

# 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 type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

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.)

1.   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.
2.   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.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   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.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   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).
10.   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.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   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 type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name)		Telephone Number
Street Address	City	State      Zip
Authorizing CPA Signature 	Printed Name	License Number

# **City of Gibraltar, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# City of Gibraltar, Michigan

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# City of Gibraltar, Michigan

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## Independent Auditor's Report

To the City Council  
City of Gibraltar, Michigan

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 Gibraltar, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gibraltar, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Gibraltar, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Gibraltar, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gibraltar's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 28, 2007

# City of Gibraltar, Michigan

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## Management's Discussion and Analysis

The following discussion and analysis of the City of Gibraltar's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- State-shared revenue, our second largest revenue source, decreased slightly in the current year.
- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2006/2007 was approximately \$165,000,000, which represents an increase of approximately \$16,000,000, or 11 percent. The primary reason for the increase in taxable value was the addition of the Steel Rolling Holdings, Inc. property in the amount of \$9,500,000. The remaining increase was due to the addition of some development within the City and growth limited to inflation on existing properties.
- In the current year, the City collected over \$1 million in back taxes related to the steel mill property.

The City closely monitors discretionary spending by performing periodic budget adjustments. For the year, the fund balance of the General Fund increased by just under \$1.1 million.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Gibraltar, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current assets	\$ 3,251,110	\$ 1,930,041	\$ 397,602	\$ 434,787	\$ 3,648,712	\$ 2,364,828
Noncurrent assets	<u>7,470,704</u>	<u>7,852,928</u>	<u>9,816,036</u>	<u>10,102,279</u>	<u>17,286,740</u>	<u>17,955,207</u>
Total assets	10,721,814	9,782,969	10,213,638	10,537,066	20,935,452	20,320,035
<b>Liabilities</b>						
Current liabilities	862,437	775,768	220,177	50,531	1,082,614	826,299
Long-term liabilities	<u>4,533,973</u>	<u>4,813,450</u>	<u>2,344,476</u>	<u>2,665,647</u>	<u>6,878,449</u>	<u>7,479,097</u>
Total liabilities	<u>5,396,410</u>	<u>5,589,218</u>	<u>2,564,653</u>	<u>2,716,178</u>	<u>7,961,063</u>	<u>8,305,396</u>
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	3,007,078	3,136,708	7,309,041	7,436,632	10,316,119	10,573,340
Restricted	133,235	107,368	60,193	57,651	193,428	165,019
Unrestricted	<u>2,185,091</u>	<u>949,675</u>	<u>279,751</u>	<u>326,605</u>	<u>2,464,842</u>	<u>1,276,280</u>
Total net assets	<u>\$ 5,325,404</u>	<u>\$ 4,193,751</u>	<u>\$ 7,648,985</u>	<u>\$ 7,820,888</u>	<u>\$ 12,974,389</u>	<u>\$ 12,014,639</u>

The City has combined net assets of approximately \$13.0 million. Business-type activities comprise approximately \$7.7 million of total net assets. In the current year, the City's combined net assets increased by approximately \$960,000, which represents an 8.0 percent increase over the prior year.

# City of Gibraltar, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current and prior year:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Net Assets - Beginning of year</b>	\$ 4,193,751	\$ 3,689,390	\$ 7,820,888	\$ 8,002,191	\$ 12,014,639	\$ 11,691,581
<b>Revenue</b>						
Program revenue:						
Charges for services	435,758	491,102	1,107,527	983,436	1,543,285	1,474,538
Operating grants and contributions	302,906	329,191	-	-	302,906	329,191
Capital grants and contributions	-	-	6,175	55,400	6,175	55,400
General revenue:						
Property taxes	3,848,641	2,577,811	-	-	3,848,641	2,577,811
State-shared revenue	414,953	426,866	-	-	414,953	426,866
Unrestricted investment earnings	102,239	54,619	7,906	7,066	110,145	61,685
Transfers and other revenue	-	200,000	-	-	-	200,000
<b>Total revenue</b>	<b>5,104,497</b>	<b>4,079,589</b>	<b>1,121,608</b>	<b>1,045,902</b>	<b>6,226,105</b>	<b>5,125,491</b>
<b>Program Expenses</b>						
General government	1,224,517	1,256,398	-	-	1,224,517	1,256,398
Public safety	1,548,355	1,464,290	-	-	1,548,355	1,464,290
Public works	913,300	642,280	-	-	913,300	642,280
Recreation and culture	92,289	8,135	-	-	92,289	8,135
Interest on long-term debt	194,383	204,125	-	-	194,383	204,125
Water and sewer	-	-	1,293,511	1,227,205	1,293,511	1,227,205
<b>Total expenses</b>	<b>3,972,844</b>	<b>3,575,228</b>	<b>1,293,511</b>	<b>1,227,205</b>	<b>5,266,355</b>	<b>4,802,433</b>
<b>Change in Net Assets</b>	<b>1,131,653</b>	<b>504,361</b>	<b>(171,903)</b>	<b>(181,303)</b>	<b>959,750</b>	<b>323,058</b>
<b>Net Assets - End of year</b>	<b>\$ 5,325,404</b>	<b>\$ 4,193,751</b>	<b>\$ 7,648,985</b>	<b>\$ 7,820,888</b>	<b>\$ 12,974,389</b>	<b>\$ 12,014,639</b>

### Governmental Activities

During the current year, the City's governmental revenues increased by approximately \$1,025,000 despite the decrease in charges for services, grants, and state-shared revenue. The increases were primarily due to increases in property tax revenue due to the collection of over \$1 million in back taxes in conjunction with a settlement agreement for the steel mill property.

Program expenses increased by approximately \$398,000 during the current year. The increases were primarily due to wage increases within public safety and fringe benefit increases as well as equipment purchases in public works.

# **City of Gibraltar, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit water system. We provide sewage treatment through the South Huron Valley Utility Authority. The operations of the current year were fairly consistent with the prior year.

### **The City's Funds**

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2007 include the General Fund, Major Streets Fund, and the Land Revolving Fund.

The General Fund pays for most of the City's governmental services. The most significant relates to the public safety and the public works department, which incurred expenses of approximately \$1,500,000 and \$659,000, respectively, in the current year. The budget in the General Fund is basically a maintenance budget, which means it increases modestly from year to year.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account events during the year. City departments overall came in at approximately 24 percent below budget, resulting in total expenditures of approximately \$1,147,000 below budget. In addition, revenues exceeded budget by approximately \$15,000, resulting in an overall increase in fund balance of \$1,096,707.

### **Capital Asset and Debt Administration**

The City continues to collect and dedicate the millage revenues approved by the voters in November 1998 and 2002 for bond payments related to improvements to streets and the construction of the new municipal complex, respectively.

At the end of 2007, the City had approximately \$17,287,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, roads, and water and sewer lines.

# **City of Gibraltar, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

Because of the impact of Proposal A on the taxable value of properties located within the City, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions.

