

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Gladwin	County Gladwin
Fiscal Year End June 30, 2007	Opinion Date December 14, 2007	Date Audit Report Submitted to State December 14, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below.** (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - The local unit has adopted a budget for all required funds.
  - A public hearing on the budget was held in accordance with State statute.
  - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - The local unit only holds deposits/investments that comply with statutory requirements.
  - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - The local unit is free of repeated comments from previous years.
  - The audit opinion is UNQUALIFIED.
  - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - The board or council approves all invoices prior to payment as required by charter or statute.
  - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	No separate comments and recommendation letter
Other (Describe)	<input type="checkbox"/>	None
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989 799-9580
Street Address 5800 Gratiot Avenue, Suite 201		City Saginaw
		State MI
		Zip 48605
Authorizing CPA Signature 	Printed Name Gerald J. Desloover, CPA	License Number 1101007126



# City of Gladwin, Michigan

## Comprehensive Annual Financial Report

For the Fiscal Year Ending  
June 30, 2007



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF GLADWIN, MICHIGAN  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
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 FOR THE YEAR ENDED JUNE 30, 2007**

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**1000 West Cedar Avenue  
Gladwin, Michigan 48624  
Telephone: (989) 426-9231  
Fax: (989) 426-6942**

December 5, 2007

To The Citizens of the City of Gladwin,  
And Members of the City Council

Michigan State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Gladwin for the fiscal year ended June 30, 2007.

This report consists of management's representations concerning the finances of the City of Gladwin. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Gladwin has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Gladwin's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Gladwin's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Gladwin's financial statements have been audited by Rehmann Robson CPAs, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Gladwin for the fiscal year ended June 30, 2007 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Gladwin's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Gladwin's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Government**

The City of Gladwin, incorporated in 1893, is located in the central part of Michigan's Lower Peninsula. The City of Gladwin is the county seat and largest of only two cities within Gladwin County and has a population of approximately 3,030. Gladwin serves as the primary commercial center, health care services provider and government center for the County's 26,000 permanent residents. Recreation and tourism play a large part in the City's overall economy. The summer population of the County is estimated to be in excess of 50,000 as southeastern Michigan metropolitan area residents flock to their summer cottages along the waterways of the County. This summer population carries well into the fall as hunters take to the county's expansive wooded areas, which are primarily State owned lands. The City of Gladwin currently occupies a land area of 3.75 square miles. The City is empowered to levy a property tax on both real and personal properties located within its boundaries.

The City of Gladwin operates under a "council-manager" form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and eight other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City's administrator, clerk, assessor, treasurer and attorney. The government's administrator is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a non-partisan basis on odd numbered years. Council members serve four-year staggered terms, with four council members elected every two years. The mayor is elected on a nonpartisan basis every two years.

The City of Gladwin provides a full range of services, including police protection; the construction and maintenance of highways, streets and other infrastructure; recreational activities and cultural events; and sanitation, water and sewer services. The City of Gladwin is also financially accountable for a legally separate airport which is reported separately within the City's financial statements. Additional information on this and other legally separate entities can be found in the notes to the financial statements.

The council adopts an annual budget. The annual budget serves as a foundation for the City of Gladwin's financial planning and control. Additional discussion of the budget process and legal control levels can be found in the notes to the financial statements. Budget comparisons for governmental funds can be found in the Financial Section and Supplemental Data section of the report immediately following the notes to the financial statements.

## **Economic Conditions, Outlook and Major Initiatives**

While the City of Gladwin and Gladwin County have always lagged behind a general rise in economic activity in the State of Michigan, we were encouraged in 2004 with the opening of Riverwalk Place in our commercial district and Packaging Direct's consolidation of its operations to our industrial park. The Riverwalk Place project created approximately 80 new retail jobs, and while not normally as well paying as those in the manufacturing sector, they were 80 new jobs that benefited those in our community without a job, or allowed some to improve their job situation. The additional 90 manufacturing jobs that Packaging Direct added to our employment base will help in recovering those lost when Simpson Industries moved their business operations.

The outlook for the City of Gladwin continues to improve. Our major initiative, beyond the completion of eliminating combined sewers, will be to initiate a sidewalk improvement plan and review our city's Master Plan and zoning ordinance. We are also planning an expansion to our water system in the form of a new water tower on the western end of the City and a possible law enforcement center to replace the current police headquarters.

In 2007 we paved several blocks of alleys adjacent to our main thoroughfare. We also had a new Family Farm & Home Store open, as well as a new Rite Aid on Cedar Avenue. The City also reconstructed several streets.

### **Cash Management**

During the year, idle cash was invested in demand deposits, MBIA Class Investment Pool, Bank Investment Funds and government securities. The City's policy is to maintain a competitive yield on its portfolio while minimizing market risk. Accordingly, deposits were either insured by the Federal Deposit Insurance Corporation or Government-backed wherever possible. Pooled cash and investment earnings for Fiscal Year 2006-2007 were \$72,099.

### **Long-Term Financial Planning**

It is the long-term financial goal of the City of Gladwin to maintain a minimum General Fund balance of at least \$400,000. With relatively flat or declining revenues and increasing expenses for wages, supplies, equipment and benefits for the employees, the challenge of keeping the City of Gladwin in long-term financial success will be an on-going struggle.

We will continue to proactively seek out ways to deliver quality services and commodities at an affordable price. It is also our goal not to reduce service levels and to keep the City of Gladwin financially healthy in the long run.

### **Risk Management**

Since 1991, the City has been a member of the Michigan Municipal Liability and Property Pool, a self insurance risk association operating under the authority of Act 138, Michigan Public Acts of 1982. The purpose of the association is to administer a risk fund which provides the member loss protection for general and auto liability, motor vehicle physical damage and property protection. Contributions are applied to the procurement of reinsurance, risk management, underwriting, payment of claims, establishment of loss reserves and other related expenses.

A member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

### **Pension Plan**

The Mayor, members of City Council and all full-time city employees are covered by pension plans. A disclosure regarding all pension plans is presented in the notes to the financial statements.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Gladwin for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the thirteenth consecutive year that the City of Gladwin has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized

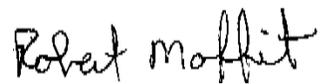
comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgements**

The preparation of the report would not have been possible without the efficient and dedicated services of the City Treasurer, Elizabeth A. Barnebee and staff. We would also like to express appreciation to the staff of Rehmann, Robson, CPAs for their contributions to the excellence of this report. Credit also must be given to the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Gladwin's finances.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert Moffit". The signature is written in a cursive, slightly slanted style.

Robert L. Moffit  
City Administrator

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Gladwin  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

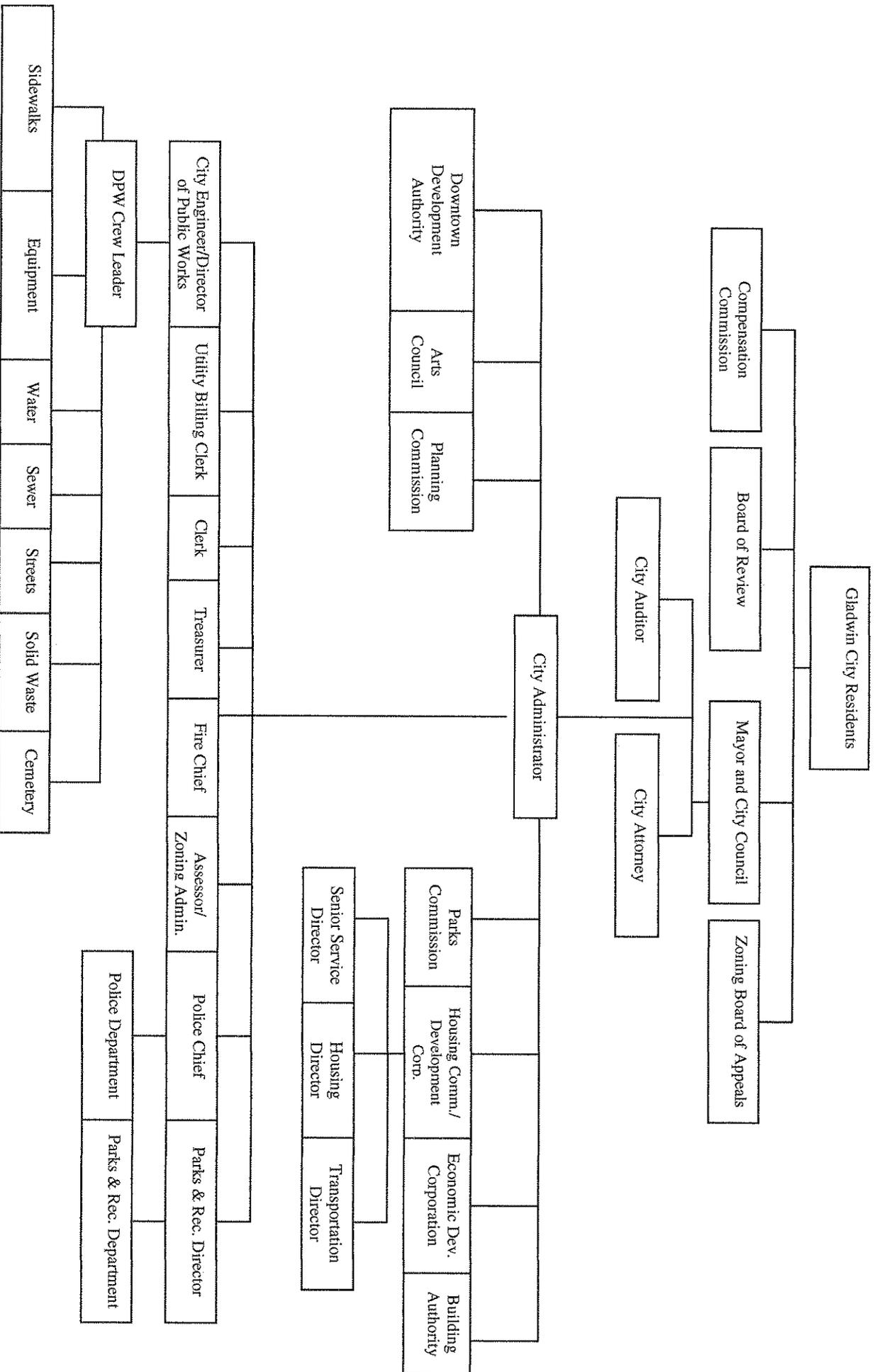
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# City of Gladwin Organizational Chart



# CITY OF GLADWIN

## OFFICIALS

**Thomas L. Winarski**  
Mayor

### Council

Polly Alward

Darlene Jungman

John Caffrey  
David Crawford  
Thomas Hindman

Thomas Mienk  
Vee Novak  
Michael Smith

### Administration

Robert Moffit  
City Administrator

Elizabeth Barnebee  
Treasurer

Douglas Jacobson  
Attorney

Charles Jones  
Police Chief

Bernadette Weaver  
Assessor

Shannon Greaves  
Clerk

James Chasteen  
Parks & Recreation Director

George Alward  
Fire Chief

Sheila Hall  
Housing Director

## **FINANCIAL SECTION**

This section is composed of the following parts:

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Supplementary Information



## INDEPENDENT AUDITORS' REPORT

December 14, 2007

City Council  
City of Gladwin, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Gladwin, Michigan**, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Gladwin, Michigan**, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund 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 December 14, 2007, on our consideration of the **City of Gladwin, Michigan's** internal control over financial reporting and 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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *City of Gladwin, Michigan's* basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on them.

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is centered on the page.

## **CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Gladwin, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Gladwin for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report. All amounts, unless otherwise indicated, are presented in whole.

### **Financial Highlights**

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$12,806,597 (net assets). Of this amount, \$3,877,919 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The government's total net assets increased by \$316,201. This increase was primarily due to payment of current obligations and building a skate park and other infrastructure improvements with grant dollars.

At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,484,289, an increase of \$288,081 in comparison with the prior year. This is primarily due to reducing general fund expenditures and the retirement of one bond. Approximately \$953,663 of this total amount is available for spending at the government's discretion (unreserved-undesignated fund balance).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$507,188 or approximately 31 percent of total general fund expenditures.

The City's total debt decreased by \$199,442 (5 percent) during the current fiscal year. The key factor in this decrease was the payment of current obligations.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction of the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all the City's assets and liabilities, with a difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

## **CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS**

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health & welfare, recreation & culture, and Debt Service. The business-type activities of the City include the Ice Arena and the Water and Sewer operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also the legally separate Downtown Development Authority, Economic Development Corporation and the Gladwin Airport for which the City is financially accountable. Financial information presented for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found in this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other ten governmental funds are combined into a single, aggregated presentation.

## **CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS**

Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

The City adopts an annual appropriated budget for its general fund and all special revenue fund types. Budgetary comparison statements and schedules have been provided in the basic financial statements for the major funds and in the supplemental section of the report for nonmajor funds to demonstrate the extent of compliance with these budgets.

The basic governmental fund financial statements can be found in this report.

***Proprietary funds.*** The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Ice Arena, Sewer and Water operation. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its fleet of vehicles. Because the services of the fund predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Ice Arena, Water and Sewer operations, all of which are considered to be major funds of the City. Also, the internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found in this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. Currently the City has two funds that are agency type funds.

The basic fiduciary fund financial statements can be found in this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information in connection with nonmajor governmental funds. Combining and individual fund statements and schedules can be found in this report. Additionally, statistical data and compliance data are also included as described in the table of contents.

**CITY OF GLADWIN  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Government-wide Financial Analysis**

The following summaries provide a perspective of the financial information of the City as a whole:

<b>City of Gladwin's Net Assets</b>							
	<b><u>Governmental Activities</u></b>		<b><u>Business-Type Activities</u></b>		<b><u>Total</u></b>		
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
Current and other assets	\$ 1,744,334	\$ 1,483,060	\$ 3,867,628	\$ 3,656,987	\$ 5,611,962	\$ 5,140,047	
Capital assets	7,919,326	8,130,817	3,302,725	3,443,294	11,222,051	11,574,111	
Total assets	9,663,660	9,613,877	7,170,353	7,100,281	16,834,013	16,714,158	
Long-term liabilities							
Outstanding	2,449,927	2,518,801	1,246,985	1,305,938	3,696,912	3,824,739	
Other liabilities	215,683	295,615	114,821	103,408	330,504	399,023	
Total liabilities	2,665,610	2,814,416	1,361,806	1,409,346	4,027,416	4,223,762	
Net assets:							
Invested in capital assets, net of related debt	5,418,036	5,499,935	3,092,725	3,203,294	8,510,761	8,703,229	
Restricted	417,917	369,073	-	1,259,142	417,917	1,628,215	
Unrestricted	1,162,097	930,453	2,715,822	1,228,499	3,877,919	2,158,952	
Total net assets	\$ 6,998,050	\$ 6,799,461	\$ 5,808,547	\$ 5,690,935	\$ 12,806,597	\$ 12,490,396	

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Gladwin, assets exceeded liabilities by \$12,806,597 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (approximately 66 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's total net assets (3 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (\$3,877,919) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole.

The government's net assets increased by \$316,201 during the current fiscal year. Much of this increase can be contributed to reductions in spending, prior infrastructure improvements and a new building in the city park.

