

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Waste Water Fund	\$	30,500
Water Fund		33,500

Investment in Upper Peninsula Public Power Agency

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City contributed \$184,377 in cash and \$27,097 in equipment for a total investment of \$211,474. Neither UPPPA or ATC are publicly traded companies, therefore, the City has recorded this investment at cost, which the City feels approximates market value given the annual return on this investment.

The following is the percentage interest in UPPPA by municipality:

Village of Baraga	4.80%
City of Crystal Falls	4.49%
City of Gladstone	7.10%
Marquette Board of Light and Power	70.16%
City of Negaunee	6.04%
City of Norway	7.41%
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Total	100.00%
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UPPPA owns .50% of ATC, LLC.

NOTE D – PROPERTY TAXES

(1) Tax information:

Assessment Date	December 31
Taxes payable	July 10
Taxes Delinquent	March 1 following date payable

Penalties for delinquency – The following charges are added to unpaid taxes:

On August 15, a 4% penalty is added.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE D – PROPERTY TAXES (continued)

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

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

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

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

Note: Pursuant to Proposal A, assessed property taxes are levied based upon taxable values beginning in 1995.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE D – PROPERTY TAXES (continued)

The State of Michigan, beginning in 1967, required that taxes be levied on state equalized valuations rather than on assessed valuation. The valuations for the years 1961 through 1966, inclusive, are City assessed valuations, the year 1967 are state equalized valuations, and the year 1968 are City assessed valuations. In 1968, the City was allowed to assess on City valuations because they were almost equal to that of State equalized valuations. For years 1969 to 2006, inclusive, the City and State valuations are the same.

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE D – PROPERTY TAXES (continued)

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

* From 1961 to 1993, the school millage was applied to all properties and included the debt millage.

(4) City's Share of Current Property Taxes – The City's share of current real and personal property taxes for the year ended March 31, 2007 were as follows: General Fund \$1,100,954, Solid Waste Fund \$161,773 and DDA Fund capture from the City's levy was \$111,122.

NOTE E – LONG-TERM RECEIVABLES

Governmental Activities:

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

The Revolving Loan Fund has recorded as deferred revenue the amount of the loans in the fund financial statements. As the contract payments are received by the Revolving Loan Fund, they will be shown as revenues in accordance with generally accepted accounting principles. In the statement of net assets the deferred revenue has been eliminated. Remaining principal payments to be received as of March 31, 2007 are as follows:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE E – LONG-TERM RECEIVABLES (continued)

Year Ending March 31	Amount
2008	\$ 35,781
2009	45,901
2010	41,922
2011	47,599
2012	28,396
Thereafter	98,612
Total	<u>\$ 298,211</u>

Business-Type Activities:

The Economic Development Corporation has made loans to various local businesses to assist in capital asset acquisitions or for operational needs. Remaining principal payments to be received as of March 31, 2007 are as follows:

Year Ending March 31	Amount
2008	\$ 12,719
2009	13,266
2010	13,851
2011	14,480
2012	15,154
Thereafter	149,594
Total	<u>\$ 219,064</u>

The Land Development Fund has also recorded notes receivable in the amount of \$61,501 for the sale of residential lots.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE F – CAPITAL ASSETS

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended March 31, 2007, was as follows:

	Balance at April 1, 2006	Additions	Disposals	Balance at March 31, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,601,627	\$ -	\$ -	\$ 1,601,627
Construction in progress	-	76,479	-	76,479
Total non-depreciable capital assets	<u>1,601,627</u>	<u>76,479</u>	<u>-</u>	<u>1,678,106</u>
Capital assets being depreciated:				
Land improvements	129,812	31,874	-	161,686
Buildings	2,984,124	-	13,658	2,970,466
Machinery and equipment	2,760,382	70,032	138,375	2,692,039
Infrastructure-road system	9,764,339	1,235,703	-	11,000,042
Infrastructure-other	319,361	-	-	319,361
Total depreciable capital assets	<u>15,958,018</u>	<u>1,337,609</u>	<u>152,033</u>	<u>17,143,594</u>
Total capital assets	<u>17,559,645</u>	<u>1,414,088</u>	<u>152,033</u>	<u>18,821,700</u>
Less accumulated depreciation:				
Land improvements	47,458	13,194	-	60,652
Buildings	1,123,431	123,064	4,780	1,241,715
Machinery and equipment	1,917,987	145,059	134,675	1,928,371
Infrastructure-road system	7,846,095	515,056	-	8,361,151
Infrastructure-other	34,381	33,938	-	68,319
Total accumulated depreciation	<u>10,969,352</u>	<u>830,311</u>	<u>139,455</u>	<u>11,660,208</u>
Net depreciable capital assets	<u>4,988,666</u>	<u>507,298</u>	<u>12,578</u>	<u>5,483,386</u>
Governmental activities capital assets, net	<u>\$ 6,590,293</u>	<u>\$ 583,777</u>	<u>\$ 12,578</u>	<u>\$ 7,161,492</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE F – CAPITAL ASSETS (continued)

