

**CITY OF GLADSTONE, MICHIGAN**

**BASIC FINANCIAL STATEMENTS**

**MARCH 31, 2007**

# TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditor's Report .....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Assets .....	15
Statement of Activities .....	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	17
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets .....	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	20
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities .....	22
Statement of Net Assets - Proprietary Funds .....	23
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds .....	25
Statement of Cash Flows - Proprietary Funds .....	27
Statement of Fiduciary Net Assets .....	29
Notes to the Basic Financial Statements .....	30
<b>Required Supplemental Information:</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund .....	70
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Major Street Fund .....	71
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Local Street Fund .....	72
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Revolving Loan .....	73
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Capital Projects .....	74



## TABLE OF CONTENTS

	<u>Page</u>
<b>Other Supplemental Information:</b>	
Combining Balance Sheet - Nonmajor Governmental Funds .....	75
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds .....	77
Combining Statement of Net Assets - Nonmajor Proprietary Funds .....	79
Combining Statement of Revenues, Expenses and Changes in Net Assets - Nonmajor Proprietary Funds .....	80
Combining Statement of Cash Flows - Nonmajor Proprietary Funds .....	81
Utility Funds Schedule of Operating Statistics (Unaudited) .....	82
<b>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 .....</b>	<b>83</b>



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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

Kevin C. Pascoe, CPA  
Laura L. Schwalbach, CPA

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Commission  
City of Gladstone  
Gladstone, Michigan 49837

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 as of and for the year ended March 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gladstone, Michigan's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan as of March 31, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2007, on our consideration of the City of Gladstone, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 14 and 70 through 74, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Michigan's basic financial statements. The combining nonmajor fund financial statements and the statistical table are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical table has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Anderson, Tackman & Company P.C.*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

August 10, 2007



## **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, 2007. Please read it in conjunction with the City's financial statements, which begin on page 15.

### **FINANCIAL HIGHLIGHTS**

- The City's net assets were reported at \$16,642,716. This is an increase of \$1,154,820 from March 31, 2006. This resulted from an increase in total assets of \$294,901 (or 1.5%) and a decrease in liabilities of \$859,919 (24.7%). The increase in net assets resulted primarily from an increase in net capital assets along with a reduction in long-term debt. Net assets for our business-type activities were \$10,699,904, an increase of \$449,100 from 2006, while net assets in our governmental activities were \$5,942,812, an increase of \$705,720.
- The City's expenses for the year totaled \$8,624,071 an increase of \$639,852 (8%) over 2006. Revenues from all sources were \$9,778,891, an increase of \$1,199,865 (13.9%) from 2006.
- In the City's business type activities, total revenues were \$4,982,874 an increase of 7% over the previous year. Business-type activity revenues decreased slightly as a percentage of total revenues to 51% from 54% the previous year.
- In the current year the City created a new special revenue fund, the Mary Cretens Trust fund, to account for the activity related to the annual donation to be received from former City resident Dr. Mary Cretens.
- The General Fund finished the year with a decrease, and ending fund balance of \$92,886. This was after revenues of \$2,169,651 compared to \$2,487,278 in 2006, and expenditures of \$2,394,586 compared to expenditures of \$2,633,549 in 2006.
- The City also realized the substantial completion of two major projects; the 10<sup>th</sup> Street renovation as well as the completion of Braves Avenue.

### **USING THIS REPORT**

This annual report consist of financial statements. The Statement of Net Assets and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

## Reporting the City as a whole

### Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about a city's finances in "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Assets 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 assets* and changes in them. You can think of the City's net assets as, the difference between assets and liabilities, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets 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 Assets and the Statement of Activities, we divide the City into two categories of activities:

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

The City also presents the Gladstone Housing Commission, a legally separate component unit, separately from the financial information of the City. A separately audited financial statement is available for the Housing Commission from their administrative offices.

## Reporting the City's Most Significant Funds

### Fund Financial Statements

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



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

### **The City as a Trustee**

The City is the trustee, *or fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City’s fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 29. We exclude these funds from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

## The City as a Whole

The City's combined net assets increased by \$1,154,820.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Current and other assets	\$ 736,024	\$ 1,190,914	\$ 3,377,696	\$ 3,407,101
Capital assets (net)	7,161,492	6,590,291	7,987,071	7,779,076
Total Assets	<u>7,897,516</u>	<u>7,781,205</u>	<u>11,364,767</u>	<u>11,186,177</u>
Long-term debt outstanding	1,288,888	1,658,211	464,286	531,448
Other liabilities	665,816	885,902	200,577	403,925
Total Liabilities	<u>1,954,704</u>	<u>2,544,113</u>	<u>664,863</u>	<u>935,373</u>
Net Assets:				
Invested in capital assets, net of related debt	5,872,604	4,932,080	7,522,785	7,247,628
Restricted assets:				
Expendable	27,569	3,864	-	-
Nonexpendable	230,326	225,353	-	-
Unrestricted	(187,687)	75,795	3,177,119	3,003,176
Total net assets	<u>\$ 5,942,812</u>	<u>\$ 5,237,092</u>	<u>\$ 10,699,904</u>	<u>\$ 10,250,804</u>

Net assets of the City's governmental activities stood at \$5,942,812, up from \$5,237,092 in 2006 (+13.5%). Total of the governmental activities assets increased by 1.5%, and total liabilities decreased by nearly 40%. The ratio of assets to liabilities rose from 3.05 in 2006 to 5.14 in 2007.

Net assets in our business-type activities stood at \$10,699,904, up from \$10,250,804 in 2006. Total assets increased to \$11,364,767 from \$11,186,177 in 2006, while liabilities declined from \$935,373 in 2006 to \$664,863 in 2007 (-28.9%). Unrestricted net assets increased from \$3,003,176 to \$3,177,119, while the amount invested in capital assets (net of related debt) rose from \$7,247,628 in 2006 to \$7,522,785 in 2007. In summary, the net assets of the business lines became a little less liquid, but investments in infrastructure will pay dividends in the future.

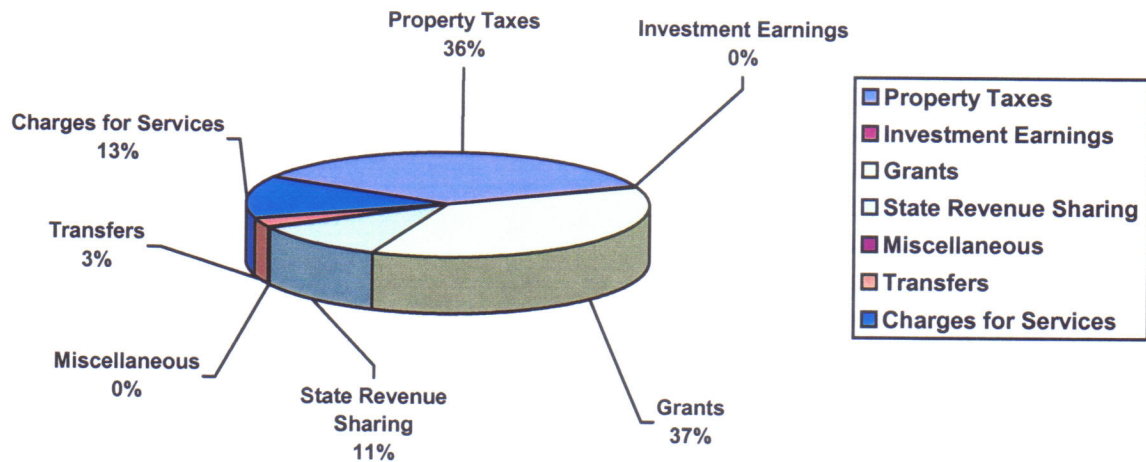
**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
<b>Revenues:</b>				
Program Revenues:				
Charges for services	\$ 647,731	\$ 618,820	\$ 4,648,477	\$ 4,416,424
Operating grants	579,930	492,848	3,612	-
Capital grants	1,225,242	496,640	249,659	160,703
General Revenues:				
Property taxes	1,748,177	1,724,207	-	-
State revenue sharing	547,667	556,290	-	-
Unrestricted grants	21,584	6,127	-	-
Unrestricted investment earnings	10,188	7,890	81,126	74,721
Miscellaneous	10,265	22,786	-	-
Total Revenues	<u>4,790,784</u>	<u>3,925,608</u>	<u>4,982,874</u>	<u>4,651,848</u>
<b>Program Expenses:</b>				
General government	518,319	497,506	-	-
Public health & safety	1,387,141	1,447,421	-	-
Parks & recreation	521,208	504,929	-	-
Cemetery	55,785	58,556	-	-
General public works	325,334	403,932	-	-
Street system	1,169,655	949,561	-	-
Community development	169,678	201,848	-	-
Interest on long-term debt	73,707	75,364	-	-
Electric	-	-	3,155,949	2,689,699
Wastewater	-	-	600,918	530,470
Water	-	-	529,640	507,993
Land development	-	-	19,297	23,461
Gladstone wireless	-	-	80,188	76,937
Economic development	-	-	17,252	16,543
Total Expenses	<u>4,220,827</u>	<u>4,139,117</u>	<u>4,403,244</u>	<u>3,845,103</u>
Excess (deficiency) before transfers and contributions	569,957	(213,509)	579,630	806,745
Transfers	130,530	202,900	(130,530)	(202,900)
Contributions to permanent fund	<u>5,233</u>	<u>1,571</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	705,720	(9,038)	449,100	603,845
Net assets - beginning	<u>5,237,092</u>	<u>5,246,130</u>	<u>10,250,804</u>	<u>9,646,959</u>
Net assets - ending	<u>\$ 5,942,812</u>	<u>\$ 5,237,092</u>	<u>\$ 10,699,904</u>	<u>\$ 10,250,804</u>

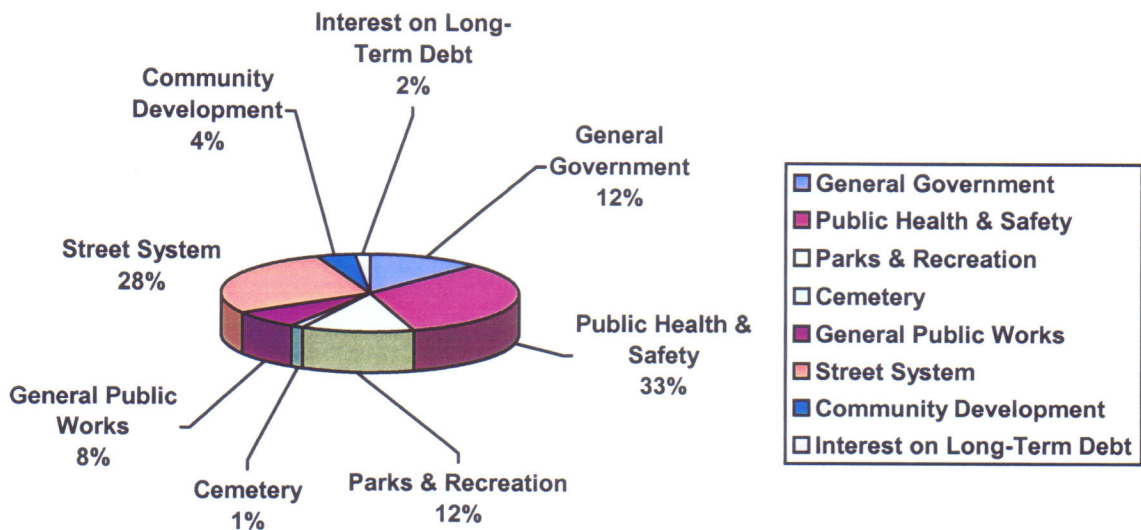


## Governmental Activities

### 2007 Governmental Activities Revenue



### 2007 Governmental Program Expenses



The City's total revenues were \$9,778,891, up from \$8,579,026 in 2006 (an increase of 14%). The cost of all programs and services was \$8,624,071, up from \$7,984,219 in 2006 (an increase of 8%). For 2007, there was an excess of revenues over expenses of \$1,154,820, compared to an excess of revenues over expenses of \$594,807 in 2006. The 8% increase in expenses is well below the revenue growth for the year. The small increase in expenses was mainly due to cutting capital outlay from all budgets and requiring departments to cut an additional 3% across the board. Much of the large increases in revenue are due to grant funds related to street projects and additional charges for services.