**CITY OF GLADWIN  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

<b>City of Gladwin's Changes in Net Assets</b>							
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for Services	\$ 423,948	\$ 406,964	\$ 1,141,417	\$ 1,141,580	\$ 1,565,365	\$ 1,548,544	
Operating grants and contributions	329,519	261,105	-	17,082	329,519	278,187	
Capital grants and contributions	-	513,228	-	-	-	513,228	
<b>General Revenues:</b>							
Property taxes	1,138,714	1,078,266	-	-	1,138,714	1,078,266	
Grants and contributions not restricted to specific programs	328,307	338,786	-	-	328,307	338,786	
Other	77,845	118,269	37,458	-	215,303	118,269	
<b>Total revenues</b>	<b>\$ 2,398,333</b>	<b>\$ 2,716,618</b>	<b>\$ 1,178,875</b>	<b>\$ 1,158,662</b>	<b>\$ 3,577,208</b>	<b>\$ 3,875,280</b>	
<b>Expenses:</b>							
General Government	\$ 615,223	\$ 612,092	\$ -	\$ -	\$ 615,223	\$ 612,092	
Public Safety	598,775	614,820	-	-	598,775	614,820	
Public Works	740,612	782,236	-	-	740,612	782,236	
Health and Welfare	837	688	-	-	837	688	
Recreation and Culture	238,226	147,728	-	-	238,226	147,728	
Interest and Fees on Long-Term Debt	134,454	138,644	-	-	134,454	138,644	
Ice Arena	-	-	63,454	64,124	63,454	64,124	
Sewer	-	-	514,411	478,633	514,411	478,633	
Water	-	-	355,015	395,518	355,015	395,518	
<b>Total Expenses</b>	<b>\$ 2,328,127</b>	<b>\$ 2,296,208</b>	<b>\$ 932,880</b>	<b>\$ 938,275</b>	<b>\$ 3,261,007</b>	<b>\$ 3,234,483</b>	
<b>Change in net assets</b>							
before transfers	70,206	420,410	245,995	241,767	316,201	662,177	
Transfers	128,383	139,643	(128,383)	(139,643)	-	-	
<b>Change in net assets</b>	<b>198,589</b>	<b>560,053</b>	<b>117,612</b>	<b>102,124</b>	<b>316,201</b>	<b>662,177</b>	
Net Assets - July 1	6,799,461	6,239,408	5,690,935	5,588,811	12,490,396	11,828,219	
<b>Net Assets - June 30</b>	<b>\$ 6,998,050</b>	<b>\$ 6,799,461</b>	<b>\$ 5,808,547</b>	<b>\$ 5,690,935</b>	<b>\$ 12,806,597</b>	<b>\$ 12,490,396</b>	

**Governmental activities.** Governmental activities increased the City's net assets by \$198,589. The key element of this increase as stated above was primarily due to infrastructure improvements and development of a skate park. In addition, the decrease in capital grants is due to the completion of a portion of the M61/M18 Streetscape project in FY 2005-2006.

**Business-type activities.** Business-type activities increased the City's net assets by \$117,612. The key elements of this increase are improvements to City water and sewer systems and recent modifications and improvements to the arena.

# CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS

## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,484,289, an increase of \$288,081 in comparison with the prior year. The key element of this increase can be attributed to the City's increased General Fund balance. Approximately \$1,063,212 constitutes unreserved fund balance, which is available for spending at the government's discretion. However, certain balances of this amount have been designated for use of savings for 1) drug law enforcement (\$21,714), 2) City Hall improvements (\$62,835), 3) tennis court improvements (\$20,000) and 4) emergency contingencies (\$5,000). The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to fund major capital project fund endeavors (\$10,099), 2) to pay debt service (\$276,133), 3) funds already spent for the ensuing fiscal year (\$3,160), and 4) to generate income to pay for the perpetual care of the municipal cemetery (\$131,685).

The General fund is the chief operating fund of the City. At the end of the current fiscal year, undesignated fund balance of the general fund was \$507,188, while total fund balance reached \$598,183. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total fund expenditures. Undesignated fund balance represents 31 percent of total general fund expenditures, while total fund balance represents 37 percent of that same amount.

The fund balance of the City's general fund increased by \$136,152 during the current fiscal year. The most significant change is attributable to delinquent tax revenues being significantly higher than average and the implementation of many cost saving measures.

Significant nonmajor Governmental fund increases in fund balance occurred in the City's major, local and city street funds representing primarily a slight reduction in expenses and constant levels of State funding.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Ice Arena, Sewer, and Water funds at the end of the year amounted to \$1,352,397, \$563,953, and \$773,533, respectively. The sewer fund experienced a net increase in net assets of \$77,393, while the Ice Arena and Water funds experienced a net increase in net assets of \$1,334 and \$34,372 respectively. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

# CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS

## General Fund Budgetary Highlights

The City attempted to amend the budget as it was apparent that original assumptions may not materialize as anticipated. The difference between the original budget and the final amended budget can be briefly summarized as follows:

Revenue was adjusted upward slightly, despite recent reductions in state revenue sharing which were offset by anticipated increases in interest and rents and departmental revenues.

Anticipated expenditures were adjusted downward across the board through reduced overtime hours and no City-funded sidewalk projects in the public works department and various reductions in spending.

Actual expenses for the year were \$45,769 less than originally budgeted. This was primarily due to reductions of expenses across the board by City Council, department heads and City staff.

## Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounts to \$11,222,051 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways and bridges. The total decrease in the City's investment in capital assets for the current fiscal year was 3 percent (a 3 percent decrease for governmental activities and a 4 percent decrease for business-type activities).

The City undertook a number of capital projects during the year, as shown in the following table. The most significant projects were the lagoon improvements and the Beech Street sewer separation and paving project.

Additional information on the City's capital assets can be found in the Notes to Financial Statements on pages 38-41 in this report.

<b>City of Gladwin's Capital Assets</b>												
(net of depreciation)												
	<b>Governmental Activities</b>				<b>Business-Type Activities</b>				<b>Total</b>			
	<u>2007</u>		<u>2006</u>		<u>2007</u>		<u>2006</u>		<u>2007</u>	<u>2006</u>		
Land	\$	370,625	\$	370,625	\$	33,200	\$	33,200	\$	403,825	\$	403,825
Construction in Progress		700,454		586,608		189,439		217,071		889,893		803,679
Land Improvements		365,122		387,013		8,809		11,986		373,931		398,999
Buildings		257,144		275,255		351,296		376,494		608,440		651,749
Building Improvements		22,558		28,543		-		-		22,558		28,543
Equipment and Vehicles		308,869		331,319		61,830		68,058		370,699		399,377
Infrastructure		5,894,554		6,151,456		2,658,151		2,736,484		8,552,705		8,887,940
Total	\$	7,919,326	\$	8,130,819	\$	3,302,725	\$	3,443,293	\$	11,222,051	\$	11,574,112

**CITY OF GLADWIN  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,890,593. Of this amount, \$2,770,593 comprises debt backed by the full faith and credit of the government and the remaining \$1,120,000 represents bonds secured solely by specified revenue sources.

<b>City of Gladwin's Outstanding Debt</b>						
General Obligation and Revenue Bonds						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General Obligation						
Bonds and Other Debt	\$ 2,570,519	\$ 2,693,016	\$ 200,074	\$ 223,876	\$ 2,770,593	\$ 2,916,892
Revenue						
Bonds and			1,120,000	1,150,000	1,120,000	1,150,000
Total	\$ 2,570,519	\$ 2,693,016	\$ 1,320,074	\$ 1,373,876	\$ 3,890,593	\$ 4,066,892

The City’s total debt decreased by \$176,299.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed value of all real and personal property subject to taxation in the City. As of June 30, 2007, the City’s direct and indirect debt of \$2,660,000 was below the legal limit of \$8,244,110.

Additional information on the City’s long-term debt activity can be found in the Notes to Financial Statements on pages 44-46 in this report.

**Economic Factors and Next Year’s Budgets and Rates.**

Next year’s budget will again be limited to the maintenance of existing services with an eye to keeping increases in departmental budgets to a minimum. The uncertainty of a stable number for revenue sharing from the State of Michigan has encouraged the council to keep a tight budget until we can be certain of availability of funds. We continue to seek out federal and state funding so that we can move forward with infrastructure improvements and continue to meet the needs of the community without having to significantly increase rates and charges to provide services.

In order to increase accountability and arm ourselves with the tools necessary to adequately project when changes are needed in funding levels, we are monitoring new budget and cost monitoring procedures to better analyze our revenues and costs.

**Requests for information.**

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer’s office.

## **BASIC FINANCIAL STATEMENTS**

# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF GLADWIN**

**STATEMENT OF NET ASSETS  
JUNE 30, 2007**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>	<b>COMPONENT UNITS</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,098,927	\$ 959,100	\$ 2,058,027	\$ 350,831
Investments	439,850	101,205	541,055	-
Receivables	219,796	2,761,170	2,980,966	2,724
Internal balances	(25,939)	25,939	-	-
Deferred charges	8,540	-	8,540	3,333
Inventory	-	20,214	20,214	11,433
Prepaid expenses	3,160	-	3,160	35,605
Capital assets, net:				
Assets not being depreciated	1,071,079	222,639	1,293,718	651,816
Assets being depreciated	6,848,247	3,080,086	9,928,333	1,233,711
<b>TOTAL ASSETS</b>	<b>9,663,660</b>	<b>7,170,353</b>	<b>16,834,013</b>	<b>2,289,453</b>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	95,091	41,732	136,823	17,987
Noncurrent liabilities:				
Due within one year	120,592	73,089	193,681	163,100
Due in more than one year	2,449,927	1,246,985	3,696,912	272,291
<b>TOTAL LIABILITIES</b>	<b>2,665,610</b>	<b>1,361,806</b>	<b>4,027,416</b>	<b>453,378</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	5,418,036	3,092,725	8,510,761	1,732,705
Restricted for:				
Debt service	276,133	-	276,133	-
Capital projects	10,099	-	10,099	-
Cemetery perpetual care - nonexpendable	131,685	-	131,685	-
Unrestricted	1,162,097	2,715,822	3,877,919	103,370
<b>TOTAL NET ASSETS</b>	<b>\$ 6,998,050</b>	<b>\$ 5,808,547</b>	<b>\$ 12,806,597</b>	<b>\$ 1,836,075</b>

The accompanying notes are an integral part of these financial statements.

CITY OF GLADWIN

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

FUNCTIONS / PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<b>PRIMARY GOVERNMENT</b>					
<b>GOVERNMENTAL ACTIVITIES:</b>					
General government	\$ 615,223	\$ 77,243	\$ 45,000	\$ -	\$ (492,980)
Public safety	598,775	85,691	17,115	-	(495,969)
Public works	740,612	172,966	245,270	-	(322,376)
Health and welfare	837	-	-	-	(837)
Recreation and culture	238,226	88,048	22,134	-	(128,044)
Interest on long-term debt	134,454	-	-	-	(134,454)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>2,328,127</b>	<b>423,948</b>	<b>329,519</b>	<b>-</b>	<b>(1,574,660)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Ice arena	63,454	59,558	-	-	(3,896)
Sewer	514,411	691,194	-	-	176,783
Water	355,015	390,665	-	-	35,650
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>932,880</b>	<b>1,141,417</b>	<b>-</b>	<b>-</b>	<b>208,537</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 3,261,007</b>	<b>\$ 1,565,365</b>	<b>\$ 329,519</b>	<b>\$ -</b>	<b>\$ (1,366,123)</b>
<b>COMPONENT UNITS:</b>					
Downtown Development Authority	252,040	-	-	-	(252,040)
Economic Development Corporation	-	-	-	-	-
Gladwin Airport	197,201	90,597	555,556	-	448,952
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 449,241</b>	<b>\$ 90,597</b>	<b>\$ 555,556</b>	<b>\$ -</b>	<b>\$ 196,912</b>

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>CHANGES IN NET ASSETS</b>				
Net (expense) revenue	\$ (1,574,660)	\$ 208,537	\$ (1,366,123)	\$ 196,912
<b>GENERAL REVENUES:</b>				
Property taxes	1,138,714	-	1,138,714	390,035
Grants and contributions not restricted to specific programs	328,307	-	328,307	-
Unrestricted investment earnings	88,643	37,458	126,101	16,341
Other revenue	87,801	-	87,801	18,904
Gain on disposal of capital assets	1,401	-	1,401	-
Transfers	128,383	(128,383)	-	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>	<u>1,773,249</u>	<u>(90,925)</u>	<u>1,682,324</u>	<u>425,280</u>
<b>CHANGE IN NET ASSETS</b>	198,589	117,612	316,201	622,192
NET ASSETS, BEGINNING OF YEAR	<u>6,799,461</u>	<u>5,690,935</u>	<u>12,490,396</u>	<u>1,213,883</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 6,998,050</u></u>	<u><u>\$ 5,808,547</u></u>	<u><u>\$ 12,806,597</u></u>	<u><u>\$ 1,836,075</u></u>

The accompanying notes are an integral part of these financial statements.

## **FUND FINANCIAL STATEMENTS**

**CITY OF GLADWIN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007**

<b>ASSETS</b>	General	Other Governmental Funds	Total
Cash and cash equivalents	\$ 149,964	\$ 734,397	\$ 884,361
Investments	327,465	112,385	439,850
Accounts receivable	50,879	4,380	55,259
Due from other governmental units	121,213	38,502	159,715
Prepaid expenditures	3,160	-	3,160
<b>TOTAL ASSETS</b>	<b>\$ 652,681</b>	<b>\$ 889,664</b>	<b>\$ 1,542,345</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 14,102	\$ 28	\$ 14,130
Accrued liabilities	40,396	3,530	43,926
<b>TOTAL LIABILITIES</b>	<b>54,498</b>	<b>3,558</b>	<b>58,056</b>
<b>FUND BALANCES</b>			
Reserved for:			
Prepaid expenditures	3,160	-	3,160
Capital projects	-	10,099	10,099
Debt service	-	276,133	276,133
Cemetery perpetual care	-	131,685	131,685
Unreserved:			
General Fund			
Designated for emergency disaster	5,000	-	5,000
Designated for city hall improvements	62,835	-	62,835
Designated for tennis court improvements	20,000	-	20,000
Special Revenue Funds			
Designated for drug enforcement	-	21,714	21,714
Undesignated:			
General Fund	507,188	-	507,188
Special Revenue Funds	-	446,475	446,475
<b>TOTAL FUND BALANCES</b>	<b>598,183</b>	<b>886,106</b>	<b>1,484,289</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 652,681</b>	<b>\$ 889,664</b>	<b>\$ 1,542,345</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET  
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF  
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
JUNE 30, 2007**

Fund balances - total governmental funds		\$ 1,484,289
<p>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		
Add - capital assets		16,614,404
Deduct - accumulated depreciation		(9,053,976)
<p>Charges deferred to future periods in the governmental activities are not reported in the funds</p>		
Add - deferred charges		8,540
Add - unamortized discount		12,710
<p>An internal service fund is used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.</p>		
Add - net assets of governmental activities accounted for in the internal service fund		485,452
<p>Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.</p>		
Deduct - long-term debt		(2,450,000)
Deduct - accrued interest on long-term debt		(34,140)
Deduct - compensated absences		(69,229)
Net assets of governmental activities		\$ 6,998,050

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007**

	General	Other Governmental Funds	Total
<b>REVENUES</b>			
Taxes	\$ 858,537	\$ 280,177	\$ 1,138,714
Licenses and permits	33,415	-	33,415
Intergovernmental revenue	329,693	259,738	589,431
Charges for services	351,144	6,928	358,072
Fines and forfeitures	25,109	-	25,109
Interest and rentals	55,140	31,791	86,931
Other revenue	70,532	87,066	157,598
<b>TOTAL REVENUES</b>	<b>1,723,570</b>	<b>665,700</b>	<b>2,389,270</b>
<b>EXPENDITURES</b>			
Current:			
General government	547,935	-	547,935
Cemetery	46,191	-	46,191
Public safety	589,911	16,141	606,052
Public works	344,393	229,498	573,891
Health and welfare	837	-	837
Recreation and culture	108,949	103,845	212,794
Debt service	-	221,088	221,088
Capital outlay	-	27,784	27,784
<b>TOTAL EXPENDITURES</b>	<b>1,638,216</b>	<b>598,356</b>	<b>2,236,572</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>85,354</b>	<b>67,344</b>	<b>152,698</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	50,798	169,483	220,281
Transfers (out)	-	(84,898)	(84,898)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>50,798</b>	<b>84,585</b>	<b>135,383</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>136,152</b>	<b>151,929</b>	<b>288,081</b>
FUND BALANCES, BEGINNING OF YEAR	462,031	734,177	1,196,208
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 598,183</b>	<b>\$ 886,106</b>	<b>\$ 1,484,289</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds \$ 288,081

Amounts reported for *governmental activities* in the statement of activities are different because:

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

Add - capital outlay	169,937
Deduct - depreciation expense	(358,975)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	90,000
Deduct - amortization of discounts and deferred charges	(1,518)

An internal service fund is used by management to charge the costs of fleet management to individual funds. The net revenue (expense) of the fund is partially reported with governmental activities.

