

CITY OF GLADSTONE, MICHIGAN

BASIC FINANCIAL STATEMENTS

MARCH 31, 2011

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
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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, 2011, 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, 2011, 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 29, 2011, 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.

Accounting principles generally accepted in the United States of America require that the required supplemental information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Michigan's financial statements as a whole. 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on it.

Anderson, Tackman & Company P.C.
Anderson, Tackman & Company, P.C.
Certified Public Accountants

August 29, 2011

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, 2011. 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 \$18,237,258. This is an increase of \$1,249,028 from March 31, 2010. This resulted from an increase in total assets of \$1,180,475 (or +5.7%) and a decrease in liabilities of \$68,553 (-1.9%). The increase in net assets resulted primarily from decreased in budgeted expenses as well as grant revenue received for the Harbor Point project. Net assets for our business-type activities were \$10,760,467, an increase of \$658,401 from 2010, while net assets in our governmental activities were \$7,476,791, an increase of \$590,627.
- The City's expenses for the year totaled \$8,914,956 a decrease of \$681,986 (-7.1%) over 2010. Revenue from all sources was \$10,163,984, an increase of \$172,256 (+1.7%) from 2010.
- In the City's business type activities, total revenues were \$5,758,223 an increase of 2.6% over the previous year. Business-type activity revenues remained flat as a percentage of total revenues at 57% for 2011 and 56% for 2010.
- In 2010 the City did receive a distribution from the Dr. Mary Cretens Trust in the amount of \$153,063, which will was budgeted for expenditure in the 2011 fiscal year. In 2011 the City received \$153,282 from the Trust which was budgeted for expenditure in the 2012 fiscal year.
- The General Fund finished the year with an increase in fund balance of \$160,333 and ending fund balance of \$388,001. This was after revenues of \$2,308,191 compared to \$2,459,354 in 2010, and expenditures of \$2,431,694 compared to expenditures of \$2,530,403 in 2010, 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 increased by \$1,249,028.

Table 1
Net Assets

| | Governmental Activities | | Business-Type Activities | |
|--|----------------------------|---------------------|-----------------------------|----------------------|
| | 2010 | 2011 | 2010 | 2011 |
| Current and other assets | \$ 1,458,738 | \$ 1,952,514 | \$ 3,546,159 | \$ 4,483,362 |
| Capital assets (net) | 7,203,753 | 7,210,814 | 8,414,968 | 8,157,403 |
| Total Assets | <u>8,662,491</u> | <u>9,163,328</u> | <u>11,961,127</u> | <u>12,640,765</u> |
| Long-term debt outstanding | 1,015,863 | 917,014 | 1,523,097 | 1,451,924 |
| Other liabilities | 760,464 | 769,523 | 335,964 | 189,642 |
| Total Liabilities | <u>1,776,327</u> | <u>1,686,537</u> | <u>1,859,061</u> | <u>1,641,566</u> |
| Net Assets: | | | | |
| Invested in capital assets, net of related debt | 6,187,890 | 6,293,800 | 6,891,871 | 6,705,479 |
| Restricted assets: | | | | |
| Expendable | 160,409 | 237,129 | - | - |
| Nonexpendable | 238,134 | 242,774 | - | - |
| Unrestricted | 299,731 | 703,088 | 3,210,195 | 4,054,988 |
| Total net assets | <u>\$ 6,886,164</u> | <u>\$ 7,476,791</u> | <u>\$ 10,102,066</u> | <u>\$ 10,760,467</u> |

Net assets of the City's governmental activities stood at \$7,476,791, up from \$6,886,164 in 2010 (+8.6%). Total of the governmental activities assets increased by 5.8%, and total liabilities decreased by 5.3%. The ratio of assets to liabilities increased from 4.88 in 2010 to 5.43 in 2011.

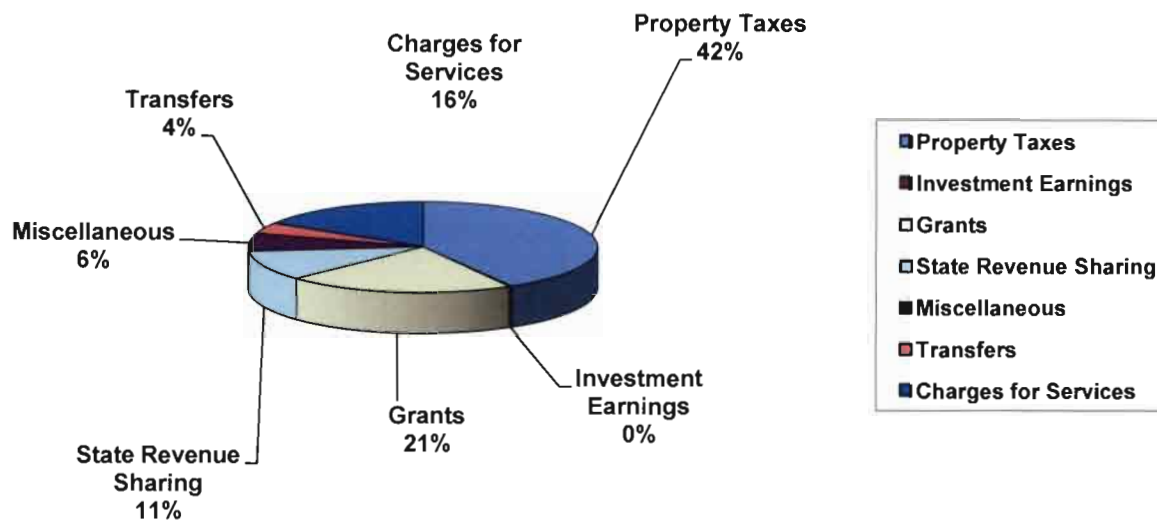
Net assets in our business-type activities stood at \$10,760,467, up from \$10,102,066 in 2010. Total assets increased to \$12,640,765 from \$11,961,127 in 2010, while liabilities also increased from \$1,859,061 in 2010 to \$1,880,298 in 2010 (+1.1%). Unrestricted net assets increased from \$3,210,195 to \$4,054,988, while the amount invested in capital assets (net of related debt) decreased from \$6,891,871 in 2010 to \$6,705,479 in 2011. 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

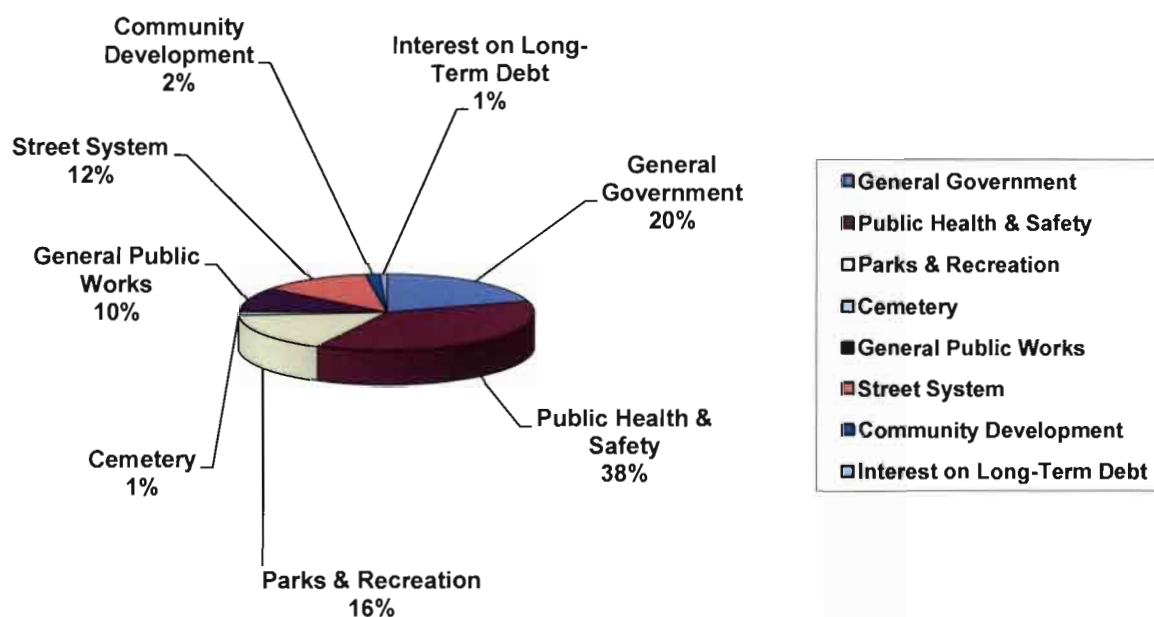
| | Governmental Activities | | Business-Type Activities | |
|---|----------------------------|---------------------|-----------------------------|----------------------|
| | 2010 | 2011 | 2010 | 2011 |
| Governmental Activities | | | | |
| Revenues: | | | | |
| Program Revenues: | | | | |
| Charges for services | \$ 740,489 | \$ 715,384 | \$ 5,533,901 | \$ 5,859,012 |
| Operating grants | 719,342 | 742,466 | - | - |
| Capital grants | 420,835 | 183,872 | 17,372 | 16,948 |
| General Revenues: | | | | |
| Property taxes | 1,844,233 | 1,823,877 | - | - |
| State revenue sharing | 467,747 | 462,819 | - | - |
| Unrestricted grants | 5,307 | 5,320 | - | - |
| Unrestricted investment earnings | 7,974 | 12,174 | 62,576 | 53,066 |
| Miscellaneous | 168,242 | 284,136 | - | - |
| Total Revenues | <u>4,374,169</u> | <u>4,230,048</u> | <u>5,613,849</u> | <u>5,929,026</u> |
| Program Expenses: | | | | |
| General government | 732,434 | 773,003 | - | - |
| Public health & safety | 1,594,284 | 1,431,362 | - | - |
| Parks & recreation | 587,306 | 608,906 | - | - |
| Cemetery | 64,451 | 56,750 | - | - |
| General public works | 422,934 | 391,978 | - | - |
| Street system | 576,459 | 461,824 | - | - |
| Community development | 126,106 | 61,356 | - | - |
| Interest on long-term debt | 55,081 | 29,955 | - | - |
| Electric | - | - | 4,076,340 | 3,740,681 |
| Wastewater | - | - | 771,546 | 742,744 |
| Water | - | - | 587,357 | 608,665 |
| Economic development | - | - | 2,644 | 7,732 |
| Total Expenses | <u>4,159,055</u> | <u>3,815,134</u> | <u>5,437,887</u> | <u>5,099,822</u> |
| Excess (deficiency) before transfers and contributions | 215,114 | 414,914 | 175,962 | 829,204 |
| Transfers | 383,401 | 170,803 | (383,401) | (170,803) |
| Contributions to permanent fund | <u>3,710</u> | <u>4,910</u> | <u>-</u> | <u>-</u> |
| Increase (decrease) in net assets | 602,225 | 590,627 | (207,439) | 658,401 |
| Net assets - beginning | <u>6,283,939</u> | <u>6,886,164</u> | <u>10,309,505</u> | <u>10,102,066</u> |
| Net assets - ending | <u>\$ 6,886,164</u> | <u>\$ 7,476,791</u> | <u>\$ 10,102,066</u> | <u>\$ 10,760,467</u> |

Governmental Activities

2011 Governmental Activities Revenue



2011 Governmental Program Expenses



The City's total revenues were \$10,163,984, up from \$9,991,728 in 2010 (an increase of 1.7%). The cost of all programs and services was \$8,914,956, down from \$9,596,942 in 2010 (a decrease of 7.1%). For 2011, there was an overall excess of revenues over expenses of \$1,249,028, compared to \$394,786 in 2010.

Governmental Activities

Revenues for the City's governmental activities totaled \$4,405,761, down 7.5% from \$4,761,280 in 2010. Expenses decreased by 8.3% (\$343,921) with the largest percentage decrease (10%) in public health and safety.

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 | |
|------------------------|---------------------------|---------------------|-------------------------|---------------------|
| | 2010 | 2011 | 2010 | 2011 |
| Public health & safety | \$ 1,594,284 | \$ 1,431,362 | \$ 1,054,922 | \$ 1,097,905 |
| Street systems | 576,459 | 461,824 | 121,118 | (32,654) |
| Parks & recreation | 587,306 | 608,906 | 127,118 | 217,835 |
| General public works | 422,934 | 391,978 | 197,141 | 158,383 |
| General government | 732,435 | 773,003 | 635,931 | 653,539 |
| Totals | <u>\$ 3,913,418</u> | <u>\$ 3,667,073</u> | <u>\$ 2,136,230</u> | <u>\$ 2,095,008</u> |

Most of the governmental activity decreases are due to the City cutting expenses and downsizing through attrition in an attempt to balance the budget. The City's lack of financial ability to invest additional capital into our street infrastructure could have a long-term negative impact on our street system. The 10% cut in public health and safety is due to less overtime by public safety and reduction in staff in community development. The City strives to deliver the same level of services even with 7.5% less revenue.