### Governmental Activities

Revenues for the City's governmental activities totaled \$4,926,547, up 25.4% from \$3,927,179 in 2006. Expenses increased by 1.9% (\$81,711) with the largest percentage increase (23%) in the street system.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

**Table 3**  
**Government Activities**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Public health & safety	\$ 1,387,141	\$ 1,447,421	\$ 1,104,789	\$ 1,090,226
Street systems	1,169,655	949,561	(174,619)	308,620
Parks & recreation	521,208	504,929	126,193	100,416
General public works	325,334	403,932	11,171	251,816
General government	518,319	497,506	518,319	497,506
Totals	<u>\$ 3,921,657</u>	<u>\$ 3,803,349</u>	<u>\$ 1,585,853</u>	<u>\$ 2,248,584</u>

Most of the governmental activity increases are due to rate of inflation. The largest net change was in the street system due to the Braves Avenue and 10<sup>th</sup> Street projects receiving a large part of the funding from the State of Michigan.

### Business-Type Activities

Revenues for the City's business-type activities totaled \$4,982,874, up from \$4,651,848 in 2006 (+7%). The primary reason for the increase was due to increased utility rates for the water, waste water and electric utilities which were in effect August 2006. Business-type activity expenses increased by 14% and can be attributed in large part to inflation as well as an increase in the cost of purchased power for the electric utility.

## **THE CITY'S FUNDS**

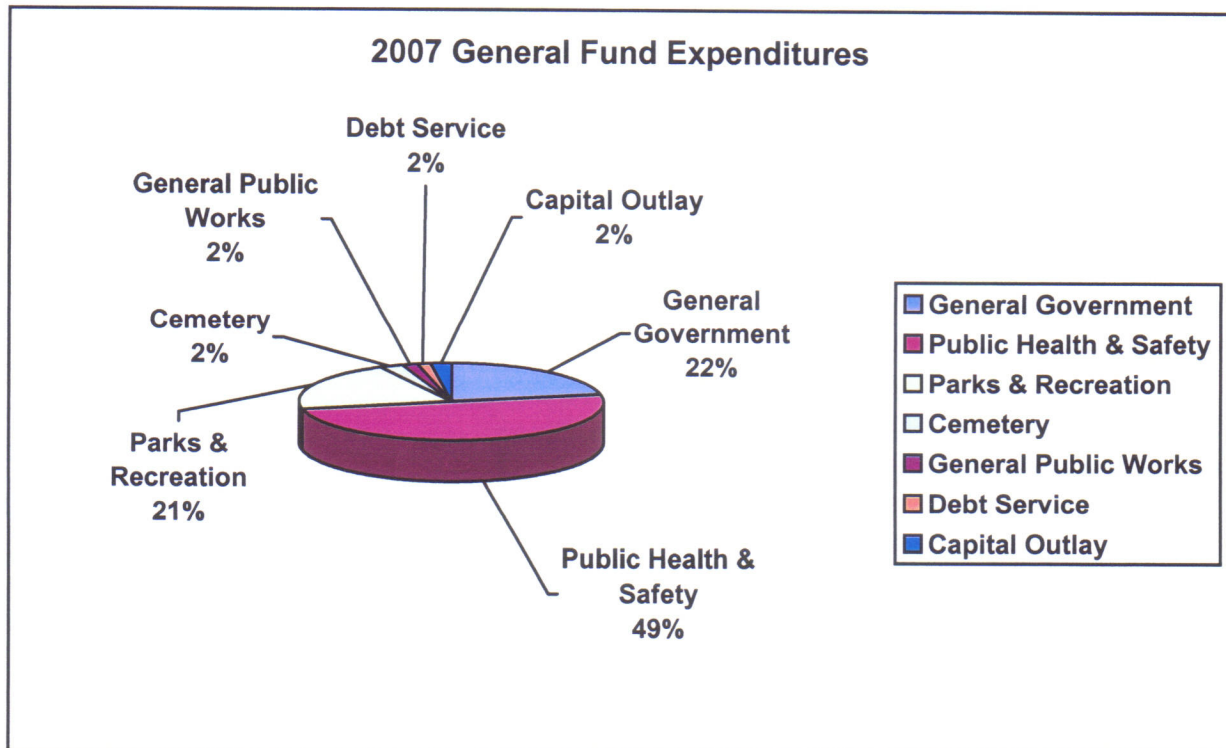
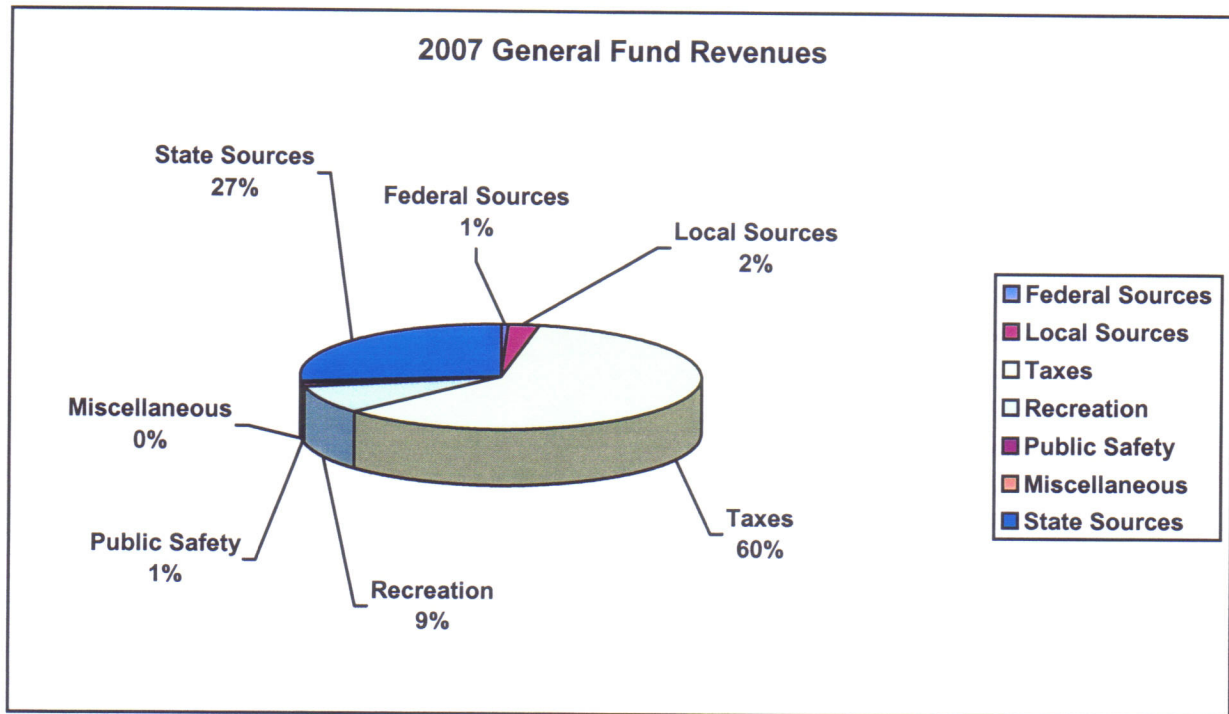
As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$332,107, a decrease of \$400,333 from 2006. This was due primarily to the City paying for its share of the 10<sup>th</sup> Street project as well as additional loans being made from the Revolving Loan fund.

### **General Fund Budgetary Highlights**

Over the course of the year, the budget was amended to recognize known changes to revenue or expenditures. The final revenue number of \$2,169,651 was 6.5% under the amended budget. Expenditures were less than the amended budget by \$170,441. The final expenditure number of \$2,394,586 was 7% less than the revised expenditure estimate of \$2,565,027. Total expenditures exceeded revenues by \$20,353 for the year.

The final revenue number was \$467,627 less than 2006 and expenditures were \$238,963 lower than 2006. On the revenue side, the General Fund decrease is due to property taxes for the garbage pickup services were recorded as revenue in the General Fund in the prior year and were recorded in the Solid Waste fund in the current year. Further, the City did not begin receiving cable franchise fees until the last month of the year resulting in approximately \$40,000 in reduced revenues. On the expense side, the decrease can be contributed to campground project in the prior year and further reducing departmental budgets by 3% across the board.

## General Fund





## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal 2007, the City had \$15,148,563, 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 \$14,369,367 in 2006. (See table 4 below)

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

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Land	\$ 1,601,627	\$ 1,601,627	\$ 254,513	\$ 316,799
Construction in progress	76,479	-	143,212	26,193
Land Improvements	101,032	82,354	-	-
Buildings	1,728,753	1,860,693	295,790	159,003
Machinery & Equipment	763,671	842,395	151,760	204,830
Infrastructure - Road System	2,638,889	1,918,243	-	-
Infrastructure - Other	251,041	284,979	-	-
Distribution/Collection System	-	-	7,141,796	7,072,251
Total	<u>\$ 7,161,492</u>	<u>\$ 6,590,291</u>	<u>\$ 7,987,071</u>	<u>\$ 7,779,076</u>

### DEBT

At year-end the City had \$1,753,174 in bonds and notes outstanding. This is a decrease of \$436,485 (20%) in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt of \$871,828 is well below the 10% limit of \$8,871,880.

**Table 5**  
**Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
General obligation bonds/ notes(backed by the City)	\$ 871,828	\$ 980,000	\$ 16,397	\$ 21,448	\$ 888,225	\$ 1,001,448
Revenue bonds and notes (backed by specific tax and fee revenues)	417,060	678,211	447,889	510,000	864,949	1,188,211
Totals	<u>\$ 1,288,888</u>	<u>\$ 1,658,211</u>	<u>\$ 464,286</u>	<u>\$ 531,448</u>	<u>\$ 1,753,174</u>	<u>\$ 2,189,659</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for business type activities. One of those factors is the economy. Most Michigan municipalities, including Gladstone are still struggling in the State's weak economic environment, the cost of doing business is still increasing sometimes beyond our control. Gladstone takes pride in being the "year round playground" and we will continue to maintain all 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.

In general government the City has taken the necessary steps to ensure long-term fiscal health. We are seeing the fiscal benefits of the two positions that were eliminated the previous year. Property taxes continue to increase at the rate of inflation. At the same time we have not increased the administrative fees on the other departments and have dramatically decreased reliance on business type activities. The downward trend in State Revenue Sharing continues for the City, the 2007 amount of revenue sharing was 2% below the actual amount in 2006, please recall that revenue sharing was 7% below state estimates in 2006.

Business type activities budgets should continue to improve, the negative cash balance has been eliminated in the wastewater fund and the deficit continues to decline in the water fund. All enterprise funds showed increased net assets from fiscal year 2006. The City Commission has already approved rates for the 2008 fiscal year; the additional revenue generated by these increases will only further improve the fiscal condition of all enterprise funds.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Gladstone City Hall, 1100 Delta Ave, P.O. Box 32, Gladstone, Michigan, 49837.

