

**CITY OF GLADSTONE, MICHIGAN**

**BASIC FINANCIAL STATEMENTS**

**MARCH 31, 2009**

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

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## 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, 2009, 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, 2009, and the respective changes in financial position, and cash flows, where applicable, 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 7, 2009, 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 69 through 72, 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 have 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, PLC  
Certified Public Accountants

August 7, 2009

## **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, 2009. 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 \$16,593,445. This is a decrease of \$946,843 from March 31, 2008. This resulted from a decrease in total assets of \$826,742 (or -3.9%) and an increase in liabilities of \$120,101 (+3.5%). The decrease in net assets resulted primarily from a shortfall in budgeted revenues and an increase expenses which were not budgeted for in the original budget, such as the additional payment into the retirement system of approximately \$350,000. Net assets for our business-type activities were \$10,309,506, a decrease of \$236,227 from 2008, while net assets in our governmental activities were \$6,283,939, a decrease of \$710,616.
- The City's expenses for the year totaled \$10,643,520 an increase of \$717,258 (+7.2%) over 2008. Revenues from all sources was \$9,836,590, a decrease of \$987,244 (-9.1%) from 2008.
- In the City's business type activities, total revenues were \$5,587,355 an increase of 3.6% over the previous year. Business-type activity revenues increased slightly as a percentage of total revenues to 56% from 50% the previous year. Also, the business-type activities show a special item in the statement of activities in 2009 – loss on discontinued operations. This loss relates to the City exiting the wireless broadband business in 2009.
- In 2007 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. However, in 2009 the City had budgeted \$160,000 in revenue from the Mary Cretens Trust, but due to the decline in the financial markets, the Community Foundation was unable to make any distributions from the Trust.
- The General Fund finished the year with a decrease, and ending fund balance of (\$28,976). This was after revenues of \$2,530,113 compared to \$2,296,367 in 2008, and expenditures of \$2,889,954 compared to expenditures of \$2,434,016 in 2008, exclusive of other financing sources.

### **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 is "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net 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, 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 decreased by \$946,843.

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

	Governmental Activities		Business-Type Activities	
	2009	2008	2009	2008
Current and other assets	\$ 700,787	\$ 840,979	\$ 3,196,555	\$ 3,577,923
Capital assets (net)	7,435,256	7,978,450	8,782,663	8,544,651
Total Assets	<u>8,136,043</u>	<u>8,819,429</u>	<u>11,979,218</u>	<u>12,122,574</u>
Long-term debt outstanding	1,262,624	1,136,013	1,425,765	215,055
Other liabilities	589,480	688,861	243,947	1,361,786
Total Liabilities	<u>1,852,104</u>	<u>1,824,874</u>	<u>1,669,712</u>	<u>1,576,841</u>
Net Assets:				
Invested in capital assets, net of related debt	6,172,632	6,842,437	7,356,898	7,182,865
Restricted assets:				
Expendable	6,711	30,055	-	-
Nonexpendable	234,703	232,603	-	-
Unrestricted	(130,107)	(110,540)	2,952,608	3,362,868
Total net assets	<u>\$ 6,283,939</u>	<u>\$ 6,994,555</u>	<u>\$ 10,309,506</u>	<u>\$ 10,545,733</u>

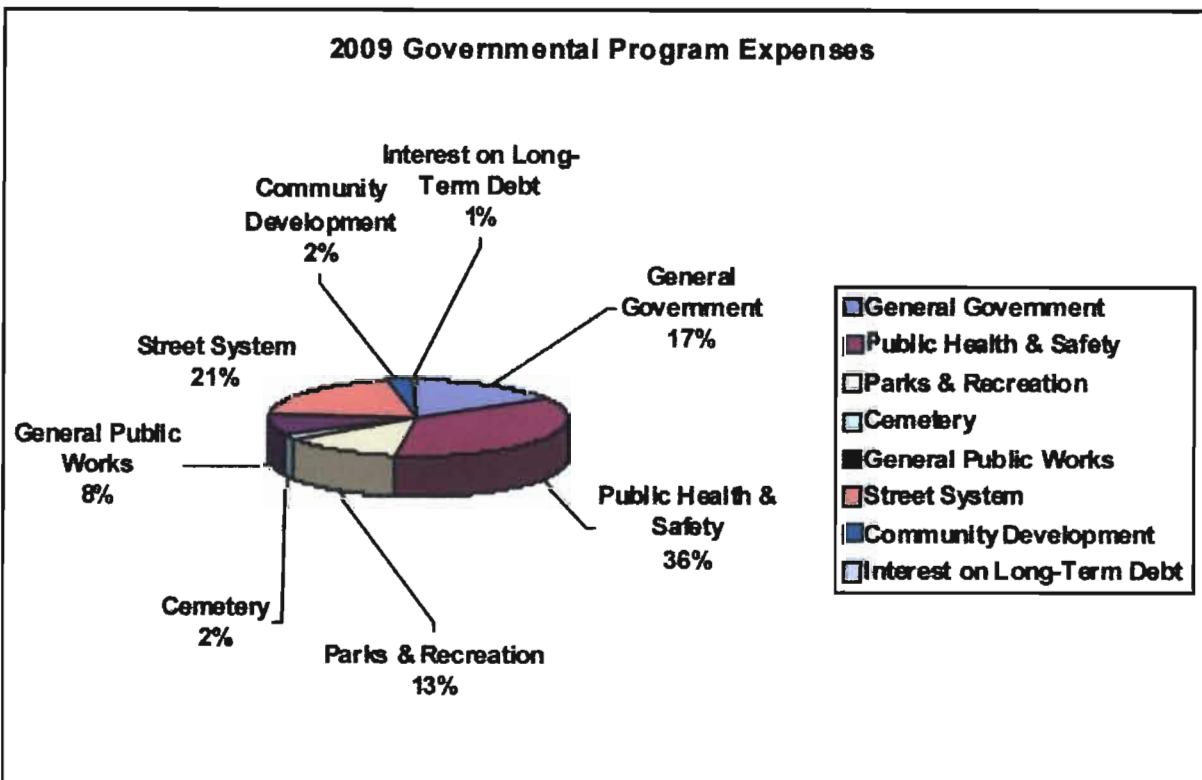
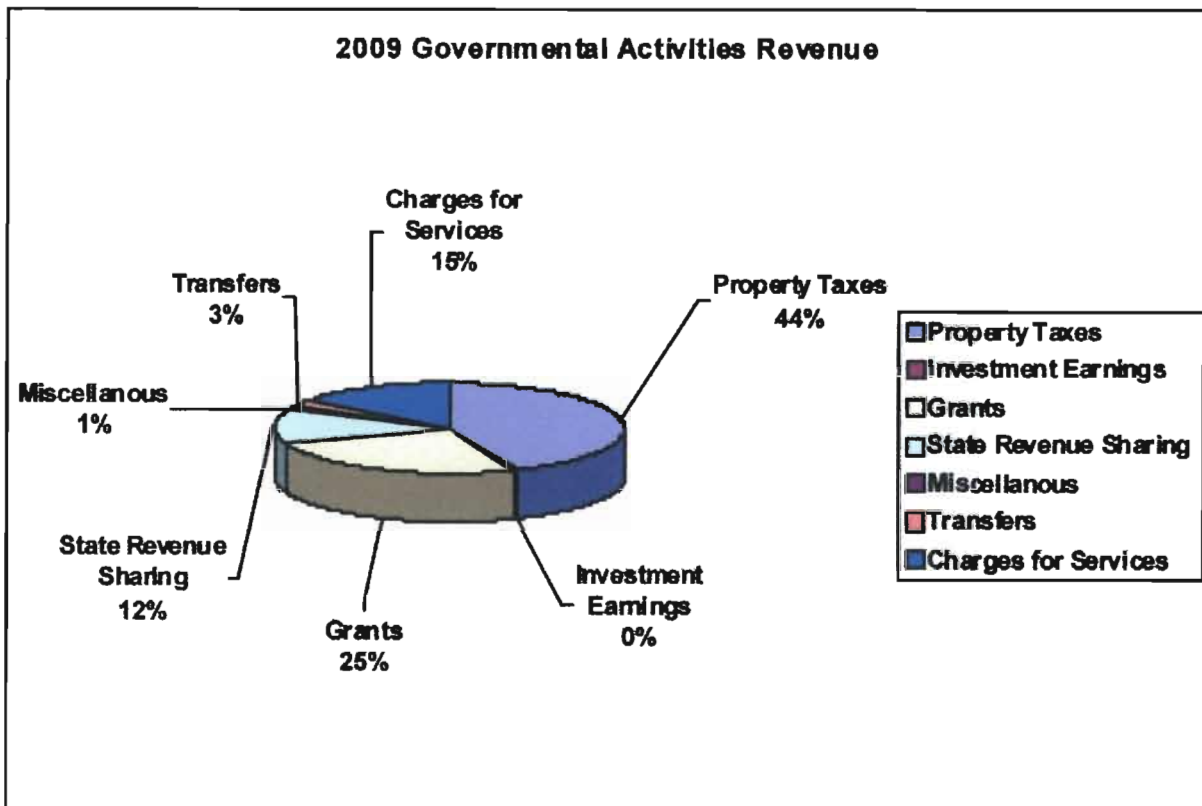
Net assets of the City's governmental activities stood at \$6,283,939, down from \$6,994,555 in 2008 (-10.2%). Total of the governmental activities assets decreased by 7.7%, and total liabilities increased by 1.5%. The ratio of assets to liabilities decreased from 4.83 in 2008 to 4.39 in 2009.

Net assets in our business-type activities stood at \$10,309,506, down from \$10,545,733 in 2008. Total assets decreased to \$11,979,218 from \$12,122,574 in 2008, while liabilities increased from \$1,576,841 in 2008 to \$1,669,712 in 2009 (+5.9%). Unrestricted net assets decreased from \$3,362,868 to \$2,952,608, while the amount invested in capital assets (net of related debt) increased from \$7,182,865 in 2008 to \$7,356,898 in 2009. In summary, the net assets of the business lines became a little more liquid, but investments in infrastructure will pay dividends in the future.

