City of Gobles
Van Buren County, Michigan

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Year ended June 30, 2004

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SiegfriedCrandallPC
Certified Public Accountants & Advisors

246 E. Kilgore Road
Kalamazoo, MI 49002-5599
www.siegfriedcrandall.com

Telephone 269-381-4970
800-876-0979
Fax 269-349-1344

INDEPENDENT AUDITORS' REPORT

City Commission
City of Gobles, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Gobles, Michigan, as of June 30, 2004, and for the year then ended, which collectively comprise the City's basic financial statements, as listed in the contents. These financial statements are the responsibility of the City of Gobles, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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, and each major fund of the City of Gobles, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 14, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of July 1, 2003.

The budgetary comparison information 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 inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Gobles, Michigan, has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gobles, Michigan's, basic financial statements. The supplementary data, as listed in the contents, is presented for the purpose of additional analysis and are not required parts of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The supplementary data and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2005, on our consideration of the City of Gobles, Michigan's, internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Siegfried Crandall P.C.

February 4, 2005

BASIC FINANCIAL STATEMENTS

City of Gobles
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental activities	*Business-type activities*	*Totals*
ASSETS			
Current assets:			
Cash	$ 383,327	$ 89,056	$ 472,383
Receivables (net)	51,074	209,040	260,114
Inventory	-	1,000	1,000
Internal balances	34,632	(34,632)	-
Total current assets	469,033	264,464	733,497
Noncurrent assets:			
Capital assets (net of depreciation)	111,695	1,391,126	1,502,821
Total assets	580,728	1,655,590	2,236,318
LIABILITIES			
Current liabilities:			
Payables	19,001	175,660	194,661
Bonds payable	-	13,000	13,000
Total current liabilities	19,001	188,660	207,661
Noncurrent liabilities:			
Bonds payable	-	1,224,000	1,224,000
Total liabilities	19,001	1,412,660	1,431,661
NET ASSETS			
Invested in capital assets, net of related debt	111,695	154,126	265,821
Restricted for street repairs and improvements	166,682	-	166,682
Unrestricted	283,350	88,804	372,154
Total net assets	$ 561,727	$ 242,930	$ 804,657

See notes to the financial statements

City of Gobles
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

		Program Revenues	
	Expenses	*Charges for services*	*Operating grants and contributions*
Functions/Programs			
Governmental activities:			
Legislative	$ 4,665	$ -	$ -
General government	158,829	-	-
Public safety	81,661	10,544	-
Public works	107,097	-	70,617
Culture and recreation	16,094	-	-
Total governmental activities	368,346	10,544	70,617
Business-type activities:			
Water	110,035	113,659	-
Totals	$ 478,381	$ 124,203	$ 70,617

General revenues:
- Property taxes
- State shared revenue
- Unrestricted interest income
- Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets		
Governmental activities	***Business-type activities***	***Totals***
$ (4,665)	$ -	$ (4,665)
(158,829)	-	(158,829)
(71,117)	-	(71,117)
(36,480)	-	(36,480)
(16,094)	-	(16,094)
(287,185)	-	(287,185)
-	3,624	3,624
(287,185)	3,624	(283,561)
203,723	-	203,723
107,171	-	107,171
721	437	1,158
16,949	-	16,949
328,564	437	329,001
41,379	4,061	45,440
520,348	238,869	759,217
$ 561,727	$ 242,930	$ 804,657

See notes to the financial statements

City of Gobles
BALANCE SHEET - *governmental funds*
June 30, 2004

	General	Major Street	Local Street	Total governmental funds
ASSETS				
Cash	$ 110,440	$ 130,068	$ 56,588	$ 297,096
Receivable	39,229	9,227	2,618	51,074
Due from other funds	51,556	-	-	51,556
Total assets	$ 201,225	$ 139,295	$ 59,206	$ 399,726
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	$ 18,292	$ -	$ -	$ 18,292
Due to other funds	4,158	24,792	7,027	35,977
Deferred revenue	3,000	-	-	3,000
Total liabilities	25,450	24,792	7,027	57,269
Fund balances:				
Unreserved, undesignated	175,775	114,503	52,179	342,457
Total liabilities and fund balances	$ 201,225	$ 139,295	$ 59,206	$ 399,726