	Balance at April 1, 2006	Additions	Disposals	Balance at March 31, 2007
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 316,799	\$ -	\$ 62,286	\$ 254,513
Construction in progress	26,193	117,019	-	143,212
Total non-depreciable capital assets	<u>342,992</u>	<u>117,019</u>	<u>62,286</u>	<u>397,725</u>
Capital assets being depreciated:				
Buildings	191,989	150,000	-	341,989
Machinery and equipment	700,474	-	3,691	696,783
Distribution/collection system	14,616,064	438,440	-	15,054,504
Total depreciable capital assets	<u>15,508,527</u>	<u>588,440</u>	<u>3,691</u>	<u>16,093,276</u>
Total capital assets	<u>15,851,519</u>	<u>705,459</u>	<u>65,977</u>	<u>16,491,001</u>
Less accumulated depreciation:				
Buildings	32,986	13,213	-	46,199
Machinery and equipment	495,644	53,393	3,691	545,346
Distribution/collection system	7,543,726	368,659	-	7,912,385
Total accumulated depreciation	<u>8,072,356</u>	<u>435,265</u>	<u>3,691</u>	<u>8,503,930</u>
Net depreciable capital assets	<u>7,436,171</u>	<u>153,175</u>	<u>-</u>	<u>7,589,346</u>
Business-type activities capital assets, net	<u>\$ 7,779,163</u>	<u>\$ 270,194</u>	<u>\$ 62,286</u>	<u>\$ 7,987,071</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
General government	\$ 5,802
Public health and safety	61,191
Parks and recreation	159,755
Cemetery	6,212
General public works	43,302
Street system	553,174
Community development	875
Total governmental activities depreciation expense	<u>\$ 830,311</u>
Business-type activities:	
Electric	\$ 218,295
Water	89,474
Waste water	90,936
Wireless broadband Development	22,620
Development	13,940
Total business-type activities depreciation expense	<u>\$ 435,265</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE F – CAPITAL ASSETS (continued)

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$2,000 or more as of March 31, 2002. In prior years, the City capitalized fixed assets with a value of \$500 or more.

NOTE G – RETIREMENT PLANS

MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM

(1) Plan Description – The City of Gladstone participates in a defined benefit noncontributory retirement plan administered by the Municipal Employee's Retirement System (MERS) which covers substantially all full-time employees. MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. All full-time employees of the City are eligible to participate in the system that were hired prior to December 1, 1997. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851, MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

There are three valuation divisions within the plan which provide different benefit provisions. The General Other division, which covers the non-supervisory employees of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after age 55 with 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final five-year average compensation.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE G – RETIREMENT PLANS (continued)

The Police-Fire division, which covers the police and fire personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final five-year average compensation.

The General Supervisor division, which covers the supervisory personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after the age of 55 with 20 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation, with a maximum benefit of 80 percent of the member's final five-year average compensation.

As of January 1, 1998, all new hires which are part of the General Other and General Supervisor divisions are not covered under the defined benefit plans noted above, they are part of a separate defined contribution plan.

All three valuation divisions adopted the Benefit E which provides a onetime benefit increase to present retirees and beneficiaries. The amount of the increase is equal to 2 percent of the present benefit times the number of years since the later of retirement or the last Benefit E increase.

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2005 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE G – RETIREMENT PLANS (continued)

GASB 25 INFORMATION (AS OF 12/31/05)

Actuarial Accrued Liability:		
Retirees and beneficiaries currently receiving benefits	\$	4,577,831
Terminated employees not yet receiving benefits		121,547
Current Employees:		
Accumulated employee contributions including allocated investment income		74,671
Employer financed		<u>4,024,763</u>
Total actuarial liability		8,798,812
Net assets available for benefits, at actuarial value (market value is \$5,170,678)		<u>5,310,617</u>
Unfunded (overfunded) actuarial accrued liability	\$	<u><u>3,488,195</u></u>

GASB 27 INFORMATION (AS OF 12/31/05)

Fiscal year beginning		April 1, 2007
Annual required contribution (ARC)	\$	362,784
Amortization factor used - underfunded liabilities (30 years)		0.053632
Amortization factor used - underfunded liabilities (24 years)		0.065308
Amortization factor used - underfunded liabilities (30 year level \$)		0.085453

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2005 were determined using the entry age normal cost actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE G – RETIREMENT PLANS (continued)

<u>Year Ended March 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 220,896	100%	-
2005	250,018	100%	-
2006	272,136	100%	-

The City was required to contribute \$292,884 for the year ended March 31, 2007. Payments were based on contribution calculations made by MERS.

Aggregate Accrued Liabilities – Comparative Schedule

<u>Actuarial Valuation Date December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2003	\$ 4,820,635	\$ 7,864,852	\$ 3,044,217	61%	\$ 1,102,977	276%
2004	5,190,016	8,385,862	3,195,846	62%	1,087,022	294%
2005	5,310,617	8,798,812	3,488,195	60%	1,079,937	323%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000, and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

401 (A) RETIREMENT PLAN

During the year ended March 31, 1998, the City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by the International City/County Management Association. Employees who are hired after December 1, 1997, with the exception of the employees who are members of the POLC union, are eligible to participate in the plan, which requires the City to contribute 8% of the employee's gross wage to the plan. In addition, if the employee contributes an additional 3.0% to the plan the City will match the employee contribution of 3%. All contributions are held and owned in the name of each employee.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE G – RETIREMENT PLANS (continued)

Year Ended March 31,	Number of Participants	City's Share	Employee's Share
2005	21	\$ 86,617	\$ 22,804
2006	22	85,087	22,289
2007	22	84,901	22,161

NOTE H – VESTED EMPLOYEE BENEFITS

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations become vested as a result of employee age and years of employment. Compensated absences in the amount of \$133,276 are reported under governmental activities and \$82,559 is reported under business-type activities in the Statement of Net Assets.