We anticipate that the water and sewer rates will have to increase in 2008 in order to pass along increases by providers. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2008 to discuss the need for such an increase.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

# City of Gibraltar, Michigan

## Statement of Net Assets June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 2)	\$ 2,685,283	\$ 188,333	\$ 2,873,616	\$ 581,995
Receivables - (Note 3)	405,059	253,914	658,973	1,102
Internal balances	104,838	(104,838)	-	-
Prepaid costs and other assets	55,930	-	55,930	-
Restricted assets (Note 7)	-	60,193	60,193	-
Capital assets not being depreciated (Note 4)	228,142	26,007	254,149	834,731
Capital assets being depreciated (Note 4)	7,242,562	9,790,029	17,032,591	2,832,700
Total assets	10,721,814	10,213,638	20,935,452	4,250,528
<b>Liabilities</b>				
Accounts payable	121,762	57,658	179,420	3,843
Accrued and other liabilities	439,314	-	439,314	19,877
Compensated absences:				
Due within one year	42,151	-	42,151	-
Due in more than one year	329,557	-	329,557	-
Noncurrent liabilities (Note 6):				
Due within one year	259,210	162,519	421,729	120,000
Due in more than one year	4,204,416	2,344,476	6,548,892	3,025,000
Total liabilities	5,396,410	2,564,653	7,961,063	3,168,720
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	3,007,078	7,309,041	10,316,119	522,431
Restricted:				
Streets and highways	93,672	-	93,672	-
Debt service	34,389	-	34,389	-
Drug forfeiture	5,174	-	5,174	-
Restricted assets	-	60,193	60,193	-
Unrestricted	2,185,091	279,751	2,464,842	559,377
Total net assets	<u>\$ 5,325,404</u>	<u>\$ 7,648,985</u>	<u>\$ 12,974,389</u>	<u>\$ 1,081,808</u>

# City of Gibraltar, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,224,517	\$ 341,903	\$ 24,864	\$ -
Public safety	1,548,355	80,931	46,419	-
Public works	913,300	-	231,623	-
Recreation and culture	92,289	12,924	-	-
Interest on long-term debt	194,383	-	-	-
Total governmental activities	3,972,844	435,758	302,906	-
Business-type activities - Water and sewer	1,293,511	1,107,527	-	6,175
Total primary government	<u>\$ 5,266,355</u>	<u>\$ 1,543,285</u>	<u>\$ 302,906</u>	<u>\$ 6,175</u>
Component units - Downtown Development Authority	<u>\$ 335,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous revenues				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (857,750)	\$ -	\$ (857,750)	\$ -
(1,421,005)	-	(1,421,005)	-
(681,677)	-	(681,677)	-
(79,365)	-	(79,365)	-
(194,383)	-	(194,383)	-
(3,234,180)	-	(3,234,180)	-
-	(179,809)	(179,809)	-
(3,234,180)	(179,809)	(3,413,989)	-
-	-	-	(335,750)
3,848,641	-	3,848,641	587,529
414,953	-	414,953	-
102,239	7,906	110,145	15,893
-	-	-	200,000
4,365,833	7,906	4,373,739	803,422
1,131,653	(171,903)	959,750	467,672
4,193,751	7,820,888	12,014,639	614,136
<b><u>\$ 5,325,404</u></b>	<b><u>\$ 7,648,985</u></b>	<b><u>\$ 12,974,389</u></b>	<b><u>\$ 1,081,808</u></b>

# City of Gibraltar, Michigan

## Governmental Funds Balance Sheet June 30, 2007

	Special Revenue				Total Governmental Funds
	General Fund	Major Streets Fund	Land Revolving Fund	Other Nonmajor Governmental Funds	
<b>Assets</b>					
Cash and investments	\$ 1,918,931	\$ 198,902	\$ 165,329	\$ 402,121	\$ 2,685,283
Property taxes receivable	119,223	-	-	8,545	127,768
Accrued interest	11,525	776	6,388	1,396	20,085
Other receivables	19,923	-	-	7,719	27,642
Due from other governmental units	114,532	29,246	-	10,282	154,060
Due from other funds	50,062	-	98,090	-	148,152
Advance to other fund	-	-	423,568	-	423,568
Prepaid expenditures	55,930	-	-	-	55,930
<b>Total assets</b>	<b>\$ 2,290,126</b>	<b>\$ 228,924</b>	<b>\$ 693,375</b>	<b>\$ 430,063</b>	<b>\$ 3,642,488</b>
<b>Liabilities and Fund Balances (Deficit)</b>					
<b>Liabilities</b>					
Accounts payable	\$ 106,940	\$ 7,295	\$ -	\$ 7,527	\$ 121,762
Accrued and other liabilities	55,376	-	-	-	55,376
Due to other funds	28,724	7,295	-	7,295	43,314
Advance from other funds	-	423,568	-	-	423,568
Deposits	335,957	-	-	-	335,957
<b>Total liabilities</b>	<b>526,997</b>	<b>438,158</b>	<b>-</b>	<b>14,822</b>	<b>979,977</b>
<b>Fund Balances (Deficit)</b>					
Reserved for:					
Prepaid expenditures	55,930	-	-	-	55,930
Advance to other fund	-	-	423,568	-	423,568
Subsequent year's transfers	1,000,000	-	-	-	1,000,000
Unreserved, reported in:					
General Fund	707,199	-	-	-	707,199
Special Revenue Funds	-	(209,234)	269,807	380,852	441,425
Debt Service Funds	-	-	-	34,389	34,389
<b>Total fund balances (deficit)</b>	<b>1,763,129</b>	<b>(209,234)</b>	<b>693,375</b>	<b>415,241</b>	<b>2,662,511</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 2,290,126</b>	<b>\$ 228,924</b>	<b>\$ 693,375</b>	<b>\$ 430,063</b>	<b>\$ 3,642,488</b>
<b>Fund Balance of Governmental Activities</b>					<b>\$ 2,662,511</b>
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					7,470,704
State-shared revenue related to the current period but not received until the following period is not reported in the funds					75,504
Compensated absences are not included as a liability of the funds					(371,708)
Accrued interest on long-term liabilities is not recorded in the funds					(47,981)
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(4,463,626)
<b>Net Assets of Governmental Activities</b>					<b>\$ 5,325,404</b>

