 1,053,204	\$ 1,250,184	\$ 1,323,252	\$ 1,292,304
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	1,551,923
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ (187,500)	\$ -	\$ -	\$ -	\$ -	\$ (259,619)
Covered - employee payroll	\$ 726,599	\$ 760,520	\$ 751,993	\$ 525,382	\$ 434,047	\$ 447,960	\$ 504,170	\$ 497,752	\$ 303,167	\$ 195,665
Contributions as a percentage of covered-employee payroll	75%	89%	96%	149%	248%	210%	209%	251%	436%	793%

Notes to Schedule:

Methods and assumptions used to determine contribution rates:

74	Valuation Date	Actuarially determined contribution rates are calculated as of December 31st, which is 15 months prior to the beginning of the fiscal year in which contributions are required.
	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 2023 MERS valuation, the investment rate of return was reduced from 7.00 percent to 6.93 percent, which will first impact 2025 contributions. 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, 2024

	Special Revenue Funds			
	Local Street	MSDHA Homeowner	MSHDA Habitat Rehab	Mary Cretens Trust
ASSETS				
Cash, cash equivalents and investments	\$ 228,656	\$ -	\$ -	\$ -
Receivables:				
Accounts	552	-	-	2,019
Special assessments	154,688	-	-	-
Due from other governmental units	42,875	-	-	-
Prepaid items	-	-	-	-
Restricted cash, cash equivalents and investments	-	26,338	25,000	446,117
Total assets	<u>\$ 426,771</u>	<u>\$ 26,338</u>	<u>\$ 25,000</u>	<u>\$ 448,136</u>
LIABILITIES				
Accounts payable	\$ 19	\$ -	\$ -	\$ -
Accrued payroll	2,930	-	-	-
Due to other funds	19,889	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	<u>22,838</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable special assessments	<u>154,688</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	<u>249,245</u>	<u>26,338</u>	<u>25,000</u>	<u>448,136</u>
Total fund balances	<u>249,245</u>	<u>26,338</u>	<u>25,000</u>	<u>448,136</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 426,771</u>	<u>\$ 26,338</u>	<u>\$ 25,000</u>	<u>\$ 448,136</u>

See accompanying notes to financial statements.

Special Revenue Funds		Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
Economic Development Corporation	Downtown Development Authority	General Debt Service	Cemetery Perpetual Care	
\$ 44,010	\$ 170,156	\$ -	\$ -	\$ 442,822
18,576	7,579	-	1,426	30,152
-	-	365,893	-	520,581
-	-	-	-	42,875
-	-	331	-	331
-	-	179,427	274,883	951,765
<u>\$ 62,586</u>	<u>\$ 177,735</u>	<u>\$ 545,651</u>	<u>\$ 276,309</u>	<u>\$ 1,988,526</u>
\$ -	\$ 3,049	\$ -	\$ -	\$ 3,068
-	627	-	-	3,557
-	-	-	-	19,889
-	3,400	-	-	3,400
-	7,076	-	-	29,914
-	-	365,893	-	520,581
-	-	331	276,309	276,640
62,586	170,659	179,427	-	1,161,391
62,586	170,659	179,758	276,309	1,438,031
<u>\$ 62,586</u>	<u>\$ 177,735</u>	<u>\$ 545,651</u>	<u>\$ 276,309</u>	<u>\$ 1,988,526</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, 2024

	Special Revenue Funds			
	Local Street	MSDHA Homeowner	MSHDA Habitat Rehab	Mary Cretens Trust
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	58,906	-	-	-
Federal grants	28,115	-	-	-
State grants	297,643	-	-	-
Local grants	-	-	-	155,380
Charges for services	550	-	-	-
Fines and forfeits	25	-	-	-
Interest and rentals	14,419	-	-	18,335
Miscellaneous	30	-	-	-
Total revenues	<u>399,688</u>	<u>-</u>	<u>-</u>	<u>173,715</u>
EXPENDITURES:				
Current:				
Public works	435,576	-	-	-
Community development	-	-	-	-
Recreation and culture	-	-	-	804
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>435,576</u>	<u>-</u>	<u>-</u>	<u>804</u>
Excess revenues (expenditures)	<u>(35,888)</u>	<u>-</u>	<u>-</u>	<u>172,911</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	200,000	-	-	-
Transfers out	(9,600)	-	-	(190,987)
Total other financing sources (uses)	<u>190,400</u>	<u>-</u>	<u>-</u>	<u>(190,987)</u>
Net changes in fund balances	154,512	-	-	(18,076)
Fund balances - beginning	<u>94,733</u>	<u>26,338</u>	<u>25,000</u>	<u>466,212</u>
Fund balances - ending	<u>\$ 249,245</u>	<u>\$ 26,338</u>	<u>\$ 25,000</u>	<u>\$ 448,136</u>

See accompanying notes to financial statements.