Business-Type Activities

Revenues for the City's business-type activities totaled \$5,758,223, up from \$5,613,849 in 2010 (+2.6%). 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 2010. Business-type activity expenses decreased 6.2% primarily due to a decrease in depreciation expense and purchased power expense in the Electric Fund.

THE CITY'S FUNDS

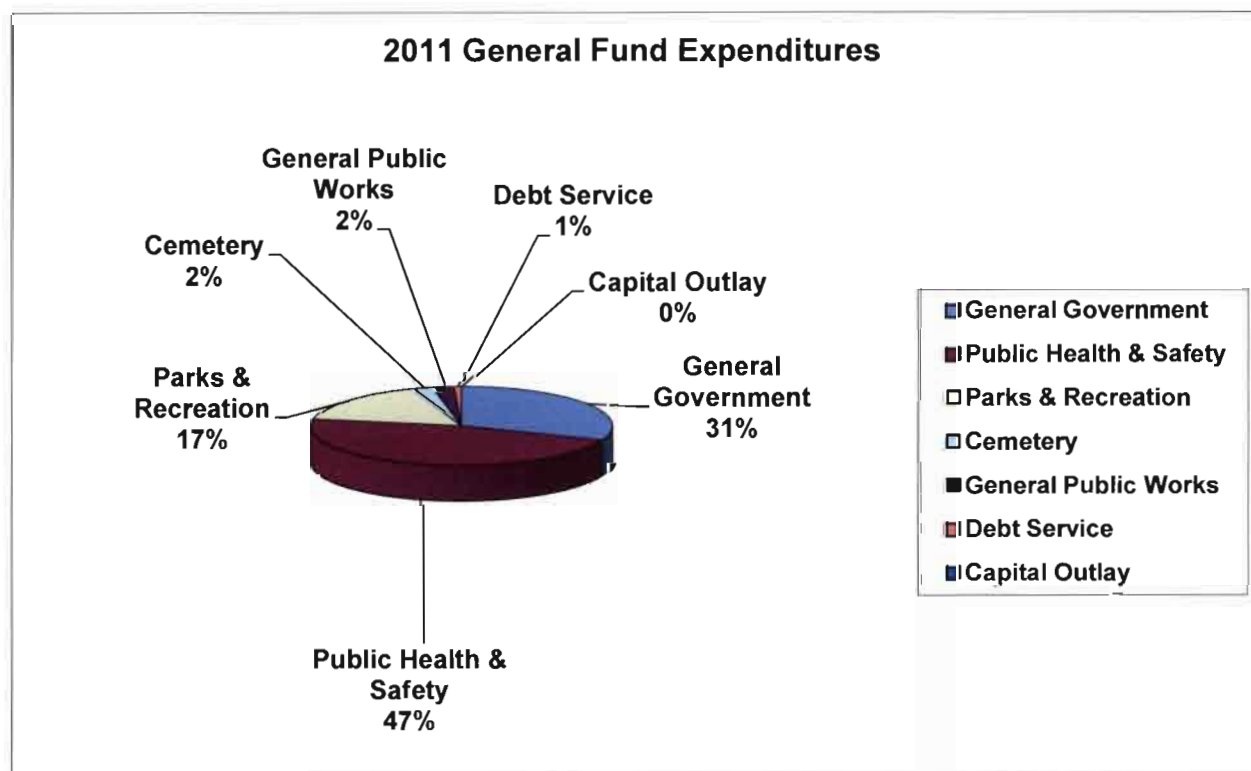
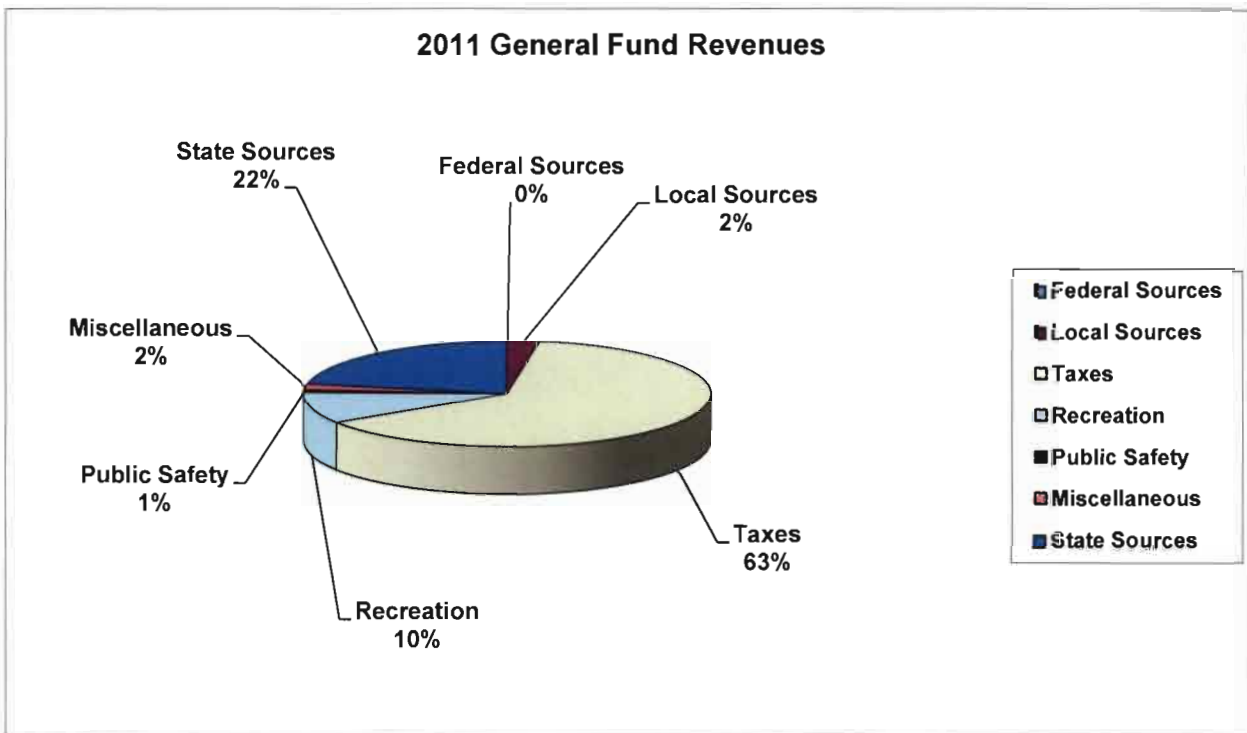
As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$1,332,850, an increase of \$475,541 from 2010. The combined increase in fund balance in large part comes from the street funds doing very little projects, trying to return to a positive fund balance in both major and local streets. The city needs to come up with a long term plan on how to fund street projects. The general fund balance increase of \$160,333, no RLF loans this year and \$100,000 in non-major governmental funds also contributed to this.

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 \$2,308,191 was 2.0% over the amended budget. Expenditures were less than the amended budget by \$152,065. The final expenditure number of \$2,431,694 was 5.9% lower than the revised expenditure estimate of \$2,583,759. Total revenues exceeded expenditures by \$160,333 for the year.

The final revenue number was \$151,163 less than 2010 and expenditures were \$98,709 lower than 2010. The City received \$45,000 more in constitutional sales tax than budgeted and increased user fees at the harbor and campground also contributed to the revenue. On the expense side, cuts to public safety, community development and less expenses in a few other departments are contributed to the overall health of the general fund.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2011, the City had \$15,368,217, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was down from \$15,618,721 in 2010. (See table 4 below)

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

| | Governmental Activities | | Business-Type Activities | |
|--------------------------------|----------------------------|---------------------|-----------------------------|---------------------|
| | 2010 | 2011 | 2010 | 2011 |
| Land | \$ 1,619,627 | \$ 1,619,627 | \$ 236,513 | \$ 236,513 |
| Construction in progress | 224,471 | - | - | - |
| Land Improvements | 172,204 | 152,565 | - | - |
| Buildings | 1,382,069 | 1,260,836 | 895,310 | 862,195 |
| Machinery & Equipment | 573,332 | 506,723 | 60,814 | 35,588 |
| Infrastructure - Road System | 2,490,989 | 2,477,536 | - | - |
| Infrastructure - Other | 741,061 | 1,193,527 | - | - |
| Distribution/Collection System | - | - | 7,222,331 | 7,023,107 |
| Total | <u>\$ 7,203,753</u> | <u>\$ 7,210,814</u> | <u>\$ 8,414,968</u> | <u>\$ 8,157,403</u> |

DEBT

At year-end the City had \$2,368,938 in bonds and notes outstanding. This is a net decrease of \$170,022 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 \$1,189,183 is well below the 10% limit.

Table 5
Outstanding Debt at Year-End

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|----------------------------|-------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| General obligation bonds/ notes(backed by the City) | \$ 989,392 | \$ 682,977 | \$ 527,379 | \$ 506,206 | \$ 1,516,771 | \$ 1,189,183 |
| Internally financed notes | - | 213,851 | - | - | - | 213,851 |
| Revenue bonds and notes (backed by specific tax and fee revenues) | 26,471 | 20,186 | 995,718 | 945,718 | 1,022,189 | 965,904 |
| Totals | <u>\$ 1,015,863</u> | <u>\$ 917,014</u> | <u>\$ 1,523,097</u> | <u>\$ 1,451,924</u> | <u>\$ 2,538,960</u> | <u>\$ 2,368,938</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

The two largest sources of revenue for the General Fund, Taxes and State Shared Revenue, are expected to decline or at minimum stay flat for up to two more years. In the General Fund, we have been able to attain just over \$200,000 in fund balance. From \$30,000 negative fund balance in 2009 to a positive \$200,000 says a great deal for the general fund. The City strives to continue to deliver the same level of service our residents expect. This is where thinking outside the box is key. We continue to rely on staff and citizen input to provide ideas and opportunities for better and more efficient services.

The Major Street and Local Street Funds came a long way this year to improve the deficit balance. The lack of snow during the winter months really helped in both of these funds.

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

MISSION STATEMENT

We are a caring community with a passion for providing the highest quality of life by embracing innovative ideas while maintaining a hometown atmosphere.

VISION STATEMENT

The City of Gladstone will be the community of choice in the Upper Great Lakes that provides four seasons of recreational activities in a safe, progressive community.

GUIDING PRINCIPALS

We value.....

Integrity: Honesty and openness in our commitments.

Fiscal Responsibility: Providing responsible stewardship of the City's assets and resources.

Teamwork: Working collaboratively to build and maintain productive relationships.

Quality of Life: Providing services that support our small town values and close-knit community.

Innovation: Continually improving our community by being progressive and innovative.

Fair and equitable practice: Promoting respect and equal consideration to residents, businesses and visitors.

Timely, efficient and responsive services: Meeting our resident's and customer's needs in a prompt, professional and courteous manner.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET ASSETS
March 31, 2011