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

<b>Governmental Activities</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	2009	2008	2009	2008
<b>Revenues:</b>				
Program Revenues:				
Charges for services	\$ 645,161	\$ 749,866	\$ 5,375,003	\$ 5,284,333
Operating grants	916,185	783,181	-	-
Capital grants	187,112	1,444,368	120,857	16,520
General Revenues:				
Property taxes	1,908,157	1,874,013	-	-
State revenue sharing	532,215	538,973	-	-
Unrestricted grants	5,575	5,519	-	-
Unrestricted investment earnings	10,116	11,995	91,495	93,356
Miscellaneous	42,344	18,277	-	890
Total Revenues	<u>4,246,865</u>	<u>5,426,192</u>	<u>5,587,355</u>	<u>5,395,099</u>
<b>Program Expenses:</b>				
General government	850,578	596,255	-	-
Public health & safety	1,823,453	1,480,542	-	-
Parks & recreation	669,659	582,046	-	-
Cemetery	105,304	89,831	-	-
General public works	414,590	401,117	-	-
Street system	1,054,547	1,092,430	-	-
Community development	121,561	156,988	-	-
Interest on long-term debt	49,259	61,899	-	-
Electric	-	-	4,112,071	3,848,846
Wastewater	-	-	792,953	771,213
Water	-	-	588,249	568,896
Land development	-	-	-	189,071
Gladstone wireless	-	-	44,087	69,691
Economic development	-	-	17,209	17,437
Total Expenses	<u>5,088,951</u>	<u>4,461,108</u>	<u>5,554,569</u>	<u>5,465,154</u>
Excess (deficiency) before transfers and contributions	(842,086)	965,084	32,786	(70,055)
Loss on discontinued operations	-	-	(139,913)	-
Transfers	129,100	84,116	(129,100)	(84,116)
Contributions to permanent fund	2,370	2,543	-	-
Increase (decrease) in net assets	(710,616)	1,051,743	(236,227)	(154,171)
Net assets - beginning	<u>6,994,555</u>	<u>5,942,812</u>	<u>10,545,733</u>	<u>10,699,904</u>
Net assets - ending	<u>\$ 6,283,939</u>	<u>\$ 6,994,555</u>	<u>\$ 10,309,506</u>	<u>\$ 10,545,733</u>

## Governmental Activities



The City's total revenues were \$9,696,677, down from \$10,823,834 in 2008 (a decrease of 10%). The cost of all programs and services was \$10,643,520, up from \$9,926,262 in 2008 (an increase of 7%). For 2009, there was an excess of expenses over revenues of \$946,843, compared to an excess of revenues over expenses of \$897,572 in 2008.

### Governmental Activities

Revenues for the City's governmental activities totaled \$4,378,335, down 21% from \$5,512,851 in 2008. Expenses increased by 14.1% (\$627,843) with the largest percentage increase (43%) in the general government.

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	
	2009	2008	2009	2008
Public health & safety	\$ 1,823,453	\$ 1,480,542	\$ 1,263,113	\$ 1,171,568
Street systems	1,054,548	1,092,430	454,188	(134,973)
Parks & recreation	669,659	582,046	406,878	242,248
General public works	414,590	401,117	192,275	111,308
General government	850,578	596,255	769,861	440,454
Totals	<u>\$ 4,812,828</u>	<u>\$ 4,152,390</u>	<u>\$ 3,086,315</u>	<u>\$ 1,830,605</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 North Bluff Drive, 9<sup>th</sup> Street and Minneapolis Avenue projects receiving a large part of the funding from the State of Michigan in 2008, there were no large capital projects completed or grants received in 2009.

### Business-Type Activities

Revenues for the City's business-type activities totaled \$5,587,355, up from \$5,310,983 in 2008 (+5.2%). 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 2008. Business-type activity expenses remained relatively flat, increasing only 1.6%.

## **THE CITY'S FUNDS**

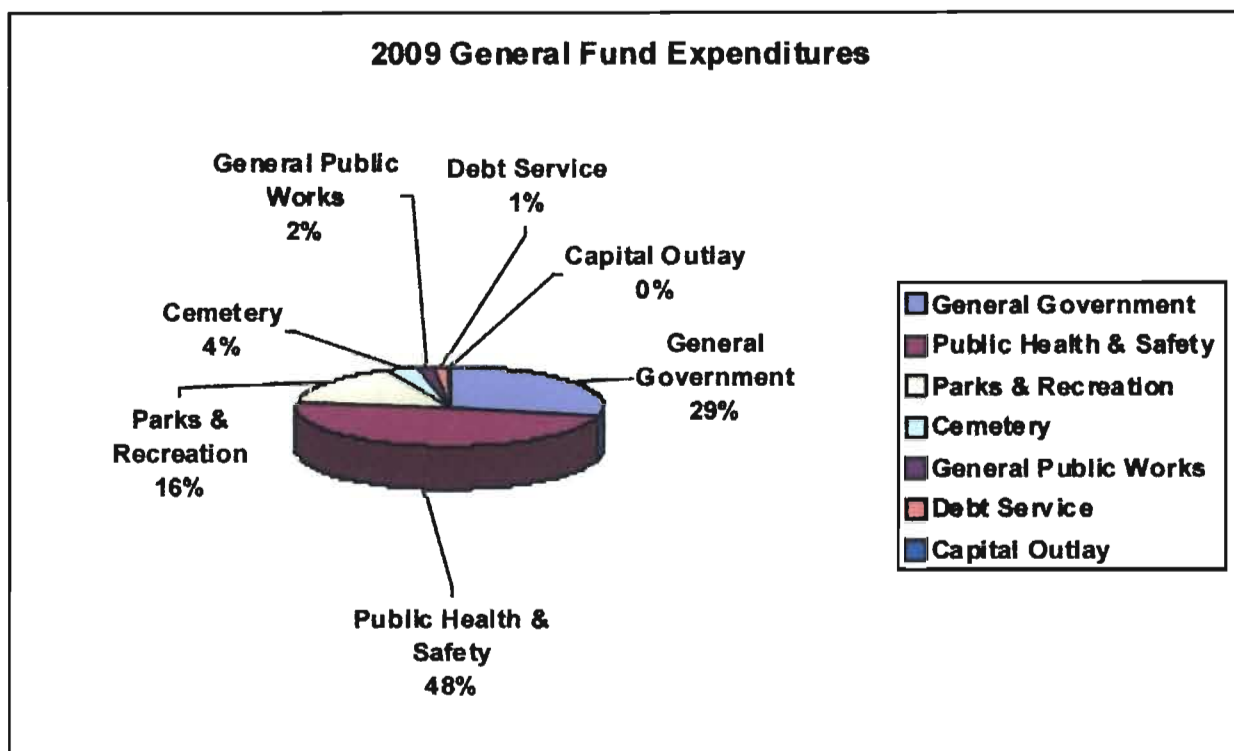
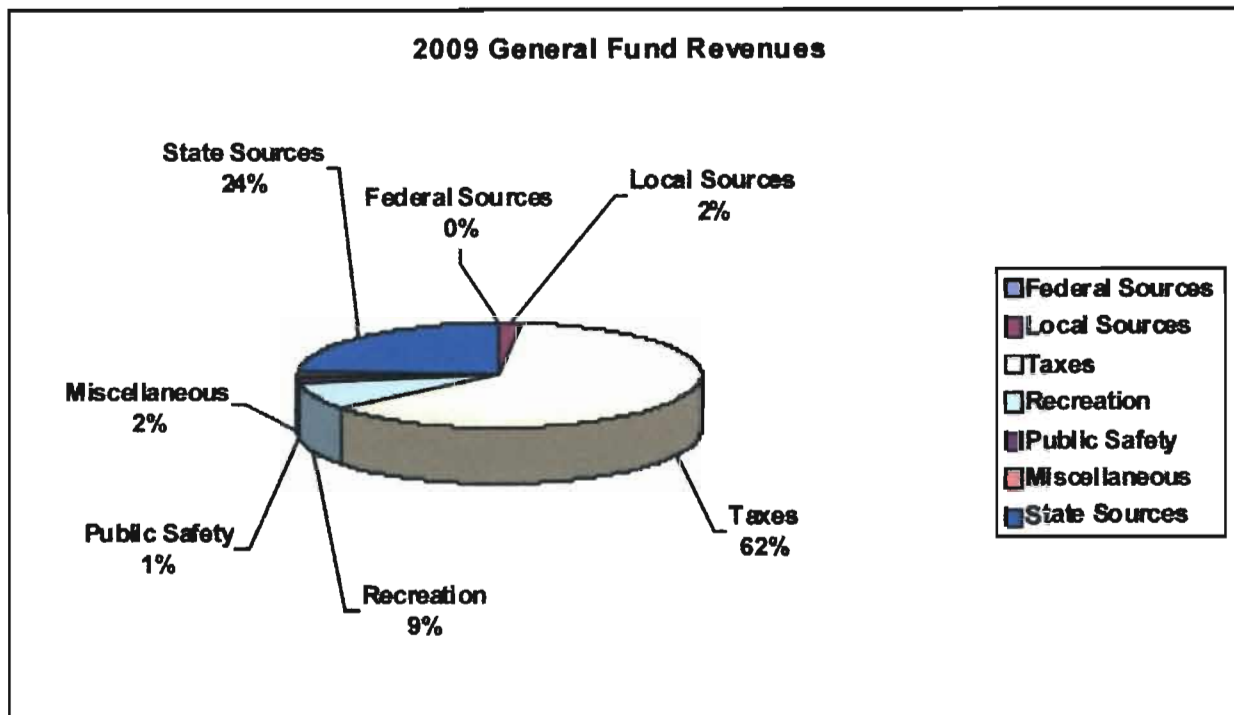
As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$245,463, a decrease of \$52,043 from 2008. This was due primarily to the City paying for its final share of the street paving projects and a short fall in budgeted revenue from the Mary Cretens Trust.

### **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 \$2,530,113 was 9% over the amended budget, and was primarily due to loan proceeds which were not budgeted. Expenditures were more than the amended budget by \$118,364. The final expenditure number of \$2,889,954 was 4.3% higher than the revised expenditure estimate of \$2,771,590. Total expenditures exceeded revenues by \$195,751 for the year.

The final revenue number was \$233,746 more than 2008 and expenditures were \$455,938 higher than 2008. The additional revenue from 2008 is from the proceeds of a loan which was paid into the retirement system in order to achieve a 60% funding percentage. The increase in expenditures, is due in part to the additional payment made into the retirement system. There were also funds spent on various city projects which were expected to be reimbursed from the Mary Cretens Trust, however the City did not receive any funds from the Trust in 2009.

## General Fund





## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal 2009, the City had \$16,217,919, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was down from \$16,523,101 in 2008. (See table 4 below)

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

	Governmental Activities		Business-Type Activities	
	2009	2008	2009	2008
Land	\$ 1,619,627	\$ 1,619,627	\$ 236,513	\$ 236,513
Construction in progress	-	-	-	-
Land Improvements	220,290	87,306	-	-
Buildings	1,505,189	1,629,342	911,401	282,577
Machinery & Equipment	640,373	755,698	76,890	118,460
Infrastructure - Road System	2,640,854	3,029,451	-	-
Infrastructure - Other	808,923	857,026	-	-
Distribution/Collection System	-	-	7,557,859	7,907,101
Total	<u>\$ 7,435,256</u>	<u>\$ 7,978,450</u>	<u>\$ 8,782,663</u>	<u>\$ 8,544,651</u>

### DEBT

At year-end the City had \$2,688,389 in bonds and notes outstanding. This is a net increase of \$190,590 in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt of \$1,109,665 is well below the 10% limit.

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

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
General obligation bonds/ notes(backed by the City)	\$ 1,109,665	\$ 841,490	\$ 250,047	\$ 11,068	\$ 1,359,712	\$ 852,558
Revenue bonds and notes (backed by specific tax and fee revenues)	152,959	294,523	1,175,718	1,350,718	1,328,677	1,645,241
Totals	<u>\$ 1,262,624</u>	<u>\$ 1,136,013</u>	<u>\$ 1,425,765</u>	<u>\$ 1,361,786</u>	<u>\$ 2,688,389</u>	<u>\$ 2,497,799</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 endeavor to maintain the services currently offered to our residents in the most efficient, cost effective manner to continue to make our City the community of choice in the Upper Peninsula.