Special Revenue Funds		Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
Economic Development Corporation	Downtown Development Authority	General Debt Service	Cemetery Perpetual Care	
\$ -	\$ 366,778	\$ -	\$ -	\$ 366,778
-	-	47,034	-	105,940
-	-	-	-	28,115
-	6,363	-	-	304,006
-	1,960	-	-	157,340
-	-	-	2,000	2,550
-	-	-	-	25
2,135	6,651	14,913	10,512	66,965
18,966	6,877	-	-	25,873
<u>21,101</u>	<u>388,629</u>	<u>61,947</u>	<u>12,512</u>	<u>1,057,592</u>
-	-	-	7	435,583
9,204	77,194	-	-	86,398
-	-	-	-	804
-	42,467	265,000	-	307,467
-	18,779	96,123	-	114,902
<u>9,204</u>	<u>138,440</u>	<u>361,123</u>	<u>7</u>	<u>945,154</u>
<u>11,897</u>	<u>250,189</u>	<u>(299,176)</u>	<u>12,505</u>	<u>112,438</u>
-	-	334,000	-	534,000
-	(227,000)	-	(10,830)	(438,417)
-	(227,000)	334,000	(10,830)	95,583
11,897	23,189	34,824	1,675	208,021
<u>50,689</u>	<u>147,470</u>	<u>144,934</u>	<u>274,634</u>	<u>1,230,010</u>
<u>\$ 62,586</u>	<u>\$ 170,659</u>	<u>\$ 179,758</u>	<u>\$ 276,309</u>	<u>\$ 1,438,031</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
March 31, 2024

	Solid Waste	Harbor	Total Nonmajor Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 284,746	\$ 89,886	\$ 374,632
Investments	58,123	63,231	121,354
Receivables:			
Utilities	91,383	-	91,383
Miscellaneous	1,452	558	2,010
Due from other funds	13,050	-	13,050
Prepaid items	1,864	-	1,864
Total current assets	<u>450,618</u>	<u>153,675</u>	<u>604,293</u>
Noncurrent assets:			
Investments	71,709	78,011	149,720
Advance due from other funds	65,250	-	65,250
Capital assets, net of accumulated depreciation	231,089	216,409	447,498
Total noncurrent assets	<u>368,048</u>	<u>294,420</u>	<u>662,468</u>
Total assets	<u>\$ 818,666</u>	<u>\$ 448,095</u>	<u>\$ 1,266,761</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow - pension plan	<u>\$ 16,053</u>	<u>\$ -</u>	<u>\$ 16,053</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 13,153	\$ 1,197	\$ 14,350
Accrued payroll	3,627	1,055	4,682
Customer deposits	629	-	629
Unearned revenue	-	55,606	55,606
Total current liabilities	<u>17,409</u>	<u>57,858</u>	<u>75,267</u>
Noncurrent liabilities:			
Net pension liability	64,274	-	64,274
Total noncurrent liabilities	<u>64,274</u>	<u>-</u>	<u>64,274</u>
Total liabilities	<u>\$ 81,683</u>	<u>\$ 57,858</u>	<u>\$ 139,541</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow - pension plan	<u>\$ 7,420</u>	<u>\$ -</u>	<u>\$ 7,420</u>
NET POSITION			
Net investment in capital assets	\$ 231,089	\$ 216,409	\$ 447,498
Unrestricted	514,527	173,828	688,355
Total net position	<u>\$ 745,616</u>	<u>\$ 390,237</u>	<u>\$ 1,135,853</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, 2024