# City of Gibraltar, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2007

	Special Revenue				Total Governmental Funds
	General Fund	Major Streets Fund	Land Revolving Fund	Other Nonmajor Governmental Funds	
<b>Revenue</b>					
Property taxes	\$ 3,427,931	\$ -	\$ -	\$ 420,710	\$ 3,848,641
Licenses and permits	143,579	-	-	-	143,579
Federal grants	23,437	-	-	-	23,437
State-shared revenues, grants, and other state aid	471,293	168,703	-	62,920	702,916
Cable fees	-	-	-	5,585	5,585
Other charges for services	77,887	-	-	-	77,887
Fines and forfeitures	15,288	-	-	-	15,288
Interest and rentals	70,093	8,036	3,972	20,138	102,239
Other	187,904	-	2,627	750	191,281
<b>Total revenue</b>	<b>4,417,412</b>	<b>176,739</b>	<b>6,599</b>	<b>510,103</b>	<b>5,110,853</b>
<b>Expenditures</b>					
Current:					
General government	801,985	-	-	-	801,985
Public safety	1,500,823	-	-	-	1,500,823
Public works	659,318	-	-	-	659,318
Community maintenance and development	200,000	38,942	12,225	52,799	303,966
Recreation and culture	67,694	-	-	-	67,694
Public improvement grants	70,885	-	-	-	70,885
Other	-	-	-	900	900
Debt service - Interest	-	-	-	223,153	223,153
Debt service - Principal repayment	-	-	-	215,000	215,000
<b>Total expenditures</b>	<b>3,300,705</b>	<b>38,942</b>	<b>12,225</b>	<b>491,852</b>	<b>3,843,724</b>
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	1,116,707	137,797	(5,626)	18,251	1,267,129
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	-	40,440	40,440
Transfers out	(20,000)	(10,220)	-	(10,220)	(40,440)
<b>Total other financing sources (uses)</b>	<b>(20,000)</b>	<b>(10,220)</b>	<b>-</b>	<b>30,220</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>1,096,707</b>	<b>127,577</b>	<b>(5,626)</b>	<b>48,471</b>	<b>1,267,129</b>
<b>Fund Balances (Deficit) - Beginning of year</b>	<b>666,422</b>	<b>(336,811)</b>	<b>699,001</b>	<b>366,770</b>	<b>1,395,382</b>
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ 1,763,129</b>	<b>\$ (209,234)</b>	<b>\$ 693,375</b>	<b>\$ 415,241</b>	<b>\$ 2,662,511</b>

# City of Gibraltar, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2007**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 1,267,129</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	120,152
Governmental funds depreciation expense on fixed assets are reported as an expense on the statement of activities and are not reported as an expense for fund purposes	(502,376)
State-shared revenue is recorded when earned in the statement of activities versus when available in the governmental funds	(6,356)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	252,594
Accrued interest expense on long-term debt is recorded in the statement of activities	3,981
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(3,471)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 1,131,653</u></b>

# City of Gibraltar, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

	<u>Water and Sewer Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 188,333
Accounts receivable:	
Customers	250,563
Other	<u>3,351</u>
Total current assets	442,247
Noncurrent assets:	
Restricted assets	60,193
Capital assets - Net	<u>9,816,036</u>
Total noncurrent assets	<u>9,876,229</u>
Total assets	10,318,476
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	57,658
Due to other funds	104,838
Current portion of long-term debt	<u>162,519</u>
Total current liabilities	325,015
Noncurrent liabilities - Long-term debt - Net of current portion	<u>2,344,476</u>
Total liabilities	<u>2,669,491</u>
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	7,309,041
Restricted	60,193
Unrestricted	<u>279,751</u>
Total net assets	<u><b>\$ 7,648,985</b></u>

# City of Gibraltar, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Water and Sewer Fund
<b>Operating Revenue</b>	
Sewage disposal	\$ 471,240
Sale of water	423,433
Other charges for services	<u>1,137</u>
Total operating revenue	895,810
<b>Operating Expenses</b>	
Cost of water produced/purchased	275,246
Cost of sewage disposal	310,046
Operation and maintenance	41,759
General and administrative	277,768
Depreciation	<u>331,633</u>
Total operating expenses	<u>1,236,452</u>
<b>Operating Loss</b>	(340,642)
<b>Nonoperating Income (Expense)</b>	
Interest income	7,906
Tap-in fees	6,175
Interest expense	(57,059)
Debt service charges	<u>211,717</u>
Total nonoperating income	<u>168,739</u>
<b>Change in Net Assets</b>	(171,903)
<b>Net Assets - July 1, 2006</b>	<u>7,820,888</u>
<b>Net Assets - June 30, 2007</b>	<u><u>\$ 7,648,985</u></u>

# City of Gibraltar, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Enterprise - Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 835,543
Payments to suppliers and employees	(647,692)
Internal activity - Reimbursements to other funds	(169,057)
Net cash provided by operating activities	18,794
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal payments on long-term debt	(158,652)
Debt service charges	211,717
Interest paid on bonds	(57,059)
Purchase of capital assets	(45,390)
Tap-in fees	6,175
Net cash used in capital and related financing activities	(43,209)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	7,906
<b>Net Decrease in Cash and Cash Equivalents</b>	(16,509)
<b>Cash and Cash Equivalents</b> - Beginning of year	205,894
<b>Cash and Cash Equivalents</b> - End of year	<b>\$ 189,385</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>	
Cash and investments	\$ 188,333
Restricted assets (Note 7)	1,052
Total cash and cash equivalents	<b>\$ 189,385</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (340,642)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	331,633
Changes in assets and liabilities:	
Receivables	(70,462)
Other assets	10,195
Interfund activity	80,943
Accounts payable	7,127
Net cash provided by operating activities	<b>\$ 18,794</b>

# City of Gibraltar, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2007

	Pension Trust Funds	Agency Fund
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Cash and cash equivalents	\$ 495,256	\$ 20,929
Stocks	6,013,008	-
Bonds	2,620,139	-
Receivables - Accrued interest	32,496	-
	<u>                    </u>	<u>                    </u>
Total assets	9,160,899	<u><u>\$ 20,929</u></u>
<b>Liabilities</b>		
Due to other governmental units	-	\$ 20,440
Insurance deposits	-	489
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>                    </u>	<u><u>\$ 20,929</u></u>
<b>Net Assets</b> - Held in trust for employees' retirement systems		
	<u><u>\$ 9,160,899</u></u>	

# City of Gibraltar, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2007

	<u>Pension and Trust Funds</u>
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 554,852
Investment expense	(38,582)
Net increase in fair value of investments	<u>627,467</u>
Net investment income	1,143,737
Contributions:	
Employer	77,884
Employee	<u>61,456</u>
Total contributions	<u>139,340</u>
Total additions	1,283,077
<b>Deductions - Benefit payments</b>	<u>338,189</u>
<b>Net Increase in Net Assets</b>	944,888
<b>Net Assets Held in Trust for Pension Benefits</b>	
Beginning of year	<u>8,216,011</u>
End of year	<u><u>\$ 9,160,899</u></u>

## **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Gibraltar, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

### **Reporting Entity**

The City is governed by an elected six-member council and mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are separate legal entities, in substance, they are part of the City’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The Downtown Development Authority (the “Authority”) is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. The Downtown Development Authority was created to promote economic growth within the downtown district. The Authority’s governing body consists of nine individuals, all of whom are approved by the City Council. In addition, the Authority’s budget is subject to approval by the City Council.

### **Government-wide and Fund Financial Statements**

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

## **Note I - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; in this case, receivables are recorded for these, along with a "deferred revenue" liability. All other revenue items are considered to be available only when cash is received by the City.

## **Note I - Summary of Significant Accounting Policies (Continued)**

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

**Major Streets Fund** - The Major Streets Fund is used to account for the construction and maintenance of the City's major streets. Revenues received under Act 51 for use on major streets are recorded in this fund.

**Land Revolving Fund** - The Land Revolving Fund is used to account for proceeds from City land sales as well as any expenditures made with these funds for community improvements.

The City reports the following major proprietary fund:

**Enterprise Fund** - The Enterprise Fund - Water and Sewer Fund is used to account for the results of operations that provide a service to citizens and are financed primarily by a user charge for the provision of that service.

Additionally, the City reports the following fund types:

**Pension Trust Funds** - The Pension Trust Funds account for the resources set aside by the City to provide retirement benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expense.