Fund balances	$ 342,457
Amounts reported for *governmental activities* in the statement of net assets (page 4) are different because:	
Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.	45,837
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	3,000
The internal service fund is used by management to charge the costs of equipment management to individual funds. The assets and liabilities of the internal service fund are included in *governmental activities* in the statement of net assets.	170,433
Net assets of *governmental activities*	$ 561,727

See notes to the financial statements

City of Gobles
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - *governmental funds*
Year ended June 30, 2004

	General	Major Street	Local Street	Total governmental funds
REVENUES				
Property taxes	$ 203,723	$ -	$ -	$ 203,723
Licenses and permits	10,447	-	-	10,447
State grants	107,171	54,367	15,406	176,944
Fines and forfeitures	97	-	-	97
Interest	590	535	309	1,434
Other	6,713	-	-	6,713
Total revenues	328,741	54,902	15,715	399,358
EXPENDITURES				
Legislative	4,665	-	-	4,665
General government	140,430	-	-	140,430
Public safety	81,661	-	-	81,661
Public works	36,898	46,442	20,988	104,328
Culture and recreation	16,094	-	-	16,094
Capital outlay	35,042	-	-	35,042
Total expenditures	314,790	46,442	20,988	382,220
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	13,951	8,460	(5,273)	17,138
OTHER FINANCING SOURCES (USES)				
Transfer in	-	35,318	-	35,318
Transfer out	(35,318)	-	-	(35,318)
Total other financing sources (uses)	(35,318)	35,318	-	-
NET CHANGE IN FUND BALANCES	(21,367)	43,778	(5,273)	17,138
FUND BALANCES - BEGINNING	197,142	70,725	57,452	325,319
FUND BALANCES - ENDING	$ 175,775	$ 114,503	$ 52,179	$ 342,457

Net change in fund balances - total governmental funds	$ 17,138
Amounts reported for *governmental activities* in the statement of activities (page 5) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	16,643
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,000
The net revenues of the internal service fund are reported with governmental activities.	4,598
Change in net assets of governmental activities	$ 41,379

See notes to the financial statements

City of Gobles
STATEMENT OF NET ASSETS - *proprietary funds*
June 30, 2004

	Business-type activities	*Governmental activities*
	Enterprise	*Internal*
	Water	*service*
ASSETS		
Current assets:		
Cash	$ 89,056	$ 78,353
Receivables (net)	209,040	-
Inventory	1,000	-
Due from other funds	-	26,931
Total current assets	299,096	105,284
Noncurrent assets:		
Capital asset (net of depreciation)	1,391,126	65,858
Total assets	1,690,222	171,142
LIABILITIES		
Current liabilities:		
Payables	175,660	709
Due to other funds	34,632	-
Bonds payable	13,000	-
Total current liabilities	223,292	709
Noncurrent liabilities:		
Bonds payable	1,224,000	-
Total liabilities	1,447,292	709
NET ASSETS		
Investment in capital assets, net of related debt	154,126	65,858
Unrestricted	88,804	104,575
Total net assets	$ 242,930	$ 170,433

See notes to the financial statements

City of Gobles

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -*proprietary funds*

Year ended June 30, 2004

	Business-type activities	*Governmental activities*
	Enterprise	*Internal*
	Water	*service*
OPERATING REVENUES		
Charges for services:		
Water sales	$ 110,412	$ -
Equipment rentals	-	34,969
Other	3,247	-
Total operating revenues	113,659	34,969
OPERATING EXPENSES		
Personal services	13,152	5,730
Contractual services	957	535
Supplies	3,401	4,609
Insurance	847	2,308
Utilities	9,996	-
Repair and maintenance	21,495	5,837
Equipment rental	4,173	-
Miscellaneous	211	284
Depreciation	27,468	18,435
Total operating expenses	81,700	37,738
OPERATING INCOME (LOSS)	31,959	(2,769)
NONOPERATING REVENUES (EXPENSES)		
Interest income	437	131
Gain on sale of fixed assets	-	7,236
Interest expense	(28,335)	-
Total nonoperating revenues (expenses)	(27,898)	7,367
CHANGE IN NET ASSETS	4,061	4,598
NET ASSETS - BEGINNING	238,869	165,835
NET ASSETS - ENDING	$ 242,930	$ 170,433