Taxes, one of the major revenue producers in the General Fund, are on the decline. In the past four years taxes increased an average of 3.4% per year. From the 2008-2009 to the 2009-2010 budget period they increased only 1.4% and it is expected they will only increase that amount in the 2010-2011 budget period. In addition state revenue sharing is expected to receive major reductions.

The Major Street and Local Street Funds continue to struggle. Some force account work for grant projects are anticipated during the 2009-2010 budget period which will help the situation but there are still major issues on the long term. Two employees are scheduled to retire next year and it is unlikely that there will be funds to fill those positions.

Business type activities budgets were also on the decline with a \$410,000 reduction in fund balance. During the preparation of the 2010-2011 budget, operational efficiencies will be reviewed and a six-year cash flow projection will be developed in the funds to anticipate and make rate adjustments to adequately fund the activities.

## **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, 2009**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ (191,246)	\$ 1,007,000	\$ 815,754	\$ 264,328
Receivables :				
Accounts	92,927	-	92,927	8,712
Utilities	-	911,122	911,122	-
Special assessments	55,683	12,266	67,949	-
Notes	14,712	14,712	29,424	-
Miscellaneous	20,568	45,494	66,062	-
Due from other governmental units	232,040	-	232,040	-
Prepaid expense	631	-	631	19,480
Inventory	15,821	236,735	252,556	-
Total current assets	<u>241,136</u>	<u>2,227,329</u>	<u>2,468,465</u>	<u>292,520</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	241,414	64,000	305,414	-
Investments	-	498,059	498,059	148,178
Notes receivable	218,237	180,617	398,854	-
Internal balances	-	226,550	226,550	-
Capital assets	20,972,920	18,008,227	38,981,147	4,390,039
Accumulated depreciation	(13,537,664)	(9,225,564)	(22,763,228)	(2,979,296)
Total noncurrent assets	<u>7,894,907</u>	<u>9,751,889</u>	<u>17,646,796</u>	<u>1,558,921</u>
Total assets	<u>\$ 8,136,043</u>	<u>\$ 11,979,218</u>	<u>\$ 20,115,261</u>	<u>\$ 1,851,441</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 25,962	\$ 91,986	\$ 117,948	\$ 18,540
Accrued interest	21,333	813	22,146	-
Due to other governmental units	6,324	-	6,324	-
Customer deposits	-	46,622	46,622	-
Deferred revenue	42,144	-	42,144	-
Other liabilities	4,145	-	4,145	45,147
Compensated absences	31,488	20,905	52,393	-
Bonds payable	150,000	180,000	330,000	-
Notes payable	97,329	37,937	135,266	-
Total current liabilities	<u>378,725</u>	<u>378,263</u>	<u>756,988</u>	<u>63,687</u>
Noncurrent liabilities:				
Compensated absences	125,954	83,621	209,575	-
Due to other governmental units	105,580	-	105,580	-
Internal balances	226,550	-	226,550	-
Bonds payable	600,000	995,718	1,595,718	-
Notes payable	415,295	212,110	627,405	-
Total noncurrent liabilities	<u>1,473,379</u>	<u>1,291,449</u>	<u>2,764,828</u>	<u>-</u>
Total liabilities	<u>\$ 1,852,104</u>	<u>\$ 1,669,712</u>	<u>\$ 3,521,816</u>	<u>\$ 63,687</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 6,172,632	\$ 7,356,898	\$ 13,529,530	\$ 1,410,743
Restricted for:				
Expendable:				
City improvement	6,711	-	6,711	-
Nonexpendable:				
Cemetery perpetual care	234,703	-	234,703	-
Unrestricted	<u>(130,107)</u>	<u>2,952,608</u>	<u>2,822,501</u>	<u>377,011</u>
Total net assets	<u>\$ 6,283,939</u>	<u>\$ 10,309,506</u>	<u>\$ 16,593,445</u>	<u>\$ 1,787,754</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2009**

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 850,578	\$ 79,817	\$ 900	\$ -	\$ (769,861)	\$ -	\$ (769,861)	\$ -
Public health and safety	1,823,453	99,972	460,368	-	(1,263,113)	-	(1,263,113)	-
Parks and recreation	669,659	231,504	-	31,277	(406,878)	-	(406,878)	-
Cemetery	105,304	29,447	-	-	(75,857)	-	(75,857)	-
General public works	414,590	222,315	-	-	(192,275)	-	(192,275)	-
Street system	1,054,548	-	454,917	145,443	(454,188)	-	(454,188)	-
Community development	121,561	(17,894)	-	10,392	(129,063)	-	(129,063)	-
Interest on long-term debt	49,259	-	-	-	(49,259)	-	(49,259)	-
Total governmental activities	5,088,951	645,161	916,185	187,112	(3,340,493)	-	(3,340,493)	-
Business-type activities:								
Electric utility	4,112,071	3,943,512	-	110,635	-	(57,924)	(57,924)	-
Waste water utility	792,953	747,357	-	7,611	-	(37,985)	(37,985)	-
Water utility	588,249	666,046	-	2,611	-	80,408	80,408	-
Economic development	17,209	-	-	-	-	(17,209)	(17,209)	-
Wireless broadband	44,087	18,088	-	-	-	(25,999)	(25,999)	-
Total business-type activities	5,554,569	5,375,003	-	120,857	-	(58,709)	(58,709)	-
Total primary government	\$ 10,643,520	\$ 6,020,164	\$ 916,185	\$ 307,969	(3,340,493)	(58,709)	(3,399,202)	-
Component unit:								
Housing commission	\$ 586,132	\$ 281,860	\$ 184,936	\$ 101,542	-	-	-	(17,794)
General revenues:								
Property taxes					1,908,157	-	1,908,157	-
State revenue sharing					532,215	-	532,215	-
Grants and contributions not restricted to specific programs					5,575	-	5,575	-
Contributions to permanent fund					2,370	-	2,370	-
Unrestricted investment earnings					10,116	91,495	101,611	7,261
Miscellaneous					42,344	-	42,344	32,763
Special item-loss on discontinued operations					-	(139,913)	(139,913)	-
Transfers					129,100	(129,100)	-	-
Total general revenues and transfers					2,629,877	(177,518)	2,452,359	40,024
Changes in net assets					(710,616)	(236,227)	(946,843)	22,230
Net assets - beginning					6,994,555	10,545,733	17,540,288	1,765,524
Net assets - ending					\$ 6,283,939	\$ 10,309,506	\$ 16,593,445	\$ 1,787,754

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**March 31, 2009**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
<b>ASSETS</b>			
Cash and equivalents:			
Restricted	\$ -	\$ -	\$ -
Unrestricted	9,938	(140,838)	(110,104)
Receivables:			
Accounts	53,555	652	-
Special assessments	27,478	9,816	18,389
Notes	-	-	-
Miscellaneous	20,351	-	-
Prepaid expenditures	-	-	631
Due from other funds	-	869	621
Due from other governmental units	83,913	57,341	20,779
Inventory	3,629	12,192	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 198,864</u>	<u>\$ (59,968)</u>	<u>\$ (69,684)</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 5,808	\$ 370	\$ 31
Due to other funds	162,635	46,013	19,889
Due to other governmental units	-	-	-
Deferred revenue	55,252	-	-
Other liabilities	4,145	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>227,840</u>	<u>46,383</u>	<u>19,920</u>
Fund balances:			
Reserved for:			
Inventory	3,629	12,192	-
City improvement	-	-	-
Cemetery perpetual care	-	-	-
Unreserved	(32,605)	(118,543)	(89,604)
Unreserved, reported in non-major:			
Special revenue funds	-	-	-
Capital project fund	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>(28,976)</u>	<u>(106,351)</u>	<u>(89,604)</u>
Total liabilities and fund balances	<u>\$ 198,864</u>	<u>\$ (59,968)</u>	<u>\$ (69,684)</u>

See accompanying notes to financial statements.



<u>Revolving Loan</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 241,414	\$ 241,414
122,167	42,015	(76,822)
-	38,720	92,927
-	-	55,683
232,949	-	232,949
-	-	20,351
-	-	631
-	-	1,490
-	70,007	232,040
-	-	15,821
<u>\$ 355,116</u>	<u>\$ 392,156</u>	<u>\$ 816,484</u>
\$ 84	\$ 15,629	\$ 21,922
-	-	228,537
-	6,324	6,324
232,949	21,892	310,093
-	-	4,145
<u>233,033</u>	<u>43,845</u>	<u>571,021</u>
-	-	15,821
-	6,711	6,711
-	234,703	234,703
122,083	-	(118,669)
-	143,619	143,619
-	(36,722)	(36,722)
<u>122,083</u>	<u>348,311</u>	<u>245,463</u>
<u>\$ 355,116</u>	<u>\$ 392,156</u>	<u>\$ 816,484</u>

**CITY OF GLADSTONE, MICHIGAN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**March 31, 2009**

Total fund balances for governmental funds \$ 245,463

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	\$ 1,619,627	
Land improvements	308,878	
Buildings	2,843,015	
Machinery and equipment	1,018,257	
Infrastructure - road system	12,180,566	
Infrastructure - other	1,071,433	
Accumulated depreciation	<u>(12,007,473)</u>	
Total capital assets		7,034,303

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.

256,670

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	\$ (21,333)	
Bonds payable	(750,000)	
Notes payable	(486,091)	
Due to other governmental units	(105,580)	
Compensated absences	<u>(157,442)</u>	(1,520,446)

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.

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.

267,949

Total net assets of governmental activities

\$ 6,283,939

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, 2009**

	General Fund	Major Street	Local Street
<b>REVENUES:</b>			
Federal sources	\$ -	\$ -	\$ -
State sources	538,690	299,221	136,074
Local sources	37,756	-	-
Taxes	1,394,977	-	-
Charges for services	79,817	-	-
Recreation	199,734	-	-
Public safety	23,329	-	-
Loan repayment	-	-	-
Lease income	-	-	-
Interest income	3,120	82	1,135
Miscellaneous	39,785	8,929	7,846
	<u>2,317,208</u>	<u>308,232</u>	<u>145,055</u>
Total revenues			
<b>EXPENDITURES:</b>			
General government	844,476	-	-
Public health and safety	1,367,613	-	-
Parks and recreation	475,840	-	-
Cemetery	106,396	-	-
General public works	47,457	-	-
Street system	-	333,025	176,804
Community development	-	-	-
Capital outlay	11,231	-	-
Debt service:			
Principal	30,281	-	-
Interest and other charges	6,660	-	-
	<u>2,889,954</u>	<u>333,025</u>	<u>176,804</u>
Total expenditures			
Excess revenues (expenditures)	<u>(572,746)</u>	<u>(24,793)</u>	<u>(31,749)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Loan proceeds	212,905	-	-
Transfers in	166,090	-	-
Transfers out	(2,000)	-	-
	<u>376,995</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)			
Net changes in fund balances	(195,751)	(24,793)	(31,749)
Fund balances - beginning	<u>166,775</u>	<u>(81,558)</u>	<u>(57,855)</u>
Fund balances - ending	<u>\$ (28,976)</u>	<u>\$ (106,351)</u>	<u>\$ (89,604)</u>

See accompanying notes to financial statements.