CITY OF GLADSTONE, MICHIGAN  
STATEMENT OF NET ASSETS  
March 31, 2007

ASSETS	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Housing Commission
Current assets:				
Cash and cash equivalents	\$ (394,341)	\$ 1,034,045	\$ 639,704	\$ 177,236
Receivables :				
Accounts	85,112	-	85,112	24,231
Utilities	-	682,702	682,702	-
Special assessments	41,280	54,040	95,320	-
Notes	35,781	74,220	110,001	-
Interest	168	414	582	-
Miscellaneous	18,084	57,882	75,966	-
Due from other governmental units	394,246	1,013	395,259	-
Prepaid expense	5,450	1,725	-	17,150
Inventory	30,003	339,474	369,477	-
Total current assets	<u>215,783</u>	<u>2,245,515</u>	<u>2,454,123</u>	<u>218,617</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	257,811	64,000	321,811	-
Investments	-	661,474	661,474	136,422
Notes receivable	262,430	206,345	468,775	-
Internal balances	-	182,337	182,337	-
Bond issuance costs	-	18,025	18,025	-
Capital assets	18,821,700	16,491,001	35,312,701	4,316,319
Accumulated depreciation	(11,660,208)	(8,503,930)	(20,164,138)	(2,749,895)
Total noncurrent assets	<u>7,681,733</u>	<u>9,119,252</u>	<u>16,800,985</u>	<u>1,702,846</u>
Total assets	<u>\$ 7,897,516</u>	<u>\$ 11,364,767</u>	<u>\$ 19,262,283</u>	<u>\$ 1,921,463</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 149,386	\$ 60,563	\$ 209,949	\$ 12,163
Accrued interest	10,933	2,063	12,996	-
Customer deposits	-	55,392	55,392	-
Deferred revenue	65,502	-	65,502	-
Other liabilities	18,802	-	18,802	41,189
Compensated absences	26,655	16,512	43,167	-
Bonds payable	120,000	125,000	245,000	-
Notes payable	41,177	5,329	46,506	-
Total current liabilities	<u>432,455</u>	<u>264,859</u>	<u>697,314</u>	<u>53,352</u>
Noncurrent liabilities:				
Compensated absences	106,621	66,047	172,668	-
Due to other governmental units	105,580	-	105,580	-
Internal balances	182,337	-	182,337	-
Bonds payable	925,000	322,889	1,247,889	-
Notes payable	202,711	11,068	213,779	-
Total noncurrent liabilities	<u>1,522,249</u>	<u>400,004</u>	<u>1,922,253</u>	<u>-</u>
Total liabilities	<u>\$ 1,954,704</u>	<u>\$ 664,863</u>	<u>\$ 2,619,567</u>	<u>\$ 53,352</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 5,872,604	\$ 7,522,785	\$ 13,395,389	\$ 1,566,424
Restricted for:				
Expendable:				
Drug forfeiture	32	-	32	-
City improvement	27,537	-	27,537	-
Nonexpendable:				
Cemetery perpetual care	230,326	-	230,326	-
Unrestricted	(187,687)	3,177,119	2,989,432	301,687
Total net assets	<u>\$ 5,942,812</u>	<u>\$ 10,699,904</u>	<u>\$ 16,642,716</u>	<u>\$ 1,868,111</u>

See accompanying notes to financial statements.



**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2007**

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			Component Unit
					Primary Government		Total	
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities:								
General government	\$ 518,319	\$ -	\$ -	\$ -	\$ (518,319)	\$ -	\$ (518,319)	\$ -
Public health and safety	1,387,141	109,992	34,769	137,591	(1,104,789)	-	(1,104,789)	-
Parks and recreation	521,208	216,211	55,555	123,249	(126,193)	-	(126,193)	-
Cemetery	55,785	33,518	21,276	-	(991)	-	(991)	-
General public works	325,334	191,920	10,638	111,605	(11,171)	-	(11,171)	-
Street system	1,169,655	45,285	457,692	841,297	174,619	-	174,619	-
Community development	169,678	50,805	-	11,500	(107,373)	-	(107,373)	-
Interest on long-term debt	73,707	-	-	-	(73,707)	-	(73,707)	-
Total governmental activities	4,220,827	647,731	579,930	1,225,242	(1,767,924)	-	(1,767,924)	-
Business-type activities:								
Electric utility	3,155,949	3,345,912	-	116,269	-	306,232	306,232	-
Waste water utility	600,918	667,942	-	122,525	-	189,549	189,549	-
Water utility	529,640	572,151	3,612	10,865	-	56,988	56,988	-
Land development	19,297	7,304	-	-	-	(11,993)	(11,993)	-
Economic development	17,252	19,726	-	-	-	2,474	2,474	-
Wireless broadband	80,188	35,442	-	-	-	(44,746)	(44,746)	-
Total business-type activities	4,403,244	4,648,477	3,612	249,659	-	498,504	498,504	-
Total primary government	\$ 8,624,071	\$ 5,296,208	\$ 583,542	\$ 1,474,901	(1,767,924)	498,504	(1,269,420)	-
Component unit:								
Housing commission	\$ 521,250	\$ 269,172	\$ 123,328	\$ 67,371	-	-	-	(61,379)
General revenues:								
Property taxes					1,748,177	-	1,748,177	-
State revenue sharing					547,667	-	547,667	-
Grants and contributions not restricted to specific programs					21,584	-	21,584	-
Contributions to permanent fund					5,233	-	5,233	-
Unrestricted investment earnings					10,188	81,126	91,314	10,869
Miscellaneous					10,265	-	10,265	29,593
Transfers					130,530	(130,530)	-	-
Total general revenues and transfers					2,473,644	(49,404)	2,424,240	40,462
Changes in net assets					705,720	449,100	1,154,820	(20,917)
Net assets - beginning					5,237,092	10,250,804	15,487,896	1,889,028
Net assets - ending					\$ 5,942,812	\$ 10,699,904	\$ 16,642,716	\$ 1,868,111

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**March 31, 2007**

	General	Major Street	Local Street
<b>ASSETS</b>			
Cash and equivalents:			
Restricted	\$ -	\$ -	\$ -
Unrestricted	86,434	59,474	(25,209)
Receivables:			
Accounts	19,035	1,310	-
Special assessments	10,552	1,898	28,830
Notes	-	-	-
Interest	35	35	-
Miscellaneous	16,533	-	1,226
Prepaid expenditures	57,875	-	-
Due from other funds	44,213	869	621
Due from other governmental units	98,081	53,667	21,784
Inventory	3,842	26,161	-
	<u>336,600</u>	<u>143,414</u>	<u>27,252</u>
Total assets	<u>\$ 336,600</u>	<u>\$ 143,414</u>	<u>\$ 27,252</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 36,590	\$ 685	\$ 82
Due to other funds	162,635	46,013	19,889
Due to other governmental units	-	-	-
Deferred revenue	38,938	-	-
Other liabilities	5,551	-	-
	<u>243,714</u>	<u>46,698</u>	<u>19,971</u>
Total liabilities	<u>243,714</u>	<u>46,698</u>	<u>19,971</u>
Fund balances:			
Reserved for:			
Inventory	3,842	26,161	-
Prepaid expense	57,875	-	-
Cemetery perpetual care	-	-	-
City improvement	-	-	-
Drug forfeiture	32	-	-
Unreserved	31,137	70,555	7,281
Unreserved, reported in non-major:			
Special revenue funds	-	-	-
Debt service funds	-	-	-
	<u>92,886</u>	<u>96,716</u>	<u>7,281</u>
Total fund balances	<u>92,886</u>	<u>96,716</u>	<u>7,281</u>
Total liabilities and fund balances	<u>\$ 336,600</u>	<u>\$ 143,414</u>	<u>\$ 27,252</u>

See accompanying notes to financial statements.

<u>Revolving Loan</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ - 26,537	\$ - (120,583)	\$ 257,811 (171,473)	\$ 257,811 (144,820)
-	-	64,767	85,112
-	-	-	41,280
298,211	-	-	298,211
29	-	69	168
-	-	-	17,759
-	-	450	58,325
-	-	-	45,703
-	158,006	62,708	394,246
-	-	-	30,003
<u>\$ 324,777</u>	<u>\$ 37,423</u>	<u>\$ 214,332</u>	<u>\$ 1,083,798</u>
\$ 528	\$ 96,098	\$ 6,656	\$ 140,639
-	-	-	228,537
-	-	13,251	13,251
298,211	-	26,564	363,713
-	-	-	5,551
<u>298,739</u>	<u>96,098</u>	<u>46,471</u>	<u>751,691</u>
-	-	-	30,003
-	-	-	57,875
-	-	230,326	230,326
-	-	27,537	27,537
-	-	-	32
26,038	(58,675)	-	76,336
-	-	(91,088)	(91,088)
-	-	1,086	1,086
<u>26,038</u>	<u>(58,675)</u>	<u>167,861</u>	<u>332,107</u>
<u>\$ 324,777</u>	<u>\$ 37,423</u>	<u>\$ 214,332</u>	<u>\$ 1,083,798</u>

**CITY OF GLADSTONE, MICHIGAN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**March 31, 2007**

Total fund balances for governmental funds	\$ 332,107
--	------------

Total net assets reported for governmental activities in the statement of net assets is different because:

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

Land	\$ 1,601,627	
Land improvements	161,687	
Buildings	2,818,545	
Machinery and equipment	979,734	
Infrastructure - road system	11,000,040	
Infrastructure - other	319,359	
Construction in progress	76,479	
Accumulated depreciation	<u>(10,338,788)</u>	
Total capital assets		6,618,683

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	252,036
---	---------

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (10,933)	
Bonds payable	(1,045,000)	
Notes payable	(210,561)	
Due to other governmental units	(105,580)	
Compensated absences	<u>(133,276)</u>	(1,505,350)

A prepaid debt service payment which was recorded as a prepaid expense in the fund financial statements, has been shown as a reduction in the outstanding debt balance.	(52,875)
---	----------

Deferred revenue reported as a liability on the balance sheet of the fund financial statements and has been recognized as revenue in the statement of activities have been removed from the statement of net assets.	<u>298,211</u>
--	----------------

Total net assets of governmental activities	<u><u>\$ 5,942,812</u></u>
---	----------------------------

See accompanying notes to financial statements.



**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended March 31, 2007**

	General Fund	Major Street	Local Street
<b>REVENUES:</b>			
Federal sources	\$ 14,000	\$ -	\$ -
State sources	575,933	302,588	146,518
Local sources	50,472	-	39,644
Taxes	1,289,342	-	-
Charges for services	16,291	-	-
Recreation	186,516	-	-
Public safety	24,919	-	-
Loan repayment	-	-	-
Lease income	-	-	-
Interest income	2,219	2,353	368
Miscellaneous	9,959	2,713	2,928
	<u>2,169,651</u>	<u>307,654</u>	<u>189,458</u>
Total revenues			
<b>EXPENDITURES:</b>			
General government	516,401	-	-
Public health and safety	1,200,701	-	-
Parks and recreation	491,801	-	-
Cemetery	59,435	-	-
General public works	38,620	-	-
Street system	-	291,415	228,450
Community development	-	-	-
Capital outlay	51,344	-	-
Debt service:			
Principal	26,566	-	-
Interest and other charges	9,718	-	-
	<u>2,394,586</u>	<u>291,415</u>	<u>228,450</u>
Total expenditures			
Excess revenues (expenditures)	<u>(224,935)</u>	<u>16,239</u>	<u>(38,992)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	224,582	-	-
Transfers out	(20,000)	-	-
Bond proceeds	-	-	-
	<u>204,582</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)			
Net changes in fund balances	(20,353)	16,239	(38,992)
Fund balances - beginning	<u>113,239</u>	<u>80,477</u>	<u>46,273</u>
Fund balances - ending	<u>\$ 92,886</u>	<u>\$ 96,716</u>	<u>\$ 7,281</u>

See accompanying notes to financial statements.

