

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 Gladstone | County Delta |
| Fiscal Year End 3-31-07 | Opinion Date 8-10-07 | Date Audit Report Submitted to State 9-12-07 | |

We affirm that:

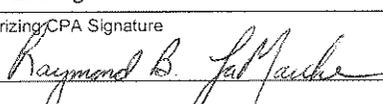
We are certified public accountants licensed to practice in Michigan.

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 checked="" type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC | | Telephone Number 906-786-3111 | | |
| Street Address 901 Ludington Street | | City EsCANABA | State MI | Zip 49829 |
| Authorizing CPA Signature  | | Printed Name Raymond B. LaMarche, CPA | | License Number 1101025531 |

CITY OF GLADSTONE, MICHIGAN

BASIC FINANCIAL STATEMENTS

MARCH 31, 2007

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan as of and for the year ended March 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gladstone, Michigan's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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

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

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

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 10, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Gladstone's financial performance provides an overview of the City's financial activities for the fiscal year ending March 31, 2007. Please read it in conjunction with the City's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

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

USING THIS REPORT

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

Reporting the City as a whole

Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about a city's finances in "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets as, the difference between assets and liabilities, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two categories of activities:

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

The City as a Trustee

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

The City as a Whole

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

Table 1
Net Assets

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

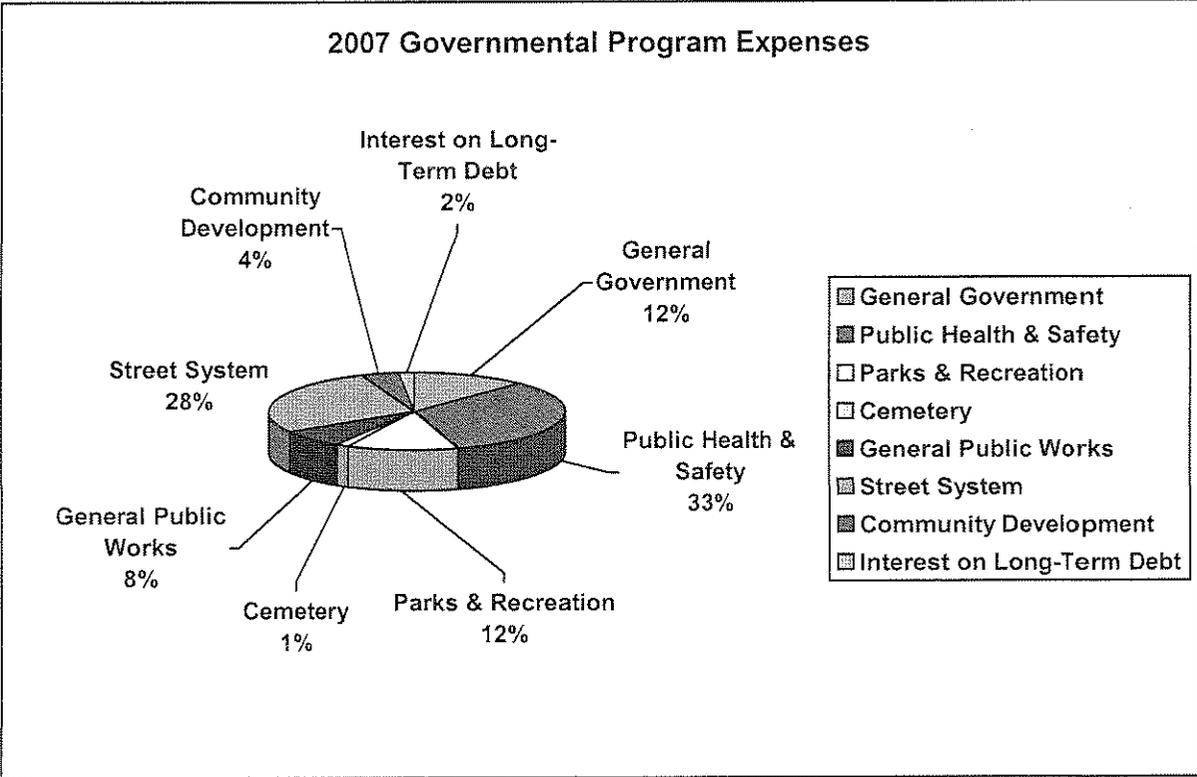
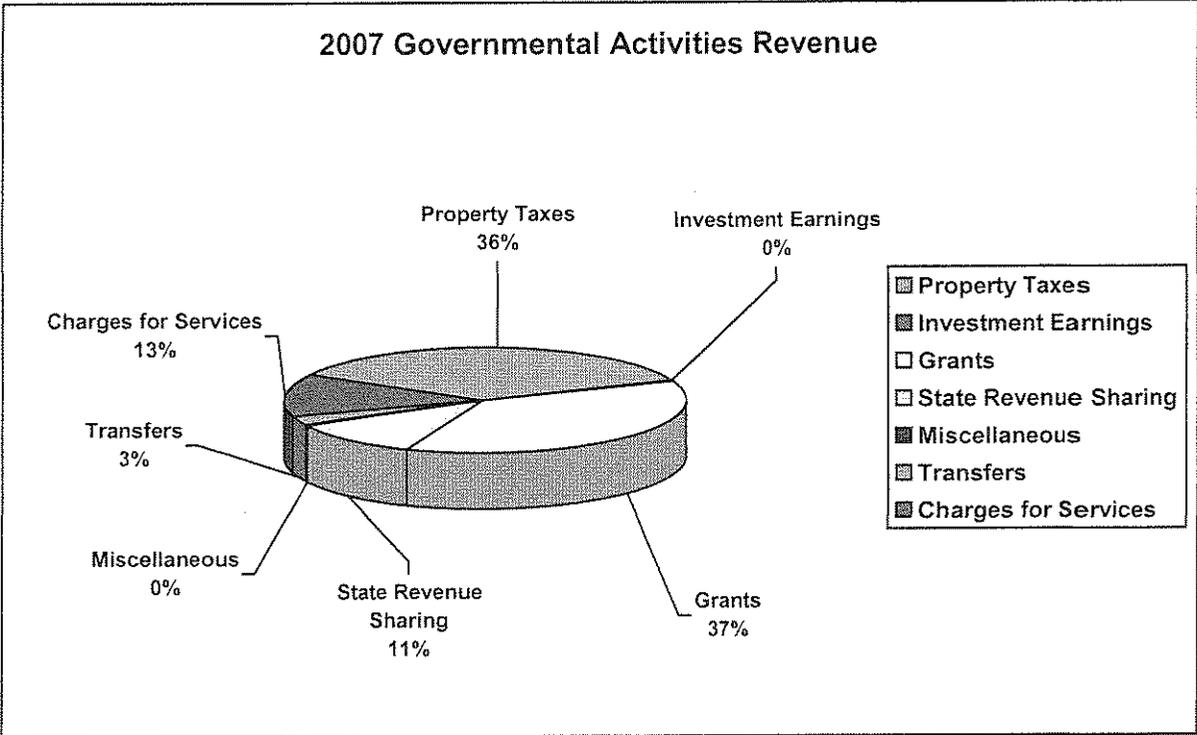
Net assets of the City's governmental activities stood at \$5,942,812, up from \$5,237,092 in 2006 (+13.5%). Total of the governmental activities assets increased by 1.5%, and total liabilities decreased by nearly 40%. The ratio of assets to liabilities rose from 3.05 in 2006 to 5.14 in 2007.