| | Primary Government | | | Component Unit |
|---|-------------------------|--------------------------|----------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total | Housing Commission |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 696,128 | \$ 1,956,386 | \$ 2,652,514 | \$ 181,515 |
| Receivables : | | | | |
| Accounts | 82,963 | - | 82,963 | 2,324 |
| Utilities | - | 1,021,843 | 1,021,843 | - |
| Special assessments | 38,060 | - | 38,060 | - |
| Notes | 69,923 | 33,726 | 103,649 | - |
| Miscellaneous | 16,413 | 44,250 | 60,663 | - |
| Due from other governmental units | 281,745 | - | 281,745 | - |
| Prepaid expense | 42,961 | 16,780 | 59,741 | 17,448 |
| Inventory | 2,178 | 212,215 | 214,393 | - |
| Total current assets | <u>1,230,371</u> | <u>3,285,200</u> | <u>4,515,571</u> | <u>201,287</u> |
| Noncurrent assets: | | | | |
| Restricted assets: | | | | |
| Cash and cash equivalents | 479,903 | - | 479,903 | - |
| Investments | - | 608,669 | 608,669 | 317,186 |
| Notes receivable | 242,240 | 364,929 | 607,169 | - |
| Internal balances | - | 224,564 | 224,564 | - |
| Capital assets | 21,639,689 | 18,205,775 | 39,845,464 | 4,685,926 |
| Accumulated depreciation | (14,428,875) | (10,048,372) | (24,477,247) | (3,258,873) |
| Total noncurrent assets | <u>7,932,957</u> | <u>9,355,565</u> | <u>17,288,522</u> | <u>1,744,239</u> |
| Total assets | <u>\$ 9,163,328</u> | <u>\$ 12,640,765</u> | <u>\$ 21,804,093</u> | <u>\$ 1,945,526</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 63,613 | \$ 96,184 | \$ 159,797 | \$ 21,231 |
| Accrued interest | 14,909 | - | 14,909 | - |
| Customer deposits | - | 48,527 | 48,527 | - |
| Deferred revenue | 20,535 | - | 20,535 | - |
| Other liabilities | 2,924 | - | 2,924 | 32,815 |
| Compensated absences | 31,622 | 25,239 | 56,861 | - |
| Bonds payable | 45,000 | 50,000 | 95,000 | - |
| Notes payable | 77,037 | 18,782 | 95,819 | - |
| Total current liabilities | <u>255,640</u> | <u>238,732</u> | <u>494,372</u> | <u>54,046</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences | 126,490 | 100,951 | 227,441 | 2,943 |
| OPEB obligation | 284,866 | 157,473 | 442,339 | - |
| Due to other governmental units | - | - | - | - |
| Internal balances | 224,564 | - | 224,564 | - |
| Bonds payable | 515,000 | 895,718 | 1,410,718 | - |
| Notes payable | 279,977 | 487,424 | 767,401 | - |
| Total noncurrent liabilities | <u>1,430,897</u> | <u>1,641,566</u> | <u>3,072,463</u> | <u>2,943</u> |
| Total liabilities | <u>\$ 1,686,537</u> | <u>\$ 1,880,298</u> | <u>\$ 3,566,835</u> | <u>\$ 56,989</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | \$ 6,293,800 | \$ 6,705,479 | \$ 12,999,279 | \$ 1,427,053 |
| Restricted for: | | | | |
| Expendable: | | | | |
| City improvement | 237,129 | - | 237,129 | - |
| Nonexpendable: | | | | |
| Cemetery perpetual care | 242,774 | - | 242,774 | - |
| Unrestricted | <u>703,088</u> | <u>4,054,988</u> | <u>4,758,076</u> | <u>461,484</u> |
| Total net assets | <u>\$ 7,476,791</u> | <u>\$ 10,760,467</u> | <u>\$ 18,237,258</u> | <u>\$ 1,888,537</u> |

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2011

| Functions/Programs | Program Revenue | | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Unit |
|--|-----------------|--------------------------------------|------------------------------------|----------------------------------|---|--------------------------|---------------|----------------|
| | | | | | Primary Government | | | |
| | Expenses | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total | |
| Primary government: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 773,003 | \$ 80,714 | \$ - | \$ 38,750 | \$ (653,539) | \$ - | \$ (653,539) | \$ - |
| Public health and safety | 1,431,362 | 87,904 | 245,553 | - | (1,097,905) | - | (1,097,905) | - |
| Parks and recreation | 608,906 | 217,915 | 28,034 | 145,122 | (217,835) | - | (217,835) | - |
| Cemetery | 56,750 | 53,435 | - | - | (3,315) | - | (3,315) | - |
| General public works | 391,978 | 233,595 | - | - | (158,383) | - | (158,383) | - |
| Street system | 461,824 | 34,007 | 460,471 | - | 32,654 | - | 32,654 | - |
| Community development | 61,357 | 7,814 | 8,408 | - | (45,135) | - | (45,135) | - |
| Interest on long-term debt | 29,955 | - | - | - | (29,955) | - | (29,955) | - |
| Total governmental activities | 3,815,134 | 715,384 | 742,466 | 183,872 | (2,173,412) | - | (2,173,412) | - |
| Business-type activities: | | | | | | | | |
| Electric utility | 3,740,681 | 4,337,155 | - | 1,364 | - | 597,838 | 597,838 | - |
| Waste water utility | 742,744 | 793,445 | - | 4,899 | - | 55,600 | 55,600 | - |
| Water utility | 608,665 | 712,604 | - | 10,685 | - | 114,624 | 114,624 | - |
| Economic development | 7,732 | 15,808 | - | - | - | 8,076 | 8,076 | - |
| Total business-type activities | 5,099,822 | 5,859,012 | - | 16,948 | - | 776,138 | 776,138 | - |
| Total primary government | \$ 8,914,956 | \$ 6,574,396 | \$ 742,466 | \$ 200,820 | (2,173,412) | 776,138 | (1,397,274) | - |
| Component unit: | | | | | | | | |
| Housing commission | \$ 624,414 | \$ 291,467 | \$ 195,767 | \$ 70,927 | - | - | - | (66,253) |
| General revenues: | | | | | | | | |
| Property taxes | | | | | 1,823,877 | - | 1,823,877 | - |
| State revenue sharing | | | | | 462,819 | - | 462,819 | - |
| Grants and contributions not restricted to specific programs | | | | | 5,320 | - | 5,320 | - |
| Contributions to permanent fund | | | | | 4,910 | - | 4,910 | - |
| Unrestricted investment earnings | | | | | 12,174 | 53,066 | 65,240 | 6,783 |
| Miscellaneous | | | | | 284,136 | - | 284,136 | 29,368 |
| Transfers | | | | | 170,803 | (170,803) | - | - |
| Total general revenues and transfers | | | | | 2,764,039 | (117,737) | 2,646,302 | 36,151 |
| Changes in net assets | | | | | 590,627 | 658,401 | 1,249,028 | (30,102) |
| Net assets - beginning | | | | | 6,886,164 | 10,102,066 | 16,988,230 | 1,918,639 |
| Net assets - ending | | | | | \$ 7,476,791 | \$ 10,760,467 | \$ 18,237,258 | \$ 1,888,537 |

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2011

| | General | Major Street | Local Street |
|--------------------------------------|-------------------|------------------|------------------|
| ASSETS | | | |
| Cash and equivalents: | | | |
| Restricted | \$ - | \$ - | \$ - |
| Unrestricted | 451,806 | (3,138) | (17,532) |
| Receivables: | | | |
| Accounts | 42,037 | 109 | - |
| Special assessments | 20,724 | 7,812 | 9,524 |
| Notes | - | - | - |
| Miscellaneous | 16,387 | - | 26 |
| Prepaid expenditures | 21,946 | 3,104 | 3,104 |
| Due from other governmental units | 88,452 | 50,899 | 20,210 |
| Inventory | 2,178 | - | - |
| | <u>2,178</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>\$ 643,530</u> | <u>\$ 58,786</u> | <u>\$ 15,332</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 50,622 | \$ 461 | \$ 69 |
| Due to other funds | 158,662 | 46,013 | 19,889 |
| Due to other governmental units | - | - | - |
| Deferred revenue | 43,321 | - | - |
| Other liabilities | 2,924 | - | - |
| | <u>255,529</u> | <u>46,474</u> | <u>19,958</u> |
| Total liabilities | <u>255,529</u> | <u>46,474</u> | <u>19,958</u> |
| Fund balances: | | | |
| Reserved for: | | | |
| Inventory | 2,178 | - | - |
| City improvement | - | - | - |
| Cemetery perpetual care | - | - | - |
| Unreserved: | | | |
| Designated | 152,074 | - | - |
| Undesignated | 233,749 | 12,312 | (4,626) |
| Unreserved, reported in non-major: | | | |
| Special revenue funds-undesignated | - | - | - |
| Capital project fund-designated | - | - | - |
| | <u>388,001</u> | <u>12,312</u> | <u>(4,626)</u> |
| Total fund balances | <u>388,001</u> | <u>12,312</u> | <u>(4,626)</u> |
| Total liabilities and fund balances | <u>\$ 643,530</u> | <u>\$ 58,786</u> | <u>\$ 15,332</u> |

See accompanying notes to financial statements.

| <u>Revolving Loan</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-----------------------|--|---|
| \$ - | \$ 479,903 | \$ 479,903 |
| 48,519 | 238,342 | 717,997 |
| - | 40,817 | 82,963 |
| - | - | 38,060 |
| 312,163 | - | 312,163 |
| - | - | 16,413 |
| - | 11,914 | 40,068 |
| - | 122,184 | 281,745 |
| - | - | 2,178 |
| <u>\$ 360,682</u> | <u>\$ 893,160</u> | <u>\$ 1,971,490</u> |
| \$ - | \$ 4,516 | \$ 55,668 |
| - | - | 224,564 |
| - | - | - |
| 312,163 | - | 355,484 |
| - | - | 2,924 |
| <u>312,163</u> | <u>4,516</u> | <u>638,640</u> |
| - | 11,914 | 14,092 |
| - | 237,129 | 237,129 |
| - | 242,774 | 242,774 |
| - | - | 152,074 |
| 48,519 | - | 289,954 |
| - | 380,171 | 380,171 |
| - | 16,656 | 16,656 |
| <u>48,519</u> | <u>888,644</u> | <u>1,332,850</u> |
| <u>\$ 360,682</u> | <u>\$ 893,160</u> | <u>\$ 1,971,490</u> |

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2011

| | |
|--|--------------|
| Total fund balances for governmental funds | \$ 1,332,850 |
|--|--------------|

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:

| | | |
|--------------------------|---------------|-----------|
| Capital assets | \$ 19,731,462 | |
| Accumulated depreciation | (12,817,905) | |
| Total capital assets | | 6,913,557 |

| | |
|---|---------|
| 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. | 241,437 |
|---|---------|

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 | \$ (14,909) | |
| Bonds payable | (560,000) | |
| Notes payable | (345,808) | |
| OPEB obligation | (267,173) | |
| Compensated absences | (158,112) | (1,346,002) |

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. | 334,949 |
|--|---------|

| | |
|---|--------------|
| Total net assets of governmental activities | \$ 7,476,791 |
|---|--------------|

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, 2011

| | General Fund | Major Street | Local Street |
|--|-----------------|-----------------|-----------------|
| REVENUES: | | | |
| Federal sources | \$ - | \$ - | \$ - |
| State sources | 488,139 | 296,210 | 134,811 |
| Local sources | 56,730 | 20,000 | 5,236 |
| Taxes | 1,404,228 | - | - |
| Charges for services | 85,193 | - | - |
| Recreation | 213,436 | - | - |
| Public safety | 18,615 | - | - |
| Loan repayment | - | - | - |
| Lease income | - | - | - |
| Interest income | 4,076 | 169 | 1,779 |
| Miscellaneous | 37,774 | 11,862 | 22,145 |
| | <hr/> | <hr/> | <hr/> |
| Total revenues | 2,308,191 | 328,241 | 163,971 |
| | <hr/> | <hr/> | <hr/> |
| EXPENDITURES: | | | |
| General government | 751,636 | - | - |
| Public health and safety | 1,140,095 | - | - |
| Parks and recreation | 408,392 | - | - |
| Cemetery | 56,476 | - | - |
| General public works | 55,222 | - | - |
| Street system | - | 270,829 | 166,247 |
| Community development | - | - | - |
| Capital outlay | - | - | - |
| Debt service: | | | |
| Principal | 18,698 | - | - |
| Interest and other charges | 1,175 | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total expenditures | 2,431,694 | 270,829 | 166,247 |
| | <hr/> | <hr/> | <hr/> |
| Excess revenues (expenditures) | (123,503) | 57,412 | (2,276) |
| | <hr/> | <hr/> | <hr/> |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers in | 306,397 | 32,810 | 64,125 |
| Transfers out | (22,561) | (42,500) | (2,500) |
| | <hr/> | <hr/> | <hr/> |
| Total other financing sources (uses) | 283,836 | (9,690) | 61,625 |
| | <hr/> | <hr/> | <hr/> |
| Net changes in fund balances | 160,333 | 47,722 | 59,349 |
| | <hr/> | <hr/> | <hr/> |
| Fund balances - beginning | 227,668 | (35,410) | (63,975) |
| | <hr/> | <hr/> | <hr/> |
| Fund balances - ending | \$ 388,001 | \$ 12,312 | \$ (4,626) |
| | <hr/> | <hr/> | <hr/> |

See accompanying notes to financial statements.

| Revolving Loan | Nonmajor Governmental Funds | Total Governmental Funds |
|-------------------|-----------------------------------|--------------------------------|
| \$ - | \$ 242,182 | \$ 242,182 |
| - | 93,543 | 1,012,703 |
| - | 188,500 | 270,466 |
| - | 419,649 | 1,823,877 |
| - | 231,763 | 316,956 |
| - | - | 213,436 |
| - | - | 18,615 |
| 15,190 | - | 15,190 |
| - | 69,000 | 69,000 |
| 7,584 | 6,150 | 19,758 |
| - | 83,138 | 154,919 |
| 22,774 | 1,333,925 | 4,157,102 |
| - | - | 751,636 |
| - | 178,947 | 1,319,042 |
| - | - | 408,392 |
| - | 270 | 56,746 |
| - | 363,155 | 418,377 |
| - | 3,035 | 440,111 |
| 636 | 60,751 | 61,387 |
| - | 303,913 | 303,913 |
| - | 40,000 | 58,698 |
| - | 29,000 | 30,175 |
| 636 | 979,071 | 3,848,477 |
| 22,138 | 354,854 | 308,625 |
| - | 49,381 | 452,713 |
| - | (218,236) | (285,797) |
| - | (168,855) | 166,916 |
| 22,138 | 185,999 | 475,541 |
| 26,381 | 702,645 | 857,309 |
| \$ 48,519 | \$ 888,644 | \$ 1,332,850 |