	Solid Waste	Harbor	Total Nonmajor Enterprise Funds
OPERATING REVENUES:			
Charges for services	\$ 530,866	\$ 92,219	\$ 623,085
Miscellaneous	4,729	156	4,885
Total operating revenue	<u>535,595</u>	<u>92,375</u>	<u>627,970</u>
OPERATING EXPENSES:			
Salaries and fringes	200,350	21,246	221,596
Supplies	26,045	11,657	37,702
Contracted services	55,528	14,127	69,655
Utilities	24	8,417	8,441
Rent	15,214	-	15,214
Insurance	756	1,486	2,242
Landfill tipping fees	118,516	-	118,516
Depreciation	34,820	24,080	58,900
Miscellaneous	3	-	3
Total operating expenses	<u>451,256</u>	<u>81,013</u>	<u>532,269</u>
Operating income (loss)	<u>84,339</u>	<u>11,362</u>	<u>95,701</u>
NONOPERATING REVENUES (EXPENSES):			
Investment gain (loss)	13,326	7,174	20,500
State grants	12,726	-	12,726
Total nonoperating revenue (expense)	<u>26,052</u>	<u>7,174</u>	<u>33,226</u>
Income (loss) before transfers, contributions and special items	110,391	18,536	128,927
Capital contributions	-	5,034	5,034
Transfer in	-	-	-
Transfer out	-	-	-
Change in net position	110,391	23,570	133,961
Total net position - beginning	<u>635,225</u>	<u>366,667</u>	<u>1,001,892</u>
Total net position - ending	<u>\$ 745,616</u>	<u>\$ 390,237</u>	<u>\$ 1,135,853</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, 2024

Item 2.

	Solid Waste	Harbor	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 529,533	\$ 92,583	\$ 622,116
Payments to suppliers	(220,688)	(34,810)	(255,498)
Payments for wages and related benefits	(208,110)	(20,213)	(228,323)
Other receipts (payments)	-	156	156
	<u>100,735</u>	<u>37,716</u>	<u>138,451</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Repayments of advances made to other funds	13,050	-	13,050
Receipts from state grants	12,726	-	12,726
	<u>25,776</u>	<u>-</u>	<u>25,776</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	-	(5,455)	(5,455)
	<u>-</u>	<u>(421)</u>	<u>(421)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities	(17,386)	(19,000)	(36,386)
Sale of investment securities	6,315	6,870	13,185
Interest earned	13,326	7,174	20,500
	<u>2,255</u>	<u>(4,956)</u>	<u>(2,701)</u>
Net increase (decrease) in cash and equivalents	128,766	32,339	161,105
Cash and equivalents, beginning of year	155,980	57,547	213,527
Cash and equivalents, end of year	<u>\$ 284,746</u>	<u>\$ 89,886</u>	<u>\$ 374,632</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 84,339	\$ 11,362	\$ 95,701
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	34,820	24,080	58,900
Changes in assets and liabilities:			
(Increase) decrease in receivables	(6,691)	(256)	(6,947)
(Increase) decrease in prepaid items	370	-	370
(Increase) decrease in deferred outflows	3,930	-	3,930
Increase (decrease) in accounts payable	(4,972)	877	(4,095)
Increase (decrease) in accrued payroll	966	1,033	1,999
Increase (decrease) in net pension liability	(13,021)	-	(13,021)
Increase (decrease) in unearned revenue & deposits	629	620	1,249
Increase (decrease) in deferred inflows	365	-	365
	<u>\$ 100,735</u>	<u>\$ 37,716</u>	<u>\$ 138,451</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, 2024

ALL UTILITIES:

Population served per 2020 census	5,257
Average number of meters in service	5,600

ELECTRIC UTILITY FUND:

K.W.H. purchased	32,226,926
K.W.H. sold	<u>31,202,277</u>
 K.W.H. lost (3%)	 <u>1,024,649</u>
 Revenue from sales	 <u>\$ 4,399,087</u>
 Average number of meters	 3,164

WATER UTILITY FUND:

Gallons pumped into plant	138,773,100
Gallons used in plant, system maintenance & let runs	<u>4,548,884</u>
 Gallons pumped to mains	 134,224,216
Gallons sold	<u>96,901,939</u>
 Gallons lost (27%)	 <u>37,322,277</u>
 Revenue from sales	 <u>\$ 983,119</u>
 Average number of meters in service	 2,436

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 1,627,269</u>
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CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF STATE EQUALIZED VALUATION & TAXABLE VALUES
(UNAUDITED)
For the Year Ended March 31, 2024

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
2023	112,350,495	13,492,200	125,842,695

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, 2024**

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

**CITY OF GLADSTONE, MICHIGAN
 SCHEDULE OF ANNUAL TAX RATES (PER \$1,000 VALUATION)
 (UNAUDITED) - continued
 For the Year Ended March 31, 2024**

Year	City Tax	School *	Schools			Total		County Taxes	I.S.D.	DATA	Total
			Non-Homestead	State	Debt	Local Taxes	Community College				
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
2023	15.4773	-	18.0000	6.0000	5.7500	45.2273	3.3076	8.9017	2.3851	0.6000	60.4217

* 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, 2024, 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 23, 2024. 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 2024-001 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 2024-002 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 2024-003.