NOTE I – POST RETIREMENT HEALTH BENEFITS

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

The P.O.L.C. contract requires the City to pay the monthly health insurance premium for employees who meet the retirement criteria as outlined in the union contract until the age of 65, or for 12 years, whichever is less. Any increase in the monthly premiums after the date of retirement shall be borne by the retired employee. The Teamsters contract requires the City to pay the monthly health insurance premiums for 10 years after retirement or until covered by Medicare, whichever is less. The City is required to pay premium increase for years one through seven and the retired employee will pay the premium increases for years eight, nine and ten. The City has agreed to provide the Supervisors group with post employment health benefits for a period of 10 years or until the age of 65, whichever comes first. All premium increases during that period of time will be covered by the City.

For the year ended March 31, 2007, the City has not performed an actuarial valuation for the post-employment health benefits and it is the City's policy to fund this benefit on a pay-as-you-go basis. The following is a summary of the post-employment health benefits:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE I – POST RETIREMENT HEALTH BENEFITS (continued)

For the Year Ended March 31,	Annual Cost	Number of Retiree's Receiving Benefits
2005	\$ 87,214	8
2006	71,899	7
2007	89,037	7

For the year ended March 31, 2007, there were 2 eligible retiree's who opted-out of the health insurance and received payment in-lieu-of in the amount of \$9,393.

NOTE J – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2007:

Type of Debt	Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007	Amounts Due Within One Year
Governmental Activities:					
Note - fire truck	\$ 87,127	\$ -	\$ 13,394	\$ 73,733	\$ 14,986
Note - vac truck	45,412	-	12,085	33,327	12,551
Note - garbage truck	32,152	-	32,152	-	-
Note - loader	66,299	-	66,299	-	-
Note - dump truck	19,007	-	19,007	-	-
Note - trackless	28,214	-	28,214	-	-
Note - campground	150,000	-	13,172	136,828	13,640
D.D.A. bonds	400,000	-	90,000	310,000	95,000
1995 B.A. bonds	80,000	-	25,000	55,000	25,000
2000 B.A. bonds	750,000	-	70,000	680,000	-
Due to other					
governmental units	105,580	-	-	105,580	-
Compensated absences	158,896	-	25,620	133,276	26,655
 Total governmental long-term debt	 <u>\$ 1,922,687</u>	 <u>\$ -</u>	 <u>\$ 394,943</u>	 <u>\$ 1,527,744</u>	 <u>\$ 187,832</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE J – LONG-TERM DEBT (continued)

Type of Debt	Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007	Amounts Due Within One Year
Business-type Activities:					
Note - tanker truck	\$ 21,448	\$ -	\$ 5,051	\$ 16,397	\$ 5,329
2004 Waste Water bond	245,000	-	60,000	185,000	60,000
2004 Water bond	265,000	-	65,000	200,000	65,000
2006 Sludge Storage bond	-	62,889	-	62,889	-
Compensated absences	76,812	5,747	-	82,559	16,512
Total business-type long-term debt	<u>\$ 608,260</u>	<u>\$ 68,636</u>	<u>\$ 130,051</u>	<u>\$ 546,845</u>	<u>\$ 146,841</u>

Debt service requirements on long-term debt at March 31, 2007 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2008	\$ 41,177	\$ 9,369	\$ 120,000	\$ 39,055
2009	42,952	7,592	175,000	46,651
2010	38,981	5,799	150,000	35,236
2011	111,928	4,298	40,000	29,361
2012	8,850	132	45,000	27,209
2013-2017	-	-	255,000	99,454
2018-2022	-	-	260,000	27,077
	<u>\$ 243,888</u>	<u>\$ 27,190</u>	<u>\$ 1,045,000</u>	<u>\$ 304,043</u>

For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2008	5,329	757	125,000	10,288
2009	5,626	609	180,000	8,497
2010	5,442	149	142,889	3,900
	<u>\$ 16,397</u>	<u>\$ 1,515</u>	<u>\$ 447,889</u>	<u>\$ 22,685</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

Governmental Activities:

As of March 31, 2007, the governmental activities long-term debt consisted of the following:

Notes Payable:

Note payable issued October 22, 1996 for \$201,985 at 4.5% to First Bank for the purchase of a fire truck. The note calls for 180 monthly principal and interest payments of \$1,640.

During the year ended March 31, 2005, the City signed a 60-month note for the purchase of a vac-all truck. The note calls for monthly payments of \$1,134 and bears an interest rate of 3.8%.

During 2003, the City signed a 60 month note for the purchase of a garbage truck. The note calls for monthly principal and interest payments of \$1,363 and bears an interest rate of 3.85% and was paid off in 2007.

During the year ended March 31, 2002 the City signed a 60 month note for the purchase of a front-end loader. The note calls for monthly principal and interest of \$1,098 and a final balloon payment of \$60,325 and bears an interest rate of 4.04%. This note was paid off in 2007.

During the year ended March 31, 2002, the City signed a 60 month note for the purchase of a dump truck. The note calls for monthly principal and interest payments of \$1,763 and bears an interest rate of 4.0%. This note was paid off in 2007.

During the year ended March 31, 2005, the City signed an 83 month note for the purchase of a 4x4 articulating tractor. The note calls for monthly principal and interest payments of \$463 and bears an interest rate of 3.8%. This note was paid off in 2007.

During the year ended March 31, 2006, the City signed a 48 month note for the construction of a bathroom facility at the City campground. The note calls for four annual payments of \$18,500 and one balloon payment of \$101,188 in 2010. The note bears an interest rate of 4.0%.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE J – LONG-TERM DEBT (continued)

Due to Other Governmental Units:

During the year ended March 31, 2005, the City was informed that they may not have properly distributed payment in-lieu of taxes received from nonprofit housing entities. The City has contacted the State Tax Commission (STC) and they have not received a resolution back from the STC. The City has estimated and recorded an amount of \$105,580 that would be due to other taxing units if that is what is required. A final amount cannot be determined until the City receives notice from the STC regarding final disposition of this issue.