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2006 taxable valuation of the City totaled \$163 million (a portion of which is abated and a portion of which is captured by the DDA) on which taxes levied consisted of 15.18 mills for operating purposes, 1.5 mills for solid waste services, and 2.60 mills for debt service. This resulted in \$2.1 million for operating, \$211,000 for solid waste services, and \$420,000 for debt service. The City received an additional \$1.1 million in delinquent tax revenue in conjunction with a settlement agreement for the Detroit Cold Rolling property. These amounts are recognized in the General and Debt Service Funds financial statements as tax revenue.

## **Note I - Summary of Significant Accounting Policies (Continued)**

In the prior year, the City entered into a sharing agreement with the DDA whereby the DDA shared tax increment revenues in the amount of \$200,000 with the General Fund. During the current year, the General Fund repaid the DDA \$200,000. There were no taxes shared by the DDA with the City or other taxing entities during 2007.

### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10 to 25 years
Water and sewer distribution systems	50 to 75 years
Buildings and building improvements	40 years
Vehicles	3 to 10 years
Furniture and equipment	5 to 15 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick and vacation pay is accrued when earned. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported 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 period. Actual results could differ from those estimates.

## **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investments vehicles.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in those investment vehicles listed above under the state statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

### **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. At year end, the City had \$3,251,965 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. At year end, the Downtown Development Authority had \$155,000 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 2 - Deposits 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, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Investment pools (pension)	\$ 314,028	4.79 years
U.S. government or agency (pension)	1,893,854	10.06 years
Corporate bonds (pension)	412,257	5.9 years

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Investment pools (pension)	\$ 1,536,016	Not Rated	
Mutual funds (pension)	5,286,295	Not Rated	
Corporate bonds (pension)	39,523	AAA	S&P
	29,331	AA	S&P
	76,319	AA-	S&P
	73,169	A+	S&P
	123,182	A	S&P
	19,274	A-	S&P
	17,622	BBB+	S&P
	19,338	BBB	S&P
	14,499	BBB -	S&P
U.S. agencies not explicitly guaranteed by the U.S. government (pension)	10,000	AAA	S&P
	539,422	Not Rated	

# City of Gibraltar, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, business type, and component unit, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Streets Fund	Land Revolving Fund	Nonmajor and Other Funds	Total Governmental	Business-type	Component Unit
Receivables:							
Taxes	\$ 119,223	\$ -	\$ -	\$ 8,545	\$ 127,768	\$ -	\$ -
Intergovernmental	190,036	29,246	-	10,282	229,564	-	-
Customers	-	-	-	-	-	249,920	-
Interest and other	31,448	776	6,388	9,115	47,727	3,994	1,102
Less allowance for uncollectibles	-	-	-	-	-	-	-
Net receivables	<u>\$ 340,707</u>	<u>\$ 30,022</u>	<u>\$ 6,388</u>	<u>\$ 27,942</u>	<u>\$ 405,059</u>	<u>\$ 253,914</u>	<u>\$ 1,102</u>

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
<b>Governmental Activities</b>				
Capital assets not being depreciated - Land	\$ 228,142	\$ -	\$ -	\$ 228,142
Capital assets being depreciated:				
Roads and sidewalks	5,110,274	-	-	5,110,274
Buildings and improvements	3,667,832	-	-	3,667,832
Vehicles	1,789,579	80,933	73,000	1,797,512
Furniture and equipment	746,020	39,219	2,100	783,139
Subtotal	11,313,705	120,152	75,100	11,358,757
Accumulated depreciation:				
Roads and sidewalks	1,458,156	250,294	-	1,708,450
Buildings and improvements	434,045	82,526	-	516,571
Vehicles	1,189,371	134,962	73,000	1,251,333
Furniture and equipment	607,347	34,594	2,100	639,841
Subtotal	3,688,919	502,376	75,100	4,116,195
Net capital assets being depreciated	<u>7,624,786</u>	<u>(382,224)</u>	<u>-</u>	<u>7,242,562</u>
Net capital assets	<u>\$ 7,852,928</u>	<u>\$ (382,224)</u>	<u>\$ -</u>	<u>\$ 7,470,704</u>

# City of Gibraltar, Michigan

## Notes to Financial Statements June 30, 2007

### Note 4 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
<b>Business-type Activities</b>				
Capital assets not being depreciated - Land	\$ 26,007	\$ -	\$ -	\$ 26,007
Capital assets being depreciated:				
Water and sewer distribution systems	13,401,423	45,390	-	13,446,813
Equipment	538,528	-	-	538,528
Subtotal	13,939,951	45,390	-	13,985,341
Accumulated depreciation	3,863,679	331,633	-	4,195,312
Net capital assets being depreciated	10,076,272	(286,243)	-	9,790,029
Net capital assets	<u>\$ 10,102,279</u>	<u>\$ (286,243)</u>	<u>\$ -</u>	<u>\$ 9,816,036</u>

Capital asset activity for the City of Gibraltar's component unit for the year was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
<b>Downtown Development Authority</b>				
Capital assets not being depreciated - Land	\$ 834,731	\$ -	\$ -	\$ 834,731
Capital assets being depreciated:				
Buildings and improvements	2,934,405	-	-	2,934,405
Furniture and equipment	209,497	-	-	209,497
Subtotal	3,143,902	-	-	3,143,902
Accumulated depreciation:				
Buildings and improvements	132,050	66,025	-	198,075
Furniture and equipment	75,418	37,709	-	113,127
Subtotal	207,468	103,734	-	311,202
Net capital assets being depreciated	2,936,434	(103,734)	-	2,832,700
Net capital assets	<u>\$ 3,771,165</u>	<u>\$ (103,734)</u>	<u>\$ -</u>	<u>\$ 3,667,431</u>

# City of Gibraltar, Michigan

## Notes to Financial Statements June 30, 2007

### Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government and component unit as follows:

Governmental activities:		
General government		\$ 315,461
Public safety		107,665
Public works		51,838
Recreation and culture		<u>27,412</u>
Total governmental activities		<u>\$ 502,376</u>
Business-type activities - Water and sewer		<u>\$ 331,633</u>
Component unit activities		<u>\$ 103,734</u>

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Other governmental funds	\$ 7,295
General Fund	Major Street Fund	7,295
General Fund	Water and Sewer Fund	35,472
Land Revolving Fund	Water and Sewer Fund	69,366
Land Revolving Fund	General Fund	<u>28,724</u>
Total		<u>\$ 148,152</u>
<b>Advances from/to Other Funds</b>		
Land Fund	Major Street Fund	<u>\$ 423,568</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

# City of Gibraltar, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Public Works Severance Reserve Fund	\$ 10,000
General Fund	Public Safety Severance Reserve Fund	10,000
Major Streets Fund	Road Bonds Fund	10,220
Local Streets Fund	Road Bonds Fund	10,220
Total transfers		<u>\$ 40,440</u>

The transfer from the General Fund to the Public Works Severance Reserve Fund represents the use of unrestricted resources to finance this program. In accordance with budgetary authorizations, the transfers from the Major Streets Fund, and the Local Streets Fund to the Road Bonds Fund, represent the movement of resources to be used to service street-related debt.