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, 2011

| | |
|---|------------|
| Net changes in fund balances - total governmental funds | \$ 475,541 |
|---|------------|

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 (\$465,572) exceeded depreciation expense (\$415,490) | 50,082 |
|--|--------|

| | |
|--|-------|
| 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. | 5,203 |
|--|-------|

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

| | | |
|-----------------------|--------|--------|
| Principal repayments: | | |
| Bond principal | 40,000 | |
| Note principal | 54,975 | 94,975 |

| | |
|--|----------|
| Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities. | (27,404) |
|--|----------|

| | |
|---|---------|
| Reversal of prior year liability of due to other governmental units | 105,580 |
|---|---------|

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 | 9,876 | |
| OPEB obligation | (128,569) | |
| Accrued interest on bonds | 5,343 | (113,350) |

| | |
|--|------------|
| Changes in net assets of governmental activities | \$ 590,627 |
|--|------------|

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
March 31, 2011

| | Electric Utility | Waste Water Utility | Water Utility |
|---|----------------------------|----------------------------|----------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,641,554 | \$ 169,757 | \$ 152,582 |
| Receivables: | | | |
| Utilities | 744,111 | 178,077 | 99,655 |
| Special assessments | - | - | - |
| Notes | 19,503 | - | - |
| Miscellaneous | 1,675 | 24,201 | 18,374 |
| Prepaid expense | 8,428 | 5,419 | 2,933 |
| Inventory | 212,215 | - | - |
| Total current assets | <u>2,627,486</u> | <u>377,454</u> | <u>273,544</u> |
| Noncurrent assets: | | | |
| Investments | 608,669 | - | - |
| Notes receivable | 194,348 | - | - |
| Due from other funds | 234,043 | - | - |
| Capital assets | 8,125,244 | 5,312,772 | 4,706,765 |
| Less accumulated depreciation | (3,997,058) | (2,594,088) | (3,427,023) |
| Total noncurrent assets | <u>5,165,246</u> | <u>2,718,684</u> | <u>1,279,742</u> |
| Total assets | <u><u>\$ 7,792,732</u></u> | <u><u>\$ 3,096,138</u></u> | <u><u>\$ 1,553,286</u></u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 3,028 | \$ 89,026 | \$ 2,630 |
| Customer deposits | 48,527 | - | - |
| Compensated absences | 11,044 | 5,504 | 8,691 |
| Bonds payable | - | 50,000 | - |
| Notes payable | 18,782 | - | - |
| Total current liabilities | <u>81,381</u> | <u>144,530</u> | <u>11,321</u> |
| Noncurrent liabilities: | | | |
| Due to other funds | - | - | - |
| Compensated absences | 44,175 | 22,014 | 34,762 |
| OPEB obligation | 62,370 | 49,984 | 45,119 |
| Bonds payable | - | 895,718 | - |
| Notes payable | 487,424 | - | - |
| Total noncurrent liabilities | <u>593,969</u> | <u>967,716</u> | <u>79,881</u> |
| Total liabilities | <u><u>\$ 675,350</u></u> | <u><u>\$ 1,112,246</u></u> | <u><u>\$ 91,202</u></u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | \$ 3,621,980 | \$ 1,772,966 | \$ 1,279,742 |
| Unrestricted | <u>3,495,402</u> | <u>210,926</u> | <u>182,342</u> |
| Total net assets | <u><u>\$ 7,117,382</u></u> | <u><u>\$ 1,983,892</u></u> | <u><u>\$ 1,462,084</u></u> |

See accompanying notes to financial statements.

| <u>Nonmajor Fund</u> <u>Economic</u> <u>Development Corp</u> | <u>Total</u> <u>Enterprise</u> <u>Funds</u> | <u>Internal</u> <u>Service</u> <u>Fund</u> |
|--|---|--|
| \$ (7,507) | \$ 1,956,386 | \$ (21,869) |
| - | 1,021,843 | - |
| - | - | - |
| 14,223 | 33,726 | - |
| - | 44,250 | - |
| - | 16,780 | 2,893 |
| - | 212,215 | - |
| <u>6,716</u> | <u>3,285,200</u> | <u>(18,976)</u> |
| - | 608,669 | - |
| 170,581 | 364,929 | - |
| - | 234,043 | - |
| 60,994 | 18,205,775 | 1,908,227 |
| (30,203) | (10,048,372) | (1,610,970) |
| <u>201,372</u> | <u>9,365,044</u> | <u>297,257</u> |
| <u>\$ 208,088</u> | <u>\$ 12,650,244</u> | <u>\$ 278,281</u> |
| \$ 1,500 | \$ 96,184 | \$ 7,945 |
| - | 48,527 | - |
| - | 25,239 | - |
| - | 50,000 | - |
| - | 18,782 | 4,057 |
| <u>1,500</u> | <u>238,732</u> | <u>12,002</u> |
| 9,479 | 9,479 | - |
| - | 100,951 | - |
| - | 157,473 | 17,693 |
| - | 895,718 | - |
| - | 487,424 | 7,149 |
| <u>9,479</u> | <u>1,651,045</u> | <u>24,842</u> |
| <u>\$ 10,979</u> | <u>\$ 1,889,777</u> | <u>\$ 36,844</u> |
| \$ 30,791 | \$ 6,705,479 | \$ 286,051 |
| <u>166,318</u> | <u>4,054,988</u> | <u>(44,614)</u> |
| <u>\$ 197,109</u> | <u>\$ 10,760,467</u> | <u>\$ 241,437</u> |

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended March 31, 2011

| | Electric Utility | Waste Water Utility | Water Utility |
|--|---------------------|------------------------|------------------|
| OPERATING REVENUES: | | | |
| Charges for services | \$ 4,161,414 | \$ 775,319 | \$ 684,656 |
| Miscellaneous | 175,741 | 18,126 | 27,948 |
| Total operating revenue | 4,337,155 | 793,445 | 712,604 |
| OPERATING EXPENSES: | | | |
| Salaries and fringes | 607,160 | 352,377 | 305,190 |
| Supplies | 50,443 | 38,242 | 57,328 |
| Contracted services | 81,336 | 107,480 | 15,788 |
| Repairs and maintenance | 1,016 | 6,875 | 28,546 |
| Utilities | 18,565 | 41,832 | 48,796 |
| Purchased power | 2,435,964 | - | - |
| Rent | 2,854 | 22,056 | 7,976 |
| Memberships and dues | 5,751 | 1,769 | 643 |
| Travel | 712 | 85 | 86 |
| Insurance | 30,497 | 11,344 | 11,290 |
| Education and training | 4,683 | 1,199 | 3,127 |
| In lieu of taxes | 93,540 | 17,840 | 17,840 |
| Depreciation | 198,469 | 116,264 | 89,234 |
| Miscellaneous | 183,175 | 7,263 | 22,563 |
| Total operating expenses | 3,714,165 | 724,626 | 608,407 |
| Operating income (loss) | 622,990 | 68,819 | 104,197 |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Interest income | 46,733 | 2,887 | 2,101 |
| Interest expense | (26,516) | (16,180) | - |
| Total nonoperating revenue (expense) | 20,217 | (13,293) | 2,101 |
| Income (loss) before transfers, contributions and special items | 643,207 | 55,526 | 106,298 |
| Gain/(loss) on asset disposal | - | (1,938) | (258) |
| Capital contributions | 1,364 | 4,899 | 10,685 |
| Transfer in | - | 8,497 | - |
| Transfer out | (102,050) | (35,050) | (37,400) |
| Change in net assets | 542,521 | 31,934 | 79,325 |
| Total net assets - beginning | 6,574,861 | 1,951,958 | 1,382,759 |
| Total net assets - ending | \$ 7,117,382 | \$ 1,983,892 | \$ 1,462,084 |

See accompanying notes to financial statements.

| <u>Nonmajor Fund</u> <u>Economic</u> <u>Development Corp.</u> | <u>Total</u> <u>Enterprise</u> <u>Funds</u> | <u>Internal</u> <u>Service</u> <u>Fund</u> |
|---|---|--|
| \$ - | \$ 5,621,389 | \$ 315,257 |
| 15,808 | 237,623 | 5,187 |
| 15,808 | 5,859,012 | 320,444 |
| - | 1,264,727 | 131,588 |
| - | 146,013 | 63,346 |
| 1,646 | 206,250 | 14,793 |
| - | 36,437 | 37,327 |
| - | 109,193 | 9,329 |
| - | 2,435,964 | - |
| 2 | 32,888 | 3,108 |
| - | 8,163 | - |
| - | 883 | - |
| - | 53,131 | 10,079 |
| - | 9,009 | 350 |
| - | 129,220 | 5,000 |
| 1,046 | 405,013 | 43,022 |
| 5,038 | 218,039 | 2,267 |
| 7,732 | 5,054,930 | 320,209 |
| 8,076 | 804,082 | 235 |
| 1,345 | 53,066 | 161 |
| - | (42,696) | (605) |
| 1,345 | 10,370 | (444) |
| 9,421 | 814,452 | (209) |
| - | (2,196) | 1,525 |
| - | 16,948 | - |
| - | 8,497 | 9,787 |
| (4,800) | (179,300) | (5,900) |
| 4,621 | 658,401 | 5,203 |
| 192,488 | 10,102,066 | 236,234 |
| \$ 197,109 | \$ 10,760,467 | \$ 241,437 |

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2011

| | Electric Utility | Waste Water Utility | Water Utility |
|--|---------------------|------------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 4,063,363 | \$ 761,713 | \$ 680,579 |
| Cash receipts from interfund services provided | - | - | - |
| Payments to suppliers | (2,797,133) | (224,560) | (204,160) |
| Payments for wages and related benefits | (570,386) | (325,241) | (281,435) |
| Cash paid for interfund services used | (93,540) | (17,840) | (17,840) |
| Other receipts (payments) | 177,034 | 5,161 | 27,537 |
| Net cash provided (used) by operating activities | 779,338 | 199,233 | 204,681 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Operating transfers in (out) | (102,050) | (26,553) | (37,400) |
| Interfund loan (net) | (234,043) | - | - |
| Cash received (paid) on customer deposits | 1,000 | - | - |
| Net cash provided (used) by noncapital financing activities | (335,093) | (26,553) | (37,400) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchase of fixed assets | (59,240) | (56,555) | (33,850) |
| Principal paid on debt instruments | (21,173) | (50,000) | - |
| Interest paid on debt instruments | (26,516) | (16,180) | - |
| Proceed from sale of capital assets | - | - | - |
| Capital contributions | 1,364 | 4,899 | 10,685 |
| Net cash provided (used) by capital and related financing activities | (105,565) | (117,836) | (23,165) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net transfers from/(to) investments | (57,406) | - | - |
| Interest earnings | 46,733 | 2,887 | 2,101 |
| Net cash provided (used) by investing activities | (10,673) | 2,887 | 2,101 |
| Net increase (decrease) in cash and equivalents | 328,007 | 57,731 | 146,217 |
| Cash and equivalents, beginning of year | 1,313,547 | 112,026 | 6,365 |
| Cash and equivalents, end of year | \$ 1,641,554 | \$ 169,757 | \$ 152,582 |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | |
| Operating income (loss) | \$ 622,990 | \$ 68,819 | \$ 104,197 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Depreciation/amortization expense | 198,469 | 116,264 | 89,234 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in receivables | (98,051) | (26,571) | (4,488) |
| (Increase) decrease in due from other funds | 1,493 | - | - |
| (Increase) decrease in prepaid expense | 23,475 | (5,419) | (2,933) |
| (Increase) decrease in inventory | 4,142 | - | - |
| Increase (decrease) in accounts payable | (9,754) | 19,004 | (5,084) |
| Increase (decrease) in accrued payroll | 6,560 | 3,083 | 2,043 |
| Increase (decrease) in OPEB liability | 30,014 | 24,053 | 21,712 |
| Increase (decrease) in due to other funds | - | - | - |
| Net cash provided by operating activities | \$ 779,338 | \$ 199,233 | \$ 204,681 |

See accompanying notes to financial statements.