Revolving Loan	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 428,973	\$ 428,973
-	31,777	1,005,762
-	73,417	111,173
-	513,180	1,908,157
-	218,248	298,065
-	-	199,734
-	-	23,329
35,788	-	35,788
-	104,770	104,770
8,706	5,779	18,822
-	4,067	60,627
<u>44,494</u>	<u>1,380,211</u>	<u>4,195,200</u>
-	-	844,476
-	392,865	1,760,478
-	-	475,840
-	270	106,666
-	361,973	409,430
-	2,847	512,676
2,343	131,901	134,244
-	196,121	207,352
-	175,000	205,281
-	46,145	52,805
<u>2,343</u>	<u>1,307,122</u>	<u>4,709,248</u>
<u>42,151</u>	<u>73,089</u>	<u>(514,048)</u>
-	125,000	337,905
-	193,221	359,311
<u>(4,000)</u>	<u>(229,211)</u>	<u>(235,211)</u>
<u>(4,000)</u>	<u>89,010</u>	<u>462,005</u>
38,151	162,099	(52,043)
<u>83,932</u>	<u>186,212</u>	<u>297,506</u>
<u>\$ 122,083</u>	<u>\$ 348,311</u>	<u>\$ 245,463</u>

**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, 2009**

Net changes in fund balances - total governmental funds \$ (52,043)

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 (\$380,455) was exceeded by depreciation expense (\$870,192) (489,737)

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. 19,998

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

Principal repayments:

Bond principal	175,000	
Note principal	42,051	
	42,051	217,051

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities. (62,674)

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. (337,905)

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	(8,852)	
Accrued interest on bonds	3,546	
	3,546	(5,306)

Changes in net assets of governmental activities \$ (710,616)

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**March 31, 2009**

	Electric Utility	Waste Water Utility	Water Utility
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,116,925	\$ 78,180	\$ (171,658)
Receivables:			
Utilities	647,109	159,148	104,865
Special assessments	-	6,940	5,326
Notes	-	-	-
Miscellaneous	4,346	14,129	27,019
Inventory	236,735	-	-
Total current assets	<u>2,005,115</u>	<u>258,397</u>	<u>(34,448)</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	-	30,500	33,500
Investments	498,059	-	-
Notes receivable	-	-	-
Due from other funds	238,556	993	993
Capital assets	8,013,702	5,274,379	4,659,152
Less accumulated depreciation	<u>(3,563,557)</u>	<u>(2,386,148)</u>	<u>(3,247,750)</u>
Total noncurrent assets	<u>5,186,760</u>	<u>2,919,724</u>	<u>1,445,895</u>
Total assets	<u>\$ 7,191,875</u>	<u>\$ 3,178,121</u>	<u>\$ 1,411,447</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 29,278	\$ 55,433	\$ 5,955
Accrued interest	-	813	-
Customer deposits	46,622	-	-
Compensated absences	9,319	4,106	7,480
Bonds payable	-	115,000	65,000
Notes payable	32,495	5,442	-
Total current liabilities	<u>117,714</u>	<u>180,794</u>	<u>78,435</u>
Noncurrent liabilities:			
Due to other funds	-	-	-
Compensated absences	37,274	16,425	29,922
Bonds payable	-	995,718	-
Notes payable	212,110	-	-
Total noncurrent liabilities	<u>249,384</u>	<u>1,012,143</u>	<u>29,922</u>
Total liabilities	<u>\$ 367,098</u>	<u>\$ 1,192,937</u>	<u>\$ 108,357</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 4,205,540	\$ 1,772,071	\$ 1,346,402
Unrestricted	<u>2,619,237</u>	<u>213,113</u>	<u>(43,312)</u>
Total net assets	<u>\$ 6,824,777</u>	<u>\$ 1,985,184</u>	<u>\$ 1,303,090</u>

See accompanying notes to financial statements.



Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
\$ (16,447)	\$ 1,007,000	\$ (114,424)
-	911,122	-
-	12,266	-
14,712	14,712	-
-	45,494	217
-	236,735	-
<u>(1,735)</u>	<u>2,227,329</u>	<u>(114,207)</u>
-	64,000	-
-	498,059	-
180,617	180,617	-
-	240,542	497
60,994	18,008,227	1,931,144
(28,109)	(9,225,564)	(1,530,191)
<u>213,502</u>	<u>9,765,881</u>	<u>401,450</u>
<u>\$ 211,767</u>	<u>\$ 11,993,210</u>	<u>\$ 287,243</u>
\$ 1,320	\$ 91,986	\$ 4,040
-	813	-
-	46,622	-
-	20,905	-
-	180,000	-
-	37,937	11,446
<u>1,320</u>	<u>378,263</u>	<u>15,486</u>
13,992	13,992	-
-	83,621	-
-	995,718	-
-	212,110	15,087
<u>13,992</u>	<u>1,305,441</u>	<u>15,087</u>
<u>\$ 15,312</u>	<u>\$ 1,683,704</u>	<u>\$ 30,573</u>
\$ 32,885	\$ 7,356,898	\$ 374,420
163,570	2,952,608	(117,750)
<u>\$ 196,455</u>	<u>\$ 10,309,506</u>	<u>\$ 256,670</u>

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2009**

	Electric Utility	Waste Water Utility	Water Utility
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 3,884,962	\$ 706,185	\$ 651,641
Miscellaneous	58,550	41,172	14,405
Total operating revenue	<u>3,943,512</u>	<u>747,357</u>	<u>666,046</u>
<b>OPERATING EXPENSES:</b>			
Salaries and fringes	599,088	389,389	308,013
Supplies	55,243	44,983	53,634
Contracted services	66,929	106,617	10,993
Repairs and maintenance	-	7,541	3,170
Utilities	21,630	47,985	56,054
Purchased power	2,835,842	-	-
Rent	3,725	11,209	1,293
Memberships and dues	5,075	3,914	581
Travel	525	200	-
Insurance	39,250	10,399	12,978
Education and training	5,899	3,480	6,220
In lieu of taxes	84,996	16,248	16,248
Depreciation	230,515	124,938	101,043
Miscellaneous	160,128	5,778	15,109
Total operating expenses	<u>4,108,845</u>	<u>772,681</u>	<u>585,336</u>
Operating income (loss)	<u>(165,333)</u>	<u>(25,324)</u>	<u>80,710</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest income	77,628	4,120	2,120
Interest expense	(3,226)	(20,272)	(2,913)
Total nonoperating revenue (expense)	<u>74,402</u>	<u>(16,152)</u>	<u>(793)</u>
Income (loss) before transfers, contributions and special items	(90,931)	(41,476)	79,917
Special item-loss on discontinued operations	-	-	-
Capital contributions	110,635	7,611	2,611
Transfer in	-	-	-
Transfer out	(267,614)	(21,850)	(25,200)
Change in net assets	(247,910)	(55,715)	57,328
Total net assets - beginning	<u>7,072,687</u>	<u>2,040,899</u>	<u>1,245,762</u>
Total net assets - ending	<u><u>\$ 6,824,777</u></u>	<u><u>\$ 1,985,184</u></u>	<u><u>\$ 1,303,090</u></u>

See accompanying notes to financial statements.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
\$ 15,876	\$ 5,258,664	\$ 368,941
2,212	116,339	15,642
18,088	5,375,003	384,583
2,392	1,298,882	113,818
756	154,616	71,352
18,504	203,043	12,439
-	10,711	60,644
597	126,266	13,696
-	2,835,842	-
37	16,264	172
-	9,570	-
-	725	-
191	62,818	17,073
-	15,599	625
-	117,492	4,500
26,544	483,040	73,449
12,275	193,290	957
61,296	5,528,158	368,725
(43,208)	(153,155)	15,858
7,627	91,495	-
-	(26,411)	(860)
7,627	65,084	(860)
(35,581)	(88,071)	14,998
(139,913)	(139,913)	-
-	120,857	-
190,364	190,364	5,000
(4,800)	(319,464)	-
10,070	(236,227)	19,998
186,385	10,545,733	236,672
\$ 196,455	\$ 10,309,506	\$ 256,670

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2009**

	Electric Utility	Waste Water Utility	Water Utility
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 3,822,800	\$ 697,721	\$ 669,064
Payments to suppliers	(3,210,937)	(248,082)	(175,698)
Payments for wages and related benefits	(584,225)	(397,908)	(300,846)
Other receipts (payments)	189,363	41,172	14,405
Net cash provided (used) by operating activities	217,001	92,903	206,925
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	(267,614)	(21,850)	(25,200)
Cash received (paid) on customer deposits	(5,694)	-	-
Net cash provided (used) by noncapital financing activities	(273,308)	(21,850)	(25,200)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of fixed assets	(708,659)	(29,195)	(14,894)
Principal paid on debt instruments	(5,395)	(110,626)	(70,000)
Interest paid on debt instruments	(3,226)	(20,959)	(2,913)
Proceed from issuance of debt instrument	250,000	-	-
Capital contributions	2,418	7,611	2,611
Net cash provided (used) by capital and related financing activities	(464,862)	(153,169)	(85,196)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net transfers from investments	188,235	-	-
Interest earnings	77,628	4,120	2,120
Net cash provided (used) by investing activities	265,863	4,120	2,120
Net increase (decrease) in cash and equivalents	(255,306)	(77,996)	98,649
Cash and equivalents, beginning of year	1,372,231	186,676	(236,807)
Cash and equivalents, end of year	\$ 1,116,925	\$ 108,680	\$ (138,158)
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ (162,150)	\$ (25,324)	\$ 80,710
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	227,332	129,314	105,680
Changes in assets and liabilities:			
(Increase) decrease in receivables	(62,162)	(8,464)	17,423
(Increase) decrease in due from other funds	130,813	-	-
(Increase) decrease in inventory	48,671	-	-
Increase (decrease) in accounts payable	19,634	5,896	(4,055)
Increase (decrease) in accrued payroll	14,863	(8,519)	7,167
Increase (decrease) in due to other funds	-	-	-
Net cash provided by operating activities	\$ 217,001	\$ 92,903	\$ 206,925

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ 30,463	\$ 5,220,048	\$ 368,724
(32,073)	(3,666,790)	(189,001)
(2,392)	(1,285,371)	(113,818)
(130,813)	114,127	15,642
(134,815)	382,014	81,547
185,564	(129,100)	5,000
-	(5,694)	-
185,564	(134,794)	5,000
-	(752,748)	(19,993)
-	(186,021)	(14,235)
-	(27,098)	(860)
-	250,000	19,993
-	12,640	-
-	(703,227)	(15,095)
-	188,235	-
7,627	91,495	-
7,627	279,730	-
58,376	(176,277)	71,452
(74,823)	1,247,277	(185,876)
\$ (16,447)	\$ 1,071,000	\$ (114,424)
\$ (43,208)	\$ (149,972)	\$ 15,858
26,544	488,870	73,449
12,375	(40,828)	(217)
-	130,813	-
-	48,671	-
287	21,762	(7,543)
-	13,511	-
(130,813)	(130,813)	-
\$ (134,815)	\$ 382,014	\$ 81,547

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**March 31, 2009**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 48,441
Receivables:	
Delinquent taxes	<u>88,103</u>
Total assets	<u>\$ 136,544</u>
<b>LIABILITIES</b>	
Due to other governmental units	<u>\$ 136,544</u>

See accompanying notes to financial statements.



## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2009

#### 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, 2009

**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, 2009

**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.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

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

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

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

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

The 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.

Capital Projects Fund – Capital Project Funds are use to account for the funding sources and expenditures related to specific capital projects.

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, 2009

**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, 2009

#### **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, 2009

#### 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, 2009

#### 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, 2009

#### 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 \$55,252 in the General Fund for prepaid service revenue and the sale of city residential lots, \$21,892 in the State Trunkline Fund for unspent grant proceeds, and advanced revenue collections and \$232,949 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, 2009

**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, 2009

**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, 2009

**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, 2009

**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. The General Fund and the MSHDA Rental Property Fund had expenditures that exceeded the appropriations by \$120,364 and \$8,922, respectively.

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

Governmental funds:	
General Fund	\$ 32,605
Major Street	118,543
Local Street	89,604
MSHDA Habitat Rehab	8,867
Capital Projects	36,722
Proprietary funds:	
Water Utility	43,312
Equipment Fund	117,750

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.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

**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		\$	790
Deposits:			
Checking accounts	\$	816,864	
Savings		100,835	
Certificate of Deposit		251,120	1,168,819
			<hr/>
Total cash and equivalents		\$	1,169,609
			<hr/>

Government-wide Statement of  
Net Assets Presentation:

Unrestricted	\$	815,754	
Restricted		305,414	\$ 1,121,168
		<hr/>	

Statement of Fiduciary Net Assets 48,441

Total cash and equivalents \$ 1,169,609

Investments:

U.S. government agency securities	\$	249,505	
Upper Peninsula Public Power Agency		248,554	
		<hr/>	
Total investments	\$	498,059	
		<hr/>	

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.



CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2009

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

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

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

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

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

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 606,600	\$ 606,600
Uninsured	755,244	563,009
Total	<u>\$ 1,361,844</u>	<u>\$ 1,169,609</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 \$755,244 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	\$ 249,505	Counter party

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

**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 Home Loan Mtg Corp	\$ 249,505	1/15/2014

**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	\$ 249,505	AAA	S & P

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$234,703 for cemetery care as required by the nature of the fund.
2. The Mary Cretens Trust Fund in the amount of \$6,711 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, 2009

**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 \$221,457 in cash and \$27,097 in equipment for a total investment of \$248,554. 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	100.00%

UPPPA owns .46% 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, 2009

**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:**

<u>Year</u>	<u>Real</u>	<u>Personal</u>	<u>Total</u>
1980	\$ 22,818,556	\$ 1,416,900	\$ 24,235,456
1981	23,717,233	1,402,900	25,120,133
1982	25,591,300	1,416,100	27,007,400
1983	26,259,100	1,735,400	27,994,500
1984	26,456,400	1,886,300	28,342,700
1985	27,148,200	2,128,500	29,276,700
1986	28,189,600	2,339,400	30,529,000
1987	28,523,700	2,300,100	30,823,800
1988	28,897,200	3,542,000	32,439,200
1989	29,348,900	3,564,000	32,912,900
1990	30,052,800	3,928,000	33,980,800
1991	32,466,100	4,025,000	36,491,100
1992	35,490,200	4,653,700	40,143,900
1993	34,997,900	4,170,900	39,168,800
1994	37,978,900	4,598,000	42,576,900
1995	40,146,600	4,840,200	44,986,800
1996	44,252,300	5,614,100	49,866,400
1997	44,731,000	5,547,450	50,278,450
1998	48,702,846	6,544,900	55,247,746
1999	52,246,500	7,261,900	59,508,400
2000	56,966,800	7,003,200	63,970,000
2001	61,646,100	6,894,200	68,540,300
2002	65,730,220	7,074,246	72,804,466
2003	69,954,964	7,532,830	77,487,794
2004	73,303,100	6,376,000	79,679,100
2005	77,310,900	6,341,200	83,652,100
2006	82,438,553	6,280,247	88,718,800
2007	85,949,610	6,439,250	92,388,860
2008	88,547,733	5,930,894	94,478,627

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, 2009

### 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 2008, 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	L.S.D.	Total
			Non- Homestead	State	Debt					
1961	14.7300	17.0000	-	-	-	31.7300	-	7.9300	-	39.6600
1962	14.7400	23.6000	-	-	-	38.3400	-	7.9500	-	46.2900
1963	14.7700	23.3900	-	-	-	38.1600	1.1410	10.1550	0.1140	49.5700
1964	15.9100	23.1200	-	-	-	39.0300	1.1400	8.1600	0.0800	48.4100
1965	15.9300	24.2300	-	-	-	40.1600	1.1400	8.2300	0.1000	49.6300
1966	15.9000	24.8600	-	-	-	40.7600	1.1400	8.2100	0.6900	50.8000
1967	14.0600	21.8000	-	-	-	35.8600	1.0000	6.2000	0.6000	43.6600
1968	14.0000	23.3000	-	-	-	37.3000	2.5000	5.2000	0.6000	45.6000
1969	15.0000	21.8000	-	-	-	36.8000	2.5000	5.2000	1.1100	45.6100
1970	17.0000	19.8000	-	-	-	36.8000	2.5000	5.9000	1.1460	46.3460
1971	17.0000	22.0000	-	-	-	39.0000	2.5000	5.9000	2.2200	49.6200
1972	17.0000	21.3000	-	-	-	38.3000	2.5000	6.2000	2.6500	49.6500
1973	17.0000	27.1000	-	-	-	44.1000	2.5000	5.0000	2.7000	54.3000
1974	16.0000	24.1000	-	-	-	40.1000	2.5000	5.0000	2.7000	50.3000
1975	17.0000	23.7000	-	-	-	40.7000	2.5000	5.4500	2.6500	51.3000
1976	17.0000	27.2000	-	-	-	44.2000	2.5000	5.4500	2.6500	54.8000
1977	17.0000	27.2800	-	-	-	44.2800	2.5000	5.4500	2.6500	54.8800
1978	17.0000	16.7300	-	-	-	33.7300	2.5000	5.4500	2.6500	44.3300
1979	17.0000	27.6000	-	-	-	44.6000	2.5000	5.4500	2.6500	55.2000
1980	17.0000	30.1200	-	-	-	47.1200	2.5000	5.4500	2.6500	57.7200
1981	17.0000	32.4800	-	-	-	49.4800	2.5000	5.4500	2.6500	60.0800
1982	16.9900	31.2800	-	-	-	48.2700	2.5000	5.2000	2.6500	58.6200
1983	16.9371	21.2800	-	-	-	38.2171	2.5000	5.0844	2.6500	48.4515
1984	16.8867	31.6129	-	-	-	48.4996	2.5000	5.4500	2.6500	59.0996
1985	17.0000	33.8496	-	-	-	50.8496	2.5000	5.4500	2.6500	61.4496
1986	17.0000	33.4659	-	-	-	50.4659	2.5000	5.4500	2.6500	61.0659
1987	17.0000	33.2594	-	-	-	50.2594	2.5000	6.1000	2.6500	61.5094
1988	17.0000	33.2732	-	-	-	50.2732	2.5000	5.4500	2.6500	60.8732
1989	17.0000	37.5654	-	-	-	54.5654	2.5000	6.1000	2.6500	65.8154
1990	17.0000	37.5452	-	-	-	54.5452	2.5000	7.0500	2.6500	66.7452



# CITY OF GLADSTONE, MICHIGAN

## NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2009

### NOTE D – PROPERTY TAXES (continued)

Year	City Tax	School *	Schools			Total	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt	Local Taxes				
1991	17.0000	37.0772	-	-	-	54.0772	25000	7.1000	26500	66.3272
1992	17.0000	37.0522	-	-	-	54.0522	25000	7.1000	26500	66.3022
1993	16.6575	35.6443	-	-	-	52.3018	24055	7.0873	25501	64.3447
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	23735	7.0483	25124	53.7508
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	32735	7.0483	25124	54.6508
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	33735	7.0483	25124	54.2748
1997	16.2528	-	18.0000	6.0000	8.5600	48.8128	33735	7.0483	25117	61.7463
1998	16.2528	-	18.0000	6.0000	8.5600	48.8128	33735	7.0483	25117	61.7463
1999	16.1065	-	18.0000	6.0000	8.5600	48.6665	33600	7.0107	24917	61.5289
2000	15.9180	-	18.0000	6.0000	8.5600	48.4780	33585	6.6319	24807	60.9491
2001	15.6744	-	18.0000	6.0000	8.5600	48.2344	33511	6.6112	24695	60.6662
2002	15.6680	-	18.0000	6.0000	8.5600	48.2280	33506	6.6097	24596	60.6479
2003	15.6303	-	18.0000	5.0000	8.5600	47.1903	35000	6.5719	24375	59.6997
2004	15.6303	-	18.0000	6.0000	8.5600	48.1903	35000	6.5455	24191	60.6549
2005	15.5021	-	18.0000	6.0000	8.5600	48.0621	35501	7.1107	23994	61.1223
2006	15.5021	-	18.0000	6.0000	8.5600	48.0621	35501	7.1107	23994	61.1223
2007	15.5021	-	18.0000	6.0000	8.5600	48.0621	35225	7.5897	23854	61.5597
2008	15.5021	-	18.0000	6.0000	8.5600	48.0621	35149	7.5897	23851	61.5518

\* 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, 2009 were as follows: General Fund \$1,169,160, Solid Waste Fund \$172,301 and DDA Fund capture from the summer and winter levy's was \$340,879.

### NOTE E – LONG-TERM RECEIVABLES

Governmental Activities:

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

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, 2009 are as follows:



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

Year Ending March 31	Amount
2010	\$ 38,519
2011	66,098
2012	29,108
2013	30,448
2014	29,335
Thereafter	39,441
Total	<u>\$ 232,949</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, 2009 are as follows:

Year Ending March 31	Amount
2010	\$ 14,712
2011	14,480
2012	15,154
2013	15,876
2014	16,651
Thereafter	118,456
Total	<u>\$ 195,329</u>

The General Fund has also recorded accounts receivable in the amount of \$35,000 for the sale of residential lots.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

**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, 2009, was as follows:

	Balance at April 1, 2008	Additions	Disposals	Balance at March 31, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,619,627	\$ -	\$ -	\$ 1,619,627
Construction in progress	-	-	-	-
Total non-depreciable capital assets	<u>1,619,627</u>	<u>-</u>	<u>-</u>	<u>1,619,627</u>
Capital assets being depreciated:				
Land improvements	161,686	147,192	-	308,878
Buildings	2,994,936	-	-	2,994,936
Machinery and equipment	2,781,216	19,993	3,732	2,797,477
Infrastructure-road system	11,966,582	213,986	-	12,180,568
Infrastructure-other	1,052,157	19,277	-	1,071,434
Total depreciable capital assets	<u>18,956,577</u>	<u>400,448</u>	<u>3,732</u>	<u>19,353,293</u>
Total capital assets	<u>20,576,204</u>	<u>400,448</u>	<u>3,732</u>	<u>20,972,920</u>
Less accumulated depreciation:				
Land improvements	74,377	14,208	-	88,585
Buildings	1,365,594	123,854	-	1,489,448
Machinery and equipment	2,095,156	132,209	3,732	2,223,633
Infrastructure-road system	8,937,399	602,311	-	9,539,710
Infrastructure-other	125,228	71,060	-	196,288
Total accumulated depreciation	<u>12,597,754</u>	<u>943,642</u>	<u>3,732</u>	<u>13,537,664</u>
Net depreciable capital assets	<u>6,358,823</u>	<u>(543,194)</u>	<u>-</u>	<u>5,815,629</u>
Governmental activities capital assets, net	<u>\$ 7,978,450</u>	<u>\$ (543,194)</u>	<u>\$ -</u>	<u>\$ 7,435,256</u>