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds:						
Road Unlimited Tax Bonds:						
Amount of issue: \$2,500,000	4.00% -	\$170,000 -				
Maturing through 2013	4.25%	\$230,000	\$ 1,565,000	\$ (165,000)	\$ 1,400,000	\$ 170,000
General Obligation Unlimited Tax Bonds:						
Amount of issue: \$3,000,000	2.25% -	\$50,000 -				
Maturing through 2034	4.75%	\$200,000	2,900,000	(50,000)	2,850,000	50,000
Installment purchase agreements:						
Fire Truck Installment Note:						
Amount of issue: \$355,906		\$39,210-				
Maturing through 2012	4.29%	\$46,392	<u>251,220</u>	<u>(37,594)</u>	<u>213,626</u>	<u>39,210</u>
Total governmental activities			<u>\$ 4,716,220</u>	<u>\$ (252,594)</u>	<u>\$ 4,463,626</u>	<u>\$ 259,210</u>

# City of Gibraltar, Michigan

## Notes to Financial Statements June 30, 2007

### Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>						
General obligation bonds:						
South Huron Valley Utility Authority						
Wastewater Bonds:						
Amount of issue: \$461,433		\$47,558 -				
Maturing through 2011	2.00%	\$50,267	\$ 242,305	\$ (46,655)	\$ 195,650	\$ 47,558
South Huron Valley Utility Authority						
Sewer System Plant Expansion Bonds:						
Amount of issue: \$1,137,791		\$52,155 -				
Maturing through 2021	2.00%	\$69,683	899,460	(50,017)	849,443	52,155
South Huron Valley Utility Authority						
Sewer System Plant Expansion Bonds:						
Amount of issue: \$1,523,882		\$62,886 -				
Maturing through 2026	2.125%	\$92,557	<u>1,523,882</u>	<u>(61,980)</u>	<u>1,461,902</u>	<u>62,806</u>
Total business-type activities			<u>\$ 2,665,647</u>	<u>\$ (158,652)</u>	<u>\$ 2,506,995</u>	<u>\$ 162,519</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 259,210	\$ 191,668	\$ 450,878	\$ 162,519	\$ 52,990	\$ 215,509
2009	275,893	181,207	457,100	166,358	49,507	215,865
2010	287,650	170,150	457,800	169,982	45,945	215,927
2011	304,481	158,372	462,853	172,994	42,303	215,297
2012	316,392	145,861	462,253	126,731	39,108	165,839
2013-2017	800,000	576,370	1,376,370	671,943	152,910	824,853
2018-2022	450,000	462,090	912,090	677,168	76,791	753,959
2023-2027	595,000	341,700	936,700	359,300	19,264	378,564
2028-2032	790,000	184,219	974,219	-	-	-
2033-2034	385,000	18,153	403,153	-	-	-
Total	<u>\$ 4,463,626</u>	<u>\$ 2,429,790</u>	<u>\$ 6,893,416</u>	<u>\$ 2,506,995</u>	<u>\$ 478,818</u>	<u>\$ 2,985,813</u>

**Component Units** - Long-term debt of the component units consists of one bond issue in the amount of \$3,500,000 maturing through 2024 and bearing interest at rates ranging from 2.25 percent to 4.35 percent. As of year end, the remaining principal balance was \$3,145,000.

## **Note 7 - Restricted Assets**

Specific assets of the Enterprise Fund have been restricted to pay the various sewer and wastewater bonds. These funds were generated through specific user charges. Net assets have been reserved for net restricted assets. Following is the detail of restricted assets at June 30, 2007:

Cash and cash equivalents	\$	1,052
Accounts receivable		<u>59,141</u>
Total restricted assets	\$	<u><u>60,193</u></u>

## **Note 8 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and participates in the Michigan Municipal Risk Management Authority risk pool for general and property claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's state pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

## **Note 9 - Defined Benefit Pension Plan**

### **Public Safety Officers' Retirement System**

**Plan Description** - The Public Safety Officers' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Gibraltar Public Safety Officers' Retirement System Pension Board; this plan covers all full-time public safety employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 10 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and eight active employees. The plan does not issue a separate financial report.

**Contributions** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note I for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 7 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Annual Pension Cost** - For the year ended June 30, 2007, the City's annual pension cost of \$25,594 was equal to the City's actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2006, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.0 percent investment rate of return, (b) projected salary increases of 5.5 percent to 8.5 percent per year (both (a) and (b) include inflation adjustments of 5 percent annually), and (c) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 14 years.

# City of Gibraltar, Michigan

## Notes to Financial Statements June 30, 2007

### Note 9 - Defined Benefit Pension Plan (Continued)

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension cost (APC)	\$ 25,594	\$ 26,679	\$ -
Percentage of APC contributed	1000%	100%	0%
Net pension obligation	\$ -	\$ -	\$ -

**Reserves** - As of June 30, 2007, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 431,630
Reserve for retired benefit payments	3,634,619

#### General Employees' Retirement System

**Plan Description** - The General Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Gibraltar General Employees' Retirement System Pension Board; this plan covers certain full-time general employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of two retirees currently receiving benefits, and seven current active employees. The plan does not issue a separate financial report.

**Contributions** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Employees are obligated to contribute 5.0 percent of their total compensation.

### Note 9 - Defined Benefit Pension Plan (Continued)

**Annual Pension Cost** - For the year ended June 30, 2007, the City's annual pension cost of \$52,290 was equal to the City's actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2006, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 6.0 investment rate of return (b) projected salary increases of 3.5 percent per year attributable to inflation, and (c) no postretirement benefit increases. The actuarial value of assets was determined using fair market value. The unfunded actuarial liability is being amortized over the average future working lifetime of the plan participants.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension cost (APC)	\$ 52,290	\$ 71,704	\$ 65,418
Percentage of APC contributed	1000%	100%	54%
Net pension obligation	\$ -	\$ -	\$ -

**Reserves** - As of June 30, 2007, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 279,829
Reserve for retired benefit payments	67,045

### Note 10 - Other Postemployment Benefits

The City provides health care benefits to retirees in accordance with labor contracts. Currently, 18 retirees are eligible. The City includes retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. These benefits are paid annually from the General Fund and totaled \$303,894 during the year ended June 30, 2007.

## **Note 10 - Other Postemployment Benefits (Continued)**

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

## **Note 11 - Joint Venture**

**33rd District Court** - The City is a member of the 33rd District Court System (the "District Court"). The City appoints one member to the joint venture's governing board, who then approves the annual budget. The District Court receives its operating revenue principally through contributions from the member communities. During the year ended June 30, 2007, the City received net fines and forfeitures of approximately \$15,290.

Complete financial statements for the District Court can be obtained from the administrative offices at 19000 Van Horn Rd., Woodhaven, MI 48183. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

**South Huron Valley Utility Authority** - The City is a member of the South Huron Valley Utility Authority, which provides sanitary sewage disposal services. Each of the eight member communities appoints one member to the board. The Authority receives its operating revenue through charges to the communities. The City's share of the debt of the joint venture is being financed by the City through debt service charges. During the year ended June 30, 2007, the City paid operating costs of \$310,046. In addition, the City paid \$158,652 in principal payments and \$56,875 in interest expense. The City also paid an additional expense of \$45,390 in the current year related to its proportionate share of the unfunded equalization basin. Complete financial statements for the Authority can be obtained from the administrative offices at 46425 Tyler Road, Belleville, MI 48111.