| <u>Nonmajor Fund</u> <u>Economic</u> <u>Development Corp</u> | <u>Total</u> <u>Enterprise</u> <u>Funds</u> | <u>Internal</u> <u>Service</u> <u>Fund</u> |
|--|---|--|
| \$ 18,170 | \$ 5,523,825 | \$ - |
| - | - | 315,257 |
| (7,107) | (3,232,960) | (142,723) |
| - | (1,177,062) | (123,074) |
| - | (129,220) | (5,000) |
| <u>(1,493)</u> | <u>208,239</u> | <u>5,187</u> |
| 9,570 | 1,192,822 | 49,647 |
| (4,800) | (170,803) | 3,887 |
| - | (234,043) | - |
| <u>-</u> | <u>1,000</u> | <u>-</u> |
| (4,800) | (403,846) | 3,887 |
| - | (149,645) | - |
| - | (71,173) | (3,880) |
| - | (42,696) | (605) |
| - | - | 1,530 |
| <u>-</u> | <u>16,948</u> | <u>-</u> |
| - | (246,566) | (2,955) |
| - | (57,406) | - |
| <u>1,345</u> | <u>53,066</u> | <u>161</u> |
| 1,345 | (4,340) | 161 |
| 6,115 | 538,070 | 50,740 |
| <u>(13,622)</u> | <u>1,418,316</u> | <u>(72,609)</u> |
| <u>\$ (7,507)</u> | <u>\$ 1,956,386</u> | <u>\$ (21,869)</u> |
| \$ 8,076 | \$ 804,082 | \$ 235 |
| 1,046 | 405,013 | 43,022 |
| 2,362 | (126,748) | - |
| - | 1,493 | - |
| - | 15,123 | (2,893) |
| - | 4,142 | - |
| (421) | 3,745 | 769 |
| - | 11,686 | - |
| - | 75,779 | 8,514 |
| <u>(1,493)</u> | <u>(1,493)</u> | <u>-</u> |
| <u>\$ 9,570</u> | <u>\$ 1,192,822</u> | <u>\$ 49,647</u> |

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
March 31, 2011

| | <u>Agency Funds</u> |
|---------------------------------|---------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 14,669 |
| Receivables: | |
| Delinquent taxes | <u>91,617</u> |
| Total assets | <u>\$ 106,286</u> |
| LIABILITIES | |
| Due to other governmental units | <u>\$ 106,286</u> |

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

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, 2011

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

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

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

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

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net 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, 2011

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, 2011

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 used 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, 2011

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, 2011

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, 2011

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, 2011

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, 2011

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 \$43,321 in the General Fund for prepaid service revenue and the sale of city residential lots and advanced revenue collections and \$312,163 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, 2011

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, 2011

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, 2011

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 unexpendable appropriations lapse at the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

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 Mary Cretens Trust Fund had expenditures that exceeded the appropriations by \$3,186.

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

| | | |
|---------------------|----|--------|
| Governmental funds: | | |
| Local Street | \$ | 4,626 |
| State Trunkline | | 28 |
| Proprietary funds: | | |
| Equipment Fund | | 44,614 |

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, 2011

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 | \$ | 2,862,646 | |
| Savings | | 109,927 | |
| Certificate of Deposit | | 173,723 | 3,146,296 |
| | | | <hr/> |
| Total cash and equivalents | | \$ | 3,147,086 |
| | | | <hr/> |

Government-wide Statement of
Net Assets Presentation:

| | | | |
|--------------|----|-----------|--------------|
| Unrestricted | \$ | 2,652,514 | |
| Restricted | | 479,903 | \$ 3,132,417 |
| | | <hr/> | |

| | | | |
|-----------------------------------|--|----|-----------|
| Statement of Fiduciary Net Assets | | | 14,669 |
| | | | <hr/> |
| Total cash and equivalents | | \$ | 3,147,086 |
| | | | <hr/> |

Investments:

| | | | |
|-------------------------------------|----|---------|---------|
| U.S. government agency securities | \$ | 343,535 | |
| Upper Peninsula Public Power Agency | | 265,134 | |
| | | <hr/> | |
| Total investments | | \$ | 608,669 |
| | | | <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, 2011

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, 2011

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 | \$ 533,650 | \$ 533,650 |
| Uninsured | 2,710,635 | 2,613,436 |
| Total | <u>\$ 3,244,285</u> | <u>\$ 3,147,086</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 \$2,710,635 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 | \$ 343,535 | Counter party |

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Interest Rate Risk

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

| <u>Investments</u> | <u>Fair Value</u> | <u>Maturities</u> |
|--|-------------------|-------------------|
| U.S. government and agency securities: | | |
| Federal National Mortgage Assn | \$ 96,173 | 11/23/2015 |
| Federal Home Loan Banks Fixed Rate | 147,465 | 12/3/2015 |
| Federal National Mortgage Assn | 99,897 | 12/30/2015 |

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 | \$ 343,535 | AAA | S & P |

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$242,774 for cemetery care as required by the nature of the fund.
2. The Mary Cretens Trust Fund in the amount of \$237,129 for community maintenance and improvements as required by the nature of the fund.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Investment in Upper Peninsula Public Power Agency

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City contributed \$238,037 in cash and \$27,097 in equipment for a total investment of \$265,134. 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 | 4.19% |
| City of Crystal Falls | 3.84% |
| City of Gladstone | 7.04% |
| Village of L'Anse | 2.01% |
| Marquette Board of Light and Power | 69.57% |
| City of Negaunee | 5.99% |
| City of Norway | 7.36% |
| | <hr/> |
| Total | 100.00% |

UPPPA owns .4626% 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, 2011

NOTE D – PROPERTY TAXES (continued)

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

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

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

| Year | Real | Personal | Total |
|------|---------------|--------------|---------------|
| 1980 | \$ 22,818,556 | \$ 1,416,900 | \$ 24,235,456 |
| 1981 | 23,717,233 | 1,402,900 | 25,120,133 |
| 1982 | 25,591,300 | 1,416,100 | 27,007,400 |
| 1983 | 26,259,100 | 1,735,400 | 27,994,500 |
| 1984 | 26,456,400 | 1,886,300 | 28,342,700 |
| 1985 | 27,148,200 | 2,128,500 | 29,276,700 |
| 1986 | 28,189,600 | 2,339,400 | 30,529,000 |
| 1987 | 28,523,700 | 2,300,100 | 30,823,800 |
| 1988 | 28,897,200 | 3,542,000 | 32,439,200 |
| 1989 | 29,348,900 | 3,564,000 | 32,912,900 |
| 1990 | 30,052,800 | 3,928,000 | 33,980,800 |
| 1991 | 32,466,100 | 4,025,000 | 36,491,100 |
| 1992 | 35,490,200 | 4,653,700 | 40,143,900 |
| 1993 | 34,997,900 | 4,170,900 | 39,168,800 |
| 1994 | 37,978,900 | 4,598,000 | 42,576,900 |
| 1995 | 40,146,600 | 4,840,200 | 44,986,800 |
| 1996 | 44,252,300 | 5,614,100 | 49,866,400 |
| 1997 | 44,731,000 | 5,547,450 | 50,278,450 |
| 1998 | 48,702,846 | 6,544,900 | 55,247,746 |
| 1999 | 52,246,500 | 7,261,900 | 59,508,400 |
| 2000 | 56,966,800 | 7,003,200 | 63,970,000 |
| 2001 | 61,646,100 | 6,894,200 | 68,540,300 |
| 2002 | 65,730,220 | 7,074,246 | 72,804,466 |
| 2003 | 69,954,964 | 7,532,830 | 77,487,794 |
| 2004 | 73,303,100 | 6,376,000 | 79,679,100 |
| 2005 | 77,310,900 | 6,341,200 | 83,652,100 |
| 2006 | 82,438,553 | 6,280,247 | 88,718,800 |
| 2007 | 85,949,610 | 6,439,250 | 92,388,860 |
| 2008 | 88,547,733 | 5,930,894 | 94,478,627 |
| 2009 | 91,044,442 | 5,546,476 | 96,590,918 |
| 2010 | 91,709,532 | 5,325,444 | 97,034,976 |

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, 2011

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 2009, inclusive, the City and State valuations are the same.

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE D – PROPERTY TAXES (continued)

| Year | City Tax | School * | Schools | | | Total Local Taxes | Community College | County Taxes | I.S.D. | Total |
|------|----------|----------|---------------|--------|--------|-------------------|-------------------|--------------|--------|---------|
| | | | Non-Homestead | State | Debt | | | | | |
| 1991 | 17.0000 | 37.0772 | - | - | - | 54.0772 | 2.5000 | 7.1000 | 2.6500 | 66.3272 |
| 1992 | 17.0000 | 37.0522 | - | - | - | 54.0522 | 2.5000 | 7.1000 | 2.6500 | 66.3022 |
| 1993 | 16.6575 | 35.6443 | - | - | - | 52.3018 | 2.4055 | 7.0873 | 2.5501 | 64.3447 |
| 1994 | 16.3115 | - | 18.0000 | 6.0000 | 1.5051 | 41.8166 | 2.3735 | 7.0483 | 2.5124 | 53.7508 |
| 1995 | 16.3115 | - | 18.0000 | 6.0000 | 1.5051 | 41.8166 | 3.2735 | 7.0483 | 2.5124 | 54.6508 |
| 1996 | 16.3115 | - | 18.0000 | 6.0000 | 1.0291 | 41.3406 | 3.3735 | 7.0483 | 2.5124 | 54.2748 |
| 1997 | 16.2528 | - | 18.0000 | 6.0000 | 8.5600 | 48.8128 | 3.3735 | 7.0483 | 2.5117 | 61.7463 |
| 1998 | 16.2528 | - | 18.0000 | 6.0000 | 8.5600 | 48.8128 | 3.3735 | 7.0483 | 2.5117 | 61.7463 |
| 1999 | 16.1065 | - | 18.0000 | 6.0000 | 8.5600 | 48.6665 | 3.3600 | 7.0107 | 2.4917 | 61.5289 |
| 2000 | 15.9180 | - | 18.0000 | 6.0000 | 8.5600 | 48.4780 | 3.3585 | 6.6319 | 2.4807 | 60.9491 |
| 2001 | 15.6744 | - | 18.0000 | 6.0000 | 8.5600 | 48.2344 | 3.3511 | 6.6112 | 2.4695 | 60.6662 |
| 2002 | 15.6680 | - | 18.0000 | 6.0000 | 8.5600 | 48.2280 | 3.3506 | 6.6097 | 2.4596 | 60.6479 |
| 2003 | 15.6303 | - | 18.0000 | 5.0000 | 8.5600 | 47.1903 | 3.5000 | 6.5719 | 2.4375 | 59.6997 |
| 2004 | 15.6303 | - | 18.0000 | 6.0000 | 8.5600 | 48.1903 | 3.5000 | 6.5455 | 2.4191 | 60.6549 |
| 2005 | 15.5021 | - | 18.0000 | 6.0000 | 8.5600 | 48.0621 | 3.5501 | 7.1107 | 2.3994 | 61.1223 |
| 2006 | 15.5021 | - | 18.0000 | 6.0000 | 8.5600 | 48.0621 | 3.5501 | 7.1107 | 2.3994 | 61.1223 |
| 2007 | 15.5021 | - | 18.0000 | 6.0000 | 8.5600 | 48.0621 | 3.5225 | 7.5897 | 2.3854 | 61.5597 |
| 2008 | 15.5021 | - | 18.0000 | 6.0000 | 8.5600 | 48.0621 | 3.5149 | 7.5897 | 2.3851 | 61.5518 |
| 2009 | 15.5021 | - | 18.0000 | 6.0000 | 8.5600 | 48.0621 | 3.5109 | 7.4397 | 2.3851 | 61.3978 |
| 2010 | 15.5021 | - | 18.0000 | 6.0000 | 8.5600 | 48.0621 | 3.5111 | 7.4317 | 2.3851 | 61.3900 |

* 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, 2011 were as follows: General Fund \$1,186,444, Solid Waste Fund \$176,860 and DDA Fund capture from the summer and winter levy's was \$242,789.

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.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE E – LONG-TERM RECEIVABLES (continued)

In the statement of net assets the deferred revenue has been eliminated. Remaining principal payments to be received as of March 31, 2011 are as follows:

| Year Ending March 31 | Amount |
|-------------------------|-------------------|
| 2012 | \$ 69,923 |
| 2013 | 78,928 |
| 2014 | 43,242 |
| 2015 | 44,110 |
| 2016 | 43,669 |
| Thereafter | 32,291 |
| Total | <u>\$ 312,163</u> |

The General Fund has also recorded accounts receivable in the amount of \$22,500 for the sale of residential lots.

