

# 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 Trenton, Michigan**

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

# City of Trenton, Michigan

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# City of Trenton, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Trenton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton, Michigan (the "City") 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 Trenton, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton, 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, the budgetary comparison schedule of the General Fund, and the pension system schedule of funding progress and employer contributions identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. 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 Honorable Mayor and  
Members of City Council  
City of Trenton, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Trenton, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and 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*

November 13, 2007

# City of Trenton, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Trenton, Michigan'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:

- The City exceeded overall budgeted revenues by \$168,263. Budgeted revenues included a one-time transfer from the Special Revenue Fund for \$212,000 and an \$18,416 use of fund balance. This transfer was not made, nor was the use of fund balance necessary. If budgeted revenues are adjusted for these values, the City exceeded budgeted revenues by \$398,679.
- Total net assets related to the City's governmental activities increased by approximately \$1,519,000. Total net assets, government and business-type combined, increased by approximately \$1,625,000.
- The City continued its long-term investment to support enhancements of the downtown area.
- Residential building activity has slowed significantly; however, two major employers are expanding their facilities. These are the Chrysler Group, which is adding a new plant at the current engine plant site, and Oakwood Southshore Hospital, which is investing \$30,000,000 in facility upgrades.

### 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 Trenton, 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 June 30, 2007 and 2006 (in thousands of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current assets	\$ 18,150	\$ 17,221	\$ 3,237	\$ 4,065	\$ 21,387	\$ 21,286
Noncurrent assets	<u>17,782</u>	<u>17,180</u>	<u>68,322</u>	<u>71,480</u>	<u>86,104</u>	<u>88,660</u>
Total assets	35,932	34,401	71,559	75,545	107,491	109,946
<b>Liabilities</b>						
Current liabilities	3,350	4,810	1,017	3,771	4,367	8,581
Long-term liabilities	<u>5,334</u>	<u>3,862</u>	<u>46,950</u>	<u>48,288</u>	<u>52,284</u>	<u>52,150</u>
Total liabilities	<u>8,684</u>	<u>8,672</u>	<u>47,967</u>	<u>52,059</u>	<u>56,651</u>	<u>60,731</u>
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	14,861	14,184	21,098	21,002	35,959	35,186
Restricted	1,063	1,051	-	-	1,063	1,051
Unrestricted	<u>11,324</u>	<u>10,494</u>	<u>2,494</u>	<u>2,484</u>	<u>13,818</u>	<u>12,978</u>
Total net assets	<u>\$ 27,248</u>	<u>\$ 25,729</u>	<u>\$ 23,592</u>	<u>\$ 23,486</u>	<u>\$ 50,840</u>	<u>\$ 49,215</u>

The City's combined net assets increased a modest 3.3 percent from a year ago, increasing from \$49,215,000 to \$50,840,000. Governmental activities increased 5.9 percent while business-type activities increased .5 percent (\$1,519,000 increase in governmental activities and \$106,000 increase in business-type activities).

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$830,000 for governmental activities. This represents an increase of 7.9 percent.

# City of Trenton, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2007 and 2006 (in thousands of dollars):

TABLE 2

	Governmental					
	Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 2,990	\$ 2,407	\$ 6,318	\$ 6,834	\$ 9,308	\$ 9,241
Operating grants and contributions	1,035	1,132	-	-	1,035	1,132
Capital grants and contributions	366	76	1,038	932	1,404	1,008
General revenue:						
Property taxes	15,241	15,050	2,665	2,426	17,906	17,476
State-shared revenue	2,623	2,250	-	-	2,623	2,250
Unrestricted investment earnings	1,026	781	131	130	1,157	911
Transfers and other revenue (expense)	(415)	(1,044)	431	1,105	16	61
Total revenue	22,866	20,652	10,583	11,427	33,449	32,079
<b>Program Expenses</b>						
General government	3,654	3,154	-	-	3,654	3,154
Public safety	9,986	9,852	-	-	9,986	9,852
Public works	5,414	6,380	-	-	5,414	6,380
Community and economic development	386	421	-	-	386	421
Recreation and culture	1,341	1,339	-	-	1,341	1,339
Special projects	460	267	-	-	460	267
Interest on long-term debt	106	126	-	-	106	126
Enterprise	-	-	10,477	9,112	10,477	9,112
Total program expenses	21,347	21,539	10,477	9,112	31,824	30,651
<b>Change in Net Assets</b>	<b>\$ 1,519</b>	<b>\$ (887)</b>	<b>\$ 106</b>	<b>\$ 2,315</b>	<b>\$ 1,625</b>	<b>\$ 1,428</b>

### Governmental Activities

The City's governmental revenues recognized a significant increase in building and engineering related service charges and investment earnings by \$180,000 and \$245,000, respectively. Property tax revenue realized a very modest increase of \$191,000 or 1.3 percent.