# CITY OF GLADSTONE, MICHIGAN

## NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2009

### NOTE F – CAPITAL ASSETS (continued)

	Balance at April 1, 2008	Additions	Disposals	Balance at March 31, 2009
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 236,513	\$ -	\$ -	\$ 236,513
Construction in progress	8,281	-	8,281	-
Total non-depreciable capital assets	<u>244,794</u>	<u>-</u>	<u>8,281</u>	<u>236,513</u>
Capital assets being depreciated:				
Buildings	341,989	642,038	-	984,027
Machinery and equipment	643,625	4,400	17,837	630,188
Distribution/collection system	16,180,143	114,591	137,235	16,157,499
Total depreciable capital assets	<u>17,165,757</u>	<u>761,029</u>	<u>155,072</u>	<u>17,771,714</u>
Total capital assets	<u>17,410,551</u>	<u>761,029</u>	<u>163,353</u>	<u>18,008,227</u>
Less accumulated depreciation:				
Buildings	59,412	13,213	-	72,625
Machinery and equipment	525,152	45,967	17,837	553,282
Distribution/collection system	8,281,336	423,860	105,539	8,599,657
Total accumulated depreciation	<u>8,865,900</u>	<u>483,040</u>	<u>123,376</u>	<u>9,225,564</u>
Net depreciable capital assets	<u>8,299,857</u>	<u>277,989</u>	<u>31,696</u>	<u>8,546,150</u>
Business-type activities capital assets, net	<u>\$ 8,544,651</u>	<u>\$ 277,989</u>	<u>\$ 39,977</u>	<u>\$ 8,782,663</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
General government	\$ 9,112
Public health and safety	62,574
Parks and recreation	191,195
Cemetery	328
General public works	73,450
Street system	<u>606,983</u>
Total governmental activities depreciation expense	<u>\$ 943,642</u>
Business-type activities:	
Electric	\$ 230,515
Water	101,043
Waste water	124,938
Wireless broadband	25,808
Development	<u>736</u>
Total business-type activities depreciation expense	<u>\$ 483,040</u>

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2009

#### **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, 2009

**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 three-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 three-year average compensation.

As of December 1, 1997, all new hires which are part of the General Other and General Supervisor divisions are not covered under the defined benefit plans noted above, they are part of a separate defined contribution plan. During fiscal year 2009, the City elected to close the Police-Fire group to new hires and all new hires will be covered by a defined contribution plan.

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, 2008. 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, 2008 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, 2009

### NOTE G – RETIREMENT PLANS (continued)

#### GASB 25 INFORMATION (AS OF 12/31/08)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 6,558,478
Terminated employees not yet receiving benefits	154,204
Current Employees:	
Accumulated employee contributions including allocated investment income	51,482
Employer financed	<u>3,850,748</u>
Total actuarial liability	10,614,912
Net assets available for benefits, at actuarial value (market value is \$4,448,506)	<u>6,190,015</u>
Unfunded (overfunded) actuarial accrued liability	<u>\$ 4,424,897</u>

#### GASB 27 INFORMATION (AS OF 12/31/08)

Fiscal year beginning	April 1, 2010
Annual required contribution (ARC)	\$ 436,020
Amortization factor used - underfunded liabilities (28 years)	0.055889
Amortization factor used - underfunded liabilities (16 years)	0.082185
Amortization factor used - underfunded liabilities (30 year level \$)	0.085453

Funding Policy – For the year ended March 31, 2009, the City was required to contribute 21.16% of gross payroll to the retirement system for the Police-Fire division. For the General Other and General Supervisors divisions, the City was required to contribute a monthly amount of \$7,095 and \$12,803, respectively, due to the fact that those groups were closed to new hires. No employee contributions are required.

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, 2008 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, 2009

**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>
2006	\$ 272,136	100%	\$ -
2007	292,884	100%	-
2008	315,233	100%	-

The City was required to contribute \$351,077 for the year ended March 31, 2009. Payments were based on contribution calculations made by MERS. The City also made a discretionary payment in the amount of \$362,905, which was made in order for the City to reach an overall 60% funded status in the plan in order to be able to close the Police-Fire group to new hires.

**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>
2006	\$ 5,555,587	\$ 9,458,205	\$ 3,902,618	59%	\$ 1,003,244	389%
2007	5,728,761	10,106,769	4,378,008	57%	1,054,942	415%
2008	6,190,015	10,614,912	4,424,897	58%	983,310	450%

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 1997, 2000, 2004 and 2008 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 fiscal year 2009, all new hires of the POLC

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

union are also included in this retirement plan. In addition, if the employee contributes an additional 3.0% to the plan the City will match the employee contribution of 3%. All contributions are held and owned in the name of each employee.

Year Ended March 31,	Number of Participants	City's Share	Employee's Share
2007	22	\$ 84,901	\$ 22,161
2008	21	91,243	24,556
2009	23	99,496	27,135

**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 \$157,442 are reported under governmental activities and \$104,526 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 City for years 1-5 and years 6-12 will be covered by the retired employee. The Teamsters contract requires the City to pay the monthly health insurance premiums for 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.



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

For the year ended March 31, 2009, 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:

For the Year Ended March 31,	Annual Cost	Number of Retiree's Receiving Benefits
2007	\$ 89,037	7
2008	97,874	9
2009	140,897	11

For the year ended March 31, 2009, there were 3 eligible retiree's who opted-out of the health insurance and received payment in-lieu-of which is included in the amount above.

**NOTE J – LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended March 31, 2009:

Type of Debt	Balance April 1, 2008	Additions	Deductions	Balance March 31, 2009	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Note - fire truck	\$ 58,747	\$ -	\$ 15,778	\$ 42,969	\$ 16,615
Note - vac truck	20,776	-	13,039	7,737	7,737
Note - rec building	7,613	-	1,029	6,584	1,199
Note - campground	123,877	-	13,464	110,413	14,626
Note - campground electric	-	125,000	-	125,000	13,751
Note - MERS	-	212,905	11,770	201,135	39,692
Note - truck	-	19,993	1,197	18,796	3,709
D.D.A. bonds	215,000	-	105,000	110,000	110,000
1995 B.A. bonds	30,000	-	30,000	-	-
2000 B.A. bonds	680,000	-	40,000	640,000	40,000
Due to other					
governmental units	105,580	-	-	105,580	-
Compensated absences	148,590	8,852	-	157,442	31,488
Total governmental long-term debt	<u>\$ 1,390,183</u>	<u>\$ 366,750</u>	<u>\$ 231,277</u>	<u>\$ 1,525,656</u>	<u>\$ 278,817</u>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

Type of Debt	Balance April 1, 2008	Additions	Deductions	Balance March 31, 2009	Amounts Due Within One Year
<b>Business-type Activities:</b>					
Note - tanker truck	\$ 11,068	\$ -	\$ 5,626	\$ 5,442	\$ 5,442
Note - electric garage	-	250,000	5,395	244,605	32,495
2004 Waste Water bond	125,000	-	60,000	65,000	65,000
2004 Water bond	135,000	-	70,000	65,000	65,000
2006 Sludge Storage bond	1,090,718	-	45,000	1,045,718	50,000
Compensated absences	91,015	13,511	-	104,526	20,905
Total business-type long-term debt	<u>\$ 1,452,801</u>	<u>\$ 263,511</u>	<u>\$ 186,021</u>	<u>\$ 1,530,291</u>	<u>\$ 238,842</u>

Debt service requirements on long-term debt at March 31, 2009 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2010	\$ 97,329	\$ 16,282	\$ 150,000	\$ 34,850
2011	170,303	15,607	40,000	29,000
2012	68,321	9,017	45,000	26,875
2013	62,020	6,314	45,000	24,625
2014	47,977	3,752	50,000	22,250
2015-2019	66,674	8,326	285,000	71,125
2020-2024	-	-	135,000	6,875
	<u>\$ 512,624</u>	<u>\$ 59,298</u>	<u>\$ 750,000</u>	<u>\$ 215,600</u>
For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2010	\$ 37,937	\$ 11,917	\$ 180,000	\$ 20,892
2011	34,198	10,065	50,000	16,180
2012	35,991	8,272	50,000	15,367
2013	37,878	6,386	50,000	14,555
2014	39,863	4,400	50,000	13,743
2015-2019	64,180	2,648	270,000	56,039
2020-2024	-	-	285,000	33,695
2025-2028	-	-	240,718	9,796
	<u>\$ 250,047</u>	<u>\$ 43,688</u>	<u>\$ 1,175,718</u>	<u>\$ 180,267</u>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

**Governmental Activities:**

As of March 31, 2009, 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 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%.

During the year ended March 31, 2008, the City signed an 84 month note for improvements made to the City's recreation building. The note calls for monthly principal and interest payments of \$124 and bears an interest rate of 4.68%.

During the year ended March 31, 2009, the City signed a 60 month note which was used as additional funding into the retirement system in order to bring the City up to 60 percent funded. The note calls for monthly principal and interest payments of \$3,948 and bears an interest rate of 4.22%.

During the year ended March 31, 2009, the City signed a 120 month note for electrical upgrades at the campground. The note calls for 10 annual principal and interest payments of \$15,000 and bears an interest rate of 4.0%.

During the year ended March 31, 2009, the City signed a 60-month note for the purchase of a pickup truck. The note calls for monthly payments of \$373 and bears an interest rate of 4.5%.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

**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, 2009, 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%.

During the year ended March 31, 2009, the City signed a 240 month note for improvements/construction of a garage for the electric department. The note calls for monthly principal and interest payments of \$3,687 and bears an interest rate of 5.12%.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

**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 \$1,090,718 and have an interest rate of 1.625%. Interest payments are due and payable each April 1 and October 1. Principle payments are due each October 1 with the final principal payment due no later than October 1, 2027. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

**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:

	Bond Costs	Premium paid on 1994 Bonds	Total
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>(45,064)</u>
Net bond issuance cost			<u>\$ -</u>

**NOTE L – RESTRICTED NET ASSETS**

Restricted net assets as reported in the statement of net assets have been restricted in the amount of \$234,703 related to cemetery perpetual care, and \$6,711 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.