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, 2011 are as follows:

| Year Ending March 31 | Amount |
|-------------------------|-------------------|
| 2012 | \$ 33,726 |
| 2013 | 35,343 |
| 2014 | 36,791 |
| 2015 | 38,299 |
| 2016 | 39,933 |
| Thereafter | 214,563 |
| Total | <u>\$ 398,655</u> |

In 2011, the City refinanced two governmental activities notes payable from financial institutions through the Electric Fund and are included in the schedule above. The terms of the note receivable to the Electric Fund are the same as listed in Note J.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

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, 2011, was as follows:

| | Balance at April 1, 2010 | Additions | Disposals | Balance at March 31, 2011 |
|---|-----------------------------|-------------------|-------------------|------------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,619,627 | \$ - | \$ - | \$ 1,619,627 |
| Construction in progress | 224,471 | - | 224,471 | - |
| Total non-depreciable capital assets | <u>1,844,098</u> | <u>-</u> | <u>224,471</u> | <u>1,619,627</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 279,948 | - | - | 279,948 |
| Buildings | 2,994,062 | - | - | 2,994,062 |
| Machinery and equipment | 2,842,245 | 30,795 | 38,238 | 2,834,802 |
| Infrastructure-road system | 12,180,568 | 136,895 | - | 12,317,463 |
| Infrastructure-other | 1,071,434 | 522,353 | - | 1,593,787 |
| Total depreciable capital assets | <u>19,368,257</u> | <u>690,043</u> | <u>38,238</u> | <u>20,020,062</u> |
| Total capital assets | <u>21,212,355</u> | <u>690,043</u> | <u>262,709</u> | <u>21,639,689</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | 107,742 | 19,639 | - | 127,381 |
| Buildings | 1,611,994 | 121,232 | - | 1,733,226 |
| Machinery and equipment | 2,331,460 | 93,727 | 38,238 | 2,386,949 |
| Infrastructure-road system | 9,689,576 | 150,348 | - | 9,839,924 |
| Infrastructure-other | 267,830 | 73,565 | - | 341,395 |
| Total accumulated depreciation | <u>14,008,602</u> | <u>458,511</u> | <u>38,238</u> | <u>14,428,875</u> |
| Net depreciable capital assets | <u>5,359,655</u> | <u>231,532</u> | <u>-</u> | <u>5,591,187</u> |
| Governmental activities capital assets, net | <u>\$ 7,203,753</u> | <u>\$ 231,532</u> | <u>\$ 224,471</u> | <u>\$ 7,210,814</u> |

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE F – CAPITAL ASSETS (continued)

| | Balance at April 1, 2010 | Additions | Disposals | Balance at March 31, 2011 |
|--|-----------------------------|---------------------|-----------------|------------------------------|
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 236,513 | \$ - | \$ - | \$ 236,513 |
| Construction in progress | - | - | - | - |
| Total non-depreciable capital assets | <u>236,513</u> | <u>-</u> | <u>-</u> | <u>236,513</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 1,006,830 | 6,894 | - | 1,013,724 |
| Machinery and equipment | 619,228 | - | - | 619,228 |
| Distribution/collection system | 16,210,921 | 142,751 | 17,362 | 16,336,310 |
| Total depreciable capital assets | <u>17,836,979</u> | <u>149,645</u> | <u>17,362</u> | <u>17,969,262</u> |
| Total capital assets | <u>18,073,492</u> | <u>149,645</u> | <u>17,362</u> | <u>18,205,775</u> |
| Less accumulated depreciation: | | | | |
| Buildings | 111,520 | 40,008 | - | 151,528 |
| Machinery and equipment | 563,895 | 25,226 | - | 589,121 |
| Distribution/collection system | 8,983,109 | 339,780 | 15,166 | 9,307,723 |
| Total accumulated depreciation | <u>9,658,524</u> | <u>405,014</u> | <u>15,166</u> | <u>10,048,372</u> |
| Net depreciable capital assets | <u>8,178,455</u> | <u>(255,369)</u> | <u>2,196</u> | <u>7,920,890</u> |
| Business-type activities capital assets, net | <u>\$ 8,414,968</u> | <u>\$ (255,369)</u> | <u>\$ 2,196</u> | <u>\$ 8,157,403</u> |

Depreciation expense was charged to the following activities:

| | |
|---|-------------------|
| Governmental activities: | |
| General government | \$ 10,565 |
| Public health and safety | 58,820 |
| Parks and recreation | 197,645 |
| Cemetery | 3,007 |
| General public works | 19,622 |
| Street system | <u>168,853</u> |
| Total governmental activities depreciation expense | <u>\$ 458,512</u> |
| Business-type activities: | |
| Electric | \$ 198,469 |
| Water | 116,264 |
| Waste water | 89,234 |
| Development | <u>1,046</u> |
| Total business-type activities depreciation expense | <u>\$ 405,013</u> |

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

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, 2011

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 three-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 three-year average compensation, with a maximum benefit of 80 percent of the member's final three-year average compensation.

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

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, 2010. 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. For the 2010 valuation, a 2% final average compensation (FAC) increase assumption was used for all divisions and was used to account for higher than normal FAC for employees at retirement.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2010 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, 2011

NOTE G – RETIREMENT PLANS (continued)

GASB 25 INFORMATION (AS OF 12/31/10)

| | | |
|---|----|------------|
| Actuarial Accrued Liability: | | |
| Retirees and beneficiaries currently receiving benefits | \$ | 8,002,248 |
| Terminated employees not yet receiving benefits | | 184,611 |
| Current Employees: | | |
| Accumulated employee contributions including allocated investment income | | - |
| Employer financed | | 2,978,003 |
| Total actuarial liability | | 11,164,862 |
| Net assets available for benefits, at actuarial value (market value is \$5,118,497) | | 5,952,408 |
| Unfunded (overfunded) actuarial accrued liability | \$ | 5,212,454 |

GASB 27 INFORMATION (AS OF 12/31/10)

| | | |
|---|----|---------------|
| Fiscal year beginning | | April 1, 2012 |
| Annual required contribution (ARC) | \$ | 593,784 |
| Amortization factor used - underfunded liabilities (24 years) | | 0.061616 |
| Amortization factor used - underfunded liabilities (12 years) | | 0.103112 |
| Amortization factor used - underfunded liabilities (30 year level \$) | | 0.085453 |

Funding Policy – For the year ended March 31, 2011, the City was required to contribute for the Police-Fire, General Other and General Supervisors divisions, a monthly amount of \$11,223, \$10,036 and \$14,269, 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, 2010 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 28 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, 2011

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> |
|---------------------------------|--------------------------------------|--|-----------------------------------|
| 2008 | \$ 315,233 | 100% | \$ - |
| 2009 | 351,077 | 100% | - |
| 2010 | 371,431 | 100% | - |

The City was required to contribute \$426,336 for the year ended March 31, 2011. Payments were based on contribution calculations made by MERS.

Aggregate Accrued Liabilities – Comparative Schedule

| <u>Actuarial Valuation Date December 31,</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a % of Covered Payroll</u> |
|--|--|--|------------------------------------|-------------------------|----------------------------|---|
| 2008 | \$ 6,190,015 | \$ 10,614,912 | \$ 4,424,897 | 58% | \$ 983,310 | 450% |
| 2009 | 6,042,437 | 10,986,694 | 4,944,257 | 55% | 859,871 | 575% |
| 2010 | 5,952,408 | 11,164,862 | 5,212,454 | 53% | 831,332 | 627% |

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, 2008, 2009 and 2010 valuations.

401 (A) RETIREMENT PLAN

During the year ended March 31, 1998, the City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by the International City/County Management Association. Employees who are hired after December 1, 1997, with the exception of the employees who are members of the POLC union, are eligible to participate in the plan, which requires the City to contribute 8% of the employee's gross wage to the plan. In fiscal year 2010, all new hires of the POLC

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

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 |
|-------------------------|---------------------------|-----------------|---------------------|
| 2009 | 23 | \$ 99,496 | \$ 27,135 |
| 2010 | 24 | 113,688 | 30,744 |
| 2011 | 23 | 117,037 | 31,060 |

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 \$158,112 are reported under governmental activities and \$126,190 is reported under business-type activities in the Statement of Net Assets.

NOTE I – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE I – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

premium increases during that period of time will be covered by the City. As of March 31, 2011, the City Plan had 37 active plan members and 18 retirees and beneficiaries receiving benefits.

Funding Policy – For the year ended March 31, 2011 the City has not established a Trust to fund the OPEB obligation. The City's funding policy is to pay all premiums as they come due on a pay-as-you-go basis. For fiscal year 2011, the City contributed \$168,357 to the plan. Plan members are not required to make contributions to the Plan.

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's annual net OPEB obligation to the Retiree Health Plan:

| | |
|--|-------------------|
| Annual required contribution | \$ 374,510 |
| Interest on net OPEB obligation | 16,064 |
| Adjustment to annual required contribution | (9,355) |
| Annual OPEB cost (expense) | <u>381,219</u> |
| Contributions made | <u>(168,357)</u> |
| Increase in net OPEB obligation | 212,862 |
| Net OPEB obligation - beginning of year | <u>229,477</u> |
| Net OPEB obligation - end of year | <u>\$ 442,339</u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

| Fiscal Year End | Annual OPEB Cost | Percentage of Annual OPEB Cost Contribution | Net OPEB Obligation |
|-----------------|------------------|---|------------------------|
| 2010 | \$ 374,510 | 39% | \$ 229,477 |
| 2011 | 381,219 | 44% | 442,339 |

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE I – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Funded Status and Funding Progress – As of April 1, 2009, the actuarial accrued liability for benefits was \$4,245,147, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was unavailable, and the ratio of the unfunded actuarial accrued liability to the covered payroll was unavailable.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following these notes, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 1, 2009 actuarial valuation, the alternative method as provided under GASB Statement No. 45 was used, which incorporated the entry age cost method. The actuarial assumptions include a 7.0% post retirement interest rate, a discount rate of 4.0%, projected salary increases of 3.0% and healthcare inflation rates which are based on NIH National Health Expenditure Projections, 2008 – 2018.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE J – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2011:

| Type of Debt | Balance April 1, 2010 | Additions | Deductions | Balance March 31, 2011 | Amounts Due Within One Year |
|--------------------------------------|--------------------------|-------------------|-------------------|------------------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Note - fire truck | \$ 26,471 | \$ - | \$ 17,491 | \$ 8,980 | \$ 8,980 |
| Note - rec building | 5,377 | - | 1,207 | 4,170 | 1,316 |
| Note - campground | 97,479 | - | 97,479 | - | - |
| Note - campground electric | 111,249 | - | 111,249 | - | - |
| Note - MERS | 160,207 | - | 41,400 | 118,807 | 43,181 |
| Note - truck | 15,080 | - | 3,880 | 11,200 | 4,057 |
| Note - Electric Fund | - | 213,851 | - | 213,851 | 19,503 |
| 2000 B.A. bonds | 600,000 | - | 40,000 | 560,000 | 45,000 |
| Due to other | | | | | |
| governmental units | 105,580 | - | 105,580 | - | - |
| Compensated absences | 167,988 | - | 9,876 | 158,112 | 31,622 |
| Total governmental long-term debt | <u>\$ 1,289,431</u> | <u>\$ 213,851</u> | <u>\$ 428,162</u> | <u>\$ 1,075,120</u> | <u>\$ 153,659</u> |

| Type of Debt | Balance April 1, 2010 | Additions | Deductions | Balance March 31, 2011 | Amounts Due Within One Year |
|---------------------------------------|--------------------------|------------------|------------------|------------------------------|-----------------------------------|
| Business-type Activities: | | | | | |
| Note - electric garage | \$ 527,379 | \$ - | \$ 21,173 | \$ 506,206 | \$ 18,782 |
| 2006 Sludge Storage bond | 995,718 | - | 50,000 | 945,718 | 50,000 |
| Compensated absences | 114,304 | 11,886 | - | 126,190 | 25,239 |
| Total business-type long-term debt | <u>\$ 1,637,401</u> | <u>\$ 11,886</u> | <u>\$ 71,173</u> | <u>\$ 1,578,114</u> | <u>\$ 94,021</u> |

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE J – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at March 31, 2011 are as follows:

| For the Year Ending March 31, | Governmental Activities | | | |
|----------------------------------|--------------------------|-------------------|-------------------|-------------------|
| | Notes Payable | | Bonds Payable | |
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 77,037 | \$ 9,247 | \$ 45,000 | \$ 26,875 |
| 2013 | 70,561 | 6,593 | 45,000 | 24,625 |
| 2014 | 55,263 | 4,090 | 50,000 | 22,250 |
| 2015 | 20,708 | 3,111 | 50,000 | 19,750 |
| 2016 | 21,126 | 2,694 | 55,000 | 17,125 |
| 2017-2021 | 112,319 | 6,896 | 315,000 | 41,125 |
| 2022-2025 | - | - | - | - |
| | <u>\$ 357,014</u> | <u>\$ 32,631</u> | <u>\$ 560,000</u> | <u>\$ 151,750</u> |
| For the Year Ending March 31, | Business-type Activities | | | |
| | Notes Payable | | Bonds Payable | |
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 18,782 | \$ 25,481 | \$ 50,000 | \$ 15,368 |
| 2013 | 19,767 | 24,497 | 50,000 | 14,555 |
| 2014 | 20,803 | 23,460 | 50,000 | 13,743 |
| 2015 | 21,893 | 22,370 | 50,000 | 12,930 |
| 2016 | 23,041 | 21,222 | 55,000 | 12,118 |
| 2017-2021 | 134,638 | 86,677 | 275,000 | 47,182 |
| 2022-2026 | 173,824 | 47,490 | 295,000 | 24,352 |
| 2027-2028 | 93,458 | 5,645 | 120,718 | 2,948 |
| | <u>\$ 506,206</u> | <u>\$ 256,842</u> | <u>\$ 945,718</u> | <u>\$ 143,196</u> |

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE J – LONG-TERM DEBT (continued)

Governmental Activities:

As of March 31, 2010, 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, 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 \$97,479 in 2011. The note bears an interest rate of 4.0%. This note was paid off in 2011 and refinanced through the Electric Fund.