Add - interest revenue from governmental internal service fund	7,662
Add - net operating income from governmental activities in internal service fund	17,944
Add - gain on disposal of capital assets	1,401
Deduct - interest expense recorded in internal service fund	(3,006)
Deduct - net transfers	(7,000)

Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in compensated absences	(7,095)
Add - decrease in accrued interest payable on bonds	1,158

Change in net assets of governmental activities	\$ 198,589
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The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 813,500	\$ 858,679	\$ 858,537	\$ (142)
Licenses and permits	31,000	33,500	33,415	(85)
Intergovernmental revenue	350,000	334,600	329,693	(4,907)
Charges for services	296,942	318,915	351,144	32,229
Fines and forfeitures	23,500	24,000	25,109	1,109
Interest and rentals	16,900	35,300	55,140	19,840
Other revenue	(43,300)	(9,275)	70,532	79,807
<b>TOTAL REVENUES</b>	<b>1,488,542</b>	<b>1,595,719</b>	<b>1,723,570</b>	<b>127,851</b>
<b>EXPENDITURES</b>				
General government	565,049	559,435	547,935	11,500
Cemetery	68,870	51,735	46,191	5,544
Public safety	590,248	595,900	589,911	5,989
Public works	334,879	346,720	344,393	2,327
Health and welfare	900	850	837	13
Recreation and culture	124,039	113,890	108,949	4,941
<b>TOTAL EXPENDITURES</b>	<b>1,683,985</b>	<b>1,668,530</b>	<b>1,638,216</b>	<b>30,314</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(195,443)</b>	<b>(72,811)</b>	<b>85,354</b>	<b>158,165</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	77,799	78,418	50,798	(27,620)
<b>NET CHANGE IN FUND BALANCES</b>	<b>(117,644)</b>	<b>5,607</b>	<b>136,152</b>	<b>130,545</b>
FUND BALANCES, BEGINNING OF YEAR	462,031	462,031	462,031	-
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 344,387</b>	<b>\$ 467,638</b>	<b>\$ 598,183</b>	<b>\$ 130,545</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2007**

ASSETS	Business-type Activities - Enterprise Funds				Governmental Activities
	Ice Arena	Sewer	Water	Total	Internal Service
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 3,178	\$ 497,278	\$ 458,644	\$ 959,100	\$ 214,566
Investments	101,205	-	-	101,205	-
Accounts receivable	-	84,805	38,947	123,752	4,822
Inventory	-	-	20,214	20,214	-
Lease receivable (net of unearned lease income)	88,159	-	-	88,159	-
<b>TOTAL CURRENT ASSETS</b>	192,542	582,083	517,805	1,292,430	219,388
<b>NONCURRENT ASSETS</b>					
Long-term advance to component units	-	-	282,569	282,569	-
Lease receivable (net of unearned lease income)	2,266,690	-	-	2,266,690	-
	2,266,690	-	282,569	2,549,259	-
<b>CAPITAL ASSETS</b>					
Construction in progress	-	5,235	184,204	189,439	-
Land	-	11,200	22,000	33,200	-
Land improvements	-	26,500	68,824	95,324	24,840
Building and system	-	5,047,201	4,452,028	9,499,229	58,831
Machinery and equipment	-	139,433	168,556	307,989	876,244
Less allowance for accumulated depreciation	-	(3,862,512)	(2,959,944)	(6,822,456)	(601,017)
<b>NET CAPITAL ASSETS</b>	-	1,367,057	1,935,668	3,302,725	358,898
<b>TOTAL NONCURRENT ASSETS</b>	2,266,690	1,367,057	2,218,237	5,851,984	358,898
<b>TOTAL ASSETS</b>	2,459,232	1,949,140	2,736,042	7,144,414	578,286
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	-	5,516	12,842	18,358	343
Accrued liabilities	-	5,741	5,933	11,674	102
Accrued interest payable	9,850	1,561	289	11,700	2,450
Vested benefits payable	-	5,312	7,777	13,089	-
Notes payable, current portion	-	-	-	-	21,500
Bonds payable, current portion	30,000	25,320	4,680	60,000	-
<b>TOTAL CURRENT LIABILITIES</b>	39,850	43,450	31,521	114,821	24,395
<b>LONG-TERM LIABILITIES</b>					
Notes payable, net of current portion	-	-	-	-	42,500
Bonds payable, net of current portion and discount	1,066,985	151,920	28,080	1,246,985	-
<b>TOTAL LONG-TERM LIABILITIES</b>	1,066,985	151,920	28,080	1,246,985	42,500
<b>TOTAL LIABILITIES</b>	1,106,835	195,370	59,601	1,361,806	66,895
<b>NET ASSETS</b>					
Investment in capital assets, net of related debt	-	1,189,817	1,902,908	3,092,725	294,898
Unrestricted	1,352,397	563,953	773,533	2,689,883	216,493
<b>TOTAL NET ASSETS</b>	\$ 1,352,397	\$ 1,753,770	\$ 2,676,441	5,782,608	\$ 511,391

Adjustment to reflect the consolidation of internal  
service fund activities related to enterprise funds.

25,939

**NET ASSETS OF BUSINESS-TYPE ACTIVITIES**

\$ 5,808,547

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	<b>Ice Arena</b>	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Internal Service</b>
<b>OPERATING REVENUES</b>					
Charges for services	\$ 59,558	\$ 681,805	\$ 365,995	\$ 1,107,358	\$ 172,916
Reimbursements	-	-	17,270	17,270	-
Miscellaneous	-	-	-	-	3,316
<b>TOTAL OPERATING REVENUES</b>	<b>59,558</b>	<b>681,805</b>	<b>383,265</b>	<b>1,124,628</b>	<b>176,232</b>
<b>OPERATING EXPENSES</b>					
Personnel services	-	153,979	123,072	277,051	21,269
Supplies	-	65,017	44,138	109,155	38,800
Contractual services and other	2,849	174,498	61,448	238,795	25,649
Depreciation	-	113,301	126,578	239,879	68,057
<b>TOTAL OPERATING EXPENSES</b>	<b>2,849</b>	<b>506,795</b>	<b>355,236</b>	<b>864,880</b>	<b>153,775</b>
<b>OPERATING INCOME (LOSS)</b>	<b>56,709</b>	<b>175,010</b>	<b>28,029</b>	<b>259,748</b>	<b>22,457</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Tap-in fees	-	9,389	7,400	16,789	-
Interest revenues	5,230	16,427	15,801	37,458	7,662
Amortization of bond discount	(1,046)	-	-	(1,046)	-
Gain on sale of assets	-	-	-	-	1,401
Interest expense	(59,559)	(10,050)	(1,858)	(71,467)	(3,006)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(55,375)</b>	<b>15,766</b>	<b>21,343</b>	<b>(18,266)</b>	<b>6,057</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>1,334</b>	<b>190,776</b>	<b>49,372</b>	<b>241,482</b>	<b>28,514</b>
<b>TRANSFERS</b>					
Transfers (out)	-	(113,383)	(15,000)	(128,383)	(7,000)
<b>CHANGE IN NET ASSETS</b>	<b>1,334</b>	<b>77,393</b>	<b>34,372</b>	<b>113,099</b>	<b>21,514</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>1,351,063</b>	<b>1,676,377</b>	<b>2,642,069</b>		<b>489,877</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,352,397</b>	<b>\$ 1,753,770</b>	<b>\$ 2,676,441</b>		<b>\$ 511,391</b>
				Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	
					4,513
<b>CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES</b>					<u>\$ 117,612</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	<u>Ice Arena</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers and users	\$ 89,790	\$ 674,416	\$ 381,007	\$ 1,145,213	\$ 178,643
Payments to employees	-	(153,979)	(123,072)	(277,051)	(21,269)
Payments to suppliers	(3,079)	(242,540)	(92,935)	(338,554)	(50,993)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>86,711</u>	<u>277,897</u>	<u>165,000</u>	<u>529,608</u>	<u>106,381</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers (out)	-	(113,383)	(15,000)	(128,383)	(7,000)
Advances to other funds	-	-	11,536	11,536	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>-</u>	<u>(113,383)</u>	<u>(3,464)</u>	<u>(116,847)</u>	<u>(7,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Principal paid on bonds and notes payable	(30,000)	(25,320)	(4,680)	(60,000)	(40,500)
Interest paid on bonds and notes payable	(59,559)	(10,050)	(1,858)	(71,467)	(3,006)
Acquisition and construction of capital assets	-	(25,181)	(74,130)	(99,311)	(60,962)
Tap-in fees	-	9,389	7,400	16,789	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(89,559)</u>	<u>(51,162)</u>	<u>(73,268)</u>	<u>(213,989)</u>	<u>(104,468)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments	(5,046)	-	-	(5,046)	-
Interest on investments	5,230	16,427	15,801	37,458	7,662
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>184</u>	<u>16,427</u>	<u>15,801</u>	<u>32,412</u>	<u>7,662</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(2,664)</u>	<u>129,779</u>	<u>104,069</u>	<u>231,184</u>	<u>2,575</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,842</u>	<u>367,499</u>	<u>354,575</u>	<u>727,916</u>	<u>211,991</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,178</u>	<u>\$ 497,278</u>	<u>\$ 458,644</u>	<u>\$ 959,100</u>	<u>\$ 214,566</u>

**Noncash Transaction:**

In the Internal Service Fund, the City received \$20,060 in capital assets via trade in.

**CITY OF GLADWIN  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental</b>
	<b>Ice Arena</b>	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Internal Service</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 56,709	\$ 175,010	\$ 28,029	\$ 259,748	\$ 22,457
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	-	113,301	126,578	239,879	68,057
Changes in assets and liabilities:					
Accounts receivable	30,232	(7,389)	(2,258)	20,585	2,411
Inventory	-	-	(3,170)	(3,170)	-
Accounts payable	-	(2,896)	10,409	7,513	(2,821)
Accrued liabilities	(230)	(129)	5,412	5,053	16,277
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 86,711</b>	<b>\$ 277,897</b>	<b>\$ 165,000</b>	<b>\$ 529,608</b>	<b>\$ 106,381</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2007**

	<u>AGENCY FUNDS</u>
<b>ASSETS</b>	
Other assets	<u>\$      50,547</u>
<b>LIABILITIES</b>	
Due to or on behalf of others	<u>\$      50,547</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
 COMBINING STATEMENT OF NET ASSETS  
 DISCRETELY PRESENTED COMPONENT UNITS  
 JUNE 30, 2007**

	Downtown Development Authority	Economic Development Corporation	Gladwin Airport	Total
<b>ASSETS</b>				
Cash and investments	\$ 327,632	\$ 22,785	\$ 414	\$ 350,831
Accounts receivable	-	-	2,724	2,724
Deferred charges	3,333	-	-	3,333
Inventory	-	-	11,433	11,433
Prepaid expenses	-	-	35,605	35,605
Capital assets, net:				
Assets not being depreciated	84,816	-	567,000	651,816
Assets being depreciated	126,979	-	1,106,732	1,233,711
<b>TOTAL ASSETS</b>	<b>542,760</b>	<b>22,785</b>	<b>1,723,908</b>	<b>2,289,453</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	1,473	-	16,514	17,987
Long-term liabilities:				
Due within one year	160,689	-	2,411	163,100
Due in more than one year	269,880	-	2,411	272,291
<b>TOTAL LIABILITIES</b>	<b>432,042</b>	<b>-</b>	<b>21,336</b>	<b>453,378</b>
<b>NET ASSETS</b>				
Investment in capital assets, net of related debt	63,795	-	1,668,910	1,732,705
Unrestricted	46,923	22,785	33,662	103,370
<b>TOTAL NET ASSETS</b>	<b>\$ 110,718</b>	<b>\$ 22,785</b>	<b>\$ 1,702,572</b>	<b>\$ 1,836,075</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GLADWIN  
 COMPONENT UNITS  
 COMBINING STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2007**

<u>FUNCTIONS / PROGRAMS</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUES</u>
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
<b>COMPONENT UNIT</b>				
DOWNTOWN DEVELOPMENT AUTHORITY				
GOVERNMENTAL ACTIVITIES:				
Operations	\$ 236,895	\$ -	\$ -	\$ (236,895)
Interest on long-term debt	15,145	-	-	(15,145)
<b>TOTAL DOWNTOWN DEVELOPMENT DEVELOPMENT AUTHORITY</b>	<u>252,040</u>	<u>-</u>	<u>-</u>	<u>(252,040)</u>
ECONOMIC DEVELOPMENT CORPORATION				
GOVERNMENTAL ACTIVITIES:				
Operations	-	-	-	-
GLADWIN AIRPORT				
BUSINESS TYPE ACTIVITIES:				
Operations	197,201	90,597	555,556	448,952
<b>TOTAL COMPONENT UNITS</b>	<u>\$ 449,241</u>	<u>\$ 90,597</u>	<u>\$ 555,556</u>	<u>\$ 196,912</u>

**CITY OF GLADWIN  
 COMPONENT UNITS  
 COMBINING STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2007**

	<b><u>Downtown Development Authority</u></b>	<b><u>Economic Development Corporation</u></b>	<b><u>Gladwin Airport</u></b>	<b><u>Total</u></b>
<b>CHANGE IN NET ASSETS</b>				
Net (expense) revenue	\$ (252,040)	\$ -	\$ 448,952	\$ 196,912
<b>GENERAL REVENUES:</b>				
Property taxes	390,035	-	-	390,035
Unrestricted investment earnings	15,266	717	358	16,341
Other revenue	-	-	18,904	18,904
<b>TOTAL GENERAL REVENUES</b>	<b><u>405,301</u></b>	<b><u>717</u></b>	<b><u>19,262</u></b>	<b><u>425,280</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>153,261</b>	<b>717</b>	<b>468,214</b>	<b>622,192</b>
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR, AS RESTATED</b>	<b><u>(42,543)</u></b>	<b><u>22,068</u></b>	<b><u>1,234,358</u></b>	<b><u>1,213,883</u></b>
<b>NET ASSETS, END OF YEAR</b>	<b><u><u>\$ 110,718</u></u></b>	<b><u><u>\$ 22,785</u></u></b>	<b><u><u>\$ 1,702,572</u></u></b>	<b><u><u>\$ 1,836,075</u></u></b>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Gladwin, Michigan, conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

#### A. REPORTING ENTITY

The City is organized under Michigan's Comprehensive Home Rule City Act. An eight member City Council is the governing body elected by the community at large. The community also elects the Mayor. The Council appoints a City Administrator.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because they are entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

#### **Discretely Presented Component Units**

*Downtown Development Authority (DDA)* – The City appoints a voting majority and is able to impose its will on the DDA. It has incurred specific financial burdens in the form of general obligation bonds and is responsible for compliance with federal grants received in conjunction with the DDA's projects. In accordance with Statement of Michigan Governmental Accounting and Auditing No. 5, the DDA has been discretely presented. The DDA does not issue any other formal financial statements except as contained in the City of Gladwin's Comprehensive Annual Financial Report.