Revolving Loan	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 325,090	\$ 86,660	\$ 425,750
-	84,345	8,586	1,117,970
-	-	172,696	262,812
-	-	458,835	1,748,177
-	-	188,387	204,678
-	-	-	186,516
-	-	-	24,919
43,245	-	-	43,245
-	-	101,320	101,320
7,560	-	5,248	17,748
-	46,851	3,839	66,290
50,805	456,286	1,025,571	4,199,425
-	-	-	516,401
-	-	133,877	1,334,578
-	-	-	491,801
-	-	260	59,695
-	-	312,707	351,327
-	-	8,586	528,451
200,156	-	129,120	329,276
-	877,850	-	929,194
-	-	150,000	176,566
-	-	66,170	75,888
200,156	877,850	800,720	4,793,177
(149,351)	(421,564)	224,851	(593,752)
-	300,000	114,850	639,432
(104,000)	-	(384,902)	(508,902)
-	62,889	-	62,889
(104,000)	362,889	(270,052)	193,419
(253,351)	(58,675)	(45,201)	(400,333)
279,389	-	213,062	732,440
\$ 26,038	\$ (58,675)	\$ 167,861	\$ 332,107

**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, 2007**

Net changes in fund balances - total governmental funds	\$ (400,333)
---	--------------

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,414,088) exceeded depreciation expense (\$737,919)	676,169
--	---------

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities.	66,548
--	--------

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

Principal repayments:		
Bond principal	150,000	
Note principal	26,566	176,566

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities.	158,968
--	---------

Proceeds from the issuance of long-term debt which is recorded as revenue in the fund financial statements, but is recorded as a liability in the Statement of Net Assets.	-
--	---

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	25,620	
Accrued interest on bonds	2,182	27,802
Changes in net assets of governmental activities		\$ 705,720

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**March 31, 2007**

	Gladstone Wireless	Electric Utility	Waste Water Utility	Water Utility
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ (53,523)	\$ 1,290,021	\$ 149,681	\$ (274,924)
Receivables:				
Utilities	751	506,350	93,436	82,165
Special assessments	-	-	43,388	10,652
Notes	-	-	-	-
Interest	-	338	76	-
Miscellaneous	-	3,269	8,447	46,166
Due from other governmental units	-	-	-	1,013
Prepaid expenditures	-	1,725	-	-
Inventory	-	339,474	-	-
Total current assets	<u>(52,772)</u>	<u>2,141,177</u>	<u>295,028</u>	<u>(134,928)</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	30,500	33,500
Investments	-	661,474	-	-
Notes receivable	-	-	-	-
Due from other funds	-	386,074	993	993
Bond issuance costs	-	-	8,752	9,273
Capital assets	254,983	7,069,511	4,149,504	4,455,009
Less accumulated depreciation	<u>(72,526)</u>	<u>(3,081,420)</u>	<u>(2,207,909)</u>	<u>(3,044,831)</u>
Total noncurrent assets	<u>182,457</u>	<u>5,035,639</u>	<u>1,981,840</u>	<u>1,453,944</u>
Total assets	<u>\$ 129,685</u>	<u>\$ 7,176,816</u>	<u>\$ 2,276,868</u>	<u>\$ 1,319,016</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 2,904	\$ 10,673	\$ 32,611	\$ 14,275
Accrued interest	-	-	2,063	-
Customer deposits	-	55,392	-	-
Compensated absences	-	5,970	4,703	5,839
Bonds payable	-	-	60,000	65,000
Notes payable	-	-	5,329	-
Total current liabilities	<u>2,904</u>	<u>72,035</u>	<u>104,706</u>	<u>85,114</u>
Noncurrent liabilities:				
Due to other funds	128,393	-	-	-
Compensated absences	-	23,880	18,813	23,354
Bonds payable	-	-	187,889	135,000
Notes payable	-	-	11,068	-
Total noncurrent liabilities	<u>128,393</u>	<u>23,880</u>	<u>217,770</u>	<u>158,354</u>
Total liabilities	<u>\$ 131,297</u>	<u>\$ 95,915</u>	<u>\$ 322,476</u>	<u>\$ 243,468</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 182,457	\$ 3,988,091	\$ 1,677,309	\$ 1,210,178
Unrestricted	<u>(184,069)</u>	<u>3,092,810</u>	<u>277,083</u>	<u>(134,630)</u>
Total net assets	<u>\$ (1,612)</u>	<u>\$ 7,080,901</u>	<u>\$ 1,954,392</u>	<u>\$ 1,075,548</u>

See accompanying notes to financial statements.



Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ (77,210)	\$ 1,034,045	\$ (249,521)
-	682,702	-
-	54,040	-
74,220	74,220	-
-	414	-
-	57,882	325
-	1,013	-
-	1,725	-
-	339,474	-
<u>(2,990)</u>	<u>2,245,515</u>	<u>(249,196)</u>

-	64,000	-
-	661,474	-
206,345	206,345	-
-	388,060	497
-	18,025	-
561,994	16,491,001	1,864,229
<u>(97,244)</u>	<u>(8,503,930)</u>	<u>(1,321,420)</u>
<u>671,095</u>	<u>9,324,975</u>	<u>543,306</u>
<u>\$ 668,105</u>	<u>\$ 11,570,490</u>	<u>\$ 294,110</u>

\$ 100	\$ 60,563	\$ 8,747
-	2,063	-
-	55,392	-
-	16,512	-
-	125,000	-
-	5,329	12,551
<u>100</u>	<u>264,859</u>	<u>21,298</u>

77,330	205,723	-
-	66,047	-
-	322,889	-
-	11,068	20,776
<u>77,330</u>	<u>605,727</u>	<u>20,776</u>
<u>\$ 77,430</u>	<u>\$ 870,586</u>	<u>\$ 42,074</u>

\$ 464,750	\$ 7,522,785	\$ 509,482
<u>125,925</u>	<u>3,177,119</u>	<u>(257,446)</u>
<u>\$ 590,675</u>	<u>\$ 10,699,904</u>	<u>\$ 252,036</u>

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2007**

	Gladstone Wireless	Electric Utility	Waste Water Utility	Water Utility
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 34,927	\$ 3,345,912	\$ 659,871	\$ 575,763
Miscellaneous	515	-	8,071	-
Total operating revenue	35,442	3,345,912	667,942	575,763
<b>OPERATING EXPENSES:</b>				
Salaries and fringes	22,198	460,955	305,503	271,131
Supplies	5,856	55,997	33,274	39,779
Contracted services	25,510	42,192	57,277	13,491
Repairs and maintenance	37	270	26,484	1,128
Utilities	1,019	18,477	29,960	51,988
Purchased power	-	2,105,345	-	-
Rent	-	2,078	11,097	4,790
Memberships and dues	-	4,958	4,379	2,655
Travel	-	-	278	181
Insurance	71	40,877	11,584	12,348
Education and training	-	1,002	372	3,281
In lieu of taxes	-	80,000	14,400	14,400
Depreciation	22,620	218,295	90,936	89,474
Miscellaneous	2,877	125,503	9,724	19,006
Total operating expenses	80,188	3,155,949	595,268	523,652
Operating income (loss)	(44,746)	189,963	72,674	52,111
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest income	-	55,533	6,973	2,692
Gain (loss) on sale of capital assets	-	-	-	-
Interest expense	-	-	(5,650)	(5,988)
Total nonoperating revenue (expense)	-	55,533	1,323	(3,296)
Income (loss) before transfers and contributions	(44,746)	245,496	73,997	48,815
Capital contributions	-	116,269	122,525	10,865
Transfer out	-	(77,250)	(21,850)	(24,430)
Change in net assets	(44,746)	284,515	174,672	35,250
Total net assets - beginning	43,134	6,796,386	1,779,720	1,040,298
Total net assets - ending	\$ (1,612)	\$ 7,080,901	\$ 1,954,392	\$ 1,075,548

See accompanying notes to financial statements.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
\$ -	\$ 4,616,473	\$ 294,264
27,030	35,616	-
27,030	4,652,089	294,264
844	1,060,631	102,280
-	134,906	121,582
7,894	146,364	13,649
-	27,919	1,475
-	101,444	14,147
-	2,105,345	-
643	18,608	573
-	11,992	-
-	459	-
-	64,880	12,503
-	4,655	311
-	108,800	4,500
13,940	435,265	92,391
13,228	170,338	796
36,549	4,391,606	364,207
(9,519)	260,483	(69,943)
15,928	81,126	-
-	-	139,921
-	(11,638)	(3,430)
15,928	69,488	136,491
6,409	329,971	66,548
-	249,659	-
(7,000)	(130,530)	-
(591)	449,100	66,548
591,266	10,250,804	185,488
\$ 590,675	\$ 10,699,904	\$ 252,036

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2007**

	Gladstone Wireless	Electric Utility	Waste Water Utility	Water Utility
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 37,055	\$ 3,340,850	\$ 638,644	\$ 585,361
Payments to suppliers	(35,416)	(2,674,941)	(165,079)	(149,382)
Payments for wages and related benefits	(22,198)	(458,446)	(304,315)	(269,081)
Other receipts (payments)	-	18,494	8,071	-
Net cash provided (used) by operating activities	(20,559)	225,957	177,321	166,898
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers in (out)	-	(77,250)	(21,850)	(24,430)
Cash received (paid) on customer deposits	-	(3,806)	-	-
Net cash provided (used) by noncapital financing activities	-	(81,056)	(21,850)	(24,430)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of fixed assets	(11,049)	(408,111)	(218,688)	(67,609)
Principal paid on debt instruments	-	-	(65,051)	(65,000)
Interest paid on debt instruments	-	-	(6,150)	(5,988)
Proceeds from sale of capital assets	-	-	-	-
Proceed from issuance of debt instrument	-	-	62,889	-
Capital contributions	-	116,269	122,525	10,865
Net cash provided (used) by capital and related financing activities	(11,049)	(291,842)	(104,475)	(127,732)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment in ATC	-	(11,079)	-	-
Interest earnings	-	55,533	6,973	2,692
Net cash provided (used) by investing activities	-	44,454	6,973	2,692
Net increase (decrease) in cash and equivalents	(31,608)	(102,487)	57,969	17,428
Cash and equivalents, beginning of year	(21,915)	1,842,508	122,212	(258,852)
Cash and equivalents, end of year	<u>\$ (53,523)</u>	<u>\$ 1,740,021</u>	<u>\$ 180,181</u>	<u>\$ (241,424)</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (44,746)	\$ 189,963	\$ 72,674	\$ 52,111
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation/amortization expense	22,620	218,295	95,312	94,111
Changes in assets and liabilities:				
(Increase) decrease in receivables	1,613	(5,062)	(21,227)	9,598
(Increase) decrease in due from other funds	-	18,494	-	-
(Increase) decrease in inventory	-	25,744	-	-
(Increase) decrease in prepaid	-	(1,725)	-	-
Increase (decrease) in accounts payable	(46)	(222,261)	29,374	9,028
Increase (decrease) in accrued payroll	-	2,509	1,188	2,050
Increase (decrease) in due to other funds	-	-	-	-
Net cash provided by operating activities	<u>\$ (20,559)</u>	<u>\$ 225,957</u>	<u>\$ 177,321</u>	<u>\$ 166,898</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ 27,030	\$ 4,628,940	\$ 294,152
(42,649)	(3,067,467)	(175,100)
(844)	(1,054,884)	(102,280)
(26,530)	35	-
(42,993)	506,624	16,772
(7,000)	(130,530)	-
-	(3,806)	-
(7,000)	(134,336)	-
-	(705,457)	-
-	(130,051)	(157,758)
-	(12,138)	(3,430)
62,196	62,196	152,500
-	62,889	
-	249,659	
62,196	(472,902)	(8,688)
-	(11,079)	-
15,928	81,126	-
15,928	70,047	-
28,131	(30,567)	8,084
(105,341)	1,578,612	(257,605)
\$ (77,210)	\$ 1,548,045	\$ (249,521)
\$ (9,519)	\$ 260,483	\$ (69,943)
13,940	444,278	92,391
(8,036)	-	
(8,036)	(23,114)	(112)
-	18,494	-
-	25,744	-
-	(1,725)	-
(20,884)	(204,789)	(5,564)
-	5,747	-
(18,494)	(18,494)	-
\$ (42,993)	\$ 506,624	\$ 16,772

CITY OF GLADSTONE, MICHIGAN  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
March 31, 2007

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 67,933
Receivables:	
Delinquent taxes	<u>87,788</u>
Total assets	<u><u>\$ 155,721</u></u>
<b>LIABILITIES</b>	
Due to other units governmental units	<u><u>\$ 155,721</u></u>

See accompanying notes to financial statements.



## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (1) REPORTING ENTITY

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

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

Component Units – In conformity with accounting principles generally accepted in the United States of America, the financial statements of the Gladstone Housing Commission are reported as a discretely presented component unit in a separate column to emphasize that they are legally separate from the City.

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

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

Gladstone Area Schools – provides education services to the community.

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

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

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

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

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

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

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

**(2) BASIS OF PRESENTATION**

**Government-Wide Financial Statements:**

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

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



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

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

**Fund Financial Statements:**

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

1. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds either in accordance with the above criteria or the State of Michigan reporting requirements for Major and Local Street Funds:

The General Fund which is described below.

The Major Street Fund which is used to account for the repair, maintenance and construction of the City's major streets.

The Local Street Fund which is used to account for the repair, maintenance and construction of the City's local streets.

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

The Capital Projects Fund which accounts for activity relating to various capital projects being conducted by the City.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

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

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

The Gladstone Wireless Fund which accounts for high speed internet services provided to the citizens of the City of Gladstone and the surrounding area.

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

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

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

The funds of the City are described below:

**Governmental Funds**

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

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

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

**Proprietary Funds**

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

Internal Service Fund – The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. In the government-wide financial statements, the Equipment Fund is the City's only internal service fund and is included with the governmental activities and accounts for equipment usage activity used by various City departments.

**Fiduciary Funds**

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

**(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

**Measurement Focus**

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



## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

#### **Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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



## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

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

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

#### *Government-wide Statements*

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

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

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

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

#### *Fund Financial Statements*

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$38,938 in the General Fund for personal property taxes, \$26,564 in the State Trunkline Fund for unspent grant proceeds, and advanced revenue collections and \$298,211 in the Revolving Loan Fund for long-term contracts receivable. These amounts have been deemed measurable, but not currently available.
- j. Equity Classification

*Government-Wide Statements*

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

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



CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

**(5) REVENUES AND EXPENDITURES/EXPENSES**

**Revenues**

*Government-Wide Statements*

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

*Fund Statements*

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City’s policy to use restricted resources first.



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

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

**Expenses/Expenditures**

*Government-Wide Statements*

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

*Fund Statements*

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

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

**Operating Revenues and Expenses**

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

**Other Financing Sources (Uses)**

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

**(6) OTHER SIGNIFICANT ACCOUNTING POLICIES**

**Interfund Activity**

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

CITY OF GLADSTONE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

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

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

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

**Budgets and Budgetary Accounting**

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

**Property Taxes**

Property taxes levied attach as an enforceable lien on property. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District, the Community College and the County. Collections and remittances for all taxes are accounted for in the Tax (Agency) Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

**Use of Estimates**

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

**NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE**

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

- (1) The following funds had an excess of expenditures and other uses over appropriations:

Revolving Loan Fund	\$	100,346
---------------------	----	---------

- (2) The following funds had deficit unreserved fund balances/unrestricted net assets:



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE** (continued)

Governmental funds:		
Capital Projects	\$	58,675
Solid Waste		5,351
Downtown Development Authority		88,828
Proprietary funds:		
Gladstone Wireless		184,069
Water Utility		134,630
Land Development		27,111
Equipment Fund		257,446

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

**NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS**

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

Imprest Cash		\$	740
Deposits:			
Checking accounts	\$	814,708	
Savings		64,000	
Certificate of Deposit		150,000	
			<u>1,028,708</u>
Total cash and equivalents		\$	<u>1,029,448</u>

Government-wide Statement of  
Net Assets Presentation:

Unrestricted	\$	639,704	
Restricted		321,811	\$ 961,515

Statement of Fiduciary Net Assets 67,933

Total cash and equivalents \$ 1,029,448

Investments:

U.S. government agency securities	\$	450,000
Upper Peninsula Public Power Agency		<u>211,474</u>

Total investments \$ 661,474



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

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.
- 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.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

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

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

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 264,000	\$ 264,000
Uninsured	944,401	765,448
Total	<u>\$ 1,208,401</u>	<u>\$ 1,029,448</u>

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As noted in the preceding table, the City has \$944,401 of bank deposits that were uninsured and uncollateralized.

**Custodial Credit Risk of Investments**

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

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 450,000	Counter party

CITY OF GLADSTONE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

**Interest Rate Risk**

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

<u>Investments</u>	<u>Fair Value</u>	<u>Maturities</u>
U.S. government and agency securities:		
Federal National Mortgage Association	\$ 250,000	4/15/2007
Federal National Mortgage Association	200,000	3/18/2008
Total	<u>\$ 450,000</u>	

**Credit Risk**

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$ 450,000	AAA	S & P

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$230,274 for cemetery care as required by the nature of the fund.
2. The Mary Cretens Trust Fund in the amount of \$27,537 for community maintenance and improvements as required by the nature of the fund.

During the fiscal year ended March 31, 2004, the City refinanced the 1994 waste water and water system revenue bonds, in part by issuing 2004 waste water and water system revenue bonds. As part of issuing the new bonds, the bond agreement calls for the City to establish and maintain separate depository accounts for bond and interest redemption and an account for replacement and improvement. Cash has been restricted in the following funds:



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

Waste Water Fund	\$	30,500
Water Fund		33,500

**Investment in Upper Peninsula Public Power Agency**

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City contributed \$184,377 in cash and \$27,097 in equipment for a total investment of \$211,474. Neither UPPPA or ATC are publicly traded companies, therefore, the City has recorded this investment at cost, which the City feels approximates market value given the annual return on this investment.

The following is the percentage interest in UPPPA by municipality:

Village of Baraga	4.80%
City of Crystal Falls	4.49%
City of Gladstone	7.10%
Marquette Board of Light and Power	70.16%
City of Negaunee	6.04%
City of Norway	7.41%
	<hr/>
Total	<u>100.00%</u>

UPPPA owns .50% of ATC, LLC.

**NOTE D – PROPERTY TAXES**

(1) Tax information:

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

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

On August 15, a 4% penalty is added.



CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

**NOTE D – PROPERTY TAXES (continued)**

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

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

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

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

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

# CITY OF GLADSTONE, MICHIGAN

## NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

### NOTE D – PROPERTY TAXES (continued)

The State of Michigan, beginning in 1967, required that taxes be levied on state equalized valuations rather than on assessed valuation. The valuations for the years 1961 through 1966, inclusive, are City assessed valuations, the year 1967 are state equalized valuations, and the year 1968 are City assessed valuations. In 1968, the City was allowed to assess on City valuations because they were almost equal to that of State equalized valuations. For years 1969 to 2006, inclusive, the City and State valuations are the same.

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

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

# CITY OF GLADSTONE, MICHIGAN

## NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

### NOTE D – PROPERTY TAXES (continued)

Year	City Tax	School *	Schools			Total Local Taxes	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt					
1991	17.0000	37.0772	-	-	-	54.0772	2.5000	7.1000	2.6500	66.3272
1992	17.0000	37.0522	-	-	-	54.0522	2.5000	7.1000	2.6500	66.3022
1993	16.6575	35.6443	-	-	-	52.3018	2.4055	7.0873	2.5501	64.3447
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	53.7508
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	3.2735	7.0483	2.5124	54.6508
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	3.3735	7.0483	2.5124	54.2748
1997	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1998	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1999	16.1065	-	18.0000	6.0000	8.5600	48.6665	3.3600	7.0107	2.4917	61.5289
2000	15.9180	-	18.0000	6.0000	8.5600	48.4780	3.3585	6.6319	2.4807	60.9491
2001	15.6744	-	18.0000	6.0000	8.5600	48.2344	3.3511	6.6112	2.4695	60.6662
2002	15.6680	-	18.0000	6.0000	8.5600	48.2280	3.3506	6.6097	2.4596	60.6479
2003	15.6303	-	18.0000	5.0000	8.5600	47.1903	3.5000	6.5719	2.4375	59.6997
2004	15.6303	-	18.0000	6.0000	8.5600	48.1903	3.5000	6.5455	2.4191	60.6549
2005	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2006	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223

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

- (4) City's Share of Current Property Taxes – The City's share of current real and personal property taxes for the year ended March 31, 2007 were as follows: General Fund \$1,100,954, Solid Waste Fund \$161,773 and DDA Fund capture from the City's levy was \$111,122.

### NOTE E – LONG-TERM RECEIVABLES

Governmental Activities:

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

The Revolving Loan Fund has recorded as deferred revenue the amount of the loans in the fund financial statements. As the contract payments are received by the Revolving Loan Fund, they will be shown as revenues in accordance with generally accepted accounting principles. In the statement of net assets the deferred revenue has been eliminated. Remaining principal payments to be received as of March 31, 2007 are as follows:

CITY OF GLADSTONE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE E – LONG-TERM RECEIVABLES (continued)**

Year Ending March 31	Amount
2008	\$ 35,781
2009	45,901
2010	41,922
2011	47,599
2012	28,396
Thereafter	98,612
Total	<u>\$ 298,211</u>

**Business-Type Activities:**

The Economic Development Corporation has made loans to various local businesses to assist in capital asset acquisitions or for operational needs. Remaining principal payments to be received as of March 31, 2007 are as follows:

Year Ending March 31	Amount
2008	\$ 12,719
2009	13,266
2010	13,851
2011	14,480
2012	15,154
Thereafter	149,594
Total	<u>\$ 219,064</u>

The Land Development Fund has also recorded notes receivable in the amount of \$61,501 for the sale of residential lots.