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%. In 2011 this note was paid off and was refinanced through the Electric Fund.

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%.

During the year ended March 31, 2011, the City refinanced the campground bathroom and electric upgrade notes in the amount of \$213,851 through the Electric Fund. The note calls for semi-annual interest payments along with annual principal payments over 10 years and bears an interest rate of 2%.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

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. The City has determined that this amount is unlikely to be due as it has been several years with no action and has written it off in 2011.

Bonds Payable:

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

Business-type Activities:

As of March 31, 2011, the long-term debt of business-type activities consists of the following:

Note Payable:

During the year ended March 31, 2009, the City signed a 24 month note for improvements/construction of a garage for the electric department. The note calls for monthly principal and interest payments of \$3,689 and a balloon payment of \$492,866 on May 16, 2012 and bears an interest rate of 5.12%.

Bonds Payable:

2006 Sewage Disposal System Bonds – On December 14, 2006 the City issued sewage disposal system revenue bond series 2006 for the purpose of constructing a sludge storage tank for the waste water department. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$1,090,718 and have an interest rate of 1.625%. Interest payments are due and payable each April 1 and October 1. 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, 2011

NOTE K – RESTRICTED NET ASSETS-RESERVED/DESIGNATED FUND BALANCE

Restricted net assets as reported in the statement of net assets have been restricted in the amount of \$242,774 related to cemetery perpetual care, and \$237,129 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.

Fund balance has been reserved in the governmental fund balances for the same amounts as indicated in the preceding paragraph and has also been reserved in the amount of \$14,092 for inventory. Fund balance has been designated in the General Fund in the amount of \$152,074 for future public safety expenditures as it was the wish of the donor.

NOTE L – 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, 2011 are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Inter fund Payable</u> |
|---------------|---------------------------------|-------------------|-------------------------------|
| | | General Fund | \$ 158,662 |
| | | Major Street Fund | 46,013 |
| | | EDC Fund | 9,479 |
| | | Local Street Fund | <u>19,889</u> |
| Electric Fund | <u>\$ 234,043</u> | Total | <u>234,043</u> |

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE L – 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, 2011 were as follows:

| | Transfers In | Transfers Out |
|-----------------------|-----------------|------------------|
| General Fund: | | |
| Electric Utility | \$ 92,050 | \$ - |
| Waste Water Utility | 30,050 | - |
| Water Utility | 32,400 | - |
| Nonmajor proprietary | 10,700 | 1,000 |
| Nonmajor governmental | 141,197 | 21,561 |
| Total General Fund | 306,397 | 22,561 |
| Major Street: | | |
| Local Street | - | 40,000 |
| Nonmajor proprietary | - | 2,500 |
| Nonmajor governmental | 32,810 | - |
| Total Major Street | 32,810 | 42,500 |
| Local Street: | | |
| Major Street | 40,000 | - |
| Nonmajor proprietary | - | 2,500 |
| Nonmajor governmental | 24,125 | - |
| Total Local Street | 64,125 | 2,500 |
| Electric Utility: | | |
| General Fund | - | 92,050 |
| Capital Projects | - | 10,000 |
| Total Electric Fund | - | 102,050 |
| Waste Water Utility | 8,497 | 35,050 |
| Water Utility | - | 37,400 |
| Total Nonmajor Funds | 59,168 | 228,936 |
| Totals | \$ 470,997 | \$ 470,997 |

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE M – RISK MANAGEMENT

The City of Gladstone participates as a member of the Michigan Municipal Risk Management Authority. The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property.

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

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

Table I
City Deductibles and Self Insured Retentions

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE M – RISK MANAGEMENT (continued)

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

MMRMA Obligations – After the City's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses up to limits established per agreement between the City and MMRMA.

At March 31, 2011, 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 N – 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, 2011.

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, 2011, however an amount of \$105,580 had been recorded as a due to other governmental units. In 2011, the City wrote off this liability as there has been no action related to this matter and management feels that it is unlikely that any payments in the future will be required.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE O – JOINT VENTURE – DELTA SOLID WASTE LANDFILL

The Delta Solid Waste Management Authority was incorporated in 1984, pursuant to Act 233, Public Acts of Michigan, 1955, by the County of Delta and the local units of government within the County. It was established in order to provide for a new landfill since the current county-wide site, owned by the City of Gladstone, was approaching saturation.

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

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

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

Operation and maintenance costs are paid out of tipping fees assessed against users of the landfill. Parties that use the landfill include the municipal sanitation systems of the cities of Escanaba and Gladstone, and private solid waste companies serving the local units. The landfill began operation in December 1985. Currently City management feels the landfill does not pose any additional financial burden or benefit on the City. Financial information of the Delta Solid Waste Management Authority and Recycling Program is available at their administrative office located at 5701 19th Avenue North, Escanaba, MI 49829.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2011

NOTE P – 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, 2011, the City did not expend more than \$500,000 in federal awards and therefore a single audit was not required in 2011.

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, 2011

| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) (See Note A) | Variance with Final Budget- Positive (Negative) |
|---------------------------------------|-------------------|-------------------|--|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Federal sources | \$ 47,500 | \$ - | \$ - | \$ - |
| State sources | 422,280 | 442,280 | 488,139 | 45,859 |
| Local sources | 54,950 | 48,264 | 56,730 | 8,466 |
| Taxes | 1,425,670 | 1,425,670 | 1,404,228 | (21,442) |
| Recreation | 224,580 | 213,580 | 213,436 | (144) |
| Public safety | 37,300 | 16,620 | 18,615 | 1,995 |
| Charges for services | 82,400 | 82,650 | 85,193 | 2,543 |
| Interest income | 3,500 | 3,500 | 4,076 | 576 |
| Miscellaneous | 18,000 | 30,977 | 37,774 | 6,797 |
| Total revenues | <u>2,316,180</u> | <u>2,263,541</u> | <u>2,308,191</u> | <u>44,650</u> |
| EXPENDITURES: | | | | |
| General government: | | | | |
| City commission | 442,040 | 442,040 | 413,814 | 28,226 |
| City manager | 100,900 | 126,540 | 128,302 | (1,762) |
| Elections | 7,850 | 7,850 | 4,795 | 3,055 |
| City assessor | 71,660 | 71,660 | 77,508 | (5,848) |
| Board of review | 1,800 | 1,800 | 640 | 1,160 |
| City treasurer | 43,770 | 31,230 | 32,536 | (1,306) |
| City clerk | 72,951 | 72,951 | 75,009 | (2,058) |
| City hall | 29,700 | 29,700 | 19,032 | 10,668 |
| Public health and safety: | | | | |
| Police department | 902,610 | 895,010 | 849,136 | 45,874 |
| Fire department | 284,900 | 235,900 | 208,193 | 27,707 |
| Building and housing inspections | 122,154 | 96,396 | 82,766 | 13,630 |
| Parks and recreation: | | | | |
| Recreation administrative | 103,750 | 108,250 | 105,439 | 2,811 |
| Harbor | 50,395 | 50,395 | 48,527 | 1,868 |
| Parks | 48,760 | 50,160 | 49,427 | 733 |
| Beach | 3,485 | 26,782 | 25,396 | 1,386 |
| Sports park | 90,015 | 90,015 | 83,423 | 6,592 |
| Campground | 45,365 | 45,365 | 44,533 | 832 |
| Miscellaneous | 36,360 | 43,360 | 51,647 | (8,287) |
| Cemetery: | | | | |
| Cemetery administrative | 14,795 | 14,795 | 13,112 | 1,683 |
| Ground maintenance and burials | 46,490 | 46,490 | 43,364 | 3,126 |
| General public works: | | | | |
| Forestry | 1,200 | 4,868 | 4,828 | 40 |
| Sidewalks & alley maintenance | 15,500 | 15,862 | 9,203 | 6,659 |
| Grounds maintenance | 28,240 | 45,400 | 32,608 | 12,792 |
| Beautification | 7,940 | 8,940 | 8,583 | 357 |
| Capital outlay | 3,000 | 3,000 | - | 3,000 |
| Debt service | 19,000 | 19,000 | 19,873 | (873) |
| Total expenditures | <u>2,594,630</u> | <u>2,583,759</u> | <u>2,431,694</u> | <u>152,065</u> |
| Excess revenues (expenditures) | <u>(278,450)</u> | <u>(320,218)</u> | <u>(123,503)</u> | <u>196,715</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer in | 291,942 | 299,880 | 306,397 | 6,517 |
| Transfer out | <u>(13,492)</u> | <u>(13,492)</u> | <u>(22,561)</u> | <u>(9,069)</u> |
| Total other financing sources (uses) | <u>278,450</u> | <u>286,388</u> | <u>283,836</u> | <u>(2,552)</u> |
| Net changes in fund balances | - | (33,830) | 160,333 | 194,163 |
| Fund balances - beginning | <u>227,668</u> | <u>227,668</u> | <u>227,668</u> | <u>-</u> |
| Fund balances - ending | <u>\$ 227,668</u> | <u>\$ 193,838</u> | <u>\$ 388,001</u> | <u>\$ 194,163</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, 2011

| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) (See Note A) | Variance with Final Budget- Positive (Negative) |
|--|--------------------|--------------------|--|---|
| | Original | Final | | |
| REVENUES: | | | | |
| State sources | \$ 295,000 | \$ 295,000 | \$ 296,210 | \$ 1,210 |
| Local sources | 20,000 | 20,000 | 20,000 | - |
| Interest income | 500 | 500 | 169 | (331) |
| Miscellaneous | 3,900 | 16,710 | 11,862 | (4,848) |
| | | | | |
| Total revenues | 319,400 | 332,210 | 328,241 | (3,969) |
| | | | | |
| EXPENDITURES: | | | | |
| Street system | 287,900 | 324,960 | 270,829 | 54,131 |
| | | | | |
| Excess revenues (expenditures) | 31,500 | 7,250 | 57,412 | 50,162 |
| | | | | |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfer in | 20,000 | 20,000 | 32,810 | 12,810 |
| Transfer out | (51,500) | (42,500) | (42,500) | - |
| | | | | |
| Total other financing sources (uses) | (31,500) | (22,500) | (9,690) | 12,810 |
| | | | | |
| Net changes in fund balances | - | (15,250) | 47,722 | 62,972 |
| | | | | |
| Fund balances - beginning | (35,410) | (35,410) | (35,410) | - |
| | | | | |
| Fund balances - ending | <u>\$ (35,410)</u> | <u>\$ (50,660)</u> | <u>\$ 12,312</u> | <u>\$ 62,972</u> |

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, 2011

| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) (See Note A) | Variance with Final Budget- Positive (Negative) |
|--|------------------|-------------|--|---|
| | Original | Final | | |
| REVENUES: | | | | |
| State sources | \$ 135,500 | \$ 135,500 | \$ 134,811 | \$ (689) |
| Local sources | 3,000 | 8,236 | 5,236 | (3,000) |
| Interest income | 1,500 | 1,500 | 1,779 | 279 |
| Miscellaneous | 550 | 350 | 22,145 | 21,795 |
| | | | | |
| Total revenues | 140,550 | 145,586 | 163,971 | 18,385 |
| | | | | |
| EXPENDITURES: | | | | |
| Street system | 187,050 | 208,025 | 166,247 | 41,778 |
| | | | | |
| Excess revenues (expenditures) | (46,500) | (62,439) | (2,276) | 60,163 |
| | | | | |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfer in | 49,000 | 64,125 | 64,125 | - |
| Transfer out | (2,500) | (2,500) | (2,500) | - |
| | | | | |
| Total other financing sources (uses) | 46,500 | 61,625 | 61,625 | - |
| | | | | |
| Net changes in fund balances | - | (814) | 59,349 | 60,163 |
| | | | | |
| Fund balances - beginning | (63,975) | (63,975) | (63,975) | - |
| | | | | |
| Fund balances - ending | \$ (63,975) | \$ (64,789) | \$ (4,626) | \$ 60,163 |