See notes to the financial statements

City of Gobles
STATEMENT OF CASH FLOWS - *proprietary funds*
Year ended June 30, 2004

	Business-type activities	Governmental activities
	Enterprise	Internal
	Water	service
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 99,699	$ -
Receipts from interfund services provided	-	34,969
Payments to suppliers	(39,337)	(13,359)
Payments to employees	(10,722)	(5,235)
Payments for interfund services used	(4,173)	-
Net cash provided by operating activities	45,467	16,375
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Decrease in due from other funds	-	5,650
Increase in due to other funds	10,117	-
Net cash provided by noncapital financing activities	10,117	5,650
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt	1,073,000	-
Proceeds from sale of capital assets	-	9,966
Acquisition of capital assets	(1,072,636)	-
Principal payments on capital debt	(12,000)	-
Interest payments on capital debt	(28,335)	-
Net cash provided by (used in) capital and related financing activities	(39,971)	9,966
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	437	131
NET INCREASE IN CASH	16,050	32,122
CASH - BEGINNING	73,006	46,231
CASH - ENDING	$ 89,056	$ 78,353
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 31,959	$ (2,769)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	27,468	18,435
Increase in receivables	(13,960)	-
Increase in payables	-	709
Net cash provided by operating activities	$ 45,467	$ 16,375
Supplemental information:		
Acquisition of capital assets	$ (1,248,296)	$ -
Increase in accounts payable	175,660	-
Net cash used	$ (1,072,636)	$ -

See notes to the financial statements

City of Gobles

STATEMENT OF FIDUCIARY NET ASSETS - *agency fund*

June 30, 2004

ASSETS	
Cash	$ 5,766
LIABILITIES	
Due to other governmental units	$ 5,766

See notes to the financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Gobles, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the, more significant accounting policies.

a) Reporting entity:
In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the City. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the City exercises oversight responsibility.

b) Government-wide and fund financial statements:
The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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. 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):
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 City generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's local streets.

The City reports the following major proprietary fund:

The Water Fund accounts for the activities of the City's water distribution system.

Additionally, the City reports an internal service fund that accounts for equipment management services provided to other departments of the City on a cost-reimbursement basis, and, the Agency Fund, a fiduciary fund, which accounts for financial assets held for other units of government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). 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 City has elected not to follow subsequent private-sector standards.

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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):
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 revenue of the proprietary fund is charges to customers for services. Operating expenses for the proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d) Assets, liabilities, and net assets or equity:
i) Bank deposits - Cash is considered to be cash on hand and demand deposits.

ii) Receivables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the City considers all receivables to be fully collectible.

iii) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City 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. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The City has elected to account for infrastructure assets prospectively, beginning July 1, 2003.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Equipment	5 - 20 years
Vehicles	5 years
Water systems	10 - 40 years

iv) Compensated absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the City's general and special revenue funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

NOTE 3 - CASH:

At June 30, 2004, the City's cash balances are as follows:

	Governmental activities	*Business-type activities*	*Fiduciary*	*Totals*
Petty cash	$ 50	$ -	$ -	$ 50
Deposits	383,277	89,056	5,766	478,099
Totals	$ 383,327	$ 89,056	$ 5,766	$ 478,149

Deposits are carried at cost and are maintained at one financial institution in the name of the City. State statutes and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The City's deposits are in accordance with statutory authority. At June 30, 2004, the City has deposits with a carrying amount of $478,099 and a bank balance of $490,245. Of the bank balance, $143,891 is covered by federal depository insurance and $346,354 is uninsured.