Bonds Payable:

Bonds were issued November 1, 1994 for \$995,000 with a variable interest rate ranging from 5.9% to 8.0% for the purpose of making improvements on the Downtown Development Area and have a final maturity of May 2009.

Bonds were issued March 15, 1995 for \$270,000 at 5.6% in the name of the Building Authority for the purpose of making improvements at the Sports Park and have a final maturity of March 2009.

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

Business-type Activities:

As of March 31, 2007, the long-term debt of business-type activities consists of the following:

Note Payable:

During the year ended March 31, 2000, the City signed a 120 month note for the purchase of a tanker truck. The note calls for monthly principal and interest payments of \$507 and bears an interest rate of 5.4%.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE J – LONG-TERM DEBT (continued)

Bonds Payable:

2004 Waste Water System Bonds – On February 18, 2004 the City issued waste water system revenue refunding bond series 2004 for the purpose of retiring the 1994 waste water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$305,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each November 1 and May 1. Principal payments are due each November 1 with the final principal payment due no later than November 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$111,505. Of the \$111,505, \$80,000 represents advance payment of principal made by the City as part of defeasing the 1994 bond issue, leaving net cumulative savings of \$31,505. The economic gain resulting from this transaction at a present value of 3.477% is \$20,301.

2004 Water System Bonds – On February 18, 2004 the City issued water system revenue refunding bond series 2004 for the purpose of retiring the 1994 water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$335,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each October 1 and April 1. Principal payments are due each October 1 with the final principal payment due no later than October 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$21,972. The economic gain resulting from this transaction at a present value of 3.477% is \$14,158.

2006 Sewage Disposal System Bonds – On December 14, 2006 the City issued sewage disposal system revenue bond series 2006 for the purpose of constructing a sludge storage tank for the waste water department. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$1,160,000 and have an interest rate of 1.625%. Interest payments are due and payable each April 1 and October 1. Principle payments are due each October 1 with the final principal payment due no later than October 1, 2027. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE K – BOND ISSUANCE COSTS

On February 18, 2004 the City issued waste water and water revenue bonds which resulted in bond issuance costs which will be amortized over the life of the bond issue. Below is the detail relating to the bond issuance costs:

	<u>Bond Costs</u>	<u>Premium paid on 1994 Bonds</u>	<u>Total</u>
Waste Water Fund	\$ 14,881	\$ 7,000	\$ 21,881
Water Fund	15,783	7,400	<u>23,183</u>
			45,064
Less accumulated amortization			<u>(27,039)</u>
Net bond issuance cost			<u>\$ 18,025</u>

NOTE L – RESTRICTED NET ASSETS

Restricted net assets as reported in the statement of net assets have been restricted in the amount of \$32 related to drug forfeiture proceeds which are restricted for the purpose of enhancing law enforcement activities related to drug law enforcement, and \$27,537 related to proceeds from the Mary Cretens trust which are restricted for the purpose of city improvement and maintenance as required by the trust documents.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE M – INTERFUND BALANCES AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund receivables have been classified as noncurrent assets and liabilities in the Statement of Net Assets due to the individual funds inability to repay these amounts. Individual fund interfund receivables and payable balances at March 31, 2007 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 44,213	Land Development	\$ 44,213
		General Fund	158,662
		Major Street Fund	46,013
		EDC Fund	33,117
		Gladstone Wireless Fund	128,393
		Local Street Fund	19,889
Electric Fund	386,074	Subtotal	386,074
Major Street Fund	869		
Local Street Fund	621		
Waste Water Fund	993		
Water Fund	993		
Internal Service Fund	497		
Subtotal	3,973	General Fund	3,973
Total	\$ 434,260	Total	\$ 434,260

The transfers to and from the various funds are made to account for budgetary authorizations and/or provide funding for operations as needed. Interfund transfers for the year ended March 31, 2007 were as follows:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE M – INTERFUND BALANCES AND TRANSFERS (continued)

	Transfers In	Transfers Out
	<u> </u>	<u> </u>
General Fund:		
Electric Utility	\$ 77,250	\$ -
Waste Water Utility	21,850	-
Water Utility	24,430	-
Capital Projects	-	20,000
Revolving Loan	4,000	-
Nonmajor proprietary	7,000	-
Nonmajor governmental	90,052	-
	<u>224,582</u>	<u>20,000</u>
Total General Fund		
Capital Projects Fund	<u>300,000</u>	<u>-</u>
Revolving Loan Fund	<u>-</u>	<u>104,000</u>
Electric Utility	<u>-</u>	<u>77,250</u>
Waste Water Utility	<u>-</u>	<u>21,850</u>
Water Utility	<u>-</u>	<u>24,430</u>
Total Nonmajor Funds	<u>114,850</u>	<u>391,902</u>
Totals	<u>\$ 639,432</u>	<u>\$ 639,432</u>

NOTE N – RISK MANAGEMENT

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE N – RISK MANAGEMENT (continued)

any dispute between the City and MMRMA will be resolved in the manner stated in the Joint Powers Agreement and MMRMA rules.

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

Table I
City Deductibles and Self Insured Retentions

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

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

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

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

At March 31, 2007, the City had no outstanding claims which exceeded the plan’s limits and there has been no significant reduction in insurance coverage over the past three years.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

NOTE O – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion on management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City at March 31, 2007.