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REVOLVING LOAN
For the Year Ended March 31, 2011

| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) (See Note A) | Variance with Final Budget- Positive (Negative) |
|--|------------------|------------|--|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Loan repayment | \$ - | \$ 14,322 | \$ 15,190 | \$ 868 |
| Interest income | - | 7,274 | 7,584 | 310 |
| Total revenues | - | 21,596 | 22,774 | 1,178 |
| EXPENDITURES: | | | | |
| Community development | - | 636 | 636 | - |
| Excess revenues (expenditures) | - | 20,960 | 22,138 | 1,178 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfer in | - | - | - | - |
| Transfer out | - | - | - | - |
| Net change in fund balance | - | 20,960 | 22,138 | 1,178 |
| Fund balances - beginning | 122,083 | 122,083 | 26,381 | (95,702) |
| Fund balances - ending | \$ 122,083 | \$ 143,043 | \$ 48,519 | \$ (94,524) |

CITY OF GLADSTONE, MICHIGAN

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

March 31, 2011

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability | (b - a) Unfunded Accrued Liability (UAL) | (a/b) Funded Ratio | (c) Annual Covered Payroll | [(b-a)/c] UAL as a Percentage of Covered Payroll |
|--------------------------------|--|--|--|--------------------------|---------------------------------------|--|
| 12/31/06 | \$ 5,555,587 | \$ 9,458,205 | \$ 3,902,618 | 59% | \$ 1,003,244 | 389% |
| 12/31/07 | 5,728,761 | 10,106,769 | 4,378,008 | 57% | 1,054,942 | 415% |
| 12/31/08 | 6,190,015 | 10,614,912 | 4,424,897 | 58% | 983,310 | 450% |
| 12/31/09 | 6,042,437 | 10,986,694 | 4,944,257 | 55% | 859,871 | 575% |
| 12/31/10 | 5,952,408 | 11,164,862 | 5,212,454 | 53% | 831,332 | 627% |

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

March 31, 2011

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b - a) Unfunded Accrued Liability (UAL) | (a/b) Funded Ratio | (c) Annual Covered Payroll | [(b-a)/c] UAL as a Percentage of Covered Payroll |
|--------------------------------|--|--|--|--------------------------|---------------------------------------|--|
| 04/01/09 | \$ - | \$ 4,245,147 | \$ 4,247,147 | 0% | Not Available | - |

COMBINING FUND FINANCIAL STATEMENTS

**CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2011**

| Special Revenue Funds | | | | |
|--------------------------------------|--------------------|-------------------|---|--------------------|
| | State Trunkline | Solid Waste | MSHDA Rental Property MSC-06-0717-NPP | MSHDA Homeowner |
| ASSETS | | | | |
| Cash and equivalents: | | | | |
| Restricted | \$ - | \$ - | \$ - | \$ - |
| Unrestricted | (156) | 53,992 | 4,063 | 17,948 |
| Receivables: | | | | |
| Accounts | - | 37,347 | 3,095 | - |
| Interest | - | - | - | - |
| Prepaid expenditures | - | 11,914 | - | - |
| Due from other governmental units | 128 | 20,075 | - | - |
| Total assets | <u>\$ (28)</u> | <u>\$ 123,328</u> | <u>\$ 7,158</u> | <u>\$ 17,948</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ 107 | \$ 572 | \$ - |
| Due to other governmental units | - | - | - | - |
| Deferred revenue | - | - | - | - |
| Total liabilities | <u>-</u> | <u>107</u> | <u>572</u> | <u>-</u> |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Prepaid expenditures | - | 11,914 | - | - |
| City improvement | - | - | - | - |
| Cemetery perpetual care | - | - | - | - |
| Unreserved | (28) | 111,307 | 6,586 | 17,948 |
| Total fund balances | <u>(28)</u> | <u>123,221</u> | <u>6,586</u> | <u>17,948</u> |
| Total liabilities and fund balances | <u>\$ (28)</u> | <u>\$ 123,328</u> | <u>\$ 7,158</u> | <u>\$ 17,948</u> |

See accompanying notes to financial statements.

| Special Revenue Funds | | | Debt Service Fund | Capital Projects Fund | Permanent Fund | Total Nonmajor Governmental Funds |
|---------------------------------------|-----------------------|--------------------------------------|-----------------------|--------------------------|----------------------------|--|
| MSHDA Habitat Rehab M-2006-0717 | Mary Cretens Trust | Downtown Development Authority | Building Authority | Capital Projects | Cemetery Perpetual Care | |
| \$ - | \$ 237,129 | \$ - | \$ - | \$ - | \$ 242,774 | \$ 479,903 |
| 29,846 | - | 143,936 | - | (11,287) | - | 238,342 |
| 375 | - | - | - | - | - | 40,817 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 11,914 |
| 34,578 | - | 35,710 | - | 31,693 | - | 122,184 |
| <u>\$ 64,799</u> | <u>\$ 237,129</u> | <u>\$ 179,646</u> | <u>\$ -</u> | <u>\$ 20,406</u> | <u>\$ 242,774</u> | <u>\$ 893,160</u> |
| | | | | | | |
| \$ - | \$ - | \$ 87 | \$ - | \$ 3,750 | \$ - | \$ 4,516 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | 87 | - | 3,750 | - | 4,516 |
| | | | | | | |
| - | - | - | - | - | - | 11,914 |
| - | 237,129 | - | - | - | - | 237,129 |
| - | - | - | - | - | 242,774 | 242,774 |
| 64,799 | - | 179,559 | - | 16,656 | - | 396,827 |
| 64,799 | 237,129 | 179,559 | - | 16,656 | 242,774 | 888,644 |
| <u>\$ 64,799</u> | <u>\$ 237,129</u> | <u>\$ 179,646</u> | <u>\$ -</u> | <u>\$ 20,406</u> | <u>\$ 242,774</u> | <u>\$ 893,160</u> |

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended March 31, 2011

| | Special Revenue Funds | | | |
|--|-----------------------|----------------|---|--------------------|
| | State Trunkline | Solid Waste | MSHDA Rental Property MSC-06-0717-NPP | MSHDA Homeowner |
| REVENUES: | | | | |
| Federal sources | \$ - | \$ - | \$ - | \$ - |
| State sources | 4,214 | - | - | - |
| Local sources | - | - | - | - |
| Taxes | - | 176,860 | - | - |
| Charges for services | - | 231,763 | - | - |
| Lease income | - | - | - | - |
| Interest income | - | 190 | - | - |
| Miscellaneous | - | 1,832 | - | - |
| Total revenues | \$ 4,214 | \$ 410,645 | \$ - | \$ - |
| EXPENDITURES: | | | | |
| Public health and safety | \$ - | \$ - | \$ - | \$ - |
| Cemetery | - | - | - | - |
| General public works | - | 363,155 | - | - |
| Street system | 3,035 | - | - | - |
| Community development | - | - | - | - |
| Capital outlay | - | - | - | - |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest and other charges | - | - | - | - |
| Total expenditures | 3,035 | 363,155 | - | - |
| Excess revenues (expenditures) | 1,179 | 47,490 | - | - |
| OTHER FINANCING SOURCES (USES): | | | | |
| Loan proceeds | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | (1,207) | (3,000) | - | - |
| Total other financing sources (uses) | (1,207) | (3,000) | - | - |
| Net changes in fund balances | (28) | 44,490 | - | - |
| Fund balances - beginning | - | 78,731 | 6,586 | 17,948 |
| Fund balances - ending | \$ (28) | \$ 123,221 | \$ 6,586 | \$ 17,948 |

See accompanying notes to financial statements.

| Special Revenue Funds | | | Debt Service Fund | Capital Projects Fund | Permanent Fund | Total Nonmajor Governmental Funds |
|---------------------------------------|-----------------------|--------------------------------------|-----------------------|--------------------------|----------------------------|--|
| MSHDA Habitat Rehab M-2006-0717 | Mary Cretens Trust | Downtown Development Authority | Building Authority | Capital Projects | Cemetery Perpetual Care | |
| \$ 242,182 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 242,182 |
| - | - | - | - | 89,329 | - | 93,543 |
| 365 | 153,317 | 8,408 | - | 21,500 | 4,910 | 188,500 |
| - | - | 242,789 | - | - | - | 419,649 |
| - | - | - | - | - | - | 231,763 |
| - | - | - | 69,000 | - | - | 69,000 |
| - | 1,989 | 1,512 | - | - | 2,459 | 6,150 |
| - | - | 230 | - | 81,076 | - | 83,138 |
| <u>\$ 242,547</u> | <u>\$ 155,306</u> | <u>\$ 252,939</u> | <u>\$ 69,000</u> | <u>\$ 191,905</u> | <u>\$ 7,369</u> | <u>\$ 1,333,925</u> |
| \$ 178,947 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 178,947 |
| - | - | - | - | - | 270 | 270 |
| - | - | - | - | - | - | 363,155 |
| - | - | - | - | - | - | 3,035 |
| - | - | 60,751 | - | - | - | 60,751 |
| - | - | 24,671 | - | 279,242 | - | 303,913 |
| - | - | - | 40,000 | - | - | 40,000 |
| - | - | - | 29,000 | - | - | 29,000 |
| <u>178,947</u> | <u>-</u> | <u>85,422</u> | <u>69,000</u> | <u>279,242</u> | <u>270</u> | <u>979,071</u> |
| <u>63,600</u> | <u>155,306</u> | <u>167,517</u> | <u>-</u> | <u>(87,337)</u> | <u>7,099</u> | <u>354,854</u> |
| - | - | - | - | - | - | - |
| - | - | - | - | 49,381 | - | 49,381 |
| <u>(34,732)</u> | <u>(78,586)</u> | <u>(98,252)</u> | <u>-</u> | <u>-</u> | <u>(2,459)</u> | <u>(218,236)</u> |
| <u>(34,732)</u> | <u>(78,586)</u> | <u>(98,252)</u> | <u>-</u> | <u>49,381</u> | <u>(2,459)</u> | <u>(168,855)</u> |
| 28,868 | 76,720 | 69,265 | - | (37,956) | 4,640 | 185,999 |
| 35,931 | 160,409 | 110,294 | - | 54,612 | 238,134 | 702,645 |
| <u>\$ 64,799</u> | <u>\$ 237,129</u> | <u>\$ 179,559</u> | <u>\$ -</u> | <u>\$ 16,656</u> | <u>\$ 242,774</u> | <u>\$ 888,644</u> |

CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2011

ALL UTILITIES:

| | |
|-------------------------------------|-------|
| Population served | 5,032 |
| Average number of meters in service | 5,457 |

ELECTRIC UTILITY FUND:

| | |
|------------------------------------|---------------------|
| K.W.H. purchased | 33,738,818 |
| K.W.H. sold | <u>32,791,164</u> |
| K.W.H. lost (2.8%) | <u>947,654</u> |
| Revenue from sales | <u>\$ 4,161,414</u> |
| Average number of meters | 3,190 |
| Estimated street light K.W.H. used | 254,000 |

WATER UTILITY FUND:

| | |
|--|--------------------|
| Gallons pumped into plant | 133,051,400 |
| Gallons used in plant and for system maintenance | <u>4,998,010</u> |
| Gallons pumped to mains | 128,053,390 |
| Gallons sold | <u>107,292,571</u> |
| Gallons lost (16.2%) | <u>20,760,819</u> |
| Revenue from sales | <u>\$ 684,656</u> |
| Average number of meters in service | 2,267 |

WASTE WATER UTILITY FUND:

| | |
|--------------------|-------------------|
| Revenue from sales | <u>\$ 775,319</u> |
|--------------------|-------------------|

**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, 2011, which collectively comprise the City of Gladstone, Michigan's basic financial statements and have issued our report thereon dated August 29, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Gladstone, Michigan's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 2011-1 and 2011-2 to be a material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2011-3 to be a significant deficiency.

2011-1 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.

2011-2 Deficiency – Cash was not reconciled for several months during the fiscal year and was not resolved until 4 months after year end.

Management Response – Performing all duties in a timely manner would be optimal. Due to unforeseen circumstances this past year, bank reconciliations were not balanced in a timely manner.

2011-3 Deficiency – During our audit planning and audit fieldwork, through discussions with management and observation, we noted there appears to be capacity issues for the current staff to perform all necessary functions in a timely manner as well as maintain an adequate level of segregation of duties.

Management Response – We realize that additional staff would be optimal, realistically staffing levels are based on budgets. Further segregation of duties will continue to be addressed.

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:

Condition – The City has deficit unreserved fund balances/unrestricted net assets in a couple of funds.

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 29, 2011.

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 P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 29, 2011