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 23, 2024

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended March 31, 2024

Item 2.

FINDINGS – FINANCIAL STATEMENT AUDIT

2024-001 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. The City could look for opportunities to develop the financial skills of personnel outside the traditional accounting team. A sound internal control system includes five elements: 1) control environment, 2) risk assessment, 3) monitoring and review, 4) information and communication, and 5) control activities.

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.

2024-002 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, *Leases* (implemented in 2023). Additional analysis by the auditor was necessary to determine the impact of implementation of GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The City is 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, *Fiduciary Activities* (implemented in 2021).

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, 87, 94, and 96.

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended March 31, 2024

Item 2.

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 or subscription 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. The City required non-attest assistance at the time of the audit to ensure compliance with GASB Statements 96, 94, 87 and 84.

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 or subscription 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, subscriptions, custodial tax fund, and future implementation of new accounting standards and make changes or additions as necessary.

2024-003: Compliance Finding – Violation of Public Act 2 of 1968, as Amended (repeat)

Condition: During the fiscal year ended March 31, 2024, 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.

Report to Management



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

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REPORT TO MANAGEMENT

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

We have audited 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 (the “City”) for the year ended March 31, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 22, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Gladstone are described in Note A to the financial statements. As described in Note A, the City changed accounting policies related to contracts and agreements by adopting GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* and GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* during 2024. Neither statement had a material effect on the City’s financial statements or disclosures. No other accounting policies were adopted, and the application of existing policies was not changed during 2024. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management’s estimate of the useful lives of capital assets, which is based on the intended use of the asset and management’s experience with similar assets.

Management’s estimate of the net pension liability, which is based on actuarial assumptions prepared by third party professionals, such as actuarial valuations, related to the calculation of the net pension liability.

Management’s estimate of the current and noncurrent percentages of accrued compensated absences, which is based on current hourly rates and an estimate of the percentage of employees’ use of compensated absences.

Management's estimate of the discount rate used for leases, the lease term, and lease receipts is based on incremental borrowing rates and consideration of the noncancelable period of the lease and reasonably certain lease options.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the Defined Benefit Retirement Plan – Municipal Employees Retirement System of Michigan (MERS), in the notes to the financial statements, includes significant actuarial assumptions used in calculating the valuation. An actuarial company was hired by MERS to prepare the annual actuarial valuation. The disclosures made in the notes to the financial statements were based on information included in that actuarial valuation.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The material misstatements detected as a result of audit procedures were corrected by management and related to proper recognition of special assessment revenue, recording of additions and deductions to the Custodial Tax Fund in accordance with GASB Statement 84, correction of beginning equity balances, proper recognition of grant activity, proper recording of enterprise fund debt, cutoff and completeness of accounts payable and related expenditures/expenses, proper recording of employee benefit liabilities, and correction of various activity related to the Wastewater Treatment Plant Improvement project, including amounts of debt principal, capital assets, grant revenues, receivables, and retainage payable.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Gladstone's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Gladstone's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management’s discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios for the retirement system, and schedule of employer contributions for the retirement system, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining nonmajor and individual fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the utility funds schedule of operating statistics, schedule of state equalized valuation & taxable values, and schedule of annual tax rates (per \$1,000 valuation), which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Comments, Recommendations, and Other Information

In planning and performing our audit of the financial statements of the City of Gladstone for the year ended March 31, 2024, we considered the City’s internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated September 23, 2024, on the financial statements of the City of Gladstone.

Informational Items – Upcoming Accounting Pronouncements

GASB Statement No. 100, Accounting Changes and Error Corrections

The objective of this Statement is to improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. More understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

The provisions of this statement are effective for the City’s financial statements for the 2024-2025 fiscal year. The City should be evaluating the impact the implementation of the standard will have on the City’s funds.

GASB 101, Compensated Absences

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.