**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, 2009 are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
		General Fund	\$ 158,662
		Major Street Fund	46,013
		EDC Fund	13,992
		Local Street Fund	19,889
Electric Fund	\$ 238,556	Subtotal	<u>238,556</u>
Major Street Fund	869		
Local Street Fund	621		
Waste Water Fund	993		
Water Fund	993		
Internal Service Fund	497		
Subtotal	<u>3,973</u>	General Fund	<u>3,973</u>
Total	<u>\$ 242,529</u>	Total	<u>\$ 242,529</u>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

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, 2009 were as follows:

	Transfers In	Transfers Out
General Fund:		
Electric Utility	\$ 77,250	\$ -
Waste Water Utility	21,850	-
Water Utility	25,200	-
Revolving Loan	4,000	-
Nonmajor proprietary	4,800	2,000
Nonmajor governmental	32,990	-
	<hr/>	<hr/>
Total General Fund	166,090	2,000
	<hr/>	<hr/>
Revolving Loan	-	4,000
	<hr/>	<hr/>
Electric Utility	-	267,614
	<hr/>	<hr/>
Waste Water Utility	-	21,850
	<hr/>	<hr/>
Water Utility	-	25,200
	<hr/>	<hr/>
Total Nonmajor Funds	388,585	234,011
	<hr/>	<hr/>
Totals	\$ 554,675	\$ 554,675
	<hr/>	<hr/>

In 2009, there was a one-time transfer from the Electric Fund to the Wireless Fund in the amount of \$190,364. This transfer was done as part of shutting down the wireless operations.

**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.



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

This summarizes certain obligations of MMRMA and the City. Except for specific coverage limits and the City's Self Insured Retention (hereinafter the "SIR") and deductibles contained in this Coverage Overview, the provisions of the Joint Powers Agreement, Coverage Documents, MMRMA rules, regulations, and administrative procedures shall prevail in any dispute. The City agrees that any dispute between the City and MMRMA will be resolved in the manner stated in the Joint Powers Agreement and MMRMA rules.

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

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

<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.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

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, 2009, the City had no outstanding claims which exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

**NOTE 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, 2009.

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, 2009, 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

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2009

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

township or village; the three board members of the cities shall be selected by and from a body composed of two representatives from each such city; and the member of the Delta County Board of Commissioners shall be chosen by said Board of Commissioners after review of recommendations by the Townships, Villages and City representatives. The Authority as described herein has no taxing power.

The following local governmental units are participants in the Authority; shown with their respective percentage shares in the Authority:

<u>Local Governmental Unit</u>	<u>Percentage Share</u>
Delta County	51.8%
City of Escanaba	18.6%
City of Gladstone	5.9%
Local Townships	23.7%
	<u>100.0%</u>

Operation and maintenance costs are paid out of tipping fees assessed against users of the landfill. Parties that use the landfill include the municipal sanitation systems of the cities of Escanaba and Gladstone, and private solid waste companies serving the local units. The landfill began operation in December 1985. Currently City management feels the landfill does not pose any additional financial burden or benefit on the City. Financial information of the Delta Solid Waste Management Authority and Recycling Program is available at their administrative office located at 5701 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, 2009, the City did not expend more than \$500,000 in federal awards and therefore a single audit was not required in 2009.

**NOTE R – SPECIAL ITEM**

In 2009, the City Commission decided to terminate the City's operation of the wireless broadband activity by essentially turning the operation over to a private party. Since no money was exchanged in this transaction, the City absorbed a loss on discontinued operations of the Wireless Fund in the amount of \$139,913.

## **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, 2009

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
<b>REVENUES:</b>				
Federal sources	\$ 47,050	\$ -	\$ -	\$ -
State sources	568,820	568,820	538,690	(30,130)
Local sources	40,460	40,460	37,756	(2,704)
Taxes	1,361,220	1,361,220	1,394,977	33,757
Recreation	228,510	228,510	199,734	(28,776)
Public safety	38,650	35,850	23,329	(12,521)
Charges for services	70,310	70,510	79,817	9,307
Interest income	3,000	3,000	3,120	120
Loan proceeds	-	-	212,905	212,905
Miscellaneous	14,720	14,720	39,785	25,065
Total revenues	<u>2,372,740</u>	<u>2,323,090</u>	<u>2,530,113</u>	<u>207,023</u>
<b>EXPENDITURES:</b>				
General government:				
City commission	143,710	186,910	452,283	(265,373)
City manager	97,260	97,260	98,847	(1,587)
Elections	8,850	8,850	8,080	770
City assessor	73,170	73,170	67,405	5,765
Board of review	930	930	906	24
City treasurer	81,060	84,540	88,351	(3,811)
City clerk	97,840	97,840	93,769	4,071
City hall	86,120	86,120	29,068	57,052
Administration	-	-	5,767	(5,767)
Public health and safety:				
Police department	1,033,770	1,033,770	1,057,757	(23,987)
Fire department	264,330	214,680	197,257	17,423
Building and housing inspections	129,990	129,990	112,599	17,391
Parks and recreation:				
Recreation administrative	99,230	105,230	105,966	(736)
Harbor	49,420	49,420	43,982	5,438
Parks	53,370	53,370	53,243	127
Beach	40,580	40,580	37,148	3,432
Sports park	119,850	119,850	137,533	(17,683)
Campground	42,440	42,440	37,593	4,847
Miscellaneous	58,530	58,530	60,375	(1,845)
Cemetery:				
Cemetery administrative	25,560	25,560	21,870	3,690
Ground maintenance and burials	96,630	96,630	84,526	12,104
General public works:				
Forestry	14,000	14,000	13,674	326
Sidewalks	6,220	9,070	13,835	(4,765)
Grounds maintenance	6,160	6,160	5,077	1,083
Beautification	18,090	18,090	14,871	3,219
Capital outlay	80,150	80,150	11,231	68,919
Debt service	38,450	38,450	36,941	1,509
Total expenditures	<u>2,765,710</u>	<u>2,771,590</u>	<u>2,889,954</u>	<u>(118,364)</u>
Excess revenues (expenditures)	<u>(392,970)</u>	<u>(448,500)</u>	<u>(359,841)</u>	<u>88,659</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	352,900	352,900	166,090	(186,810)
Transfer out	-	-	(2,000)	(2,000)
Total other financing sources (uses)	<u>352,900</u>	<u>352,900</u>	<u>164,090</u>	<u>(188,810)</u>
Net changes in fund balances	<u>(40,070)</u>	<u>(95,600)</u>	<u>(195,751)</u>	<u>(100,151)</u>
Fund balances - beginning	<u>166,775</u>	<u>166,775</u>	<u>166,775</u>	<u>-</u>
Fund balances - ending	<u>\$ 126,705</u>	<u>\$ 71,175</u>	<u>\$ (28,976)</u>	<u>\$ (100,151)</u>

**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**MAJOR STREET FUND**  
**For the Year Ended March 31, 2009**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
State sources	\$ 309,000	\$ 309,000	\$ 299,221	\$ (9,779)
Local sources	2,700	2,700	-	(2,700)
Interest income	1,000	1,000	82	(918)
Miscellaneous	500	500	8,929	8,429
Total revenues	313,200	313,200	308,232	(4,968)
<b>EXPENDITURES:</b>				
Street system	280,550	354,480	333,025	21,455
Excess revenues (expenditures)	32,650	(41,280)	(24,793)	16,487
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	-	-	-	-
Transfer out	(32,650)	(32,650)	-	32,650
Total other financing sources (uses)	(32,650)	(32,650)	-	32,650
Net changes in fund balances	-	(73,930)	(24,793)	49,137
Fund balances - beginning	(81,558)	(81,558)	(81,558)	-
Fund balances - ending	\$ (81,558)	\$ (155,488)	\$ (106,351)	\$ 49,137

**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, 2009**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
State sources	\$ 151,000	\$ 151,000	\$ 136,074	\$ (14,926)
Local sources	2,200	2,200	-	(2,200)
Interest income	200	200	1,135	935
Miscellaneous	200	200	7,846	7,646
Total revenues	153,600	153,600	145,055	(8,545)
<b>EXPENDITURES:</b>				
Street system	183,750	186,209	176,804	9,405
Excess revenues (expenditures)	(30,150)	(32,609)	(31,749)	860
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	30,150	30,150	-	(30,150)
Transfer out	-	-	-	-
Total other financing sources (uses)	30,150	30,150	-	(30,150)
Net changes in fund balances	-	(2,459)	(31,749)	(29,290)
Fund balances - beginning	(57,855)	(57,855)	(57,855)	-
Fund balances - ending	<u>\$ (57,855)</u>	<u>\$ (60,314)</u>	<u>\$ (89,604)</u>	<u>\$ (29,290)</u>



**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**REVOLVING LOAN**  
**For the Year Ended March 31, 2009**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
<b>REVENUES:</b>				
Loan repayment	\$ 35,550	\$ 35,550	\$ 35,788	\$ 238
Interest income	16,000	16,000	8,706	(7,294)
Total revenues	51,550	51,550	44,494	(7,056)
<b>EXPENDITURES:</b>				
Community development	51,170	51,170	2,343	48,827
Excess revenues (expenditures)	380	380	42,151	41,771
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	-	-	-	-
Transfer out	(4,000)	(4,000)	(4,000)	-
Net change in fund balance	(3,620)	(3,620)	38,151	41,771
Fund balances - beginning	83,932	83,932	83,932	-
Fund balances - ending	<u>\$ 80,312</u>	<u>\$ 80,312</u>	<u>\$ 122,083</u>	<u>\$ 41,771</u>

**COMBINING FUND FINANCIAL STATEMENTS**

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**March 31, 2009**

	Special Revenue Funds			
	State Trunkline	Solid Waste	MSHDA Rental Property MSC-06-0717-NPP	MSHDA Homeowner
<b>ASSETS</b>				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ -	\$ -
Unrestricted	21,397	(6,063)	26,956	3,091
Receivables:				
Accounts	-	36,576	-	-
Interest	-	-	-	-
Prepaid expenditures	-	-	-	-
Due from other governmental units	495	21,640	-	-
	<u>495</u>	<u>21,640</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 21,892</u>	<u>\$ 52,153</u>	<u>\$ 26,956</u>	<u>\$ 3,091</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ 123	\$ 572	\$ -
Due to other governmental units	-	-	-	-
Deferred revenue	21,892	-	-	-
	<u>21,892</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>21,892</u>	<u>123</u>	<u>572</u>	<u>-</u>
Fund balances:				
Reserved for:				
City improvement	-	-	-	-
Cemetery perpetual care	-	-	-	-
Unreserved	-	52,030	26,384	3,091
	<u>-</u>	<u>52,030</u>	<u>26,384</u>	<u>3,091</u>
Total fund balances	<u>-</u>	<u>52,030</u>	<u>26,384</u>	<u>3,091</u>
Total liabilities and fund balances	<u>\$ 21,892</u>	<u>\$ 52,153</u>	<u>\$ 26,956</u>	<u>\$ 3,091</u>

See accompanying notes to financial statements.