### Note 12 - Construction Code Fees

The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that these fees are used only for construction code costs, including an allocation of estimated overhead costs. The amount of the cumulative surplus at year end is reserved within the General Fund fund balance. A summary of the activity since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2006		\$ (8,278)
Current year building permit revenue		70,741
Current year related expenditures:		
Direct costs	\$ 25,714	
Estimated indirect costs	<u>40,000</u>	
Total construction code expenditures		<u>65,714</u>
Cumulative shortfall at June 30, 2007		<u>\$ (3,251)</u>

### Note 13 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted for the General Fund and all Special Revenue Funds.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in "revenue" and "expenditure" categories, rather than "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

Any expenditures that exceed the budget must be approved by the City Council through a budget amendment. The City Council approves all budget amendments. All annual appropriations lapse at fiscal year end.

The budget process begins in March, with the finance director's budgeting the personnel and fringe benefits expense for all City employees and providing each department with a budget form to be completed by the department head. When these forms are returned, the finance director then analyzes these amounts and calculates the total budget.

**Note 13 - Stewardship, Compliance, and Accountability (Continued)**

After the final review, the finance director organizes the final proposed budget to deliver to the City Council. The City Charter requires that the City Council adopt a budget by the second meeting in May.

City Council meetings, held in early May, provide all interested citizens an open forum where their concerns can be heard. Upon review, and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

After the budget has been adopted, all budget amendments must be approved by the City Council.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

General Fund	Final Budget	Actual	Variance
Public Works	\$ 904,185	\$ 909,318	\$ (5,133)

Major Streets Fund	Final Budget	Actual	Variance
Accounting service expense	\$ 2,000	\$ 3,445	\$ (1,445)
Maintenance	10,000	18,377	(8,377)

Land Revolving Fund	Final Budget	Actual	Variance
Improvements	\$ 2,000	\$ 12,225	\$ (10,225)

The unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City has an accumulated deficit in the Major Streets Fund. The deficit will be eliminated through receipt of future Act 51 revenues.

## **Required Supplemental Information**

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# City of Gibraltar, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 666,422	\$ 666,422	\$ 666,422	\$ -
<b>Revenues</b>				
Property taxes	2,191,103	3,409,103	3,427,931	18,828
Federal sources	64,300	64,300	23,437	(40,863)
State sources	432,709	472,709	471,293	(1,416)
Fees and permits	101,000	146,000	143,579	(2,421)
Fines and forfeitures	10,000	10,000	15,288	5,288
Charges for services	332,400	335,400	327,887	(7,513)
Interest income	38,902	77,102	70,093	(7,009)
Other	162,500	137,500	187,904	50,404
Total revenues	3,332,914	4,652,114	4,667,412	15,298
<b>Expenditures</b>				
General government:				
General government	286,045	254,245	246,357	7,888
Clerk	79,348	79,348	76,837	2,511
Attorney	100,000	130,000	127,347	2,653
Finance	120,059	120,059	120,025	34
Public library	15,000	15,000	10,572	4,428
Refuse collection	171,600	171,600	169,152	2,448
Parks and recreation	52,600	68,100	57,122	10,978
Engineering/Inspection	58,300	58,300	32,483	25,817
Assessor	27,601	27,601	21,074	6,527
Grants	56,200	89,200	70,885	18,315
Elections	12,500	12,500	8,710	3,790
Public safety:				
Police	1,299,179	1,379,179	1,330,725	48,454
Fire	174,297	188,597	170,098	18,499
Public works	865,185	904,185	909,318	(5,133)
Community maintenance and development	-	1,200,000	200,000	1,000,000
Transfers to other funds	20,000	20,000	20,000	-
Total expenditures	3,337,914	4,717,914	3,570,705	1,147,209
<b>Fund Balance - End of year</b>	<b>\$ 661,422</b>	<b>\$ 600,622</b>	<b>\$ 1,763,129</b>	<b>\$ 1,162,507</b>

# City of Gibraltar, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Deficit - Beginning of year</b>	\$ (336,811)	\$ (336,811)	\$ (336,811)	\$ -
<b>Revenues</b>				
State sources	176,372	176,372	168,703	(7,669)
Interest income	4,000	4,000	8,036	4,036
Total revenues	180,372	180,372	176,739	(3,633)
<b>Expenditures</b>				
Engineering fees	2,000	2,000	1,207	793
Traffic services	3,000	3,000	1,472	1,528
Snow and ice removal	20,000	20,000	14,441	5,559
Accounting service expense	2,000	2,000	3,445	(1,445)
Transfer to other fund	10,220	10,220	10,220	-
Maintenance	10,000	10,000	18,377	(8,377)
Total expenditures	47,220	47,220	49,162	(1,942)
<b>Deficit - End of year</b>	<b>\$ (203,659)</b>	<b>\$ (203,659)</b>	<b>\$ (209,234)</b>	<b>\$ (5,575)</b>

# City of Gibraltar, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Land Revolving Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 699,001	\$ 699,001	\$ 699,001	\$ -
<b>Revenues</b>				
Interest income	2,000	2,000	3,972	1,972
Other	-	-	2,627	2,627
Total revenues	2,000	2,000	6,599	4,599
<b>Expenditures</b> - Improvements	2,000	2,000	12,225	(10,225)
<b>Fund Balance</b> - End of year	<u>\$ 699,001</u>	<u>\$ 699,001</u>	<u>\$ 693,375</u>	<u>\$ (5,626)</u>

# City of Gibraltar, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2007

The schedule of funding progress is as follows (in thousands of dollars):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
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### General Employees' Retirement System

6/30/01	\$ 668	\$ 772	\$ 104	86.5	\$ 301	34.5
6/30/02	566	734	168	77.1	292	57.5
6/30/03	618	844	226	73.2	352	64.2
6/30/04	747	964	217	77.5	363	59.8
6/30/05	827	999	171	82.9	317	53.9
6/30/06	905	1,070	164	84.6	319	51.5

### Public Safety Officers' Retirement System

6/30/01	\$ 7,100	\$ 5,400	\$ (1,700)	131.5	\$ 800	-
6/30/02	7,200	5,900	(1,300)	122.0	900	-
6/30/03	7,300	6,000	(1,300)	121.7	800	-
6/30/04	7,200	6,400	(800)	113.0	700	-
6/30/05	7,200	6,500	(700)	111.0	700	-
6/30/06	7,400	6,500	(900)	110.0	600	-

# City of Gibraltar, Michigan

## Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2007

The schedule of employer contributions is as follows:

### General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/02	6/30/01	\$ 27,034	130
6/30/03	6/30/02	44,470	79
6/30/04	6/30/03	112,129	100
6/30/05	6/30/04	65,418	54
6/30/06	6/30/05	71,704	100
6/30/07	6/30/06	52,290	100