NOTE 4 - RECEIVABLES:

At June 30, 2004, the City's receivables for the individual major funds and nonmajor funds, in the aggregate, are as follows:

	General	*Major*	*Local*	*Water*	*Totals*
Accounts	$ -	$ -	$ -	$ 33,040	$ 33,040
Intergovernmental	37,431	9,227	2,618	176,000	225,276
Taxes	1,798	-	-	-	1,798
Totals	$ 39,229	$ 9,227	$ 2,618	$ 209,040	$ 260,114

All receivables are due within one year and are considered fully collectible.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning balance	*Increases*	*Decreases*	*Ending balance*
Governmental activities:				
Capital assets not being depreciated:				
Land	$ -	$ 8,000	$ -	$ 8,000
Capital assets being depreciated:				
Buildings	49,349	10,659	-	60,008
Equipment	171,250	-	32,750	138,500
Vehicles	12,735	-	-	12,735
Total capital assets	233,334	10,659	32,750	211,243
Less accumulated depreciation for:				
Buildings	20,155	2,016	-	22,171
Equipment	84,228	18,435	30,021	72,642
Vehicles	12,735	-	-	12,735
Total accumulated depreciation	117,118	20,451	30,021	107,548
Total capital assets being depreciated (net)	116,216	(9,792)	2,729	103,695
Governmental activities capital assets, net	$ 116,216	$ (1,792)	$ 2,729	$ 111,695
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 2,500	$ -	$ -	$ 2,500
Capital assets being depreciated:				
Water system	627,505	1,248,296	-	1,875,801
Less accumulated depreciation for:				
Water system	459,707	27,468	-	487,175
Total capital assets being depreciated (net)	167,798	1,220,828	-	1,388,626
Business-type activities capital assets (net)	$ 170,298	$ 1,220,828	$ -	$ 1,391,126

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 2,016
Depreciation on capital assets held by internal service funds	18,435
Total governmental activities	$ 20,451

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At June 30, 2004, the composition of interfund balances is as follows:

Fund	*Receivable*	*Fund*	*Payable*
General	$ 30,459	Water	$ 30,459
Motor Pool Fund	26,931	Major Streets	13,981
		Local Streets	4,619
		Water	4,173
		General	4,158
			26,931
Total	$ 57,390	Total	$ 57,390

The payables to the Motor Pool Fund represent amounts due for equipment rentals.

A summary of interfund transfers for the year ended June 30, 2004, is as follows:

Fund	*Transfer in*	*Fund*	*Transfer out*
Major Street	$ 35,318	General	$ 35,318

In 2004, a transfer was used to move available unrestricted funds from the General Fund to the Major Street Fund for operating purposes.

NOTE 7 - LONG-TERM LIABILITIES:

At June 30, 2004, long-term liabilities are comprised of the following individual issues:

$1,320,000 2003 USDA Water Revenue Bonds, due in annual installments between $12,000 to $64,000; plus interest through June 2042. The bonds are secured by the City's full faith and credit.

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning balance	*Additions*	*Reductions*	*Ending balance*	*Amounts due within one year*
Business-type activity:					
2003 USDA Water Bonds	$ -	$ 1,249,000	$ 12,000	$ 1,237,000	$ 13,000

At June 30, 2004, debt service requirements were as follows:

	Business-type activities	
	Interest	*Principal*
Year ended June 30:		
2005	$ 55,590	$ 13,000
2006	55,038	13,000
2007	54,486	14,000
2008	53,890	15,000
2009	53,252	15,000
2010 - 2014	255,980	87,000
2015 - 2019	235,664	110,000
2020 - 2024	210,164	136,000
2025 - 2029	178,544	170,000
2030 - 2034	138,890	212,000
2035 - 2039	89,634	265,000
2040 - 2043	25,120	187,000
Totals	$ 1,406,252	$ 1,237,000

NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN:

On January 10, 1994, the City adopted a defined contribution plan, specifically referred to as the City of Gobles Deferred Compensation Savings Plan (the Plan). In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan state statutes assign the authority to establish and amend benefit provisions to the City Commission. All full-time employees are eligible to participate. Employees may elect to defer the lesser of 100% of taxable compensation or a dollar amount limitation in accordance with the Internal Revenue Code. The City will match 50% of the employees' contributions, to a maximum of $400. City contributions on behalf of a participant for a plan year shall not exceed $400 or 10% of earnings, whichever is less.

NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN (Continued):

The City's contributions for each employee (and interest allocated to the employee's account) are fully vested immediately. The City is not a trustee of the Plan, nor is the City responsible for investment management of plan assets.

The City and its employees made contributions of $1,000 and $2,880, respectively.

NOTE 9 - JOINT FIRE PROTECTION AGREEMENT:

In 1985, the City entered into an agreement with the Township of Pine Grove (the Township) to provide joint fire protection to the area. Under the agreement, a governing board, comprised of two members each from the Township and the City and one independent member, shall maintain the records and are responsible for the joint venture in accordance with the Uniform Budgeting and Accounting Act (Act No. 621, Public Acts of 1978) as prescribed by the State of Michigan. The Board derives its revenues from taxes levied by the City and the Township and fire protection contracts with other local governmental units. Upon dissolution, the property each municipality has conveyed to the Board shall be returned to the party, which had contributed it, and the property acquired by the Board would be distributed to the parties in direct proportion to the amounts each had contributed to the funds from which the property was acquired. During the year ended June 30, 2004, the City contributed $19,699 for its share of the general operating expenditures. Audited financial statements can be obtained from the Clerk of the Township.

NOTE 10 - RISK MANAGEMENT:

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, and employee medical claims. The risks of loss arising from general liability up to $1,000,000, property losses, workers' compensation, and employee medical costs are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2004, follows:

Revenues	$ 2,990
Expenses	(4,460)
Deficiency of revenues over expenses	$ (1,470)

NOTE 12 - PRIOR PERIOD ADJUSTMENT:

A prior period adjustment has been recorded in 2004 that resulted in a restatement of net assets. Net assets as of July 1, 2003, included in the financial statements, represents a restated balance as presented below. The following schedule identifies the nature and amount of the adjustment recorded:

Enterprise fund:	
Beginning of year, as previously reported	$ 263,597
Prior period adjustment - overstatement of accounts receivable	(24,728)
Beginning of year, as restated	$ 238,869

NOTE 13 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS:

P.A. 621 of 1978, Section 18(3), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted at the activity level.

During the year ended June 30, 2004, the City incurred expenditures which were in excess of the amounts appropriated.

The following schedule sets forth significant budget variations.

Fund	*Function/Activity*	*Amended budget*	*Actual*	*Variance*
General	General government			
	Assessor	$ 9,031	$ 10,720	$ 1,689
	Public safety /			
	Inspections	$ 1,200	$ 4,460	3,260
	Public works /			
	Department of Public Works	21,065	29,866	8,801

NOTE 14 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective July 1, 2003, the City implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, along with all related statements and interpretations. In connection with the implementation of this statement, the following adjustments to beginning net assets have been made to reflect the cumulative effect of this accounting change in the governmental funds:

Net assets, as previously reported	
General and special revenue funds	$ 325,319
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,194
The Internal Service Fund is used by management to charge the costs of equipment management to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets.	165,835
Net assets, as restated	$ 520,348

REQUIRED SUPPLEMENTARY INFORMATION

City of Gobles
BUDGETARY COMPARISON SCHEDULE - *General Fund*
Year ended June 30, 2004