Special Revenue Funds			Debt Service Funds		Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
MSHDA Habitat Rehab M-2006-0717	Mary Cretens Trust	Downtown Development Authority	Building Authority	DDA Bond Debt Service	Capital Projects	Cemetery Perpetual Care	
\$ -	\$ 6,711	\$ -	\$ -	\$ -	\$ -	\$ 234,703	\$ 241,414
(9,067)	-	37,902	-	-	(32,201)	-	42,015
375	-	1,769	-	-	-	-	38,720
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	37,932	-	-	9,940	-	70,007
<u>\$ (8,692)</u>	<u>\$ 6,711</u>	<u>\$ 77,603</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (22,261)</u>	<u>\$ 234,703</u>	<u>\$ 392,156</u>
\$ 175	\$ -	\$ 298	\$ -	\$ -	\$ 14,461	\$ -	\$ 15,629
-	-	6,324	-	-	-	-	6,324
-	-	-	-	-	-	-	21,892
175	-	6,622	-	-	14,461	-	43,845
-	6,711	-	-	-	-	-	6,711
-	-	-	-	-	-	234,703	234,703
(8,867)	-	70,981	-	-	(36,722)	-	106,897
(8,867)	6,711	70,981	-	-	(36,722)	234,703	348,311
<u>\$ (8,692)</u>	<u>\$ 6,711</u>	<u>\$ 77,603</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (22,261)</u>	<u>\$ 234,703</u>	<u>\$ 392,156</u>

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended March 31, 2009**

	Special Revenue Funds			
	State Trunkline	Solid Waste	MSHDA Rental Property MSC-06-0717-NPP	MSHDA Homeowner
<b>REVENUES:</b>				
Federal sources	\$ -	\$ -	\$ 166,877	\$ -
State sources	2,847	-	-	-
Local sources	-	-	28,902	-
Taxes	-	172,301	-	-
Charges for services	-	218,248	-	-
Lease income	-	-	-	-
Interest income	-	696	-	-
Miscellaneous	-	4,067	-	-
Total revenues	\$ 2,847	\$ 395,312	\$ 195,779	\$ -
<b>EXPENDITURES:</b>				
Public health and safety	\$ -	\$ -	\$ 142,952	\$ -
Cemetery	-	-	-	-
General public works	-	361,973	-	-
Street system	2,847	-	-	-
Community development	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	2,847	361,973	142,952	-
Excess revenues (expenditures)	-	33,339	52,827	-
<b>OTHER FINANCING SOURCES (USES):</b>				
Loan proceeds	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	(3,000)	(26,443)	-
Total other financing sources (uses)	-	(3,000)	(26,443)	-
Net changes in fund balances	-	30,339	26,384	-
Fund balances - beginning	-	21,691	-	3,091
Fund balances - ending	\$ -	\$ 52,030	\$ 26,384	\$ 3,091

See accompanying notes to financial statements.

Special Revenue Funds			Debt Service Funds		Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
MSHDA Habitat Rehab M-2006-0717	Mary Cretens Trust	Downtown Development Authority	Building Authority	DDA Bond Debt Service	Capital Projects	Cemetery Perpetual Care	
\$ 262,096	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 428,973
-	-	-	-	-	28,930	-	31,777
476	-	10,392	-	-	31,277	2,370	73,417
-	-	340,879	-	-	-	-	513,180
-	-	-	-	-	-	-	218,248
-	-	-	104,770	-	-	-	104,770
-	674	237	-	-	-	4,172	5,779
-	-	-	-	-	-	-	4,067
<u>\$ 262,572</u>	<u>\$ 674</u>	<u>\$ 351,508</u>	<u>\$ 104,770</u>	<u>\$ -</u>	<u>\$ 60,207</u>	<u>\$ 6,542</u>	<u>\$ 1,380,211</u>
\$ 249,913	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 392,865
-	-	-	-	-	-	270	270
-	-	-	-	-	-	-	361,973
-	-	-	-	-	-	-	2,847
-	-	131,901	-	-	-	-	131,901
-	-	-	-	-	196,121	-	196,121
-	-	-	70,000	105,000	-	-	175,000
-	-	-	34,770	11,375	-	-	46,145
<u>249,913</u>	<u>-</u>	<u>131,901</u>	<u>104,770</u>	<u>116,375</u>	<u>196,121</u>	<u>270</u>	<u>1,307,122</u>
<u>12,659</u>	<u>674</u>	<u>219,607</u>	<u>-</u>	<u>(116,375)</u>	<u>(135,914)</u>	<u>6,272</u>	<u>73,089</u>
-	-	-	-	-	125,000	-	125,000
-	-	-	-	116,375	76,846	-	193,221
(21,602)	(24,018)	(149,976)	-	-	-	(4,172)	(229,211)
<u>(21,602)</u>	<u>(24,018)</u>	<u>(149,976)</u>	<u>-</u>	<u>116,375</u>	<u>201,846</u>	<u>(4,172)</u>	<u>89,010</u>
<u>(8,943)</u>	<u>(23,344)</u>	<u>69,631</u>	<u>-</u>	<u>-</u>	<u>65,932</u>	<u>2,100</u>	<u>162,099</u>
<u>76</u>	<u>30,055</u>	<u>1,350</u>	<u>-</u>	<u>-</u>	<u>(102,654)</u>	<u>232,603</u>	<u>186,212</u>
<u>\$ (8,867)</u>	<u>\$ 6,711</u>	<u>\$ 70,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (36,722)</u>	<u>\$ 234,703</u>	<u>\$ 348,311</u>

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**March 31, 2009**

	Economic Development Corporation	Gladstone Wireless	Total Nonmajor Enterprise Funds
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ (16,447)	\$ -	\$ (16,447)
Receivables:			
Accounts	-	-	-
Notes	14,712	-	14,712
Total current assets	<u>(1,735)</u>	<u>-</u>	<u>(1,735)</u>
Noncurrent assets:			
Notes receivable	180,617	-	180,617
Capital assets	60,994	-	60,994
Less accumulated depreciation	(28,109)	-	(28,109)
Total noncurrent assets	<u>213,502</u>	<u>-</u>	<u>213,502</u>
Total assets	<u>\$ 211,767</u>	<u>\$ -</u>	<u>\$ 211,767</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 1,320	\$ -	\$ 1,320
Noncurrent liabilities:			
Due to other funds	13,992	-	13,992
Total liabilities	<u>\$ 15,312</u>	<u>\$ -</u>	<u>\$ 15,312</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 32,885	\$ -	\$ 32,885
Unrestricted	<u>163,570</u>	<u>-</u>	<u>163,570</u>
Total net assets	<u>\$ 196,455</u>	<u>\$ -</u>	<u>\$ 196,455</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, 2009**

	Economic Development Corporation	Gladstone Wireless	Total Nonmajor Enterprise Funds
<b>OPERATING REVENUES:</b>			
Charges for services	\$ -	\$ 15,876	\$ 15,876
Miscellaneous	-	2,212	2,212
	<hr/>	<hr/>	<hr/>
Total operating revenue	-	18,088	18,088
	<hr/>	<hr/>	<hr/>
<b>OPERATING EXPENSES:</b>			
Salaries and fringes	\$ 65	\$ 2,327	\$ 2,392
Supplies		756	756
Contracted services	4,096	14,408	18,504
Utilities	-	597	597
Rent	37	-	37
Insurance	-	191	191
Depreciation	736	25,808	26,544
Miscellaneous	12,275	-	12,275
	<hr/>	<hr/>	<hr/>
Total operating expenses	17,209	44,087	61,296
	<hr/>	<hr/>	<hr/>
Operating income (loss)	(17,209)	(25,999)	(43,208)
	<hr/>	<hr/>	<hr/>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest income	7,627	-	7,627
	<hr/>	<hr/>	<hr/>
Total nonoperating revenue (expense)	7,627	-	7,627
	<hr/>	<hr/>	<hr/>
Income (loss) before transfers, contributions and special items	(9,582)	(25,999)	(35,581)
Special item-loss on discontinued operations	-	(139,913)	(139,913)
Transfer in	-	190,364	190,364
Transfer out	(4,800)	-	(4,800)
	<hr/>	<hr/>	<hr/>
Change in net assets	(14,382)	24,452	10,070
Total net assets - beginning	210,837	(24,452)	186,385
	<hr/>	<hr/>	<hr/>
Total net assets - ending	\$ 196,455	\$ -	\$ 196,455
	<hr/>	<hr/>	<hr/>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2009**

	Economic Development Corporation	Gladstone Wireless	Total Nonmajor Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 11,446	\$ 19,017	\$ 30,463
Payments to suppliers	(15,528)	(16,545)	(32,073)
Payments for wages and related benefits	(65)	(2,327)	(2,392)
Other receipts (payments)	(2,420)	(128,393)	(130,813)
Net cash provided (used) by operating activities	(6,567)	(128,248)	(134,815)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	(4,800)	190,364	185,564
Net cash provided (used) by noncapital financing activities	(4,800)	190,364	185,564
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earnings	7,627	-	7,627
Net cash provided (used) by investing activities	7,627	-	7,627
Net increase (decrease) in cash and equivalents	(3,740)	62,116	58,376
Cash and equivalents, beginning of year	(12,707)	(62,116)	(74,823)
Cash and equivalents, end of year	<u>\$ (16,447)</u>	<u>\$ -</u>	<u>\$ (16,447)</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ (17,209)	\$ (25,999)	\$ (43,208)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	736	25,808	26,544
Changes in assets and liabilities:			
(Increase) decrease in receivables	11,446	929	12,375
Increase (decrease) in accounts payable	880	(593)	287
Increase (decrease) in due to other funds	(2,420)	(128,393)	(130,813)
Net cash provided by operating activities	<u>\$ (6,567)</u>	<u>\$ (128,248)</u>	<u>\$ (134,815)</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**ALL UTILITY FUNDS**  
**SCHEDULE OF OPERATING STATISTICS (UNAUDITED)**  
**For the Year Ended March 31, 2009**

ALL UTILITIES:

Population served	5,032
Average number of meters in service	5,395

ELECTRIC UTILITY FUND:

K.W.H. purchased	33,603,869
K.W.H. sold	<u>32,312,018</u>
K.W.H. lost (3.84%)	<u>1,291,851</u>
Revenue from sales	<u>\$ 3,884,962</u>
Average number of meters	3,180
Estimated street light K.W.H. used	254,000

WATER UTILITY FUND:

Gallons pumped into plant	147,482,300
Gallons used in plant and for system maintenance	<u>5,213,380</u>
Gallons pumped to mains	142,268,920
Gallons sold	<u>115,215,000</u>
Gallons lost (19.0%)	<u>27,053,920</u>
Revenue from sales	<u>\$ 651,641</u>
Average number of meters in service	2,215

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 706,185</u>
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**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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

Kevin C. Pascoe, 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 the City of Gladstone, Michigan as of and for the year ended March 31, 2009, which collectively comprise the City of Gladstone, Michigan's basic financial statements and have issued our report thereon dated August 7, 2009. 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 the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

1. Deficiency – Material audit adjustments were required to properly accrue revenues and expenditures and to properly classify activity.

Management Response – In future years, the City will make an effort to properly accrue all revenues and expenditures and to properly classify activity.

2. Deficiency – During physical observation of inventory at year end, there were several items which were selected where the physical count did not match the inventory listing in the Electric Fund.

Management Response – A new system to account for inventory is going to be developed which should greatly improve the count accuracy.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies listed above to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described below:

1. Condition – The City had deficit unreserved fund balances/unrestricted net assets in several funds and has also expended city funds in excess of amounts appropriated.

Management Response – Deficit elimination plans will be filed with the Michigan Department of Treasury.

We also noted certain other matters that we reported to management of the City of Gladstone, Michigan in a separate letter dated August 7, 2009.

The City of Gladstone, Michigan's response to the findings identified in our audit is described above. We did not audit the City of Gladstone, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Commission, others within the entity, 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 7, 2009