*Economic Development Corporation (EDC)* – The City appoints a voting majority of the EDC Board. The primary purpose of the EDC is to encourage and assist commercial enterprises to locate and expand facilities and services to the City and its residents. In accordance with the terms of the lease contracts, the EDC in conjunction with the City issues bonds and the commercial enterprise agrees to make lease payments in amounts equal to the bond principal and interest. The bond proceeds are used to finance a project, which will benefit the commercial enterprise. The bonds are payable from the net revenues derived from the project and are collateralized by a mortgage on the project and

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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the lease contract. The EDC financial statements are discretely presented as part of the City. The EDC does not issue any other formal financial statements except as contained in the City of Gladwin's Comprehensive Annual Financial Report.

*Gladwin Zettel Memorial Airport (Gladwin Airport)* – The City is a participant with Gladwin County in a joint venture to operate the Gladwin Zettel Memorial Airport. The City and County equally appoint the Board; however, the City is able to impose its will and has assumed the obligation to provide financial support to the Airport and to finance deficits as they occur. Thus, the Airport's financial statements are discretely presented as part of the City. The Airport does not issue any other formal financial statements except as contained in the City of Gladwin's Comprehensive Annual Financial Report.

### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government, and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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### C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *General Fund* is the principal operating fund of the City. It is used to account for all revenues, expenditures, and activities not specifically accounted for in another fund.

The government reports the following major proprietary funds:

The *Ice Arena Fund* accounts for the City's operation of the Community Ice Arena.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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The *Sewer Fund* accounts for the activities of collecting and treating waste waters.

The *Water Fund* accounts for the costs of providing water services to City residents.

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for vehicle and equipment use and management services provided to other departments of the City on a cost reimbursement basis.

The *Agency Fund* accounts for assets held by the City acting as an agent for individuals and/or other entities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are payments of utility charges between the City's water and sewer function and various other functions of the City and interfund services provided to and used internally by the various funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and the internal service fund are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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connecting new customers to the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. ESTIMATES**

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

### **E. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY**

#### **1. DEPOSITS AND INVESTMENTS**

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool.

#### **2. RECEIVABLES AND PAYABLES**

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

### **3. INVENTORIES AND PREPAID ITEMS**

In the enterprise funds, inventories are valued at cost using either the first-in, first-out or specific identification method. The costs of inventories in the governmental funds are recorded as expenditures when purchased, which is the purchase method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### **4. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the City), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all roads and streets regardless of their acquisition date or amount.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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Major outlays for capital assets and improvements are capitalized as projects when constructed. Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Land improvements	20 years
Buildings	30 years
Storage sheds	10 years
Building improvements	10 years
Equipment – heavy	20-30 years
Equipment – light	5-10 years
Water and sewer lines	30 years
Storm sewer	50 years
Disposal systems	30 years
Roads and other infrastructure	3-50 years
Police cruisers	5 years
Trucks	10 years
Radio equipment	5 years
Office equipment	3-5 years

### 5. LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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### 6. FUND EQUITY

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

### 7. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Subsidies are also recorded as transfers.

An internal Service Fund is used and records charges for services to all City departments and funds as operating revenue. All affected City funds record these payments to the Internal Service Fund as operating expenditures or expenses.

### 8. COMPENSATED ABSENCES

The City's policy allows employees to accumulate earned but unused vacation benefits. Accumulated sick and vacation is accrued when incurred in the proprietary funds. A liability for these amounts is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements.

The portion of unpaid sick and vacation pay that is applicable to governmental fund types is reported in the Statement of Net Assets.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are adopted for the General Fund and all Special Revenue Funds. The City administrator submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. Budgets are prepared on a basis consistent with the accounting basis utilized by the fund. Public hearings are conducted to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through a resolution passed by the City Council. The budget and approved appropriations lapse at the end of the fiscal year. The City does not maintain a formal encumbrance accounting system. The budgets are

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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adopted on a functional basis. Expenditures may not legally exceed the budgeted amounts by function for these funds. The City Administrator may revise the budget to the extent that expenditures of a department/activity (e.g., general government or public safety) are not altered by an amount in excess of \$5,000. Any revisions that alter the total expenditures of the department/activity in excess of \$5,000 require approval by the Council.

Comparisons to budget are presented as required by generally accepted accounting principles for all governmental funds for which budgets were legally adopted. Budgets are adopted on a basis consistent with generally accepted accounting principles.

### III. DETAILED NOTES ON ALL FUNDS

#### A. DEPOSITS AND INVESTMENTS

A reconciliation of cash, pooled investments and investments as shown in the basic financial statement for the City's deposits and investments is as follows:

	<b><u>Carrying Amount</u></b>
Government-wide Financial Statement Captions:	
Primary Government:	
Cash and cash equivalents	\$ 2,058,027
Investments	541,055
Component Units:	
Cash and cash equivalents	<u>350,831</u>
 Total	 <u>\$ 2,949,913</u>
Notes to Financial Statements:	
Deposits	\$ 2,520,493
Investments	428,670
Cash on hand	<u>750</u>
 Total	 <u>\$ 2,949,913</u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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### *Statutory Authority*

The City is authorized by the State to invest surplus funds in the following:

- Bonds, securities, repurchase agreements and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution.
- 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.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/97.

### **Deposits and investments**

The City chooses to disclose its investments by specifically identifying each. As of June 30, 2007, the City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
MBIA Michigan CLASS pool	n/a	\$ 428,670	AAA / V1+

### *Investment and deposit risk*

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The City’s investment policy does not have specific limits in excess of state law on investment credit risk. The City’s investment in the MBIA Michigan CLASS pool is rated AAA / V1+ by Fitch.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end \$2,707,769 of the City’s bank balance of \$2,942,966 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, 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. State law does not require and the City does not have a policy for investment custodial credit risk. The City’s investment is in the MBIA Michigan CLASS pool, not the securities that make up the pool. Therefore, there is no custodial credit risk to be disclosed.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City’s investment policy does not have specific limits in excess of state law on concentration of credit risk. Pooled investments are excluded from the 5% disclosure requirement.

### **B. RECEIVABLES**

Receivables in the primary government and component units are as follows:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 60,081	\$ 406,321	\$ 2,724
Leases			
Due within one year	-	88,159	-
Due after one year	-	2,266,690	-
Intergovernmental	159,715	-	-
Total	\$ 219,796	\$ 2,761,170	\$ 2,724

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

### C. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007, was as follows:

#### Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 370,625	\$ -	\$ -	\$ 370,625
Construction in progress	<u>586,608</u>	<u>113,846</u>	<u>-</u>	<u>700,454</u>
Total capital assets not being depreciated	<u>957,233</u>	<u>113,846</u>	<u>-</u>	<u>1,071,079</u>
Capital assets being depreciated:				
Land improvements	446,098	-	-	446,098
Buildings	660,300	-	-	660,300
Building improvements	59,849	-	-	59,849
Equipment and vehicles	935,464	68,517	(50,535)	953,446
Infrastructure	<u>14,335,011</u>	<u>48,536</u>	<u>-</u>	<u>14,383,547</u>
Total capital assets being depreciated	<u>16,436,722</u>	<u>117,053</u>	<u>(50,535)</u>	<u>16,503,240</u>
Less accumulated depreciation				
Land improvements	(59,085)	(21,891)	-	(80,976)
Buildings	(385,045)	(18,111)	-	(403,156)
Building improvements	(31,306)	(5,985)	-	(37,291)
Equipment and vehicles	(604,145)	(75,607)	35,175	(644,577)
Infrastructure	<u>(8,183,555)</u>	<u>(305,438)</u>	<u>-</u>	<u>(8,488,993)</u>
Total accumulated depreciation	<u>(9,263,136)</u>	<u>(427,032)</u>	<u>35,175</u>	<u>(9,654,993)</u>
Total capital assets being depreciated, net	<u>7,173,586</u>	<u>(309,979)</u>	<u>(15,360)</u>	<u>6,848,247</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,130,819</u>	<u>\$ (196,133)</u>	<u>\$ (15,360)</u>	<u>\$ 7,919,326</u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 33,200	\$ -	\$ -	\$ 33,200
Construction in progress	<u>217,071</u>	<u>79,365</u>	<u>(106,997)</u>	<u>189,439</u>
Total capital assets not being depreciated	<u>250,271</u>	<u>79,365</u>	<u>(106,997)</u>	<u>222,639</u>
Capital assets being depreciated:				
Land improvements	95,324	-	-	95,324
Buildings and system	9,392,232	106,997	-	9,499,229
Equipment and vehicles	<u>288,043</u>	<u>19,946</u>	<u>-</u>	<u>307,989</u>
Total capital assets being depreciated	<u>9,775,599</u>	<u>126,943</u>	<u>-</u>	<u>9,902,542</u>
Less accumulated depreciation				
Land improvements	(83,338)	(3,177)	-	(86,515)
Buildings	(6,279,254)	(210,528)	-	(6,489,782)
Equipment and vehicles	<u>(219,985)</u>	<u>(26,174)</u>	<u>-</u>	<u>(246,159)</u>
Total accumulated depreciation	<u>(6,582,577)</u>	<u>(239,879)</u>	<u>-</u>	<u>(6,822,456)</u>
Total capital assets being depreciated, net	<u>3,193,022</u>	<u>(112,936)</u>	<u>-</u>	<u>3,080,086</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 3,443,293</u>	<u>\$ (33,571)</u>	<u>\$ (106,997)</u>	<u>\$ 3,302,725</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 89,963
Public works	310,585
Recreation and culture	<u>26,484</u>

**Total depreciation expense – governmental activities**     **\$ 427,032**

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

**Business-type activities:**

Sewer	\$ 113,301
Water	<u>126,578</u>

**Total depreciation expense – business-type activities**      **\$ 239,879**

**Discretely presented component units**

Activity for the Airport for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 57,000	\$ -	\$ -	\$ 57,000
Construction in progress	<u>-</u>	<u>510,000</u>	<u>-</u>	<u>510,000</u>
Total capital assets not being depreciated	<u>57,000</u>	<u>510,000</u>	<u>-</u>	<u>567,000</u>
 Capital assets being depreciated:				
Land improvements	1,210,754	-	-	1,210,754
Equipment and vehicles	<u>41,590</u>	<u>-</u>	<u>-</u>	<u>41,590</u>
Total capital assets being depreciated	<u>1,252,344</u>	<u>-</u>	<u>-</u>	<u>1,252,344</u>
 Less accumulated depreciation				
Land improvements	(78,564)	(40,360)	-	(118,924)
Equipment and vehicles	<u>(22,715)</u>	<u>(3,973)</u>	<u>-</u>	<u>(26,688)</u>
Total accumulated depreciation	<u>(101,279)</u>	<u>(44,333)</u>	<u>-</u>	<u>(145,612)</u>
 Total capital assets being depreciated, net	<u>1,151,065</u>	<u>(44,333)</u>	<u>-</u>	<u>1,106,732</u>
 <b>Component Unit capital assets, net</b>	<u>\$ 1,208,065</u>	<u>\$ 465,667</u>	<u>\$ -</u>	<u>\$1,673,732</u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

Activity for the Downtown Development Authority for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 19,000	\$ 65,816	\$ -	\$ 84,816
Capital assets being depreciated:				
Equipment and vehicles	98,368	-	-	98,368
Infrastructure	<u>54,604</u>	<u>40,002</u>	<u>-</u>	<u>94,606</u>
Total capital assets being depreciated	<u>152,972</u>	<u>40,002</u>	<u>-</u>	<u>192,974</u>
Less accumulated depreciation				
Equipment and vehicles	(58,118)	(4,918)	-	(63,036)
Infrastructure	<u>(217)</u>	<u>(2,742)</u>	<u>-</u>	<u>(2,959)</u>
Total accumulated depreciation	<u>(58,335)</u>	<u>(7,660)</u>	<u>-</u>	<u>(65,995)</u>
Total capital assets being depreciated, net	<u>94,637</u>	<u>32,342</u>	<u>-</u>	<u>126,979</u>
<b>Component Unit capital assets, net</b>	<u>\$ 113,637</u>	<u>\$ 98,158</u>	<u>\$ -</u>	<u>\$ 211,795</u>

### D. PAYABLES

Accounts payable and accrued liabilities in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Accounts	\$ 14,473	\$ 18,358	\$ 14,264
Wages, fringe benefits and other accrued liabilities	44,028	11,674	2,250
Accrued interest payable	<u>36,590</u>	<u>11,700</u>	<u>1,473</u>
Total	<u>\$ 95,091</u>	<u>\$ 41,732</u>	<u>\$ 17,987</u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

### E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Transfer to:	Transfer from:				Total
	Nonmajor Governmental	Sewer	Water	Internal Service	
General	\$ 9,898	\$ 18,900	\$ 15,000	\$ 7,000	\$ 50,798
Nonmajor Governmental	<u>75,000</u>	<u>94,483</u>	<u>-</u>	<u>-</u>	<u>169,483</u>
<b>Total</b>	<b><u>\$ 84,898</u></b>	<b><u>\$ 113,383</u></b>	<b><u>\$ 15,000</u></b>	<b><u>\$ 7,000</u></b>	<b><u>\$ 220,281</u></b>

Interfund transfers include transfer of unrestricted revenues collected to finance various programs accounted for in other funds, in accordance with budgetary authorizations; and, transfer of revenues to fund administrative services performed by the General Fund.

### F. LEASE ACTIVITIES

The City's leasing operations consist exclusively of leasing the public ice arena to the Gladwin Community Arena, a nonprofit corporation. This lease is classified as a direct financing lease which continues to November 2028.