# CITY OF GLADSTONE, MICHIGAN

## NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

### NOTE F – CAPITAL ASSETS

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended March 31, 2007, was as follows:

	Balance at April 1, 2006	Additions	Disposals	Balance at March 31, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,601,627	\$ -	\$ -	\$ 1,601,627
Construction in progress	-	76,479	-	76,479
Total non-depreciable capital assets	<u>1,601,627</u>	<u>76,479</u>	<u>-</u>	<u>1,678,106</u>
Capital assets being depreciated:				
Land improvements	129,812	31,874	-	161,686
Buildings	2,984,124	-	13,658	2,970,466
Machinery and equipment	2,760,382	70,032	138,375	2,692,039
Infrastructure-road system	9,764,339	1,235,703	-	11,000,042
Infrastructure-other	319,361	-	-	319,361
Total depreciable capital assets	<u>15,958,018</u>	<u>1,337,609</u>	<u>152,033</u>	<u>17,143,594</u>
Total capital assets	<u>17,559,645</u>	<u>1,414,088</u>	<u>152,033</u>	<u>18,821,700</u>
Less accumulated depreciation:				
Land improvements	47,458	13,194	-	60,652
Buildings	1,123,431	123,064	4,780	1,241,715
Machinery and equipment	1,917,987	145,059	134,675	1,928,371
Infrastructure-road system	7,846,095	515,056	-	8,361,151
Infrastructure-other	34,381	33,938	-	68,319
Total accumulated depreciation	<u>10,969,352</u>	<u>830,311</u>	<u>139,455</u>	<u>11,660,208</u>
Net depreciable capital assets	<u>4,988,666</u>	<u>507,298</u>	<u>12,578</u>	<u>5,483,386</u>
Governmental activities capital assets, net	<u>\$ 6,590,293</u>	<u>\$ 583,777</u>	<u>\$ 12,578</u>	<u>\$ 7,161,492</u>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE F – CAPITAL ASSETS (continued)**

	Balance at April 1, 2006	Additions	Disposals	Balance at March 31, 2007
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 316,799	\$ -	\$ 62,286	\$ 254,513
Construction in progress	26,193	117,019	-	143,212
Total non-depreciable capital assets	<u>342,992</u>	<u>117,019</u>	<u>62,286</u>	<u>397,725</u>
Capital assets being depreciated:				
Buildings	191,989	150,000	-	341,989
Machinery and equipment	700,474	-	3,691	696,783
Distribution/collection system	14,616,064	438,440	-	15,054,504
Total depreciable capital assets	<u>15,508,527</u>	<u>588,440</u>	<u>3,691</u>	<u>16,093,276</u>
Total capital assets	<u>15,851,519</u>	<u>705,459</u>	<u>65,977</u>	<u>16,491,001</u>
Less accumulated depreciation:				
Buildings	32,986	13,213	-	46,199
Machinery and equipment	495,644	53,393	3,691	545,346
Distribution/collection system	7,543,726	368,659	-	7,912,385
Total accumulated depreciation	<u>8,072,356</u>	<u>435,265</u>	<u>3,691</u>	<u>8,503,930</u>
Net depreciable capital assets	<u>7,436,171</u>	<u>153,175</u>	<u>-</u>	<u>7,589,346</u>
Business-type activities capital assets, net	<u>\$ 7,779,163</u>	<u>\$ 270,194</u>	<u>\$ 62,286</u>	<u>\$ 7,987,071</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
General government	\$ 5,802
Public health and safety	61,191
Parks and recreation	159,755
Cemetery	6,212
General public works	43,302
Street system	553,174
Community development	875
Total governmental activities depreciation expense	<u>\$ 830,311</u>
Business-type activities:	
Electric	\$ 218,295
Water	89,474
Waste water	90,936
Wireless broadband	22,620
Development	13,940
Total business-type activities depreciation expense	<u>\$ 435,265</u>

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

#### **NOTE F – CAPITAL ASSETS (continued)**

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

#### **NOTE G – RETIREMENT PLANS**

##### **MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM**

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

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

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



CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

**NOTE G – RETIREMENT PLANS (continued)**

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

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

As of January 1, 1998, all new hires which are part of the General Other and General Supervisor divisions are not covered under the defined benefit plans noted above, they are part of a separate defined contribution plan.

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

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2005 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.



CITY OF GLADSTONE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE G – RETIREMENT PLANS (continued)**

GASB 25 INFORMATION (AS OF 12/31/05)

Actuarial Accrued Liability:		
Retirees and beneficiaries currently receiving benefits	\$	4,577,831
Terminated employees not yet receiving benefits		121,547
Current Employees:		
Accumulated employee contributions including allocated investment income		74,671
Employer financed		4,024,763
		<hr/>
Total actuarial liability		8,798,812
Net assets available for benefits, at actuarial value (market value is \$5,170,678)		5,310,617
		<hr/>
Unfunded (overfunded) actuarial accrued liability	\$	3,488,195
		<hr/> <hr/>

GASB 27 INFORMATION (AS OF 12/31/05)

Fiscal year beginning		April 1, 2007
Annual required contribution (ARC)	\$	362,784
Amortization factor used - underfunded liabilities (30 years)		0.053632
Amortization factor used - underfunded liabilities (24 years)		0.065308
Amortization factor used - underfunded liabilities (30 year level \$)		0.085453

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2005 were determined using the entry age normal cost actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

CITY OF GLADSTONE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE G – RETIREMENT PLANS (continued)**

<u>Year Ended March 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 220,896	100%	-
2005	250,018	100%	-
2006	272,136	100%	-

The City was required to contribute \$292,884 for the year ended March 31, 2007. Payments were based on contribution calculations made by MERS.

Aggregate Accrued Liabilities – Comparative Schedule

<u>Actuarial Valuation Date December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2003	\$ 4,820,635	\$ 7,864,852	\$ 3,044,217	61%	\$ 1,102,977	276%
2004	5,190,016	8,385,862	3,195,846	62%	1,087,022	294%
2005	5,310,617	8,798,812	3,488,195	60%	1,079,937	323%

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

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000, and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

**401 (A) RETIREMENT PLAN**

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

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE G – RETIREMENT PLANS (continued)**

<u>Year Ended March 31,</u>	<u>Number of Participants</u>	<u>City's Share</u>	<u>Employee's Share</u>
2005	21	\$ 86,617	\$ 22,804
2006	22	85,087	22,289
2007	22	84,901	22,161

**NOTE H – VESTED EMPLOYEE BENEFITS**

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations become vested as a result of employee age and years of employment. Compensated absences in the amount of \$133,276 are reported under governmental activities and \$82,559 is reported under business-type activities in the Statement of Net Assets.

**NOTE I – POST RETIREMENT HEALTH BENEFITS**

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

The P.O.L.C. contract requires the City to pay the monthly health insurance premium for employees who meet the retirement criteria as outlined in the union contract until the age of 65, or for 12 years, whichever is less. Any increase in the monthly premiums after the date of retirement shall be borne by the retired employee. The Teamsters contract requires the City to pay the monthly health insurance premiums for 10 years after retirement or until covered by Medicare, whichever is less. The City is required to pay premium increase for years one through seven and the retired employee will pay the premium increases for years eight, nine and ten. The City has agreed to provide the Supervisors group with post employment health benefits for a period of 10 years or until the age of 65, whichever comes first. All premium increases during that period of time will be covered by the City.

For the year ended March 31, 2007, the City has not performed an actuarial valuation for the post-employment health benefits and it is the City's policy to fund this benefit on a pay-as-you-go basis. The following is a summary of the post-employment health benefits:



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE I – POST RETIREMENT HEALTH BENEFITS (continued)**

<u>For the Year Ended March 31,</u>	<u>Annual Cost</u>	<u>Number of Retiree's Receiving Benefits</u>
2005	\$ 87,214	8
2006	71,899	7
2007	89,037	7

For the year ended March 31, 2007, there were 2 eligible retiree's who opted-out of the health insurance and received payment in-lieu-of in the amount of \$9,393.

**NOTE J – LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended March 31, 2007:

<u>Type of Debt</u>	<u>Balance April 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2007</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
Note - fire truck	\$ 87,127	\$ -	\$ 13,394	\$ 73,733	\$ 14,986
Note - vac truck	45,412	-	12,085	33,327	12,551
Note - garbage truck	32,152	-	32,152	-	-
Note - loader	66,299	-	66,299	-	-
Note - dump truck	19,007	-	19,007	-	-
Note - trackless	28,214	-	28,214	-	-
Note - campground	150,000	-	13,172	136,828	13,640
D.D.A. bonds	400,000	-	90,000	310,000	95,000
1995 B.A. bonds	80,000	-	25,000	55,000	25,000
2000 B.A. bonds	750,000	-	70,000	680,000	-
Due to other					
governmental units	105,580	-	-	105,580	-
Compensated absences	158,896	-	25,620	133,276	26,655
 Total governmental long-term debt	 \$ 1,922,687	 \$ -	 \$ 394,943	 \$ 1,527,744	 \$ 187,832



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE J – LONG-TERM DEBT (continued)**

Type of Debt	Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007	Amounts Due Within One Year
<b>Business-type Activities:</b>					
Note - tanker truck	\$ 21,448	\$ -	\$ 5,051	\$ 16,397	\$ 5,329
2004 Waste Water bond	245,000	-	60,000	185,000	60,000
2004 Water bond	265,000	-	65,000	200,000	65,000
2006 Sludge Storage bond	-	62,889	-	62,889	-
Compensated absences	76,812	5,747	-	82,559	16,512
Total business-type long-term debt	<u>\$ 608,260</u>	<u>\$ 68,636</u>	<u>\$ 130,051</u>	<u>\$ 546,845</u>	<u>\$ 146,841</u>

Debt service requirements on long-term debt at March 31, 2007 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2008	\$ 41,177	\$ 9,369	\$ 120,000	\$ 39,055
2009	42,952	7,592	175,000	46,651
2010	38,981	5,799	150,000	35,236
2011	111,928	4,298	40,000	29,361
2012	8,850	132	45,000	27,209
2013-2017	-	-	255,000	99,454
2018-2022	-	-	260,000	27,077
	<u>\$ 243,888</u>	<u>\$ 27,190</u>	<u>\$ 1,045,000</u>	<u>\$ 304,043</u>

For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2008	5,329	757	125,000	10,288
2009	5,626	609	180,000	8,497
2010	5,442	149	142,889	3,900
	<u>\$ 16,397</u>	<u>\$ 1,515</u>	<u>\$ 447,889</u>	<u>\$ 22,685</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

**Governmental Activities:**

As of March 31, 2007, the governmental activities long-term debt consisted of the following:

Notes Payable:

Note payable issued October 22, 1996 for \$201,985 at 4.5% to First Bank for the purchase of a fire truck. The note calls for 180 monthly principal and interest payments of \$1,640.

During the year ended March 31, 2005, the City signed a 60-month note for the purchase of a vac-all truck. The note calls for monthly payments of \$1,134 and bears an interest rate of 3.8%.

During 2003, the City signed a 60 month note for the purchase of a garbage truck. The note calls for monthly principal and interest payments of \$1,363 and bears an interest rate of 3.85% and was paid off in 2007.

During the year ended March 31, 2002 the City signed a 60 month note for the purchase of a front-end loader. The note calls for monthly principal and interest of \$1,098 and a final balloon payment of \$60,325 and bears an interest rate of 4.04%. This note was paid off in 2007.

During the year ended March 31, 2002, the City signed a 60 month note for the purchase of a dump truck. The note calls for monthly principal and interest payments of \$1,763 and bears an interest rate of 4.0%. This note was paid off in 2007.

During the year ended March 31, 2005, the City signed an 83 month note for the purchase of a 4x4 articulating tractor. The note calls for monthly principal and interest payments of \$463 and bears an interest rate of 3.8%. This note was paid off in 2007.

During the year ended March 31, 2006, the City signed a 48 month note for the construction of a bathroom facility at the City campground. The note calls for four annual payments of \$18,500 and one balloon payment of \$101,188 in 2010. The note bears an interest rate of 4.0%.

CITY OF GLADSTONE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE J – LONG-TERM DEBT (continued)**

Due to Other Governmental Units:

During the year ended March 31, 2005, the City was informed that they may not have properly distributed payment in-lieu of taxes received from nonprofit housing entities. The City has contacted the State Tax Commission (STC) and they have not received a resolution back from the STC. The City has estimated and recorded an amount of \$105,580 that would be due to other taxing units if that is what is required. A final amount cannot be determined until the City receives notice from the STC regarding final disposition of this issue.

Bonds Payable:

Bonds were issued November 1, 1994 for \$995,000 with a variable interest rate ranging from 5.9% to 8.0% for the purpose of making improvements on the Downtown Development Area and have a final maturity of May 2009.

Bonds were issued March 15, 1995 for \$270,000 at 5.6% in the name of the Building Authority for the purpose of making improvements at the Sports Park and have a final maturity of March 2009.

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

**Business-type Activities:**

As of March 31, 2007, the long-term debt of business-type activities consists of the following:

Note Payable:

During the year ended March 31, 2000, the City signed a 120 month note for the purchase of a tanker truck. The note calls for monthly principal and interest payments of \$507 and bears an interest rate of 5.4%.



CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

**NOTE J – LONG-TERM DEBT (continued)**

Bonds Payable:

**2004 Waste Water System Bonds** – On February 18, 2004 the City issued waste water system revenue refunding bond series 2004 for the purpose of retiring the 1994 waste water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$305,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each November 1 and May 1. Principal payments are due each November 1 with the final principal payment due no later than November 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$111,505. Of the \$111,505, \$80,000 represents advance payment of principal made by the City as part of defeasing the 1994 bond issue, leaving net cumulative savings of \$31,505. The economic gain resulting from this transaction at a present value of 3.477% is \$20,301.

**2004 Water System Bonds** – On February 18, 2004 the City issued water system revenue refunding bond series 2004 for the purpose of retiring the 1994 water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$335,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each October 1 and April 1. Principal payments are due each October 1 with the final principal payment due no later than October 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$21,972. The economic gain resulting from this transaction at a present value of 3.477% is \$14,158.

**2006 Sewage Disposal System Bonds** – On December 14, 2006 the City issued sewage disposal system revenue bond series 2006 for the purpose of constructing a sludge storage tank for the waste water department. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$1,160,000 and have an interest rate of 1.625%. Interest payments are due and payable each April 1 and October 1. Principle payments are due each October 1 with the final principal payment due no later than October 1, 2027. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.



CITY OF GLADSTONE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE K – BOND ISSUANCE COSTS**

On February 18, 2004 the City issued waste water and water revenue bonds which resulted in bond issuance costs which will be amortized over the life of the bond issue. Below is the detail relating to the bond issuance costs:

	<u>Bond Costs</u>	<u>Premium paid on 1994 Bonds</u>	<u>Total</u>
Waste Water Fund	\$ 14,881	\$ 7,000	\$ 21,881
Water Fund	15,783	7,400	23,183
			<u>45,064</u>
Less accumulated amortization			<u>(27,039)</u>
Net bond issuance cost			<u>\$ 18,025</u>

**NOTE L – RESTRICTED NET ASSETS**

Restricted net assets as reported in the statement of net assets have been restricted in the amount of \$32 related to drug forfeiture proceeds which are restricted for the purpose of enhancing law enforcement activities related to drug law enforcement, and \$27,537 related to proceeds from the Mary Cretens trust which are restricted for the purpose of city improvement and maintenance as required by the trust documents.

CITY OF GLADSTONE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE M – INTERFUND BALANCES AND TRANSFERS**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund receivables have been classified as noncurrent assets and liabilities in the Statement of Net Assets due to the individual funds inability to repay these amounts. Individual fund interfund receivables and payable balances at March 31, 2007 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	<u>\$ 44,213</u>	Land Development	<u>\$ 44,213</u>
		General Fund	158,662
		Major Street Fund	46,013
		EDC Fund	33,117
		Gladstone Wireless Fund	128,393
		Local Street Fund	<u>19,889</u>
Electric Fund	<u>386,074</u>	Subtotal	<u>386,074</u>
Major Street Fund	869		
Local Street Fund	621		
Waste Water Fund	993		
Water Fund	993		
Internal Service Fund	<u>497</u>		
Subtotal	<u>3,973</u>	General Fund	<u>3,973</u>
Total	<u><u>\$ 434,260</u></u>	Total	<u><u>\$ 434,260</u></u>

The transfers to and from the various funds are made to account for budgetary authorizations and/or provide funding for operations as needed. Interfund transfers for the year ended March 31, 2007 were as follows:

CITY OF GLADSTONE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE M – INTERFUND BALANCES AND TRANSFERS (continued)**

	Transfers In	Transfers Out
General Fund:		
Electric Utility	\$ 77,250	\$ -
Waste Water Utility	21,850	-
Water Utility	24,430	-
Capital Projects	-	20,000
Revolving Loan	4,000	-
Nonmajor proprietary	7,000	-
Nonmajor governmental	90,052	-
	<hr/>	<hr/>
Total General Fund	224,582	20,000
	<hr/>	<hr/>
Capital Projects Fund	300,000	-
	<hr/>	<hr/>
Revolving Loan Fund	-	104,000
	<hr/>	<hr/>
Electric Utility	-	77,250
	<hr/>	<hr/>
Waste Water Utility	-	21,850
	<hr/>	<hr/>
Water Utility	-	24,430
	<hr/>	<hr/>
Total Nonmajor Funds	114,850	391,902
	<hr/>	<hr/>
Totals	\$ 639,432	\$ 639,432
	<hr/> <hr/>	<hr/> <hr/>

**NOTE N – 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



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE N – RISK MANAGEMENT (continued)**

any dispute between the City and MMRMA will be resolved in the manner stated in the Joint Powers Agreement and MMRMA rules.

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

**Table I**  
**City Deductibles and Self Insured Retentions**

<b>COVERAGE</b>	<b>DEDUCTIBLE</b>	<b>SELF INSURED RETENTION</b>
1. Liability	None	State Pool Member
2. Vehicle Physical Damage	\$250/Vehicle	N/A
3. Property & Crime	\$250/Occurrence	State Pool Member

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, 2007, 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.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE O – CONTINGENT LIABILITIES**

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion on management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City at March 31, 2007.

During the year ended March 31, 2005, the City was informed that they had not properly distributed payment-in-lieu of taxes received from nonprofit housing entities. The City has contacted the State Tax Commission and is waiting for a determination as to the final disposition of this issue. A total amount owed has not been determined as of March 31, 2007, however an amount of \$105,580 has been recorded as a due to other governmental units in the statement of net assets as an estimate of the amount owed.

**NOTE P – 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.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2007

**NOTE P – JOINT VENTURE – DELTA SOLID WASTE LANDFILL (continued)**

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	<u>23.7%</u>
	<u><u>100.0%</u></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 19<sup>th</sup> Avenue North, Escanaba, MI 49829.

**NOTE Q – SINGLE AUDIT**

OMB Circular A-133 requires entities that expend more than \$500,000 in federal awards to have a single audit as outlined in the OMB Circular. For the year ended March 31, 2007, the City did not expend more than \$500,000 in federal awards and therefore a single audit was not required in 2007.



**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended March 31, 2007

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
<b>REVENUES:</b>				
Federal sources	\$ -	\$ -	\$ 14,000	\$ 14,000
State sources	590,170	590,170	575,933	(14,237)
Local sources	74,590	87,935	50,472	(37,463)
Taxes	1,299,720	1,299,720	1,289,342	(10,378)
Recreation	227,680	221,980	186,516	(35,464)
Public safety	37,950	38,550	24,919	(13,631)
Charges for services	56,000	56,000	16,291	(39,709)
Interest income	4,000	4,000	2,219	(1,781)
Miscellaneous	24,150	24,150	9,959	(14,191)
Total revenues	2,314,260	2,322,505	2,169,651	(152,854)
<b>EXPENDITURES:</b>				
General government:				
City commission	119,360	125,860	131,640	(5,780)
City manager	84,570	84,570	85,907	(1,337)
Elections	6,800	6,800	3,660	3,140
City assessor	63,490	63,490	63,145	345
Board of review	880	880	863	17
City treasurer	68,340	72,870	73,182	(312)
City clerk	79,054	95,255	93,359	1,896
City hall	63,630	63,630	64,645	(1,015)
Public health and safety:				
Police department	956,280	946,110	911,837	34,273
Fire department	218,380	218,380	180,964	37,416
Building and housing inspections	141,840	141,840	107,900	33,940
Parks and recreation:				
Recreation administrative	124,810	138,040	124,715	13,325
Harbor	96,670	97,790	96,760	1,030
Parks	46,240	46,240	37,800	8,440
Beach	34,770	34,770	35,301	(531)
Sports park	126,240	126,240	99,310	26,930
Campground	57,040	61,040	39,362	21,678
Miscellaneous	49,470	49,470	58,553	(9,083)
Cemetery:				
Cemetery administrative	15,510	15,510	10,462	5,048
Ground maintenance and burials	55,300	55,300	48,973	6,327
General public works:				
Forestry	14,000	16,110	14,365	1,745
Sidewalks	10,000	10,000	277	9,723
Grounds maintenance	6,100	12,350	12,510	(160)
Beautification	11,080	11,080	11,468	(388)
Capital outlay	41,100	71,402	51,344	20,058
Debt service	-	-	36,284	(36,284)
Total expenditures	2,490,954	2,565,027	2,394,586	170,441
Excess revenues (expenditures)	(176,694)	(242,522)	(224,935)	17,587
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	176,694	242,074	224,582	(17,492)
Transfer out	-	-	(20,000)	(20,000)
Total other financing sources (uses)	176,694	242,074	204,582	(37,492)
Net changes in fund balances	-	(448)	(20,353)	(19,905)
Fund balances - beginning	113,239	113,239	113,239	-
Fund balances - ending	\$ 113,239	\$ 112,791	\$ 92,886	\$ (19,905)

**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, 2007**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
<b>REVENUES:</b>				
State sources	\$ 315,000	\$ 315,000	\$ 302,588	\$ (12,412)
Local sources	10,000	10,000	-	(10,000)
Interest income	800	800	2,353	1,553
Miscellaneous	2,200	2,200	2,713	513
Total revenues	328,000	328,000	307,654	(20,346)
<b>EXPENDITURES:</b>				
Street system	338,250	340,080	291,415	48,665
Excess revenues (expenditures)	(10,250)	(12,080)	16,239	28,319
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	57,250	57,250	-	(57,250)
Transfer out	(47,000)	(47,000)	-	47,000
Total other financing sources (uses)	10,250	10,250	-	(10,250)
Net changes in fund balances	-	(1,830)	16,239	18,069
Fund balances - beginning	80,477	80,477	80,477	-
Fund balances - ending	\$ 80,477	\$ 78,647	\$ 96,716	\$ 18,069



**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**LOCAL STREET FUND**  
**For the Year Ended March 31, 2007**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
State sources	\$ 145,000	\$ 145,000	\$ 146,518	\$ 1,518
Local sources	120,160	120,160	39,644	(80,516)
Interest income	-	-	368	368
Miscellaneous	700	700	2,928	2,228
Total revenues	265,860	265,860	189,458	(76,402)
<b>EXPENDITURES:</b>				
Street system	312,860	314,860	228,450	86,410
Excess revenues (expenditures)	(47,000)	(49,000)	(38,992)	10,008
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	47,000	47,000	-	(47,000)
Transfer out	-	-	-	-
Total other financing sources (uses)	47,000	47,000	-	(47,000)
Net changes in fund balances	-	(2,000)	(38,992)	(36,992)
Fund balances - beginning	46,273	46,273	46,273	-
Fund balances - ending	\$ 46,273	\$ 44,273	\$ 7,281	\$ (36,992)

**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**REVOLVING LOAN**  
**For the Year Ended March 31, 2007**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
<b>REVENUES:</b>				
Loan repayment	\$ 29,330	\$ 47,120	\$ 43,245	\$ (3,875)
Interest income	4,190	6,690	7,560	870
Total revenues	33,520	53,810	50,805	(3,005)
<b>EXPENDITURES:</b>				
Community development	101,300	199,810	200,156	(346)
Excess revenues (expenditures)	(67,780)	(146,000)	(149,351)	(3,351)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	-	-	-	-
Transfer out	(4,000)	(4,000)	(104,000)	(100,000)
Net change in fund balance	(71,780)	(150,000)	(253,351)	(103,351)
Fund balances - beginning	279,389	279,389	279,389	-
Fund balances - ending	<u>\$ 207,609</u>	<u>\$ 129,389</u>	<u>\$ 26,038</u>	<u>\$ (103,351)</u>