### Public Safety Officers' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/02	6/30/01	\$ -	-
6/30/03	6/30/02	-	-
6/30/04	6/30/03	-	-
6/30/05	6/30/04	-	-
6/30/06	6/30/05	26,679	100
6/30/07	6/30/06	25,594	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation, for the General Employees' and the Public Safety Officers' Retirement Systems, is as follows:

### General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level dollar method
Remaining amortization period (perpetual)	13 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%
Cost of living adjustments	None

### Public Safety Officers' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	14 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.0%
Projected salary increases*	5.5%-8.5%
*Includes inflation at	5.0%

## **Other Supplemental Information**

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# City of Gibraltar, Michigan

	Special Revenue Funds					
	Local Streets	Cable TV	City Project	Public Safety Severance Reserve	Public Works Severance Reserve	Drug Forfeiture
<b>Assets</b>						
Cash and investments	\$ 97,555	\$ 23,028	\$ 159,585	\$ 50,489	\$ 46,517	\$ 5,174
Receivables - Net	-	-	-	-	-	-
Accrued interest and dividends	425	36	421	339	175	-
Due from other governmental units	10,282	-	-	-	-	-
Other receivables	-	1,648	-	-	-	-
Total assets	<b>\$ 108,262</b>	<b>\$ 24,712</b>	<b>\$ 160,006</b>	<b>\$ 50,828</b>	<b>\$ 46,692</b>	<b>\$ 5,174</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 7,295	\$ 232	\$ -	\$ -	\$ -	\$ -
Due to other funds	7,295	-	-	-	-	-
Total liabilities	14,590	232	-	-	-	-
<b>Fund Balances - Unreserved</b>	<b>93,672</b>	<b>24,480</b>	<b>160,006</b>	<b>50,828</b>	<b>46,692</b>	<b>5,174</b>
Total liabilities and fund balances	<b>\$ 108,262</b>	<b>\$ 24,712</b>	<b>\$ 160,006</b>	<b>\$ 50,828</b>	<b>\$ 46,692</b>	<b>\$ 5,174</b>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007**

<u>Debt Service Funds</u>		
<u>Road Bond</u>	<u>City Hall Bonds</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 2,265	\$ 17,508	\$ 402,121
8,545	-	8,545
-	-	1,396
-	-	10,282
-	6,071	7,719
<b><u>\$ 10,810</u></b>	<b><u>\$ 23,579</u></b>	<b><u>\$ 430,063</u></b>
\$ -	\$ -	\$ 7,527
-	-	7,295
-	-	14,822
<u>10,810</u>	<u>23,579</u>	<u>415,241</u>
<b><u>\$ 10,810</u></b>	<b><u>\$ 23,579</u></b>	<b><u>\$ 430,063</u></b>

# City of Gibraltar, Michigan

	Special Revenue Funds					
	Local Streets	Cable TV	City Project	Public Safety Severance Reserve	Public Works Severance Reserve	Drug Forfeiture
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	62,920	-	-	-	-	-
Cable fees	-	5,585	-	-	-	-
Interest income	4,158	967	8,201	2,003	1,829	27
Tipping fees and other	-	-	-	-	-	750
Total revenue	67,078	6,552	8,201	2,003	1,829	777
<b>Expenditures</b>						
Community maintenance and development	37,568	2,631	12,600	-	-	-
Other	-	-	-	750	-	-
Debt service	-	-	-	-	-	-
Total expenditures	37,568	2,631	12,600	750	-	-
<b>Excess of Revenue Over (Under) Expenditures</b>	29,510	3,921	(4,399)	1,253	1,829	777
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	-	-	10,000	10,000	-
Transfers out	(10,220)	-	-	-	-	-
Total other financing sources (uses)	(10,220)	-	-	10,000	10,000	-
<b>Net Change in Fund Balances</b>	19,290	3,921	(4,399)	11,253	11,829	777
<b>Fund Balances - Beginning of year</b>	74,382	20,559	164,405	39,575	34,863	4,397
<b>Fund Balances - End of year</b>	<b>\$ 93,672</b>	<b>\$ 24,480</b>	<b>\$ 160,006</b>	<b>\$ 50,828</b>	<b>\$ 46,692</b>	<b>\$ 5,174</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2007**

Debt Service Funds		
Road Bond	City Hall Bonds	Total Nonmajor Governmental Funds
\$ 245,628	\$ 175,082	\$ 420,710
-	-	62,920
-	-	5,585
1,307	1,646	20,138
-	-	750
<u>246,935</u>	<u>176,728</u>	<u>510,103</u>
-	-	52,799
-	150	900
<u>263,584</u>	<u>174,569</u>	<u>438,153</u>
<u>263,584</u>	<u>174,719</u>	<u>491,852</u>
(16,649)	2,009	18,251
20,440	-	40,440
-	-	(10,220)
<u>20,440</u>	<u>-</u>	<u>30,220</u>
3,791	2,009	48,471
7,019	21,570	366,770
<u>\$ 10,810</u>	<u>\$ 23,579</u>	<u>\$ 415,241</u>

# City of Gibraltar, Michigan

## Other Supplemental Information Combining Statement of Net Assets Pension Trust Funds June 30, 2007

	Pension Trust Funds		
	General Employees' Retirement System	Public Safety Officers' Retirement System	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 30,234	\$ 465,022	\$ 495,256
Bonds	314,028	2,306,111	2,620,139
Stocks	726,713	5,286,295	6,013,008
Receivables - Accrued interest	-	32,496	32,496
	<u>1,070,975</u>	<u>8,089,924</u>	<u>9,160,899</u>
<b>Total assets</b>			
	<u>1,070,975</u>	<u>8,089,924</u>	<u>9,160,899</u>
<b>Net Assets - Held in trust for employees' retirement systems</b>	<u><b>\$ 1,070,975</b></u>	<u><b>\$ 8,089,924</b></u>	<u><b>\$ 9,160,899</b></u>

# City of Gibraltar, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Pension Trust Funds Year Ended June 30, 2007

	General Employees' Retirement System	Public Safety Officers' Retirement System	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ -	\$ 554,852	\$ 554,852
Investment expense	(20,213)	(18,369)	(38,582)
Net increase in fair value of investments	<u>149,500</u>	<u>477,967</u>	<u>627,467</u>
Net investment income	129,287	1,014,450	1,143,737
Contributions:			
Employer	52,290	25,594	77,884
Employee	<u>16,032</u>	<u>45,424</u>	<u>61,456</u>
Total contributions	<u>68,322</u>	<u>71,018</u>	<u>139,340</u>
Total additions	197,609	1,085,468	1,283,077
<b>Deductions - Benefit payments</b>	<u>3,675</u>	<u>334,514</u>	<u>338,189</u>
<b>Net Increase in Net Assets</b>	193,934	750,954	944,888
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	<u>877,041</u>	<u>7,338,970</u>	<u>8,216,011</u>
End of year	<u><b>\$ 1,070,975</b></u>	<u><b>\$ 8,089,924</b></u>	<u><b>\$ 9,160,899</b></u>

# City of Gibraltar, Michigan

## Other Supplemental Information Balance Sheet - Modified Accrual Basis of Accounting Component Unit Year Ended June 30, 2007