The following lists the components of the net investment in direct financing leases as of June 30, 2007:

Total Minimum Lease Payments to be Received	\$ 1,900,341
Estimated Residual Value of Leased Property	<u>593,750</u>
	2,494,091
Less: Unearned Income	<u>(139,242)</u>
Total Net Investment in Lease	<u>\$ 2,354,849</u>

Minimum lease payments do not include amounts that may be received as stipulated in the lease contract for administration costs or operational expenses of the City incidental to the issuance and payment of bonds used to finance construction of the arena. These contingent rental payments occur only if costs are incurred by the City. At June 30, 2007, minimum lease payments are as follows:

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

Year Ended <u>June 30,</u>	<u>Amount</u>
2008	\$ 88,159
2009	86,729
2010	85,289
2011	88,665
2012	86,857
2013-2017	430,092
2018-2022	428,865
2023-2027	423,240
2028-2029	<u>172,525</u>
Total	<u>\$ 1,890,421</u>

### G. LONG-TERM DEBT

#### Changes in Long-Term Debt

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Primary Government					
Governmental activities:					
General obligation bonds:					
\$1,525,000 1996 Water/Sewer Improvement bonds due in annual installments ranging from \$25,000 to \$120,000 through 2020; interest ranging from 5.70% to 6.00%	\$1,330,000	\$ -	\$ (50,000)	\$1,280,000	\$ 55,000
Less deferred discounts	(13,618)	-	908	(12,710)	(908)
\$1,250,000 2004 Sewer Improvement bonds due in annual installments ranging from \$40,000 to \$95,000 through 2025; interest ranging from 2.5% to 5.1%	1,210,000	-	(40,000)	1,170,000	45,000

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
\$150,000 2003 Truck Installment bonds due in annual installments of \$21,500 through 2009; interest at 4.25%	\$ 85,500	\$ -	\$ (21,500)	\$ 64,000	\$21,500
\$38,000 Elgin Pelican Street Sweeper. Annual installments through 2007 of \$19,000; interest at 0%	19,000	-	(19,000)	-	-
Vested benefits payable	<u>62,134</u>	<u>51,718</u>	<u>(44,623)</u>	<u>69,229</u>	<u>-</u>
	<u>\$2,693,016</u>	<u>\$ 51,718</u>	<u>\$ (174,215)</u>	<u>\$2,570,519</u>	<u>\$ 120,592</u>
Business-type activities					
General obligation bonds:					
\$450,000 1997 Water Supply and Sewage bonds due in annual installments ranging from \$25,000 to \$40,000 through 2013; interest ranging from 4.30% to 5.40%	\$ 240,000	\$ -	\$ (30,000)	\$ 210,000	\$ 30,000
Revenue bonds:					
\$1,150,000 1999 Ice Arena Revenue bonds due in annual installments ranging from \$30,000 to \$85,000 through 2028; interest ranging from 4.60% to 5.40%	1,150,000	-	(30,000)	1,120,000	30,000
Less deferred discounts	(24,062)	-	1,047	(23,015)	-
Vested benefits payable	<u>7,939</u>	<u>20,041</u>	<u>(14,891)</u>	<u>13,089</u>	<u>13,089</u>
	<u>\$1,373,877</u>	<u>\$ 20,041</u>	<u>\$ (73,844)</u>	<u>\$1,320,074</u>	<u>\$ 73,089</u>
Component Units					
Gladwin Airport					
\$13,055.04 Contract payable for a tractor due in annual installments from \$1,000 to \$2,411 through 2008; interest at 5%	\$ 7,233	\$ -	\$ (2,411)	\$ 4,822	2,411
Downtown Development Authority:					
\$1,250,000 1993 DDA GO Bonds due in annual installments ranging from \$25,000 to \$150,000 through 2008; interest at 5.30%	275,000	-	(125,000)	150,000	150,000

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
Less deferred discounts	\$ (4,000)	\$ -	\$ 2,000	\$ (2,000)	\$(2,000)
Long-term advances	<u>295,257</u>	<u>-</u>	<u>(12,688)</u>	<u>282,569</u>	<u>12,689</u>
	<u>\$ 573,490</u>	<u>\$ -</u>	<u>\$ (138,099)</u>	<u>\$ 435,391</u>	<u>\$ 163,100</u>

### Primary Government

The City issues general obligation and revenue bonds to provide funds for the acquisition and / or construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

For governmental activities, vested benefits payable are generally liquidated from the General Fund.

Annual debt service requirements to maturity for general obligation and revenue bonds and contracts payable are as follows:

### Primary Government:

Year Ended <u>June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 121,500	\$ 128,470	\$ 60,000	\$ 68,718
2009	121,500	123,049	60,000	65,741
2010	131,000	117,228	65,000	62,602
2011	115,000	110,934	70,000	59,179
2012	120,000	104,990	75,000	55,449
2013-2017	785,000	414,428	240,000	232,919
2018-2022	850,000	172,219	260,000	171,195
2023-2027	270,000	21,055	335,000	91,240
2028-2029	<u>-</u>	<u>-</u>	<u>165,000</u>	<u>9,002</u>
Total	<u>\$ 2,514,000</u>	<u>\$ 1,192,373</u>	<u>\$ 1,330,000</u>	<u>\$ 816,045</u>

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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### Component Units:

Year Ended		
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 152,411	\$ 9,130
2009	<u>2,411</u>	<u>140</u>
Total	<u>\$ 154,822</u>	<u>\$ 9,270</u>

### Advances to component units:

Advances between the Water Fund and the Downtown Development Authority component unit were for the purpose of funding a portion of the 1996 Water Supply & Sewage Disposal System No. 1 bonds. The DDA is required to repay the advance, including interest ranging from 5.824 to 6.000%. The advance will be fully repaid in the year ended June 30, 2020. At June 30, 2007, the DDA owes the Water Fund \$282,569, including interest of \$149,598.

## IV. OTHER INFORMATION

### A. RISK MANAGEMENT

The City participates in a public entity risk (insurance) pool with other local units of government in the Michigan Municipal Liability and Property Pool. This self insurance plan provides members with loss protection for property damage and general liability.

The City made contributions of \$50,295 for the year ended June 30, 2007.

When a claim is incurred and/or paid, the member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

The plan does not maintain separate funds for members and consequently the City's share of total assets and total equity is unknown. Audited financial statements of the plan are available.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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### **B. EMPLOYEE RETIREMENT SYSTEMS**

#### ***Defined Contribution Pension Plans***

The City has established various defined contribution pension plans under Section 401(a) of the Internal Revenue Service Code. The plans cover all full-time City employees (except the City Administrator and Police Chief or those covered by the MERS Plan) who have passed their twenty-first birthday and have been employed by the City for more than one year. For the fiscal year ended June 30, 2007, the cost to the City amounted to \$18,826 and contributions from covered employees amounted to \$12,859.

The City's policy is to fund accrued pension costs representing approximately 8% of the annual salaries of covered employees. Covered employees contribute an additional 3% of their salaries. Benefits accrue in each employee's individual account. These amounts are not available to the general creditors of the City; therefore, these assets are not reported in the City's financial statements.

The various plans and deviations from the above general policy are summarized as follows:

The City DPW workers are covered under the Steelworkers Pension Program and through the ICMA Retirement Corporation. The City contributes 7% of gross wages to the Steelworkers Pension Program and 1% of gross wages to the ICMA-RC. Employees contribute 3% of gross wages to the ICMA-RC 401(a) Plan. Benefits accrue in each employee's individual account.

Beginning in 1999, the City established a defined contribution pension for police administrative employees with the ICMA Retirement Corporation, which currently only the Police Chief participates in. Under this plan police administrative employees are fully vested when admitted to the plan. The City has defined the contribution rate of 10% of gross wages paid to covered employees and employees are not required to contribute any additional amount. Benefits accrue in each employee's individual account.

Beginning in 2002, the City established a defined contribution pension for existing employees not covered by other plans. The City contributes 8% of gross wages to the ICMA Retirement Corporation. Employees contribute 3% of gross wages to the plan. Benefits accrue in each employee's individual account.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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### ***Defined Benefit Pension Plan***

Beginning in July 2002, the City opted to contribute to the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer public employee retirement system administered by the MERS Retirement Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377. The employees included in this plan are the Police and Administrative Office personnel.

### **Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate is 5.94% of annual covered payroll for general employees and 7.50% of annual covered payroll for police and administrative employees. City employees are required to contribute 3% of their annual covered payroll. Employee contributions for the year ended June 30, 2007, amounted to \$8,825. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

### **Annual Pension Cost**

For the year ended June 30, 2007, the City's annual pension cost of \$21,798 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of an actuarial valuation at December 31, 2004. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% for inflation, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases and (c) the assumption that benefits will not increase after retirement.

The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year was determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, are amortized as a level percentage of payroll over a period of thirty years.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$22,698	100%	\$0
6/30/06	21,382	100	0
6/30/07	21,798	100	0

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Attained Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a/c)</u>
12/31/04	\$ 310,138	\$ 261,407	\$ (48,731)	118.6%	\$ 228,200	N/A
12/31/05	358,644	317,747	(40,897)	112.9%	282,449	N/A
12/31/06	438,019	423,593	(14,426)	103.4%	311,552	N/A

### C. JOINT VENTURE – FIRE BOARD

The City is a member of the Gladwin Rural Urban Fire Protection District. The joint venture was established January 1, 1973 for the purpose of providing fire protection to its members of local governments: City of Gladwin and the Townships of Buckeye, Gladwin, Grout, Hay, Sherman, and Sage located in Gladwin County. The City and Townships each appoint two members to the joint venture’s governing Board; this Board then determines and approves the annual budget.

The following is summary financial information for the Gladwin Rural Urban Fire Protection District as of December 31, 2006 (latest available audited financial statements).

Total Assets	\$ 1,135,998
Total Liabilities	147,764
Total Equity	988,234
Revenues	300,827
Expenses	286,829
Net increase (decrease) in net assets	13,998

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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The City's share of total assets and total equity is unknown. Audited financial statements of the Fire Board are available upon written request at City Hall.

### **D. PROPERTY TAXES**

Property taxes are levied each July 1 (lien date) on the taxable valuation of property located in the City as of the preceding December 31. Taxes are considered past due on July 31, at which time applicable penalties and interest are assessed. Assessed values are established annually by the City and are equalized by the State at an estimated 50 percent of current market value. Taxable values change annually, due to the Consumer Price Index (CPI) and any construction added to the property. Real and personal property in the City for the 2006 levy had a taxable value of \$54,847,811. The City's operating tax rate for the 2006 levy, collected in fiscal year 2006/07, was 14.6457 mills.

### **E. RELATED PARTY TRANSACTIONS**

The City has entered into various transactions with Alward Electric. A City Council member's immediate family has an ownership interest in this company. The transactions are for various services and for amounts ranging from \$4 up to \$5,400 individually and totaling \$37,084 for the year ended June 30, 2007.

A Board member of the Downtown Development Authority Component Unit is a Senior VP of Chemical Bank, in which both the component unit and the City do a substantial amount of banking transactions.

### **F. CONTINGENCIES**

The City receives financial assistance from other governmental agencies in the form of grants. The disbursements of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any financial statements herein or on the overall position of the City.

The City is a subject to various legal proceedings arising in the course of providing public services to City residents. However, in the opinion of the City's attorney and management, the resolution of these matters will not have a material effect, if any, on the financial condition of the City.

# CITY OF GLADWIN

## NOTES TO FINANCIAL STATEMENTS

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The City and the Department of Environmental Quality (DEQ) have agreed that the City will take various actions to prevent further violations of the Natural Resources and Environmental Protection Act and correct existing noncompliance related to combined sewer separation. The cost to take such action is expected to be substantial and could have a significant impact on the financial condition of the City if outside funding, in the form of Federal and State grants, cannot be obtained. As of June 30, 2007, the City estimates that the separation project is approximately 90% complete.

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## **SUPPLEMENTARY INFORMATION**

**COMBINING AND INDIVIDUAL  
FUND FINANCIAL STATEMENTS  
AND SCHEDULES**

**CITY OF GLADWIN  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2007**

	<b>SPECIAL REVENUE FUNDS</b>					
	Major Streets	Local Streets	City Streets	Skate Park	Liquor Law Enforcement	Drug Law Enforcement
<b>ASSETS</b>						
Cash and cash equivalents	\$ 220,120	\$ 56,328	\$ 122,424	\$ 7,607	\$ 5,052	\$ 21,714
Investments	-	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-
Due from other governments	26,770	11,732	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 246,890</b>	<b>\$ 68,060</b>	<b>\$ 122,424</b>	<b>\$ 7,607</b>	<b>\$ 5,052</b>	<b>\$ 21,714</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 28	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	2,290	1,240	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>2,318</b>	<b>1,240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>						
Reserved for debt service	-	-	-	-	-	-
Reserved for capital projects	-	-	-	-	-	-
Reserved for cemetery perpetual care	-	-	-	-	-	-
Unreserved, designated for drug enforcement	-	-	-	-	-	21,714
Unreserved, undesignated	244,572	66,820	122,424	7,607	5,052	-
<b>TOTAL FUND BALANCES</b>	<b>244,572</b>	<b>66,820</b>	<b>122,424</b>	<b>7,607</b>	<b>5,052</b>	<b>21,714</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 246,890</b>	<b>\$ 68,060</b>	<b>\$ 122,424</b>	<b>\$ 7,607</b>	<b>\$ 5,052</b>	<b>\$ 21,714</b>

DEBT SERVICE FUNDS		CAPITAL PROJECTS FUND		PERMANENT FUND	
2004					
County DPW Lease Debt	Sewer Improvement Debt	Downtown Development Project	Cemetery Trust	Total	
\$ 275,177	\$ 956	\$ 10,099	\$ 14,920	\$ 734,397	
-	-	-	112,385	112,385	
-	-	-	4,380	4,380	
-	-	-	-	38,502	
<u>\$ 275,177</u>	<u>\$ 956</u>	<u>\$ 10,099</u>	<u>\$ 131,685</u>	<u>\$ 889,664</u>	
\$ -	\$ -	\$ -	\$ -	\$ 28	
-	-	-	-	3,530	
-	-	-	-	3,558	
275,177	956	-	-	276,133	
-	-	10,099	-	10,099	
-	-	-	131,685	131,685	
-	-	-	-	21,714	
-	-	-	-	446,475	
<u>275,177</u>	<u>956</u>	<u>10,099</u>	<u>131,685</u>	<u>886,106</u>	
<u>\$ 275,177</u>	<u>\$ 956</u>	<u>\$ 10,099</u>	<u>\$ 131,685</u>	<u>\$ 889,664</u>	

**CITY OF GLADWIN  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>SPECIAL REVENUE FUNDS</b>					
	Major Streets	Local Streets	City Streets	Skate Park	Liquor Law Enforcement	Drug Law Enforcement
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ 101,843	\$ -	\$ -	\$ -
Intergovernmental:						
Local law enforcement block grant	-	-	-	-	-	10,000
Gas and weight tax	163,052	71,452	-	-	-	-
Act 48 maintenance fees	10,766	-	-	-	-	-
Liquor license fees	-	-	-	-	4,468	-
Charges for services	-	-	-	-	-	-
Interest	6,682	797	3,934	151	99	925
Other revenue	24,019	-	7,268	54,518	-	1,261
<b>TOTAL REVENUES</b>	<b>204,519</b>	<b>72,249</b>	<b>113,045</b>	<b>54,669</b>	<b>4,567</b>	<b>12,186</b>
<b>EXPENDITURES</b>						
Current:						
Public safety	-	-	-	-	3,989	12,152
Public works	124,687	103,579	-	-	-	-
Recreation and culture	-	-	-	103,845	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>124,687</b>	<b>103,579</b>	<b>-</b>	<b>103,845</b>	<b>3,989</b>	<b>12,152</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>79,832</b>	<b>(31,330)</b>	<b>113,045</b>	<b>(49,176)</b>	<b>578</b>	<b>34</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	75,000	-	-	-	-
Transfers (out)	(25,000)	-	(59,898)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(25,000)</b>	<b>75,000</b>	<b>(59,898)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>54,832</b>	<b>43,670</b>	<b>53,147</b>	<b>(49,176)</b>	<b>578</b>	<b>34</b>
FUND BALANCES, BEGINNING OF YEAR	189,740	23,150	69,277	56,783	4,474	21,680
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 244,572</b>	<b>\$ 66,820</b>	<b>\$ 122,424</b>	<b>\$ 7,607</b>	<b>\$ 5,052</b>	<b>\$ 21,714</b>