	Original budget	Amended budget	Actual	Variance favorable (unfavorable)
REVENUES				
Property taxes	$ 202,114	$ 202,114	$ 203,723	$ 1,609
Licenses and permits	3,800	3,800	10,447	6,647
State grants	115,883	115,883	107,171	(8,712)
Fines and forfeitures	-	-	97	97
Interest	1,800	1,800	590	(1,210)
Other	2,250	2,250	6,713	4,463
Total revenues	325,847	325,847	328,741	2,894
EXPENDITURES				
Legislative - City Commission	6,500	6,500	4,665	1,835
General government:				
Elections	2,500	2,500	1,304	1,196
Assessor	9,031	9,031	10,720	(1,689)
Board of review	-	-	450	(450)
Building and grounds	37,535	37,535	37,835	(300)
Cemetery	1,000	1,000	1,000	-
Administration	89,415	89,415	89,121	294
Total general government	139,481	139,481	140,430	(949)
Public safety:				
Police protection	68,000	68,000	54,525	13,475
Fire protection	19,050	19,050	19,699	(649)
Inspections	1,200	1,200	4,460	(3,260)
Crossing guard	3,230	3,230	2,977	253
Total public safety	91,480	91,480	81,661	9,819
Public works:				
Department of Public Works	21,065	21,065	29,866	(8,801)
Street lighting	7,200	7,200	7,032	168
Total public works	28,265	28,265	36,898	(8,633)

City of Gobles
BUDGETARY COMPARISON SCHEDULE - *General Fund* (Continued)
Year ended June 30, 2004

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
EXPENDITURES (Continued)				
Culture and recreation:				
Parks and recreation	$ 19,200	$ 19,200	$ 16,094	$ 3,106
Capital outlay	36,900	36,900	35,042	1,858
Total expenditures	321,826	321,826	314,790	7,036
EXCESS OF REVENUES OVER EXPENDITURES	4,021	4,021	13,951	9,930
OTHER FINANCING USES				
Transfer out - Major Street Fund	(35,318)	(35,318)	(35,318)	-
NET CHANGE IN FUND BALANCE	(31,297)	(31,297)	(21,367)	9,930
FUND BALANCE - BEGINNING	197,142	197,142	197,142	-
FUND BALANCE - ENDING	$ 165,845	$ 165,845	$ 175,775	$ 9,930

City of Gobles
BUDGETARY COMPARISON SCHEDULE - *Major Street Fund*
Year ended June 30, 2004

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
REVENUES				
State grants	$ 52,000	$ 52,000	$ 54,367	$ 2,367
Interest income	850	850	535	(315)
Total revenues	52,850	52,850	54,902	2,052
EXPENDITURES				
Public works:				
Construction	62,768	62,768	13,944	48,824
Routine maintenance	10,500	10,500	7,451	3,049
Traffic services	13,800	13,800	11,949	1,851
Winter maintenance	16,100	16,100	12,773	3,327
Administration	-	-	325	(325)
Total expenditures	103,168	103,168	46,442	56,726
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(50,318)	(50,318)	8,460	58,778
OTHER FINANCING SOURCES				
Transfers in - General Fund	50,318	35,318	35,318	-
NET CHANGE IN FUND BALANCE	-	(15,000)	43,778	58,778
FUND BALANCE - BEGINNING	70,725	70,725	70,725	-
FUND BALANCE - ENDING	$ 70,725	$ 55,725	$ 114,503	$ 58,778

City of Gobles
BUDGETARY COMPARISON SCHEDULE - *Local Street Fund*
Year ended June 30, 2004

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
REVENUES				
State grants	$ 14,900	$ 14,900	$ 15,406	$ 506
Interest income	250	250	309	59
Total revenues	15,150	15,150	15,715	565
EXPENDITURES				
Public works:				
Construction	39,500	39,500	10,451	29,049
Routine maintenance	8,126	8,126	2,724	5,402
Traffic services	4,550	4,550	3,205	1,345
Winter maintenance	5,800	5,800	4,283	1,517
Administration	1,000	1,000	325	675
Total expenditures	58,976	58,976	20,988	37,988
NET CHANGE IN FUND BALANCE	(43,826)	(43,826)	(5,273)	38,553
FUND BALANCE - BEGINNING	57,452	57,452	57,452	-
FUND BALANCE - ENDING	$ 13,626	$ 13,626	$ 52,179	$ 38,553