During the year ended March 31, 2005, the City was informed that they had not properly distributed payment-in-lieu of taxes received from nonprofit housing entities. The City has contacted the State Tax Commission and is waiting for a determination as to the final disposition of this issue. A total amount owed has not been determined as of March 31, 2007, however an amount of \$105,580 has been recorded as a due to other governmental units in the statement of net assets as an estimate of the amount owed.

NOTE P – JOINT VENTURE – DELTA SOLID WASTE LANDFILL

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

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

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2007

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

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

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

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

NOTE Q – SINGLE AUDIT

OMB Circular A-133 requires entities that expend more than \$500,000 in federal awards to have a single audit as outlined in the OMB Circular. For the year ended March 31, 2007, the City did not expend more than \$500,000 in federal awards and therefore a single audit was not required in 2007.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2007

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Federal sources	\$ -	\$ -	\$ 14,000	\$ 14,000
State sources	590,170	590,170	575,933	(14,237)
Local sources	74,590	87,935	50,472	(37,463)
Taxes	1,299,720	1,299,720	1,289,342	(10,378)
Recreation	227,680	221,980	186,516	(35,464)
Public safety	37,950	38,550	24,919	(13,631)
Charges for services	56,000	56,000	16,291	(39,709)
Interest income	4,000	4,000	2,219	(1,781)
Miscellaneous	24,150	24,150	9,959	(14,191)
Total revenues	<u>2,314,260</u>	<u>2,322,505</u>	<u>2,169,651</u>	<u>(152,854)</u>
EXPENDITURES:				
General government:				
City commission	119,360	125,860	131,640	(5,780)
City manager	84,570	84,570	85,907	(1,337)
Elections	6,800	6,800	3,660	3,140
City assessor	63,490	63,490	63,145	345
Board of review	880	880	863	17
City treasurer	68,340	72,870	73,182	(312)
City clerk	79,054	95,255	93,359	1,896
City hall	63,630	63,630	64,645	(1,015)
Public health and safety:				
Police department	956,280	946,110	911,837	34,273
Fire department	218,380	218,380	180,964	37,416
Building and housing inspections	141,840	141,840	107,900	33,940
Parks and recreation:				
Recreation administrative	124,810	138,040	124,715	13,325
Harbor	96,670	97,790	96,760	1,030
Parks	46,240	46,240	37,800	8,440
Beach	34,770	34,770	35,301	(531)
Sports park	126,240	126,240	99,310	26,930
Campground	57,040	61,040	39,362	21,678
Miscellaneous	49,470	49,470	58,553	(9,083)
Cemetery:				
Cemetery administrative	15,510	15,510	10,462	5,048
Ground maintenance and burials	55,300	55,300	48,973	6,327
General public works:				
Forestry	14,000	16,110	14,365	1,745
Sidewalks	10,000	10,000	277	9,723
Grounds maintenance	6,100	12,350	12,510	(160)
Beautification	11,080	11,080	11,468	(388)
Capital outlay	41,100	71,402	51,344	20,058
Debt service	-	-	36,284	(36,284)
Total expenditures	<u>2,490,954</u>	<u>2,565,027</u>	<u>2,394,586</u>	<u>170,441</u>
Excess revenues (expenditures)	(176,694)	(242,522)	(224,935)	17,587
OTHER FINANCING SOURCES (USES)				
Transfer in	176,694	242,074	224,582	(17,492)
Transfer out	-	-	(20,000)	(20,000)
Total other financing sources (uses)	<u>176,694</u>	<u>242,074</u>	<u>204,582</u>	<u>(37,492)</u>
Net changes in fund balances	-	(448)	(20,353)	(19,905)
Fund balances - beginning	<u>113,239</u>	<u>113,239</u>	<u>113,239</u>	<u>-</u>
Fund balances - ending	<u>\$ 113,239</u>	<u>\$ 112,791</u>	<u>\$ 92,886</u>	<u>\$ (19,905)</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND
For the Year Ended March 31, 2007

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 315,000	\$ 315,000	\$ 302,588	\$ (12,412)
Local sources	10,000	10,000	-	(10,000)
Interest income	800	800	2,353	1,553
Miscellaneous	2,200	2,200	2,713	513
Total revenues	328,000	328,000	307,654	(20,346)
EXPENDITURES:				
Street system	338,250	340,080	291,415	48,665
Excess revenues (expenditures)	(10,250)	(12,080)	16,239	28,319
OTHER FINANCING SOURCES (USES):				
Transfer in	57,250	57,250	-	(57,250)
Transfer out	(47,000)	(47,000)	-	47,000
Total other financing sources (uses)	10,250	10,250	-	(10,250)
Net changes in fund balances	-	(1,830)	16,239	18,069
Fund balances - beginning	80,477	80,477	80,477	-
Fund balances - ending	\$ 80,477	\$ 78,647	\$ 96,716	\$ 18,069

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREET FUND
For the Year Ended March 31, 2007