<b>DEBT SERVICE FUNDS</b>		<b>CAPITAL PROJECTS FUND</b>		<b>PERMANENT FUND</b>	
2004					
County DPW Lease Debt	Sewer Improvement Debt	Downtown Development Project	Cemetery Trust	Total	
\$ 178,334	\$ -	\$ -	\$ -	\$ 280,177	
-	-	-	-	10,000	
-	-	-	-	234,504	
-	-	-	-	10,766	
-	-	-	-	4,468	
-	-	-	6,928	6,928	
10,204	13	202	8,784	31,791	
-	-	-	-	87,066	
188,538	13	202	15,712	665,700	
-	-	-	-	16,141	
1,232	-	-	-	229,498	
-	-	-	-	103,845	
50,000	40,000	-	-	90,000	
76,605	54,483	-	-	131,088	
-	-	27,784	-	27,784	
127,837	94,483	27,784	-	598,356	
60,701	(94,470)	(27,582)	15,712	67,344	
-	94,483	-	-	169,483	
-	-	-	-	(84,898)	
-	94,483	-	-	84,585	
60,701	13	(27,582)	15,712	151,929	
214,476	943	37,681	115,973	734,177	
\$ 275,177	\$ 956	\$ 10,099	\$ 131,685	\$ 886,106	

**CITY OF GLADWIN  
MAJOR STREETS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental:				
Gas and weight taxes	\$ 170,286	\$ 164,000	\$ 163,052	\$ (948)
Act 48 maintenance fees	-	10,800	10,766	(34)
Interest	3,000	6,600	6,682	82
Other revenue	3,000	24,050	24,019	(31)
<b>TOTAL REVENUES</b>	<b>176,286</b>	<b>205,450</b>	<b>204,519</b>	<b>(931)</b>
<b>EXPENDITURES</b>				
<b>PUBLIC WORKS</b>				
Highways and streets:				
Construction	70,000	35,000	30,224	4,776
Routine maintenance	60,120	50,935	47,514	3,421
Traffic services	11,000	11,550	12,844	(1,294)
Winter maintenance	32,100	30,370	30,124	246
Street cleaning	4,500	4,500	3,981	519
<b>TOTAL EXPENDITURES</b>	<b>177,720</b>	<b>132,355</b>	<b>124,687</b>	<b>7,668</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,434)</b>	<b>73,095</b>	<b>79,832</b>	<b>6,737</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (out)	(25,000)	(25,000)	(25,000)	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(26,434)</b>	<b>48,095</b>	<b>54,832</b>	<b>6,737</b>
FUND BALANCE, BEGINNING OF YEAR	189,740	189,740	189,740	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 163,306</b>	<b>\$ 237,835</b>	<b>\$ 244,572</b>	<b>\$ 6,737</b>

**CITY OF GLADWIN  
LOCAL STREETS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental:				
Gas and weight taxes	\$ 73,715	\$ 72,000	\$ 71,452	\$ (548)
Interest	600	775	797	22
<b>TOTAL REVENUES</b>	<b>74,315</b>	<b>72,775</b>	<b>72,249</b>	<b>(526)</b>
<b>EXPENDITURES</b>				
<b>PUBLIC WORKS</b>				
Highways and streets:				
Construction	40,000	33,500	23,444	10,056
Routine maintenance	49,500	56,100	51,416	4,684
Traffic services	7,900	5,200	5,191	9
Winter maintenance	25,455	24,150	23,528	622
<b>TOTAL EXPENDITURES</b>	<b>122,855</b>	<b>118,950</b>	<b>103,579</b>	<b>15,371</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(48,540)</b>	<b>(46,175)</b>	<b>(31,330)</b>	<b>14,845</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	55,000	75,000	75,000	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>6,460</b>	<b>28,825</b>	<b>43,670</b>	<b>14,845</b>
FUND BALANCE, BEGINNING OF YEAR	23,150	23,150	23,150	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 29,610</b>	<b>\$ 51,975</b>	<b>\$ 66,820</b>	<b>\$ 14,845</b>

**CITY OF GLADWIN  
CITY STREETS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 97,500	\$ 102,111	\$ 101,843	\$ (268)
Interest	300	3,920	3,934	14
Other revenue	-	7,300	7,268	(32)
<b>TOTAL REVENUES</b>	97,800	113,331	113,045	(286)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (out)	(39,898)	(39,898)	(59,898)	(20,000)
<b>NET CHANGE IN FUND BALANCE</b>	57,902	73,433	53,147	(20,286)
FUND BALANCE, BEGINNING OF YEAR	69,277	69,277	69,277	-
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 127,179</u>	<u>\$ 142,710</u>	<u>\$ 122,424</u>	<u>\$ (20,286)</u>

**CITY OF GLADWIN  
SKATE PARK FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Interest and rents	\$ 100	\$ 155	\$ 151	\$ (4)
Other revenue	30,000	55,000	54,518	(482)
<b>TOTAL REVENUES</b>	<b>30,100</b>	<b>55,155</b>	<b>54,669</b>	<b>(486)</b>
<b>EXPENDITURES</b>				
<b>RECREATION AND CULTURE</b>				
Supplies	300	300	235	65
Other services and charges	57,125	105,550	103,610	1,940
<b>TOTAL EXPENDITURES</b>	<b>57,425</b>	<b>105,850</b>	<b>103,845</b>	<b>2,005</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(27,325)</b>	<b>(50,695)</b>	<b>(49,176)</b>	<b>1,519</b>
FUND BALANCE, BEGINNING OF YEAR	56,783	56,783	56,783	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 29,458</b>	<b>\$ 6,088</b>	<b>\$ 7,607</b>	<b>\$ 1,519</b>

**CITY OF GLADWIN  
LIQUOR LAW ENFORCEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental:				
Liquor license fees	\$ 4,404	\$ 4,500	\$ 4,468	\$ (32)
Interest and rents	-	100	99	(1)
<b>TOTAL REVENUES</b>	4,404	4,600	4,567	(33)
<b>EXPENDITURES</b>				
<b>RECREATION AND CULTURE</b>				
Personnel services	4,404	4,000	3,989	(11)
<b>NET CHANGE IN FUND BALANCE</b>	-	600	578	(22)
FUND BALANCE, BEGINNING OF YEAR	4,474	4,474	4,474	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 4,474</b>	<b>\$ 5,074</b>	<b>\$ 5,052</b>	<b>\$ (22)</b>

**CITY OF GLADWIN  
DRUG LAW ENFORCEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental:				
Local law enforcement block grant	\$ -	\$ 10,000	\$ 10,000	\$ -
Interest and rents	-	950	925	(25)
Drug forfeitures	1,000	1,300	1,261	(39)
<b>TOTAL REVENUES</b>	1,000	12,250	12,186	(64)
<b>EXPENDITURES</b>				
<b>PUBLIC SAFETY</b>				
Personal services	2,000	12,025	12,015	10
Other services and charges	1,200	175	137	38
<b>TOTAL EXPENDITURES</b>	3,200	12,200	12,152	48
<b>NET CHANGE IN FUND BALANCE</b>	(2,200)	50	34	(16)
FUND BALANCE, BEGINNING OF YEAR	21,680	21,680	21,680	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 19,480</b>	<b>\$ 21,730</b>	<b>\$ 21,714</b>	<b>\$ (16)</b>

**CITY OF GLADWIN**  
**AGENCY FUNDS**  
**COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

**JUNE 30, 2007**

<u><b>ASSETS</b></u>	<u><b>Tax Collection</b></u>	<u><b>Payroll</b></u>	<u><b>Total</b></u>
Other assets	<u>\$ -</u>	<u>\$ 50,547</u>	<u>\$ 50,547</u>
<u><b>LIABILITIES</b></u>			
Due to or on behalf of others	<u>\$ -</u>	<u>\$ 50,547</u>	<u>\$ 50,547</u>

**CITY OF GLADWIN  
AGENCY FUNDS  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<b><u>TAX COLLECTION FUND</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 5,960,442	\$ 5,960,442	\$ -
<b>LIABILITIES</b>				
Due to or on behalf of others	\$ -	\$ 4,239,101	\$ 4,239,101	\$ -
	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<b><u>PAYROLL FUND</u></b>				
<b>ASSETS</b>				
Cash	\$ 9,931	\$ 1,092,596	\$ 1,102,527	\$ -
Other assets	-	50,547	-	50,547
<b>TOTAL ASSETS</b>	<b>\$ 9,931</b>	<b>\$ 1,143,143</b>	<b>\$ 1,102,527</b>	<b>\$ 50,547</b>
<b>LIABILITIES</b>				
Due to or on behalf of others	\$ 9,931	\$ 1,143,807	\$ 1,103,191	\$ 50,547
	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<b><u>TOTAL</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 9,931	\$ 7,053,038	\$ 7,062,969	\$ -
Other assets	-	50,547	-	50,547
<b>TOTAL ASSETS</b>	<b>\$ 9,931</b>	<b>\$ 7,103,585</b>	<b>\$ 7,062,969</b>	<b>\$ 50,547</b>
<b>LIABILITIES</b>				
Due to or on behalf of others	\$ 9,931	\$ 5,382,908	\$ 5,342,292	\$ 50,547

**CITY OF GLADWIN  
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT  
STATEMENT OF NET ASSETS AND BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2007**

	<u>Downtown Development Authority</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 327,632	\$ -	\$ 327,632
Deferred charges	-	3,333	3,333
Capital assets, net:			
Assets not being depreciated	-	84,816	84,816
Assets being depreciated	-	126,979	126,979
<b>TOTAL ASSETS</b>	<u>\$ 327,632</u>	<u>215,128</u>	<u>542,760</u>
<b>LIABILITIES</b>			
Accrued interest payable	\$ -	\$ 1,473	\$ 1,473
Noncurrent liabilities:			
Due within one year	12,689	148,000	160,689
Due in more than one year	269,880	-	269,880
<b>TOTAL LIABILITIES</b>	<u>282,569</u>	<u>149,473</u>	<u>432,042</u>
<b>FUND BALANCES</b>			
Reserved for debt service	<u>45,063</u>	<u>(45,063)</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 327,632</u>		
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt		63,795	63,795
Unrestricted		<u>46,923</u>	<u>46,923</u>
<b>TOTAL NET ASSETS</b>		<u>\$ 110,718</u>	<u>\$ 110,718</u>

**CITY OF GLADWIN  
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT  
STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007**

	Downtown Development Authority	Adjustments	Statement of Activities
<b>REVENUES</b>			
Taxes	\$ 390,035	\$ -	\$ 390,035
Interest	15,266	-	15,266
<b>TOTAL REVENUES</b>	<b>405,301</b>	<b>-</b>	<b>405,301</b>
<b>EXPENDITURES/EXPENSES</b>			
Personnel services	1,817	-	1,817
Supplies	671	-	671
Contractual services and other	179,135	(19,991)	159,144
Reimbursements	62,270	-	62,270
Other expenditures/expense	-	5,333	5,333
Debt service			
Principal	125,000	(125,000)	-
Interest expense	16,363	(1,218)	15,145
Capital outlay	85,827	(85,827)	-
Depreciation	-	7,660	7,660
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>471,083</b>	<b>(219,043)</b>	<b>252,040</b>
<b>CHANGE IN FUND BALANCE / NET ASSETS</b>	<b>(65,782)</b>	<b>219,043</b>	<b>153,261</b>
FUND BALANCE / NET ASSETS (DEFICIT), BEGINNING OF YEAR	110,845	(153,388)	(42,543)
<b>FUND BALANCE / NET ASSETS, END OF YEAR</b>	<b>\$ 45,063</b>	<b>\$ 65,655</b>	<b>\$ 110,718</b>

**CITY OF GLADWIN  
ECONOMIC DEVELOPMENT CORPORATION COMPONENT UNIT  
STATEMENT OF NET ASSETS AND BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2007**

	Economic Development Corporation	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash and investments	\$ 22,785	\$ -	\$ 22,785
<b>FUND BALANCES</b>			
Unreserved - undesignated	\$ 22,785	(22,785)	-
<b>NET ASSETS</b>			
Unrestricted		\$ 22,785	\$ 22,785

**CITY OF GLADWIN  
ECONOMIC DEVELOPMENT CORPORATION COMPONENT UNIT  
STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007**

	Economic Development Corporation	Adjustments	Statement of Activities
<b>REVENUES</b>			
Interest	\$ 717	\$ -	\$ 717
 FUND BALANCE / NET ASSETS, BEGINNING OF YEAR	22,068	-	22,068
 FUND BALANCE / NET ASSETS, END OF YEAR	\$ 22,785	\$ -	\$ 22,785

**CITY OF GLADWIN  
GLADWIN AIRPORT COMPONENT UNIT  
STATEMENT OF NET ASSETS - PROPRIETARY FUND  
JUNE 30, 2007**

	<u>Gladwin Airport</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 414
Accounts receivable	2,724
Inventory	11,433
Prepaid items	<u>35,605</u>
<b>TOTAL CURRENT ASSETS</b>	<u>50,176</u>
<b>CAPITAL ASSETS</b>	
Construction in progress	510,000
Land	57,000
Land improvements	1,210,754
Machinery and equipment	41,590
Less allowance for accumulated depreciation	<u>(145,612)</u>
<b>NET CAPITAL ASSETS</b>	<u>1,673,732</u>
<b>TOTAL ASSETS</b>	<u>1,723,908</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	14,264
Accrued liabilities	2,250
Installment contracts payable, current portion	<u>2,411</u>
<b>TOTAL CURRENT LIABILITIES</b>	18,925
<b>LONG-TERM LIABILITIES</b>	
Installment contracts payable, net of current portion	<u>2,411</u>
<b>TOTAL LIABILITIES</b>	<u>21,336</u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	1,668,910
Unrestricted	<u>33,662</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 1,702,572</u></u>

**CITY OF GLADWIN  
GLADWIN AIRPORT COMPONENT UNIT  
STATEMENT OF ACTIVITIES - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Gladwin Airport</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 90,597
Intergovernmental revenue	525,556
Reimbursements	30,000
Miscellaneous	<u>18,904</u>
<b>TOTAL OPERATING REVENUES</b>	<u>665,057</u>
<b>OPERATING EXPENSES</b>	
Supplies	78,485
Contractual services and other	74,383
Depreciation	<u>44,333</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>197,201</u>
<b>OPERATING LOSS</b>	467,856
<b>NONOPERATING REVENUES</b>	
Interest revenues	<u>358</u>
<b>CHANGE IN NET ASSETS</b>	468,214
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,234,358</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 1,702,572</u></u>

## **STATISTICAL SECTION**

Statistical tables differ from the financial statements because they usually cover more than one year and may present non-accounting data. These tables reflect social and economic data, financial trends and the fiscal capability of the City of Gladwin.