	Downtown Development Authority
<b>Assets</b>	
Cash and investments	\$ 581,995
Accrued interest and dividends	<u>1,102</u>
Total assets	<u><u>\$ 583,097</u></u>
<b>Liabilities and Fund Balances</b>	
<b>Liabilities</b> - Accounts payable	\$ 3,843
<b>Fund Balance</b> - Unreserved	<u>579,254</u>
Total liabilities and fund balances	<u><u>\$ 583,097</u></u>
<b>Fund Balance of DDA</b>	\$ 579,254
Capital assets used in the DDA are recorded in the statement of net assets	3,667,431
Accrued interest on long-term liabilities is recorded in the statement of net assets	(19,877)
Long-term liabilities are not due and payable in the current period and are recorded in the statement of net assets	<u>(3,145,000)</u>
<b>Net Assets of DDA</b>	<u><u>\$ 1,081,808</u></u>

# City of Gibraltar, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance Modified Accrual Basis of Accounting Component Unit Year Ended June 30, 2007

	<u>Downtown Development Authority</u>
<b>Revenues</b>	
Property taxes	\$ 587,529
Other	200,000
Interest and rentals	<u>15,893</u>
Total revenues	803,422
<b>Expenditures</b>	
Community maintenance and development	45,679
Capital outlay and other	66,054
Debt service - Interest	120,733
Debt service - Principal payment	<u>120,000</u>
Total expenditures	<u>352,466</u>
<b>Net Change in Fund Balance</b>	450,956
<b>Fund Balance - Beginning of year</b>	<u>128,298</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 579,254</u></u>
<b>Net Change in Fund Balance of DDA</b>	\$ 450,956
Amounts reported for the DDA in the statement of activities are different because:	
Capital outlay expenditures are allocated over their estimated useful lives as depreciation in the statement of activities	(103,734)
Repayment of bond principal is not an expenditure in the statement of activities (where it reduces long-term debt)	120,000
Accrued interest expense on long-term debt is recorded in the statement of activities	<u>450</u>
<b>Change in Net Assets of DDA</b>	<u><u>\$ 467,672</u></u>

September 28, 2007

To the Honorable Mayor and  
Members of the City Council  
City of Gibraltar  
29450 Munro Street  
Gibraltar, MI 48173

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Gibraltar, Michigan (the "City") for the year ended June 30, 2007. In addition to the audit report, we offer the following comments for your consideration:

### **State-shared Revenue**

The future of the State's revenue-sharing program is closely tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January 2007 revenue estimating conference. According to economists, Michigan's budget is \$3 billion short of the revenue needed to cover basic services this year and next (state fiscal years 2006/2007 and 2007/2008). The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.

- **Changing Michigan Business Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. The governor's fiscal year 2007/2008 budget recommends replacing a majority of the repealed single business tax revenue with a new Michigan business tax. The governor's budget also includes several other tax increases and changes. Much debate will occur prior to the enactment of a final tax structure plan.

While the debate has begun, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. The City continues to receive approximately \$105,000 less in total revenue than it did in 2002. Approximately \$127,000 of the remaining amount is statutory revenue sharing that is at risk.

### **Property Assessment Cap**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2007	3.7%
2006	3.3%
2005	2.3%
2004	2.3%
2003	1.5%

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result, despite general operating charter mills of 20, currently the Headlee limited mills are 15.1898 (a reduction of over 24 percent).

## **Property Tax Legislation**

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent, until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the “uncapped” value or the “pop-up” value. As several published studies and reports have demonstrated, the treatment of “uncapped” values or the “pop-up” amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994. The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

## **Retiree Health Care Benefits and GASB No. 45**

As discussed in last year’s letter, the Governmental Accounting Standards Board has released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits. In the current year, the City paid over \$300,000 for these benefits.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets. Since the City has less than 100 participants, this valuation will not need to be performed by an actuary. This statement is effective for the City's fiscal year ending June 30, 2010.

In the current 2008 fiscal year, the City established a new fund under PA ACT 149 of 1999. This act allows for the investment of the designated funds in accordance with the Pension Act. This allows for the potential of a greater return on the related investments. The City Council authorized a transfer of \$500,000 to this fund from the General Fund. The General Fund was able to provide this transfer due to the property tax settlement received during fiscal year 2007. Allocation of these funds is a first step toward funding the related liability. We would encourage the City to take the next step by investigating potential investment options.

### **Water and Sewer Fund**

The City continues to experience greater than 30 percent water loss, as it has since January 2005. Additionally, the Water and Sewer Fund has depleted much of its working capital (current assets less current liabilities are less than customer accounts receivable). As a result, the system does not have existing reserves for significant maintenance or improvements. This is important because the fund has fixed assets with a historical cost of \$13.99 million that has accumulated \$4.20 million of depreciation. We would encourage the City to consider implementing a reserve program when considering the user fees on a go-forward basis that is in conjunction with a capital improvement/replacement/rehabilitation program for the related infrastructure.

### **Reconciling Activities**

During our testing, we again noted instances of a lack of reconciliation between the subsidiary ledger details and the general ledger for the performance bonds. While the discrepancies noted were not material to the City's financial statements, we would suggest that timely, recurring reconciliations be performed related to these items.

### **Fund Deficit**

As of June 30, 2006, the City's Major Streets Fund has an accumulated deficit of \$209,234. The State will require that a deficit elimination plan be filed. We would encourage the City to formulate a long-range financial projection for the Major Streets Fund in an effort to adequately plan for the reduction of this deficit.

In addition, the Major Streets Fund owes the Land Fund \$423,568 related to cash loaned to the Major Streets Fund in 2005 for road construction. We would encourage the City to monitor the Major Streets Fund's cash situation and to repay these loans when funds become available.

### **Contract Authorization**

It was noted during testing that multiple contracts and agreements in excess of \$500 were entered into without council approval. According to the City's administrative purchasing policy, entering into contracts that exceed \$500 require council approval.

### **Wire Transfers**

Wire transfers are regularly performed to transfer funds between City bank accounts for check writing purposes as well as payments on debt and remittances to other taxing authorities. The City's wire transfer policy contains an optional provision for a call-back feature to authorize these transactions; however, it is not being applied. City management intends to formally institute the call-back feature in the upcoming fiscal year to improve internal controls in this area.

### **Significant Deficiencies and Material Weaknesses under Statement on Auditing Standards No. 112**

New auditing rules, effective December 31, 2006, have resulted in some changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency.

We are also required to communicate these matters to more people. In the past, we have sometimes provided comments of this nature as part of a draft meeting with management. Only material internal control issues have been included in our letter. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the supervisor and the board members in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The item detailed above under the heading of Reconciling Activities is considered to be a significant deficiency.

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

Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles. This qualifies as a material weakness in internal controls. A number of these journal entries were related to restricted assets, deferred revenue, taxes receivable, escrow adjustments, and retirement reserves. The entries also include those required for the full-accrual presentation of the government-wide statements. In addition, the item detailed above under the heading of Wire Transfers is considered to be a material weakness.

To the Honorable Mayor and  
Members of the City Council  
City of Gibraltar

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September 28, 2007

We would like to thank the City staff again this year for the cooperation and assistance they provided during the audit. If you have any questions or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Blake Roe". The signature is written in a cursive, flowing style.

Blake M. Roe