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

Table 2
Changes in Net Assets

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

Governmental Activities



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

Governmental Activities

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

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

**Table 3
Government Activities**

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

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

Business-Type Activities

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

THE CITY'S FUNDS

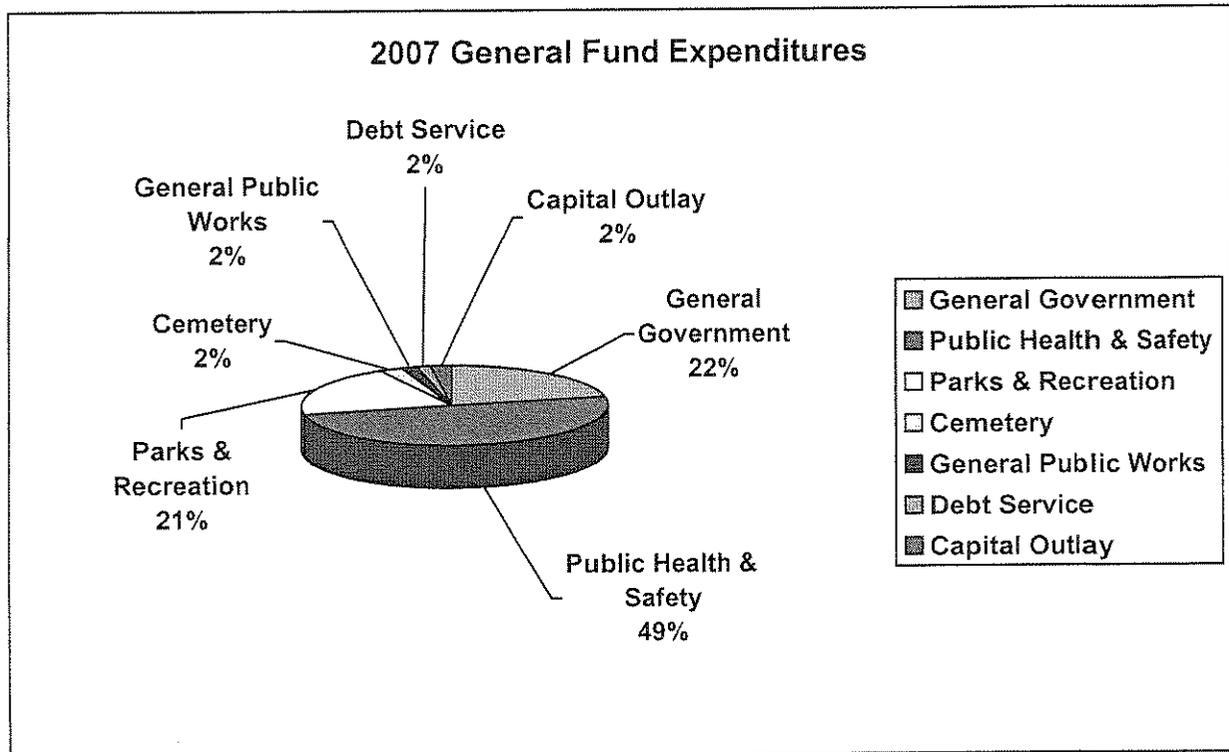
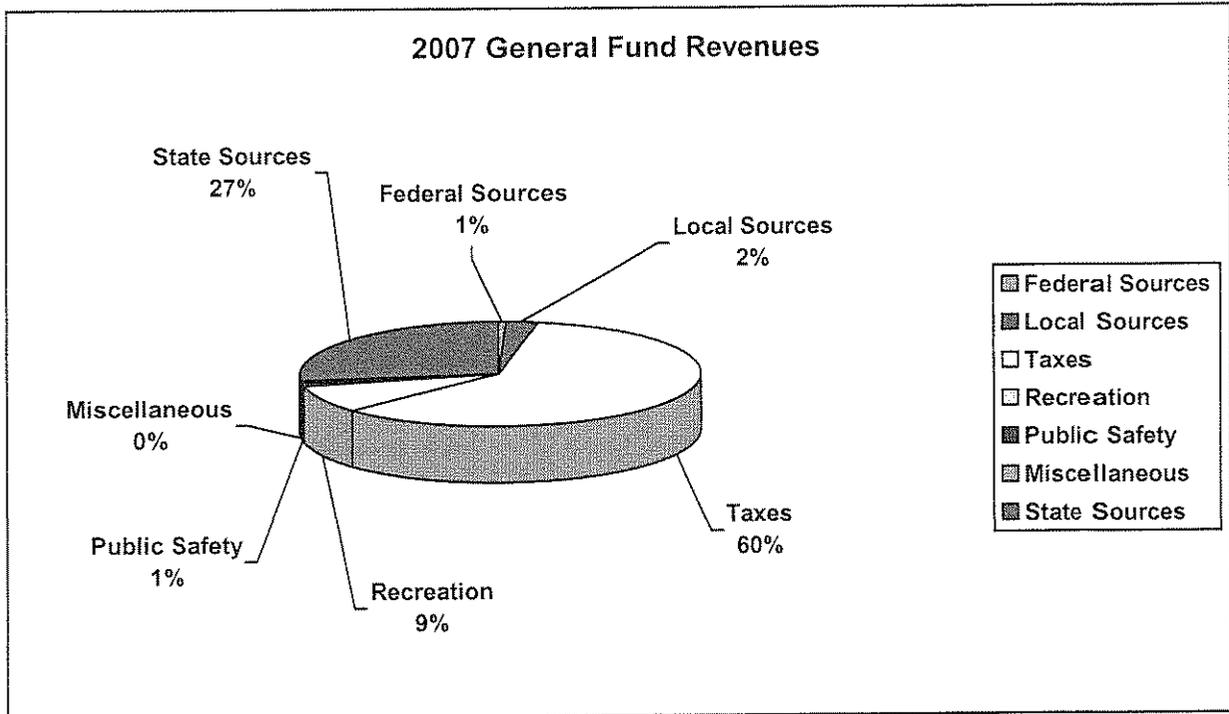
As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$332,107, a decrease of \$400,333 from 2006. This was due primarily to the City paying for its share of the 10th Street project as well as additional loans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