	<u>Page</u>
<b>Financial Trends</b>	<b>68</b>
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	<b>72</b>
These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	
<b>Debt Capacity</b>	<b>77</b>
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
<b>Demographic Information</b>	<b>84</b>
These schedules offer demographic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	

**City of Gladwin**  
**Net Assets by Component**  
**Last Four Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year			
	2004	2005	2006	2007
<b>Governmental Activities</b>				
Invested in Capital Assets, net of related debt	\$ 3,521,386	\$ 4,327,514	\$ 5,499,935	\$ 5,418,036
Restricted	1,222,638	623,108	369,073	417,917
Unrestricted	1,423,670	856,565	930,453	1,162,097
<b>Total Governmental Activities Net Assets</b>	<u>\$ 6,167,694</u>	<u>\$ 5,807,187</u>	<u>\$ 6,799,461</u>	<u>\$ 6,998,050</u>
<b>Business-type Activities</b>				
Invested in Capital Assets, net of related debt	\$ 4,597,236	\$ 3,085,677	\$ 3,203,294	\$ 3,092,725
Restricted	90,479	1,566,981	1,259,142	-
Unrestricted	769,257	891,951	1,228,499	2,715,822
<b>Total Business-type Activities Net Assets</b>	<u>\$ 5,456,972</u>	<u>\$ 5,544,609</u>	<u>\$ 5,690,935</u>	<u>\$ 5,808,547</u>
<b>Total Governmental and Business-type Activities</b>				
Invested in Capital Assets, net of related debt	\$ 8,118,622	\$ 7,413,191	\$ 8,703,229	\$ 8,510,761
Restricted	1,313,117	2,190,089	1,628,215	417,917
Unrestricted	2,192,927	1,748,516	2,158,952	3,877,919
<b>Total Net Assets</b>	<u>\$ 11,624,666</u>	<u>\$ 11,351,796</u>	<u>\$ 12,490,396</u>	<u>\$ 12,806,597</u>

Note: 2004 was the first year of implementation of GASB 34; this table is intended to show trend information in the future

**City of Gladwin**  
**Changes in Net Assets**  
**Last Four Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Years			
	2004	2005	2006	2007
<b>Expenses</b>				
Governmental Activities:				
General Government	\$ 538,162	\$ 569,926	\$ 612,092	\$ 615,223
Public Safety	553,452	618,534	614,820	598,775
Public Works	1,001,554	1,278,531	782,236	740,612
Health and Welfare	596	660	688	837
Recreation and Culture	161,370	151,440	147,728	238,226
Interest and Fees on Long-Term Debt	90,372	142,526	138,644	134,454
Total Governmental Activities Expenses	<u>\$ 2,345,506</u>	<u>\$ 2,761,617</u>	<u>\$ 2,296,208</u>	<u>\$ 2,328,127</u>
Business-Type Activities:				
Ice Arena	\$ 63,765	\$ 63,957	\$ 64,124	\$ 63,454
Sewer	488,357	493,068	478,633	514,411
Water	482,797	337,619	395,518	355,015
Total Business-Type Activities Expenses	<u>\$ 1,034,919</u>	<u>\$ 894,644</u>	<u>\$ 938,275</u>	<u>\$ 932,880</u>
Total Primary Government Expenses	<u><u>\$ 3,380,425</u></u>	<u><u>\$ 3,656,261</u></u>	<u><u>\$ 3,234,483</u></u>	<u><u>\$ 3,261,007</u></u>
<b>Program Revenues</b>				
Governmental Activities:				
Charges for Services:				
General Government	\$ 93,932	\$ 54,420	\$ 58,986	\$ 77,243
Public Safety	77,824	133,153	109,640	85,691
Public Works	173,414	151,880	159,670	172,966
Health and Welfare	1,950	-	-	-
Recreation and Culture	65,414	66,612	78,668	88,048
Interest and fees on Long-Term Debt	-	-	-	-
Operating Grants and Contributions	335,673	253,053	261,105	329,519
Capital Grants and Contributions	574,445	267,480	513,228	-
Total Governmental Activities Program Revenues	<u>\$ 1,322,652</u>	<u>\$ 926,598</u>	<u>\$ 1,181,297</u>	<u>\$ 753,467</u>

Business-type Activities:								
Charges for services:								
Ice Arena	\$	60,479	\$	60,478	\$	60,479	\$	59,558
Sewer		500,779		653,717		688,897		691,194
Water		388,536		379,922		392,204		390,665
Operating Grants and Contributions		-		-		17,082		-
Capital Grants and Contributions		-		-		-		-
Total Business-type Activities Program Revenues	\$	<u>949,794</u>	\$	<u>1,094,117</u>	\$	<u>1,158,662</u>	\$	<u>1,141,417</u>
Total Primary Government Program Revenues	\$	<u>2,272,446</u>	\$	<u>2,020,715</u>	\$	<u>2,339,959</u>	\$	<u>1,894,884</u>
Net (Expense)/Revenue								
Governmental Activities	\$	(1,022,854)	\$	(1,835,019)	\$	(1,114,911)	\$	(1,574,660)
Business-type Activities		<u>(85,125)</u>		<u>199,473</u>		<u>220,387</u>		<u>208,537</u>
Total Primary Government Net Expense	\$	<u>(1,107,979)</u>	\$	<u>(1,635,546)</u>	\$	<u>(894,524)</u>	\$	<u>(1,366,123)</u>

#### General Revenues and Other Changes in

##### Net Assets

Governmental Activities:								
Property Taxes	\$	979,228	\$	999,790		1,078,266		1,138,714
Revenue Sharing		347,306		341,326		338,786		328,307
Interest Earnings		11,515		37,016		57,706		88,643
Miscellaneous		27,081		41,788		60,563		89,202
Transfers		49,000		121,787		139,643		128,383
Total Governmental Activities	\$	<u>1,414,130</u>	\$	<u>1,541,707</u>	\$	<u>1,674,964</u>	\$	<u>1,773,249</u>
Business-type Activities:								
Investment Earnings	\$	2,665	\$	9,951	\$	21,380	\$	37,458
Miscellaneous		162		-		-		-
Transfers		<u>(60,153)</u>		<u>(121,787)</u>		<u>(139,643)</u>		<u>(128,383)</u>
Total Business-type Activities	\$	<u>(57,326)</u>	\$	<u>(111,836)</u>	\$	<u>(118,263)</u>	\$	<u>(90,925)</u>
Total Primary Government	\$	<u>1,356,804</u>	\$	<u>1,429,871</u>	\$	<u>1,556,701</u>	\$	<u>1,682,324</u>
<b>Change in Net Assets</b>								
Governmental Activities	\$	391,276	\$	(293,312)	\$	560,053	\$	198,589
Business-type Activities		<u>(142,451)</u>		<u>87,637</u>		<u>102,124</u>		<u>117,612</u>
Total Primary Government	\$	<u>248,825</u>	\$	<u>(205,675)</u>	\$	<u>662,177</u>	\$	<u>316,201</u>

Note: 2004 was the first year of implementation of GASB 34; this table is intended to show trend information in the future

**City of Gladwin**  
**Fund Balances of Governmental Funds**  
**Last Four Fiscal Years**  
**(modified accrual basis of accounting)**

	Fiscal Year			
	2004	2005	2006	2007
General Fund				
Reserves	\$ 54,571	\$ 53,221	\$ 2,188	\$ 3,160
Designated	71,738	80,125	67,835	87,835
Unreserved/Undesignated	424,642	342,966	392,008	507,188
Total General Fund	<u>\$ 550,951</u>	<u>\$ 476,312</u>	<u>\$ 462,031</u>	<u>\$ 598,183</u>
All Other Governmental Funds				
Reserved	\$ 189,833	\$ 599,858	\$ 369,073	\$ 417,917
Unreserved, Reported in:				
Special Revenue Funds	337,148	295,563	365,104	468,189
Capital Project Funds	984,498	-	-	-
Permanent Funds	20,878	-	-	-
Total All Other Governmental Funds	<u>\$ 1,532,357</u>	<u>\$ 895,421</u>	<u>\$ 734,177</u>	<u>\$ 886,106</u>

Note: 2004 was the first year of implementation of GASB 34; this table is intended to show trend information in the future

**City of Gladwin**  
**Changes in Fund Balances of Governmental Funds**  
**Last Four Fiscal Years**  
**(modified accrual basis of accounting)**

	Fiscal Year			
	2004	2005	2006	2007
Revenues				
Taxes	\$ 960,652	\$ 1,017,951	\$ 1,078,266	\$ 1,138,714
Licenses and Permit	28,477	31,620	32,871	33,415
Intergovernmental Revenue	781,889	861,859	1,106,922	589,431
Charges for Services	239,543	341,951	343,198	358,072
Fines and Forfeitures	30,778	33,432	23,733	25,109
Interest and Rentals	14,476	34,286	57,512	86,931
Other Revenue	140,655	41,789	69,700	157,598
Total Revenues	<u>\$ 2,196,470</u>	<u>\$ 2,362,888</u>	<u>\$ 2,712,202</u>	<u>\$ 2,389,270</u>
Expenditures				
Legislative	\$ 63,121	\$ 78,427	\$	\$
General Government	443,630	467,665	605,424	594,126
Public Safety	557,818	605,281	611,899	606,052
Public Works	697,159	569,155	598,398	573,891
Health and Welfare	596	660	688	837
Recreation and Culture	350,423	120,705	116,049	212,794
Debt Service				
Principal	35,000	35,000	75,000	90,000
Interest and fees	83,017	128,070	134,611	131,088
Capital Projects	615,038	1,590,170	892,301	27,784
Total Expenditures	<u>\$ 2,845,802</u>	<u>\$ 3,595,133</u>	<u>\$ 3,034,370</u>	<u>\$ 2,236,572</u>
Excess of Revenues Over (Under) Expenditures	\$ (649,332)	\$ (1,232,245)	\$ (322,168)	\$ 152,698
Other Financing Sources (Uses)				
Bond Proceeds	\$ 1,250,000	\$ -	\$	\$
Transfers In	423,129	436,058	279,895	220,281
Transfers Out	(304,128)	(277,271)	(133,252)	(84,898)
Transfers to Component Units	(30,000)	(30,000)		
Total Other Financing Sources (Uses)	<u>\$ 1,339,001</u>	<u>\$ 128,787</u>	<u>\$ 146,643</u>	<u>\$ 135,383</u>
Net Change in Fund Balance	<u>\$ 689,669</u>	<u>\$ (1,103,458)</u>	<u>\$ (175,525)</u>	<u>\$ 288,081</u>
Debt service as a percentage of noncapital expenditures	5.2%	6.2%	9.7%	10.7%

Note: 2004 was the first year of implementation of GASB 34; this table is intended to show trend information in the future

**City of Gladwin**  
**Governmental Activities Tax Revenues By Source**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

<b>Fiscal Year</b>	<b>Property Tax</b>
1998	\$ 665,995
1999	706,902
2000	749,054
2001	784,244
2002	821,111
2003	852,339
2004	960,652
2005	1,017,951
2006	1,078,266
2007	1,138,714

**CITY OF GLADWIN  
PROPERTY TAX VALUATION RATES - LEVIES  
LAST TEN YEARS**

Tax Roll Year	Real Property				Personal Property				Total			
	Homestead Taxable Value	Non-Homestead Taxable Value	Homestead Estimated Actual Value	Non-Homestead Estimated Actual Value	Homestead Taxable Value	Non-Homestead Taxable Value	Homestead Estimated Actual Value	Non-Homestead Estimated Actual Value	Homestead Taxable Value	Non-Homestead Taxable Value	Homestead Estimated Actual Value	Non-Homestead Estimated Actual Value
1997	\$ 15,793,789	\$ 15,301,356	\$ 31,587,578	\$ 30,602,712	\$ -	\$ 7,501,382	\$ -	\$ 15,002,764	\$ 15,793,789	\$ 22,802,738	\$ 31,587,578	\$ 45,605,476
1998	17,299,516	16,220,062	34,599,032	32,440,124	-	7,841,944	-	15,683,888	17,299,516	24,062,006	34,599,032	48,124,012
1999	18,465,609	16,649,301	36,931,218	33,298,602	-	6,455,811	-	12,911,622	18,465,609	23,105,112	36,931,218	46,210,224
2000	19,827,602	17,495,388	39,655,204	34,990,776	-	7,447,490	-	14,894,980	19,827,602	24,942,878	39,655,204	49,885,756
2001	21,482,546	19,004,986	42,965,092	38,009,972	-	7,108,406	-	14,216,812	21,482,546	26,113,392	42,965,092	52,226,784
2002	23,164,461	19,887,561	46,328,922	39,775,122	-	7,856,258	-	15,712,516	23,164,461	27,743,819	46,328,922	55,487,638
2003	24,161,894	21,460,992	48,323,788	42,921,984	-	7,517,830	-	15,035,660	24,161,894	28,978,822	48,323,788	57,957,644
2004	25,674,077	23,562,419	51,348,154	47,124,838	-	8,284,200	-	16,568,400	25,674,077	31,846,619	51,348,154	63,693,238
2005	26,318,295	28,094,215	52,636,590	56,188,430	-	9,391,692	-	18,783,384	26,318,295	37,485,907	52,636,590	74,971,814
2006	27,961,375	30,734,676	48,046,932	69,345,170	-	9,437,540	-	18,875,080	27,961,375	40,172,216	48,046,932	88,220,250

Tax Roll Year	Tax Rate (Mills)			Tax Levy			
	City Operations	City Debt	Fire Assessment	City Operations	City Debt	**Fire Assessment	Total Tax Levy without Fire Assessment
1997	15.0000	3.0000	1.0000	\$ 592,680	\$ 118,535	\$ 35,532	\$ 746,747
1998	15.0000	3.0000	1.0000	621,260	124,251	38,457	783,968
1999	14.9220	3.0000	1.0000	621,149	124,879	35,160	781,188
2000	14.9220	3.0000	1.0000	669,763	134,650	37,351	841,764
2001	14.8414	3.0000	1.0000	706,383	142,783	40,488	889,654
2002	14.8414	3.0000	1.0000	755,543	153,578	43,047	952,168
2003	14.6736	3.0000	1.0000	779,758	162,051	45,924	987,733
2004	14.6457	3.0000	1.0000	817,309	172,557	48,625	1,038,491
2005	14.6457	3.0000	1.0000	859,604	191,408	54,408	1,105,420
2006	14.6457	3.0000	1.0000	921,197	204,396	58,691	1,184,284

\* Does not include Industrial or Commercial Facility Tax

\*\* Properties subject to the Fire Assessment make up a combined taxable value of an area within the City and is not assessed based on Homestead or Non-Homestead, but by property location. This assessment is levied on real property only.