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
State sources	\$ 145,000	\$ 145,000	\$ 146,518	\$ 1,518
Local sources	120,160	120,160	39,644	(80,516)
Interest income	-	-	368	368
Miscellaneous	700	700	2,928	2,228
	<u>265,860</u>	<u>265,860</u>	<u>189,458</u>	<u>(76,402)</u>
Total revenues				
EXPENDITURES:				
Street system	312,860	314,860	228,450	86,410
	<u>(47,000)</u>	<u>(49,000)</u>	<u>(38,992)</u>	<u>10,008</u>
Excess revenues (expenditures)				
OTHER FINANCING SOURCES (USES):				
Transfer in	47,000	47,000	-	(47,000)
Transfer out	-	-	-	-
	<u>47,000</u>	<u>47,000</u>	<u>-</u>	<u>(47,000)</u>
Total other financing sources (uses)				
Net changes in fund balances	-	(2,000)	(38,992)	(36,992)
Fund balances - beginning	46,273	46,273	46,273	-
Fund balances - ending	<u>\$ 46,273</u>	<u>\$ 44,273</u>	<u>\$ 7,281</u>	<u>\$ (36,992)</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REVOLVING LOAN
For the Year Ended March 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis) (See Note A)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Loan repayment	\$ 29,330	\$ 47,120	\$ 43,245	\$ (3,875)
Interest income	4,190	6,690	7,560	870
Total revenues	<u>33,520</u>	<u>53,810</u>	<u>50,805</u>	<u>(3,005)</u>
EXPENDITURES:				
Community development	<u>101,300</u>	<u>199,810</u>	<u>200,156</u>	<u>(346)</u>
Excess revenues (expenditures)	<u>(67,780)</u>	<u>(146,000)</u>	<u>(149,351)</u>	<u>(3,351)</u>
OTHER FINANCING SOURCES (USES):				
Transfer in	-	-	-	-
Transfer out	<u>(4,000)</u>	<u>(4,000)</u>	<u>(104,000)</u>	<u>(100,000)</u>
Net change in fund balance	(71,780)	(150,000)	(253,351)	(103,351)
Fund balances - beginning	<u>279,389</u>	<u>279,389</u>	<u>279,389</u>	<u>-</u>
Fund balances - ending	<u>\$ 207,609</u>	<u>\$ 129,389</u>	<u>\$ 26,038</u>	<u>\$ (103,351)</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS
For the Year Ended March 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget-</u>
			<u>(See Note A)</u>	<u>Positive (Negative)</u>
REVENUES:				
Federal Sources	\$ 330,000	\$ 330,000	\$ 325,090	\$ (4,910)
State Sources	714,000	714,000	84,345	(629,655)
Other	10,000	10,000	46,851	36,851
Total revenues	<u>1,054,000</u>	<u>1,054,000</u>	<u>456,286</u>	<u>(597,714)</u>
EXPENDITURES:				
Capital Outlay	<u>2,326,590</u>	<u>2,326,590</u>	<u>877,850</u>	<u>1,448,740</u>
Excess revenues (expenditures)	(1,272,590)	(1,272,590)	(421,564)	851,026
OTHER FINANCING SOURCES (USES):				
Bond Proceeds	992,590	992,590	62,889	(929,701)
Transfer in	<u>280,000</u>	<u>280,000</u>	<u>300,000</u>	<u>(20,000)</u>
Net change in fund balance	-	-	(58,675)	(98,675)
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (58,675)</u>	<u>\$ (98,675)</u>

COMBINING FUND FINANCIAL STATEMENTS

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

	Special Revenue Funds			
	State Trunkline	Solid Waste	MSHDA Rental Property MSC-06-0717-NPP	MSHDA Homeowner
ASSETS				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ -	\$ -
Unrestricted	26,185	(58,656)	(43,197)	3,091
Receivables:				
Accounts	-	59,145	5,622	-
Interest	-	-	-	-
Prepaid expenditures	-	-	450	-
Due from other governmental units	413	-	37,907	-
	<u>\$ 26,598</u>	<u>\$ 489</u>	<u>\$ 782</u>	<u>\$ 3,091</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 34	\$ 5,840	\$ 782	\$ -
Due to other governmental units	-	-	-	-
Deferred revenue	26,564	-	-	-
	<u>26,598</u>	<u>5,840</u>	<u>782</u>	<u>-</u>
Fund balances:				
Reserved for:				
City improvement	-	-	-	-
Cemetery perpetual care	-	-	-	-
Unreserved	-	(5,351)	-	3,091
	<u>-</u>	<u>(5,351)</u>	<u>-</u>	<u>3,091</u>
Total liabilities and fund balances	<u>\$ 26,598</u>	<u>\$ 489</u>	<u>\$ 782</u>	<u>\$ 3,091</u>

See accompanying notes to financial statements.

Special Revenue Funds		Debt Service Funds		Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Downtown Development Authority	Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	
\$ 27,537	\$ -	\$ -	\$ -	\$ 230,274	\$ 257,811
-	(99,982)	1,086	-	-	(171,473)
-	-	-	-	-	64,767
-	17	-	-	52	69
-	-	-	-	-	450
-	24,388	-	-	-	62,708
<u>\$ 27,537</u>	<u>\$ (75,577)</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 230,326</u>	<u>\$ 214,332</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,656
-	13,251	-	-	-	13,251
-	-	-	-	-	26,564
-	13,251	-	-	-	46,471
27,537	-	-	-	-	27,537
-	-	-	-	230,326	230,326
-	(88,828)	1,086	-	-	(90,002)
<u>27,537</u>	<u>(88,828)</u>	<u>1,086</u>	<u>-</u>	<u>230,326</u>	<u>167,861</u>
<u>\$ 27,537</u>	<u>\$ (75,577)</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 230,326</u>	<u>\$ 214,332</u>

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

	Special Revenue Funds			
	State Trunkline	Solid Waste	MSHDA Rental Property MSC-06-0717-NPP	MSHDA Homeowner
REVENUES:				
Federal sources	\$ -	\$ -	\$ 86,660	\$ -
State sources	8,586	-	-	-
Local sources	-	-	47,217	-
Taxes	-	161,773	-	-
Charges for services	-	188,387	-	-
Lease income	-	-	-	-
Interest income	-	-	-	-
Miscellaneous	-	3,533	-	-
Total revenues	\$ 8,586	\$ 353,693	\$ 133,877	\$ -
EXPENDITURES:				
Public health and safety	\$ -	\$ -	\$ 133,877	\$ -
Cemetery	-	-	-	-
General public works	-	312,707	-	-
Street system	8,586	-	-	-
Community development	-	-	-	-
Debt service:	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	8,586	312,707	133,877	-
Excess revenues (expenditures)	-	40,986	-	-
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net changes in fund balances	-	40,986	-	-
Fund balances - beginning	-	(46,337)	-	3,091
Fund balances - ending	\$ -	\$ (5,351)	\$ -	\$ 3,091

See accompanying notes to financial statements.