General Fund Budgetary Highlights

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

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

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2007, the City had \$15,148,563, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was up from \$14,369,367 in 2006. (See table 4 below)

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

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

DEBT

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

Table 5
Outstanding Debt at Year-End

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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

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

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

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

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

Total fund balances for governmental funds \$ 332,107

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

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

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

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

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

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

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

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

Total net assets of governmental activities \$ 5,942,812

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

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

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

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

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

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

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

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

| | | |
|-----------------------|---------------|---------|
| Principal repayments: | | |
| Bond principal | 150,000 | |
| Note principal | <u>26,566</u> | 176,566 |

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

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

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

| | | |
|---------------------------|--------------|---------------|
| Compensated absences | 25,620 | |
| Accrued interest on bonds | <u>2,182</u> | <u>27,802</u> |

Changes in net assets of governmental activities \$ 705,720

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

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

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

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

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

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

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

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

See accompanying notes to financial statements.

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

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

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

See accompanying notes to financial statements.

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

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

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

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) REPORTING ENTITY

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

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

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

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

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

Gladstone Area Schools – provides education services to the community.

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

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

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

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

Fund Financial Statements:

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

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

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

The General Fund which is described below.

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

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

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

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

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

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

The funds of the City are described below:

Governmental Funds

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

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

Proprietary Funds

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

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

Fiduciary Funds

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

(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

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

Basis of Accounting

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

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

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

Government-wide Statements

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

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

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

Fund Financial Statements

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

- h. Compensated Absences – The City’s policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$38,938 in the General Fund for personal property taxes, \$26,564 in the State Trunkline Fund for unspent grant proceeds, and advanced revenue collections and \$298,211 in the Revolving Loan Fund for long-term contracts receivable. These amounts have been deemed measurable, but not currently available.

- j. Equity Classification

Government-Wide Statements

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

Fund Statements

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

(5) REVENUES AND EXPENDITURES/EXPENSES

Revenues

Government-Wide Statements

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

Fund Statements

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

Expenses/Expenditures

Government-Wide Statements

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

Fund Statements

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

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

Operating Revenues and Expenses

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

Other Financing Sources (Uses)

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

(6) OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

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

Budgets and Budgetary Accounting

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

Property Taxes

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

Use of Estimates

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

NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE

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

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

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

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

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS

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

| | | |
|--|------------|--------------|
| Imprest Cash | | \$ 740 |
| Deposits: | | |
| Checking accounts | \$ 814,708 | |
| Savings | 64,000 | |
| Certificate of Deposit | 150,000 | 1,028,708 |
| | | <hr/> |
| Total cash and equivalents | | \$ 1,029,448 |
| | | <hr/> |
| Government-wide Statement of Net Assets Presentation: | | |
| Unrestricted | \$ 639,704 | |
| Restricted | 321,811 | \$ 961,515 |
| | | <hr/> |
| Statement of Fiduciary Net Assets | | 67,933 |
| | | <hr/> |
| Total cash and equivalents | | \$ 1,029,448 |
| | | <hr/> |
| Investments: | | |
| U.S. government agency securities | \$ 450,000 | |
| Upper Peninsula Public Power Agency | 211,474 | \$ 661,474 |
| | | <hr/> |
| Total investments | | \$ 661,474 |
| | | <hr/> |

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

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

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

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

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

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

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

Custodial Credit Risk of Bank Deposits

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

Custodial Credit Risk of Investments

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Interest Rate Risk

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

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

Credit Risk

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

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

Cash has been restricted within the listed funds as follows:

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

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