**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**CAPITAL PROJECTS**  
**For the Year Ended March 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget-</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note A)</u>	<u>Positive (Negative)</u>
<b>REVENUES:</b>				
Federal Sources	\$ 330,000	\$ 330,000	\$ 325,090	\$ (4,910)
State Sources	714,000	714,000	84,345	(629,655)
Other	10,000	10,000	46,851	36,851
	<u>1,054,000</u>	<u>1,054,000</u>	<u>456,286</u>	<u>(597,714)</u>
<b>EXPENDITURES:</b>				
Capital Outlay	<u>2,326,590</u>	<u>2,326,590</u>	<u>877,850</u>	<u>1,448,740</u>
Excess revenues (expenditures)	(1,272,590)	(1,272,590)	(421,564)	851,026
<b>OTHER FINANCING SOURCES (USES):</b>				
Bond Proceeds	992,590	992,590	62,889	(929,701)
Transfer in	<u>280,000</u>	<u>280,000</u>	<u>300,000</u>	<u>(20,000)</u>
Net change in fund balance	-	-	(58,675)	(98,675)
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (58,675)</u>	<u>\$ (98,675)</u>

**COMBINING FUND FINANCIAL STATEMENTS**



**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**March 31, 2007**

	Special Revenue Funds			
	State Trunkline	Solid Waste	MSHDA Rental Property MSC-06-0717-NPP	MSHDA Homeowner
<b>ASSETS</b>				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ -	\$ -
Unrestricted	26,185	(58,656)	(43,197)	3,091
Receivables:				
Accounts	-	59,145	5,622	-
Interest	-	-	-	-
Prepaid expenditures	-	-	450	-
Due from other governmental units	413	-	37,907	-
	<u>413</u>	<u>-</u>	<u>37,907</u>	<u>-</u>
Total assets	<u>\$ 26,598</u>	<u>\$ 489</u>	<u>\$ 782</u>	<u>\$ 3,091</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 34	\$ 5,840	\$ 782	\$ -
Due to other governmental units	-	-	-	-
Deferred revenue	26,564	-	-	-
	<u>26,564</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>26,598</u>	<u>5,840</u>	<u>782</u>	<u>-</u>
Fund balances:				
Reserved for:				
City improvement	-	-	-	-
Cemetery perpetual care	-	-	-	-
Unreserved	-	(5,351)	-	3,091
	<u>-</u>	<u>(5,351)</u>	<u>-</u>	<u>3,091</u>
Total fund balances	<u>-</u>	<u>(5,351)</u>	<u>-</u>	<u>3,091</u>
Total liabilities and fund balances	<u>\$ 26,598</u>	<u>\$ 489</u>	<u>\$ 782</u>	<u>\$ 3,091</u>

See accompanying notes to financial statements.

Special Revenue Funds		Debt Service Funds		Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Downtown Development Authority	Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	
\$ 27,537	\$ -	\$ -	\$ -	\$ 230,274	\$ 257,811
-	(99,982)	1,086	-	-	(171,473)
-	-	-	-	-	64,767
-	17	-	-	52	69
-	-	-	-	-	450
-	24,388	-	-	-	62,708
<u>\$ 27,537</u>	<u>\$ (75,577)</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 230,326</u>	<u>\$ 214,332</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,656
-	13,251	-	-	-	13,251
-	-	-	-	-	26,564
-	13,251	-	-	-	46,471
27,537	-	-	-	-	27,537
-	-	-	-	230,326	230,326
-	(88,828)	1,086	-	-	(90,002)
<u>27,537</u>	<u>(88,828)</u>	<u>1,086</u>	<u>-</u>	<u>230,326</u>	<u>167,861</u>
<u>\$ 27,537</u>	<u>\$ (75,577)</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 230,326</u>	<u>\$ 214,332</u>

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended March 31, 2007**

	Special Revenue Funds			
	State Trunkline	Solid Waste	MSHDA Rental Property MSC-06-0717-NPP	MSHDA Homeowner
<b>REVENUES:</b>				
Federal sources	\$ -	\$ -	\$ 86,660	\$ -
State sources	8,586	-	-	-
Local sources	-	-	47,217	-
Taxes	-	161,773	-	-
Charges for services	-	188,387	-	-
Lease income	-	-	-	-
Interest income	-	-	-	-
Miscellaneous	-	3,533	-	-
Total revenues	\$ 8,586	\$ 353,693	\$ 133,877	\$ -
<b>EXPENDITURES:</b>				
Public health and safety	\$ -	\$ -	\$ 133,877	\$ -
Cemetery	-	-	-	-
General public works	-	312,707	-	-
Street system	8,586	-	-	-
Community development	-	-	-	-
Debt service:	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	8,586	312,707	133,877	-
Excess revenues (expenditures)	-	40,986	-	-
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net changes in fund balances	-	40,986	-	-
Fund balances - beginning	-	(46,337)	-	3,091
Fund balances - ending	\$ -	\$ (5,351)	\$ -	\$ 3,091

See accompanying notes to financial statements.

Special Revenue Funds		Debt Service Funds		Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Downtown Development Authority	Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,660
-	-	-	-	-	8,586
108,746	11,500	-	-	5,233	172,696
-	297,062	-	-	-	458,835
-	-	-	-	-	188,387
-	-	101,320	-	-	101,320
-	1,205	-	-	4,043	5,248
-	306	-	-	-	3,839
<u>\$ 108,746</u>	<u>\$ 310,073</u>	<u>\$ 101,320</u>	<u>\$ -</u>	<u>\$ 9,276</u>	<u>\$ 1,025,571</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,877
-	-	-	-	260	260
-	-	-	-	-	312,707
-	-	-	-	-	8,586
-	129,120	-	-	-	129,120
-	-	-	-	-	-
-	-	60,000	90,000	-	150,000
-	-	41,320	24,850	-	66,170
<u>-</u>	<u>129,120</u>	<u>101,320</u>	<u>114,850</u>	<u>260</u>	<u>800,720</u>
<u>108,746</u>	<u>180,953</u>	<u>-</u>	<u>(114,850)</u>	<u>9,016</u>	<u>224,851</u>
-	-	-	114,850	-	114,850
(81,209)	(299,650)	-	-	(4,043)	(384,902)
<u>(81,209)</u>	<u>(299,650)</u>	<u>-</u>	<u>114,850</u>	<u>(4,043)</u>	<u>(270,052)</u>
27,537	(118,697)	-	-	4,973	(45,201)
<u>-</u>	<u>29,869</u>	<u>1,086</u>	<u>-</u>	<u>225,353</u>	<u>213,062</u>
<u>\$ 27,537</u>	<u>\$ (88,828)</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 230,326</u>	<u>\$ 167,861</u>



**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**

March 31, 2007

	Economic Development Corporation	Land Development	Total Nonmajor Enterprise Funds
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ (32,811)	\$ (44,399)	\$ (77,210)
Receivables:			
Notes	12,719	61,501	74,220
Total current assets	<u>(20,092)</u>	<u>17,102</u>	<u>(2,990)</u>
Noncurrent assets:			
Notes receivable	206,345	-	206,345
Capital assets	60,994	501,000	561,994
Less accumulated depreciation	<u>(25,334)</u>	<u>(71,910)</u>	<u>(97,244)</u>
Total noncurrent assets	<u>242,005</u>	<u>429,090</u>	<u>671,095</u>
Total assets	<u><u>\$ 221,913</u></u>	<u><u>\$ 446,192</u></u>	<u><u>\$ 668,105</u></u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 100	\$ -	\$ 100
Noncurrent liabilities:			
Due to other funds	<u>33,117</u>	<u>44,213</u>	<u>77,330</u>
Total liabilities	<u><u>\$ 33,217</u></u>	<u><u>\$ 44,213</u></u>	<u><u>\$ 77,430</u></u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 35,660	\$ 429,090	\$ 464,750
Unrestricted	<u>153,036</u>	<u>(27,111)</u>	<u>125,925</u>
Total net assets	<u><u>\$ 188,696</u></u>	<u><u>\$ 401,979</u></u>	<u><u>\$ 590,675</u></u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2007**

	Economic Development Corporation	Land Development	Total Nonmajor Enterprise Funds
<b>OPERATING REVENUES:</b>			
Miscellaneous	\$ 19,726	\$ 7,304	\$ 27,030
<b>OPERATING EXPENSES:</b>			
Salaries and fringes	\$ -	\$ 844	\$ 844
Contracted services	3,747	4,147	7,894
Rent	60	583	643
Depreciation	1,865	12,075	13,940
Miscellaneous	11,580	1,648	13,228
Total operating expenses	17,252	19,297	36,549
Operating income (loss)	2,474	(11,993)	(9,519)
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest income	15,928	-	15,928
Total nonoperating revenue (expense)	15,928	-	15,928
Income (loss) before transfers and contributions	18,402	(11,993)	6,409
Transfer out	(3,500)	(3,500)	(7,000)
Change in net assets	14,902	(15,493)	(591)
Total net assets - beginning	173,794	417,472	591,266
Total net assets - ending	\$ 188,696	\$ 401,979	\$ 590,675

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2007**

	Economic Development Corporation	Land Development	Total Nonmajor Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 19,726	\$ 7,304	\$ 27,030
Payments to suppliers	(15,430)	(27,219)	(42,649)
Payments for wages and related benefits	-	(844)	(844)
Other receipts (payments)	34,971	(61,501)	(26,530)
Net cash provided (used) by operating activities	39,267	(82,260)	(42,993)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	(3,500)	(3,500)	(7,000)
Net cash provided (used) by noncapital financing activities	(3,500)	(3,500)	(7,000)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Sale of fixed assets	-	62,196	62,196
Net cash provided (used) by capital and related financing activities	-	62,196	62,196
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earnings	15,928	-	15,928
Net cash provided (used) by investing activities	15,928	-	15,928
Net increase (decrease) in cash and equivalents	51,695	(23,564)	28,131
Cash and equivalents, beginning of year	(84,506)	(20,835)	(105,341)
Cash and equivalents, end of year	\$ (32,811)	\$ (44,399)	\$ (77,210)
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 2,474	\$ (11,993)	\$ (9,519)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,865	12,075	13,940
Changes in assets and liabilities:			
(Increase) decrease in receivables	53,465	(61,501)	(8,036)
Increase (decrease) in accounts payable	(43)	(20,841)	(20,884)
Increase (decrease) in due to other funds	(18,494)	-	(18,494)
Net cash provided by operating activities	\$ 39,267	\$ (82,260)	\$ (42,993)

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN  
ALL UTILITY FUNDS  
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)  
For the Year Ended March 31, 2007

ALL UTILITIES:

Population served	5,032
Average number of meters in service	5,396

ELECTRIC UTILITY FUND:

K.W.H. purchased	34,997,328
K.W.H. sold	<u>33,380,545</u>
K.W.H. lost (4.62%)	<u>1,616,783</u>
Revenue from sales	<u>\$ 3,345,912</u>
Average number of meters	3,206
Estimated street light K.W.H. used	254,000

WATER UTILITY FUND:

Gallons pumped into plant	153,563,000
Gallons used in plant and for system maintenance	<u>5,573,010</u>
Gallons pumped to mains	147,989,990
Gallons sold	<u>124,187,009</u>
Gallons lost (15.5%)	<u>23,802,981</u>
Revenue from sales	<u>\$ 575,763</u>
Average number of meters in service	2,190

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 659,871</u>
--------------------	-------------------





**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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

Kevin C. Pascoe, CPA  
Laura L. Schwalbach, CPA

**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**

Honorable Mayor and Members  
Of the City Commission  
City of Gladstone  
Gladstone, MI 49837

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 City of Gladstone, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the City of Gladstone, Michigan's basic financial statements and have issued our report thereon dated August 10, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Gladstone, Michigan's internal control over financial reporting as a basis for designing our auditing procedures 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 of Gladstone, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gladstone, Michigan's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gladstone, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Gladstone, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Gladstone, Michigan's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Gladstone, Michigan's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Gladstone, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Gladstone, Michigan, in a separate letter dated August 10, 2007.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities 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

August 10, 2007