Special Revenue Funds		Debt Service Funds		Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Downtown Development Authority	Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,660
-	-	-	-	-	8,586
108,746	11,500	-	-	5,233	172,696
-	297,062	-	-	-	458,835
-	-	-	-	-	188,387
-	-	101,320	-	-	101,320
-	1,205	-	-	4,043	5,248
-	306	-	-	-	3,839
<u>\$ 108,746</u>	<u>\$ 310,073</u>	<u>\$ 101,320</u>	<u>\$ -</u>	<u>\$ 9,276</u>	<u>\$ 1,025,571</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,877
-	-	-	-	260	260
-	-	-	-	-	312,707
-	-	-	-	-	8,586
-	129,120	-	-	-	129,120
-	-	-	-	-	-
-	-	60,000	90,000	-	150,000
-	-	41,320	24,850	-	66,170
-	129,120	101,320	114,850	260	800,720
108,746	180,953	-	(114,850)	9,016	224,851
-	-	-	114,850	-	114,850
(81,209)	(299,650)	-	-	(4,043)	(384,902)
(81,209)	(299,650)	-	114,850	(4,043)	(270,052)
27,537	(118,697)	-	-	4,973	(45,201)
-	29,869	1,086	-	225,353	213,062
<u>\$ 27,537</u>	<u>\$ (88,828)</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 230,326</u>	<u>\$ 167,861</u>

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

	Economic Development Corporation	Land Development	Total Nonmajor Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ (32,811)	\$ (44,399)	\$ (77,210)
Receivables:			
Notes	12,719	61,501	74,220
Total current assets	(20,092)	17,102	(2,990)
Noncurrent assets:			
Notes receivable	206,345	-	206,345
Capital assets	60,994	501,000	561,994
Less accumulated depreciation	(25,334)	(71,910)	(97,244)
Total noncurrent assets	242,005	429,090	671,095
Total assets	\$ 221,913	\$ 446,192	\$ 668,105
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 100	\$ -	\$ 100
Noncurrent liabilities:			
Due to other funds	33,117	44,213	77,330
Total liabilities	\$ 33,217	\$ 44,213	\$ 77,430
NET ASSETS			
Invested in capital assets, net of related debt	\$ 35,660	\$ 429,090	\$ 464,750
Unrestricted	153,036	(27,111)	125,925
Total net assets	\$ 188,696	\$ 401,979	\$ 590,675

See accompanying notes to financial statements.

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

	Economic Development Corporation	Land Development	Total Nonmajor Enterprise Funds
OPERATING REVENUES:			
Miscellaneous	\$ 19,726	\$ 7,304	\$ 27,030
OPERATING EXPENSES:			
Salaries and fringes	\$ -	\$ 844	\$ 844
Contracted services	3,747	4,147	7,894
Rent	60	583	643
Depreciation	1,865	12,075	13,940
Miscellaneous	11,580	1,648	13,228
Total operating expenses	17,252	19,297	36,549
Operating income (loss)	2,474	(11,993)	(9,519)
NONOPERATING REVENUES (EXPENSES):			
Interest income	15,928	-	15,928
Total nonoperating revenue (expense)	15,928	-	15,928
Income (loss) before transfers and contributions	18,402	(11,993)	6,409
Transfer out	(3,500)	(3,500)	(7,000)
Change in net assets	14,902	(15,493)	(591)
Total net assets - beginning	173,794	417,472	591,266
Total net assets - ending	\$ 188,696	\$ 401,979	\$ 590,675

See accompanying notes to financial statements.

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

	Economic Development Corporation	Land Development	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 19,726	\$ 7,304	\$ 27,030
Payments to suppliers	(15,430)	(27,219)	(42,649)
Payments for wages and related benefits	-	(844)	(844)
Other receipts (payments)	34,971	(61,501)	(26,530)
Net cash provided (used) by operating activities	<u>39,267</u>	<u>(82,260)</u>	<u>(42,993)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	<u>(3,500)</u>	<u>(3,500)</u>	<u>(7,000)</u>
Net cash provided (used) by noncapital financing activities	<u>(3,500)</u>	<u>(3,500)</u>	<u>(7,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Sale of fixed assets	<u>-</u>	<u>62,196</u>	<u>62,196</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>62,196</u>	<u>62,196</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	<u>15,928</u>	<u>-</u>	<u>15,928</u>
Net cash provided (used) by investing activities	<u>15,928</u>	<u>-</u>	<u>15,928</u>
Net increase (decrease) in cash and equivalents	51,695	(23,564)	28,131
Cash and equivalents, beginning of year	<u>(84,506)</u>	<u>(20,835)</u>	<u>(105,341)</u>
Cash and equivalents, end of year	<u>\$ (32,811)</u>	<u>\$ (44,399)</u>	<u>\$ (77,210)</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 2,474	\$ (11,993)	\$ (9,519)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,865	12,075	13,940
Changes in assets and liabilities:			
(Increase) decrease in receivables	53,465	(61,501)	(8,036)
Increase (decrease) in accounts payable	(43)	(20,841)	(20,884)
Increase (decrease) in due to other funds	(18,494)	-	(18,494)
Net cash provided by operating activities	<u>\$ 39,267</u>	<u>\$ (82,260)</u>	<u>\$ (42,993)</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
 ALL UTILITY FUNDS
 SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
 For the Year Ended March 31, 2007