SUPPLEMENTARY DATA

City of Gobles

SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS - $1,320,000 2003 USDA WATER REVENUE BONDS

June 30, 2004

Fiscal period	Interest requirements December 1	Interest requirements June 1	Maturity date	Principal	Total requirements
2005	$ 27,795	$ 27,795	6/01/05	$ 13,000	$ 68,590
2006	27,519	27,519	6/01/06	13,000	68,038
2007	27,243	27,243	6/01/07	14,000	68,486
2008	26,945	26,945	6/01/08	15,000	68,890
2009	26,626	26,626	6/01/09	15,000	68,252
2010	26,308	26,308	6/01/10	16,000	68,616
2011	25,968	25,968	6/01/11	17,000	68,936
2012	25,606	25,606	6/01/12	17,000	68,212
2013	25,245	25,245	6/01/13	18,000	68,490
2014	24,863	24,863	6/01/14	19,000	68,726
2015	24,459	24,459	6/01/15	20,000	68,918
2016	24,034	24,034	6/01/16	21,000	69,068
2017	23,588	23,588	6/01/17	22,000	69,176
2018	23,120	23,120	6/01/18	23,000	69,240
2019	22,631	22,631	6/01/19	24,000	69,262
2020	22,121	22,121	6/01/20	25,000	69,242
2021	21,590	21,590	6/01/21	26,000	69,180
2022	21,038	21,038	6/01/22	27,000	69,076
2023	20,464	20,464	6/01/23	28,000	68,928
2024	19,869	19,869	6/01/24	30,000	69,738
2025	19,231	19,231	6/01/25	31,000	69,462
2026	18,573	18,573	6/01/26	32,000	69,146
2027	17,893	17,893	6/01/27	34,000	69,786
2028	17,170	17,170	6/01/28	36,000	70,340
2029	16,405	16,405	6/01/29	37,000	69,810
2030	15,619	15,619	6/01/30	39,000	70,238
2031	14,790	14,790	6/01/31	41,000	70,580
2032	13,919	13,919	6/01/32	42,000	69,838
2033	13,026	13,026	6/01/33	44,000	70,052
2034	12,091	12,091	6/01/34	46,000	70,182
2035	11,114	11,114	6/01/35	48,000	70,228
2036	10,094	10,094	6/01/36	51,000	71,188
2037	9,010	9,010	6/01/37	53,000	71,020
2038	7,884	7,884	6/01/38	55,000	70,768
2039	6,715	6,715	6/01/39	58,000	71,430
2040	5,483	5,483	6/01/40	60,000	70,966
2041	4,208	4,208	6/01/41	63,000	71,416
2042	2,869	2,869	6/01/42	64,000	69,738
	$ 703,126	$ 703,126		$ 1,237,000	$ 2,643,252

FEDERAL AWARDS

City of Gobles
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	*Federal CFDA number*	*Federal expenditures*
U.S. Department of Agriculture:		
Water and Waste Disposal Systems For Rural Communities	10.760	$1,248,296

NOTE: The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Gobles.
2. No reportable conditions were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City of Gobles were disclosed during the audit.
4. No reportable conditions were identified during the audit of the major federal award program.
5. The auditors' report on compliance for the major federal award program for City of Gobles expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for City of Gobles are reported in Part C of this schedule.
7. The program tested as a major program follows:

Federal agency	*Program name*	*CFDA #*
U.S. Department of Agriculture	Water and Waste Disposal Systems For Rural Communities	10.760

8. The threshold for distinguishing Types A and B programs was $300,000.
9. City of Gobles was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

NONE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City Commission
City of Gobles, Michigan

We have audited the financial statements of City of Gobles, Michigan (the City), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 4, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards.*

Internal control over financial reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the federal awarding agency and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

February 4, 2005

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

City Commission
City of Gobles, Michigan

Compliance

We have audited the compliance of City of Gobles, Michigan (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The City's major federal program is its Water and Waste Water Disposal Systems For Rural Communities Program. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal control over compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be a material weakness.

This report is intended for the information of management and the federal awarding agency and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

February 4, 2005