

City of Midland, Michigan

Note to Required Supplemental Information Year Ended June 30, 2006

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Funds. All annual appropriations lapse at the end of the fiscal year.

On or before the second Monday in April, the city manager presents the proposed budget to the City Council for review. The City holds public hearings and a final budget must be prepared and adopted no later than the fourth Monday in May. During the current year, the budget was amended in a legally permissible manner.

The City Council approves the annual budget, which is prepared at the functional level.

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders, contracts, and other commitments for the expenditure of monies) outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City did not approve budgets for the General Construction Fund and the Cemetery Fund. Accordingly, no budget comparison schedules are provided for.

The City did not approve budgets for the Major Street Construction Fund and the Local Street Construction Fund. For the government-wide and fund financial statements, these two funds have been combined with the Major Street Fund and Local Street Fund, respectively. For the budgetary comparison schedules, the activity relating to these construction funds is shown in the reconciliation at the bottom of the budgetary comparison schedule for the Major Street Fund and Local Street Fund.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City of Midland incurred expenditures that were in excess of amounts budgeted. These unfavorable variances were caused by unanticipated expenditures that became necessary during the year. The significant budget overruns follow:

- **General Fund** - Sanitation budget overrun of \$110,902 due to severe ice storms in February and March, which caused lengthy power outages and severe damage to trees and structures within the City. The storms caused an increased amount of heavy refuse as well as a prolonged period of time for removal, generating unanticipated labor and equipment costs.
- **Transportation Fund** - Operations budget overrun of \$66,076 due to greater than anticipated vehicle maintenance costs and gas and oil costs.

City of Midland, Michigan

Note to Required Supplemental Information Year Ended June 30, 2006

Note - Stewardship, Compliance, and Accountability (Continued)

- **Community Development Block Grant** - Residential home rehabs overrun of \$61,165, neighborhood improvements overrun of \$50,000, and operating transfers out overrun of \$54,000 are all related to transactions that were approved in the 2004-2005 fiscal year's budget, but were not spent prior to year end so the transaction fell in the 2005-2006 fiscal year.
- **Community Development Block Grant** - Administration budget overrun of \$18,003 due to higher than expected labor costs charged to the program during the year.
- **Special Activities Fund** - Supplies budget overrun of \$10,073 due to higher than anticipated program costs relating to the downtown art fair, fully funded by outside contributions.