ALL UTILITIES:

Population served	5,032
Average number of meters in service	5,396

ELECTRIC UTILITY FUND:

K.W.H. purchased	34,997,328
K.W.H. sold	<u>33,380,545</u>
K.W.H. lost (4.62%)	<u>1,616,783</u>
Revenue from sales	<u>\$ 3,345,912</u>
Average number of meters	3,206
Estimated street light K.W.H. used	254,000

WATER UTILITY FUND:

Gallons pumped into plant	153,563,000
Gallons used in plant and for system maintenance	<u>5,573,010</u>
Gallons pumped to mains	147,989,990
Gallons sold	<u>124,187,009</u>
Gallons lost (15.5%)	<u>23,802,981</u>
Revenue from sales	<u>\$ 575,763</u>
Average number of meters in service	2,190

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 659,871</u>
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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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

Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

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

Honorable Mayor and Members
Of the City Commission
City of Gladstone
Gladstone, MI 49837

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Gladstone, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the City of Gladstone, Michigan's basic financial statements and have issued our report thereon dated August 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Gladstone, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gladstone, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gladstone, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gladstone, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Gladstone, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Gladstone, Michigan's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Gladstone, Michigan, in a separate letter dated August 10, 2007.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 10, 2007

CITY OF GLADSTONE, MICHIGAN

REPORT TO MANAGEMENT

MARCH 31, 2007



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
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Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

REPORT TO MANAGEMENT

To the Honorable Mayor and Members
of the City Commission
City of Gladstone

Audit Committee Communications

We have audited the financial statements of the City of Gladstone, Michigan for the year ended March 31, 2007, and have issued our reports thereon dated August 10, 2007. Professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated May 23, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the City of Gladstone, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Gladstone's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

To the Honorable Mayor and Members
of the City Commission
City of Gladstone
Page 2

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Gladstone, Michigan are described in Note A of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the City of Gladstone, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: the useful lives of fixed assets.

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. A significant audit adjustment may or may not indicate matters that could have a significant effect on the City of Gladstone's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, the audit adjustments made individually and in the aggregate, do not have a significant effect on the City of Gladstone's financial reporting process.

To the Honorable Mayor and Members
of the City Commission
City of Gladstone
Page 3

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Gladstone's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of the City of Gladstone, Michigan for the year ended March 31, 2007, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

To the Honorable Mayor and Members
of the City Commission
City of Gladstone
Page 4

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated August 10, 2007, on the financial statements of the City of Gladstone, Michigan.

We have already discussed many of these comments and recommendations with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the City Commission and management of the City of Gladstone and is not intended to be and should not be used by anyone other than these specified parties.

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

August 10, 2007

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2007

Light Deposits

Comment:

During our testing of the light deposit payable, we noted that the general ledger reflects \$4,951 more in light deposits than the utility billing system.

Recommendation:

We recommend that the general ledger and the utility billing system be reconciled on a monthly basis so light deposits payable is accurately reflected in both systems.

Management Response:

The City no longer charges a light deposit and as renters move, this account will be zeroed out.

Distribution of Real, Personal Property and IFT Taxes

Comment:

For the fiscal year ended March 31, 2007, the City only distributed real and personal property taxes to the other taxing units only once per month. The General Property Tax Act states that within ten business days after the first and fifteenth day of each month, local tax collecting units must account for and deliver to the county treasurer and other tax assessing units, the tax collections on hand on the first and fifteenth day of each month.

Recommendation:

Taxes collected by the City should be remitted to the other taxing units as required by the General Property Tax Act.

Management Response:

The City will adhere to the General Property Tax Act to the best of its ability, however, the City feels there are so few delinquencies that it is not feasible to do distributions bi-weekly.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2007

Budget Non-Compliance

Comment:

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

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

Recommendation:

We recommend that budgets be amended as necessary to prevent expenditures from exceeding appropriations and the City file a deficit elimination plan with the Department of Treasury.

Management Response:

If expenditures exceed budgeted amounts in the future, the budget will be amended prior to the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2007

Miscellaneous Accounts Receivable

Comment:

We noted many miscellaneous accounts receivable balances listed which were several years old.

Recommendation:

The City should review these receivables and determine if they are valid and pursue collection if they found to have merit.

Management Response:

After reviewing this list, it was found that many of the invoices were paid, but receipted to the revenue account number, not the receivable. In the future City staff will monitor this list more closely.

Inventory Control

Comment:

During our testing of inventory for the electric department and the gravel inventory, we noted that items removed from inventory are not always documented and accounted for.

Recommendation:

When items are taken out of inventory, they should be documented and accounted for in a manner that allows for the proper charge-off and recording of these items in order to enhance the internal controls over the inventory process.

Management Response:

The City Treasurer will work with DPW supervisor to formulate a systematic approach to tracking gravel inventory. The Electric Department will continue to improve the software package they use to track inventory.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2007

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

Comment:

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Gladstone being required to implement the Statement for the year ended March 31, 2010. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning April 1, 2009, the City will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Council as well as City Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.