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 provisions of this statement are effective for the City's financial statements for the 2024-2025 fiscal year and will likely require retroactive restatement for the year prior to implementation. The City should review its contracts with employees and analyze the usage of paid leave to start developing the required estimates for implementation of this standard.

GASB Statement No. 102, *Certain Risk Disclosures*

The objective of this Statement is to improve financial reporting by providing users of financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government’s financial condition.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

The provisions of this statement are effective for the City's financial statements for the 2025-2026 fiscal year. The City should start to evaluate the impact the implementation of the standard will have on the City’s funds.

GASB Statement No. 103, *Financial Reporting Model Improvements*

The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. This Statement also addresses certain application issues. This statement includes changes to management’s discussion and analysis, unusual or infrequent items, presentation of the proprietary fund statements of revenues, expenses, and changes in fund net position, major component unit information, and budgetary comparison information.

The provisions of this statement are effective for the City's financial statements for the 2026-2027 fiscal year. The City should start to evaluate the impact the implementation of the standard will have on the City’s funds.

Restriction on Use

This information is intended solely for the information and use of the Mayor, members of the City Commission and management of the City of Gladstone and is not intended to be, and should not be, used by anyone other than these specified parties.



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

September 23, 2024

City of Gladstone
COMMENTS & RECOMMENDATIONS
March 31, 2024

OTHER MATTERS

1. Minimum Fund Balance (repeat)

Comment:

We noted that the City is not meeting its minimum General Fund unrestricted fund balance level as defined in the City's policy as amended March 13, 2023 and again August 28, 2023. The policy was amended during the current year for clarification. The policy states "The minimum level of General Fund balance that the City strives to maintain as undesignated (Committed, Assigned and Unassigned) is an amount equal to 20 to 30% of the City's General Fund previous years audited non-capital expenses." As of March 31, 2024, the City had an "undesignated" fund balance of less than 10% of the 2023 audited General Fund expenditures less capital outlays.

Recommendations:

We recommend the City work to budget for net profit in the General Fund to build the fund balance back toward the minimum threshold.

2. Inventory Controls (repeat)

Comment:

We noted that the City does not have strong internal controls in place to document and support inventory additions in the Electric Department to ensure that all inventory additions are identified and that the inventory subledger agrees to inventory per the general ledger. The Electric Inventory Clerk records additions to the subledger based on packing slips and other physical observance. The Treasurer records additions to the general ledger based on invoice coding. There is no process in place to reconcile the additions per subledger with the additions per the general ledger. There are also no procedures or controls in place to ensure that the cost reported in the subledger is accurate or supported by current invoices.

Recommendations:

We recommend the City develop procedures and controls to ensure that inventory additions per the subledger tie to supporting documents and can be traced to inventory in the general ledger. We also recommend that the City develop procedures and controls to ensure physical inventory counts are reconciled to the subledger detail. (We are aware the City is in the process of transitioning software programs used for inventory so that the subledger is linked to the general ledger.)

3. Uncollectable Utility Receivables (repeat)

Comment:

In our testing of utility revenues in the 2022 audit, it was determined that the City had many utility receivable accounts that were delinquent for several years and no longer collectable that required writing off directly. The Board did authorize a substantial writeoff of these accounts in 2022. However, the City is still reporting all receivables at gross amounts and has not recorded any allowance for uncollectable accounts. The City has not established a methodology for estimating uncollectable accounts receivable. The City also does not have a formal procedure in place for periodically reviewing its accounting estimates or aging of accounts receivable. By reporting all receivables at gross amounts, the City is not following generally accepted accounting principles and may be overstating its assets and revenues.

Recommendations:

We recommend the City establish procedures for reviewing its accounting estimates, including collectability of accounts receivable, on at least an annual basis. In particular, utility accounts should be analyzed for collectability.

4. Leases and Contracts**Comment:**

In our testing of long-term lease contracts for implementation of and continued compliance with GASB 87, we examined activity related to contracts that the City has with several utility companies for the use of City infrastructure. During that process, we found that some contracts were available, while others had inconsistencies between language in the contract and the actual collection procedures and fees paid. When we inquired about these differences, no one among City Management was able to provide any explanation for them. The City is unable to ensure that it is properly collecting all revenues to which it is entitled.

Recommendations:

We recommend the City strengthen its controls surrounding the receipt of rental and lease revenues. When money is received for one of these agreements, the amount should be agreed to a contract on file.