Source: Gladwin County Equalization Department

**City of Gladwin  
Principal Taxpayers  
Fiscal Year Ending June 30, 2007**

Taxpayer	Type of Business	2007			1997		
		Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Dura Automotive	Automotive	\$ 2,737,500	1	4.0	\$		
Consumers Energy	Utility	2,356,200	2	3.5	1,927,500	2	4.4
The Riverwalk Place	Commercial/Residential	1,950,000	3	2.9			
Packaging Direct	Manufacturing	1,905,550	4	2.8			
Oberloier Properties LLC	Manufacturing	1,681,100	5	2.5			
M-61 Limited Partnership Ltd	Health Care	1,374,700	6	2.0			
DeShano, Gary & Florence	Construction	1,107,500	7	1.6	747,620	6	1.7
Dennings, Devere & Carole	Commercial Development	955,300	8	1.4	1,268,499	3	2.9
Pamida Seven LLC	Commercial Development	884,800	9	1.3			
Dura Automotive Systems Inc	Automotive	627,000	10	0.9			
Simpson Industries	Automotive				3,385,711	1	7.8
Spartan Engineered Products	Automotive				1,174,569	4	2.7
Ashcraft, Charles	Retail				899,887	5	2.1
Graff Motor Sales	Automotive Sales				515,501	7	1.2
Fruchey Family Ltd	Retail				413,406	8	1.0
Tooling Systems	Automotive				371,021	9	0.9
Bell Land Company	Commercial Development				362,200	10	0.8

**CITY OF GLADWIN  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN YEARS**

<b>Tax Roll Year</b>	<b>Fiscal Year Ended June 30</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected within the</b>			<b>Total Collections to Date</b>		<b>Outstanding Delinquent Taxes</b>	<b>Percent Delinquent Taxes to Tax Levy</b>
			<b>Fiscal Year of the Levy Amount</b>	<b>Percentage of Levy</b>	<b>Collections in Subsequent Years</b>	<b>Amount</b>	<b>Percentage of Levy</b>		
1997	1998	\$ 711,215	\$ 670,282	94.24%	\$ 40,933	\$ 711,215	100.00%	\$ -	0.000%
1998	1999	745,511	701,104	94.04%	44,407	745,511	100.00%	-	0.000%
1999	2000	747,603	693,983	92.83%	53,309	747,292	99.96%	311	0.042%
2000	2001	802,329	752,064	93.74%	49,954	802,018	99.96%	311	0.039%
2001	2002	848,746	759,542	89.49%	89,204	848,746	100.00%	-	0.000%
2002	2003	909,121	829,177	91.21%	73,514	902,691	99.29%	6,430	0.707%
2003	2004	941,809	880,980	93.54%	55,251	936,231	99.41%	5,578	0.592%
2004	2005	990,120	931,706	94.10%	58,367	990,073	100.00%	47	0.005%
2005	2006	1,051,012	1,049,095	99.82%	1,895	1,045,372	99.46%	22	0.002%
2006	2007	1,155,836	1,078,983	93.35%	75,367	1,154,350	99.87%	1,486	0.129%

**City of Gladwin  
Property Tax Rates  
Direct and Overlapping\* Governments  
Last Ten Fiscal Years**

Fiscal Year	City of Gladwin			Gladwin County			Overlapping Rates					Total Direct & Overlapping Rates
	Operating Millage	Debt Service Millage	Total City Millage	Operating Millage	Other County Millage	Total County Millage	Non-homestead Millage	Debt Service Millage	Total School Millage	State Education Tax	Special Districts	
1997	15.0000	3.0000	18.0000	5.0939	3.5401	8.6340	18.0000	3.0000	21.0000	6.0000	3.6438	57.2778
1998	15.0000	3.0000	18.0000	5.0608	4.1806	9.2414	17.9568	3.0000	20.9568	6.0000	3.6303	57.8285
1999	14.9220	3.0000	17.9220	4.9894	4.3109	9.3003	17.9370	2.2500	20.1870	6.0000	3.5875	56.9968
2000	14.9220	3.0000	17.9220	4.9265	4.2892	9.2157	18.0000	2.2500	20.2500	6.0000	3.5614	56.9491
2001	14.8414	3.0000	17.8414	4.8521	3.6298	8.4819	18.0000	2.2500	20.2500	6.0000	3.5200	56.0933
2002	14.8414	3.0000	17.8414	4.7778	4.3301	9.1079	17.6662	2.2500	19.9162	6.0000	3.4759	56.3414
2003	14.6736	3.0000	17.6736	4.6836	4.8290	9.5126	17.2475	2.2500	19.4975	5.0000	3.4110	55.0947
2004	14.6457	3.0000	17.6457	4.5857	4.7278	9.3135	18.0000	2.2500	20.2500	6.0000	3.3550	56.5642
2005	14.6457	3.0000	17.6457	4.4935	4.7719	9.2654	17.5662	1.8200	19.3862	6.0000	3.3075	55.6048
2006	14.6457	3.0000	17.6457	4.4359	4.7358	9.1717	17.4799	1.8200	19.2999	6.0000	3.2736	55.3909

\*Overlapping rates are those of local and county governments that apply to property owners with the City of Gladwin.  
In the City of Gladwin all overlapping rates apply to all property owners in the City.

Source: Gladwin County Equalization Department

**City of Gladwin  
Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years**

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government
	General Obligation Bonds	Special Assessment Bonds	Capital Leases	Sewer Bonds	General Obligation Bonds	Capital Leases	
1998	\$ 145,000	\$ -	\$ 1,975,000	\$ -	\$ -	\$ 224,000	\$ 2,344,000
1999	105,000	-	1,950,000	-	-	216,000	2,271,000
2000	60,000	-	1,925,000	-	-	206,000	2,191,000
2001	40,000	-	1,875,000	-	-	195,000	2,110,000
2002	20,000	-	1,470,000	-	-	533,000	2,023,000
2003	1,435,000	-	-	-	325,000	-	1,760,000
2004	1,400,000	-	-	-	300,000	-	1,700,000
2005	2,615,000	-	-	-	270,000	-	2,885,000
2006	2,540,000	-	-	-	240,000	-	2,780,000
2007	2,450,000	-	-	-	210,000	-	2,660,000

Note: Does not include bonds issued by component units (specifically the Downtown Development Authority).

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

**City of Gladwin**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

<b>Fiscal Year Ended 30-Jun</b>	<b>Estimated Population</b>	<b>General Obligation Bonds</b>	<b>Less: Amounts Available in Debt Service Fund</b>	<b>Total</b>	<b>Taxable Value</b>	<b>Percentage of Estimated Actual Taxable Value of Property</b>	<b>Per Capita</b>
1998	2,719	\$ 3,245,000	\$ 66,371	\$ 3,178,629	\$ 43,519,947	7.30%	1,169
1999	2,719	3,105,000	62,144	3,042,856	46,344,444	6.57%	1,119
2000	2,719	2,960,000	67,203	2,892,797	46,724,400	6.19%	1,064
2001	3,001	2,790,000	75,637	2,714,363	51,301,004	5.29%	904
2002	3,001	2,615,000	89,400	2,525,600	57,680,091	4.38%	842
2003	3,001	2,410,000	87,737	2,322,263	61,729,240	3.76%	774
2004	3,001	3,475,000	115,441	3,359,559	65,924,630	5.10%	1,119
2005	3,001	3,285,000	150,866	3,134,134	57,520,696	5.45%	1,044
2006	3,001	3,055,000	215,419	2,839,581	63,804,202	4.45%	946
2007	3,001	2,810,000	276,133	2,533,867	68,133,591	3.72%	844

Note: Details regarding the City's outstanding debt can be found starting on page 44 of the notes to the financial statements.

**City of Gladwin**  
**Computation of Direct and Overlapping Debt**  
**June 30, 2007**

Governmental Unit	Bonds Outstanding	Balances On Hand	Net Debt Outstanding	Percentage Applicable to City	City's Share of Debt
City of Gladwin					
Direct Debt General					
Obligation Bonds	\$ 2,810,000	\$ 276,133	\$ 2,533,867	100.00%	\$ 2,533,867
<u>Overlapping Debt</u>					
School District - Gladwin	11,000,000	392,471	10,607,529	15.46%	<u>1,640,100</u>
Total Direct and Overlapping Debt					<u><u>\$ 4,173,967</u></u>

Sources: Debt outstanding data provided by the Gladwin Community School District.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Gladwin. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and business should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

**City of Gladwin  
Legal Debt Margin Information  
Last Ten Fiscal Years**

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Debt Limit	\$ 4,634,444	\$ 4,634,444	\$ 4,158,609	\$ 5,130,100	\$ 5,758,009	\$ 5,117,908	\$ 6,592,463	\$ 6,972,739	\$ 7,630,690	\$ 8,244,110
Total net debt applicable to limit	<u>1,653,629</u>	<u>1,517,856</u>	<u>1,367,797</u>	<u>1,214,363</u>	<u>1,055,600</u>	<u>887,263</u>	<u>708,417</u>	<u>498,607</u>	<u>229,581</u>	<u>83,867</u>
Legal debt margin	<u>\$ 2,980,815</u>	<u>\$ 3,116,588</u>	<u>\$ 2,790,812</u>	<u>\$ 3,915,737</u>	<u>\$ 4,702,409</u>	<u>\$ 4,230,645</u>	<u>\$ 5,884,046</u>	<u>\$ 6,474,132</u>	<u>\$ 7,401,109</u>	<u>\$ 8,160,243</u>
Total net debt applicable to the limit as a percentage of debt limit	35.68%	32.75%	32.89%	23.67%	18.33%	17.34%	10.75%	7.15%	3.01%	1.02%

**Legal Debt Margin Calculation for Fiscal Year 2007**

Total assessed value	\$ 8,244,110
Debt limit (10% of total assessed value)	\$ 824,411
Debt applicable to limit:	
Total bond debt	2,810,000
Less: Assets available for Debt Service	(276,133)
Less: Court Order Issues (Environmental)	(2,450,000)
Total net debt applicable to limit	<u>83,867</u>
Legal debt margin	<u>\$ 8,160,243</u>

**City of Gladwin  
Pledged-Revenue Coverage  
Last Ten Fiscal Years**

Fiscal Year	Ice Arena Revenue Bonds						
	Ice Arena Rental	Less: Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest		
2000	\$ 29,943	\$ 14,107	\$ 15,836	\$ -	\$ 51,575		0.31
2001	63,705	2,180	61,525	-	60,479		1.02
2002	61,907	2,474	59,433	-	60,479		0.98
2003	63,541	-	63,541	-	60,479		1.05
2004	60,479	2,240	58,239	-	60,479		0.96
2005	60,478	2,432	58,046	-	60,479		0.96
2006	60,479	2,599	57,880	-	60,479		0.96
2007	90,479	2,849	87,630	30,000	60,479		0.97

Note: Bonds were issued June 24, 1999

The first principal payment occurred in fiscal 2007

**City of Gladwin  
Direct Debt Issue  
June 30, 2007**

<b>Date</b>	<b>Purpose</b>	<b>Type</b>	<b>Original Amount</b>	<b>Interest Spread</b>	<b>Maturities</b>	<b>Principal Outstanding</b>
1993	Downtown Developmen	LTGO	\$ 1,250,000	4.00%-5.90%	05/01/96-08	\$ 150,000
1996	Water/Sewer System	GO	1,525,000	5.70%-6.00%	09/01/00-20	1,280,000
1998	Water/Sewer System	GO	450,000	4.30%-5.40%	09/01/99-13	210,000
2004	Water/Sewer System	GO	1,250,000	2.50%-5.10%	11/01/05-11	1,170,000
						\$ 2,810,000

**City of Gladwin  
Direct Debt Annual Maturity Schedule  
June 30, 2007**

For Year Ended 30-Jun	1993 Downtown Development Bonds		Gladwin County Water Supply and Sewage Capital Lease		Water and Sewer Improvement Capital Lease		Sewer Improvement Capital Lease		Total Requirements
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2008	\$ 150,000	\$ 8,850	\$ 30,000	\$ 10,325	\$ 55,000	\$ 73,274	\$ 45,000	\$ 53,129	\$ 425,578
2009	-	-	30,000	8,772	55,000	70,111	45,000	51,565	260,448
2010	-	-	35,000	7,074	65,000	66,661	45,000	49,889	268,624
2011	-	-	35,000	5,228	65,000	62,923	50,000	48,010	266,161
2012	-	-	40,000	3,230	70,000	59,043	50,000	45,948	268,221
2013	-	-	40,000	1,080	70,000	55,017	55,000	43,715	264,812
2014	-	-	-	-	90,000	50,418	55,000	41,323	236,741
2015	-	-	-	-	100,000	44,955	60,000	38,763	243,718
2016	-	-	-	-	110,000	38,890	60,000	36,033	244,923
2017	-	-	-	-	120,000	32,190	65,000	33,125	250,315
2018	-	-	-	-	120,000	25,140	70,000	29,935	245,075
2019	-	-	-	-	120,000	18,000	70,000	26,593	234,593
2020	-	-	-	-	120,000	10,800	75,000	23,094	228,894
2021	-	-	-	-	120,000	3,600	75,000	19,438	218,038
2022	-	-	-	-	-	-	80,000	15,620	95,620
2023	-	-	-	-	-	-	85,000	11,515	96,515
2024	-	-	-	-	-	-	90,000	7,118	97,118
2025	-	-	-	-	-	-	95,000	2,423	97,423
	\$ 150,000	\$ 8,850	\$ 210,000	\$ 35,709	\$ 1,280,000	\$ 611,022	\$ 1,170,000	\$ 577,236	\$ 4,042,817

**City of Gladwin  
Demographic Information**

The population of the City in the last five censuses is as follows:

2000 U.S. Census	3,001
1990 U.S. Census	2,682
1980 U.S. Census	2,479
1970 U.S. Census	2,071
1960 U.S. Census	2,226

**City of Gladwin  
Demographic and Economic Statistics  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income (amounts expressed in thousands)</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Education Level in Years of Formal Schooling</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
1997		\$	\$				
1998							
1999							
2000	3,001	49,126	16,370	37.9		724	3.4%
2001							
2002							
2003							
2004							
2005							
2006							

This information is no longer available for cities of our size

**City of Gladwin  
Principal Employers  
Current Year and Nine Years Ago**

<u>Employer</u>	<u>2007</u>			<u>1998</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Gladwin Hospital	277	1	n/a	n/a	n/a	n/a
Gladwin School District	250	2	n/a	n/a	n/a	n/a
Mid Michigan Gladwin Pines	154	3	n/a	n/a	n/a	n/a
Dura Automotive Systems Inc	150	4	n/a	n/a	n/a	n/a
City of Gladwin	142	5	n/a	n/a	n/a	n/a
County of Gladwin	120	6	n/a	n/a	n/a	n/a
Ashcrafts Market Inc	100	7	n/a	n/a	n/a	n/a

Source: East Central MI Planning and Development Region

Information on the principal employers is not available for previous years. This information will be updated in future years if the information can be found.

**City of Gladwin**  
**Full-time Equivalent City Government Employees by Function**  
**Last Four Fiscal Years**

<b>Function</b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>
General government	5.5	6.0	6.0	6.0
Public safety				
Police				
Officers	7.5	6.5	6.0	6.0
Civilians	1.5	1.5	1.5	1.5
Highways and streets				
Engineering				
Maintenance	3.0	3.0	3.0	3.0
Recreation & culture	1.5	1.5	1.5	1.5
Water	2.0	2.0	2.0	2.0
Sewer	2.0	2.0	2.0	2.0
Total	23.0	22.5	22.0	22.0

Note: This table is intended to show trend information in the future

**City of Gladwin  
Operating Indicators by Function  
Last Four Fiscal Years**

<b>Function</b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>
Police				
Arrests and Apprehensions	361	418	466	399
Complaints	665	814	931	692
Traffic Citations	1058	936	891	669
Recreation & culture				
Campers admitted	2560	2746	2558	2664
Day use passes issued	2584	2897	3141	2896
Water				
New connections	7	7	9	6
Water main breaks	0	2	0	1
Average daily consumption (thousands of gallons)	281	277	274	269
Wastewater				
Average daily sewage treatment (thousands of gallons)	322	574	684	703

Sources: Various government departments

Note: Indicators are not available for the general government function

Note: This table is intended to show trend information in the future

**City of Gladwin  
Capital Asset Statistics by Function  
Last Four Fiscal Years**

<b>Function</b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>
Police				
Stations	1	1	1	1
Patrol Units	4	3	4	4
Streets & highways				
Streets (miles)	24.9	25	25.3	25.3
Traffic Signals	2	2	2	2
Recreation & culture				
Parks acreage	48.45	48.45	48.45	48.45
Parks	2	2	2	2
Community centers	1	1	1	1
Water				
Water mains (miles)	23.6	23.6	23.6	23.6
Fire hydrants	208	208	208	208
Wastewater				
Sanitary Sewers (miles)	20	20	20	20
Storm Sewers (miles)	7.2	7.2	7.2	7.2

Sources: Various government departments

Note: No capital asset indicators are available for the general government function

Note: This table is intended to show trend information in the future

# **INTERNAL CONTROL AND COMPLIANCE**



**INDEPENDENT AUDITORS' 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**

December 14, 2007

City Council  
City of Gladwin  
Gladwin, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the *City of Gladwin, Michigan* (the "City"), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements of the *City of Gladwin* as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such

that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

The City of Gladwin's written response to the material weakness identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Material Weakness**

#### **1) Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements**

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).
Condition:	As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the City's <i>internal</i> controls.
Cause:	This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.
Effect:	As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

**Compliance and Other Matters**

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

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

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.