Cost for City services has been held constant, even experiencing a net decrease of \$192,000. The City was able to decrease expenses despite wage increases for employees in three out of four settled labor contracts and non-union salaried employees. The City continues to closely monitor spending in all other areas, especially health care.

# City of Trenton, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and Kennedy Recreation Center. Water, provided to residential, commercial, and industrial users, is purchased from the Detroit Water System. Sewage treatment is provided through a City-owned and operated sewage treatment plant. The combined water and sewer rate was increased \$.40 or 7 percent from \$5.64 to \$6.04 for fiscal year 2006-2007. Water sales were constant from the previous year; however, the budgeted rate included revenue for significant capital expenditures. The revenues for capital are reported in capital contributions, rather than charges for services. Significant capital expenditures were deferred until fiscal year 2007-2008. Water loss was held below 14 percent, which is considered reasonable in an aging system. The increase in overall costs are due to current year depreciation associated with the \$50,000,000 upgrades to the sewer infrastructure, a new operation and maintenance department mandated by the State to monitor the City's sewer system, and an increase in cost of water purchases.

### The City's Funds

An analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail 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, such as property tax millages. The City's major funds for 2006-2007 include the General Fund, Kennedy Recreation Center Fund, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant expenditures are for public safety, which incurred expenses of approximately \$8,729,000 or 46.0 percent of governmental activities in fiscal year 2006-2007. Public Works would be next at approximately \$3,839,000 or 20 percent of governmental activities. These services are almost solely supported by property taxes.

### General Fund Budgetary Highlights

- Over the course of the year, the City amended the General Fund budget to take into account events during the year. These amendments were between various cost centers and did not affect the total General Fund budget. The City exceeded budgeted revenues, before transfers from other funds and budgeted use of fund balance, by \$398,679. The most significant increase was in investment earnings, which exceeded budgeted revenue by \$278,185.
- In contrast, due to the continuing reduction of the City's workforce through attrition and careful spending, cost containments were realized across the board by most departments. The budgeted expenditures of \$19,574,432 were underspent by \$153,229. One large negative variance was in Public Works of \$267,189, due to a one-time unbudgeted expenditure of \$354,370 for the purchase of residential trash carts. Overall, the net effect of actual to budget was a fiscal increase of fund balance of \$321,492.

# **City of Trenton, Michigan**

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

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

At the end of the 2006-2007 fiscal year, the City had \$87.5 million invested in a broad range of capital assets net of related accumulated depreciation, including buildings, police and fire equipment, water and sewer lines, roads, and Kennedy Recreation Center. Phase II renovation of the downtown streetscape has begun including additional parking and lighting. There were no new financing or debt obligations completed in this fiscal year.

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

The City was able once again to maintain the millage levy at 21 mills for 2007-2008. This was accomplished through departmental restructuring and personnel attrition. As stated in last year's discussion, because of the limits of Proposal A, the City will need to monitor the budget very closely. The State-wide 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 is the total taxable value for the City growing less than inflation, before considering new property additions. With greater than 70 percent of General Fund revenue derived from property taxes, we will continue to monitor this closely.

With the completion of the sewer system rehabilitation, attention will not only need to be focused on the operation and maintenance of the asset but how to fund other non-eligible sewer projects which did not qualify for state revolving funds. The combined water/sewer rate was increased 10.7 percent, from \$6.04 to \$6.69 for 2007-2008. A \$780,000 project at the Wastewater Treatment plant has been awarded and will be funded through the water/sewer rate structure.

Healthcare cost containments have been addressed in labor negotiations, but this only affects costs for active employees. Retiree health care continues to increase, with 60 percent of the City's costs attributable to retirees. The City has contracted with an actuarial firm to evaluate the healthcare obligation of current and future retirees.

The City continues to encourage new development, search for alternative sources of new revenue, as well as cost reductions to balance future budgets. The local healthcare facility is expanding and expected to invest \$30,000,000 encouraging job growth in the City. The Chrysler Engine plant has begun construction of a new plant, for which the City extended almost \$29,000,000 in future tax incentives.

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

This financial report is intended to provide our citizens, taxpayers, and customers 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 welcome you to contact the controller's office.

# City of Trenton, Michigan

## Statement of Net Assets June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 16,178,823	\$ 1,266,004	\$ 17,444,827	\$ 400,103
Receivables:				
Taxes	423,573	251,840	675,413	-
Customers	-	1,402,688	1,402,688	-
Other	446,109	20,794	466,903	-
Due from other governmental units	917,491	66,339	983,830	-
Inventories	184,704	229,468	414,172	-
Long-term advance and other assets	392,186	-	392,186	-
Restricted assets (Note 4)	-	1,059,938	1,059,938	-
Capital assets - Net (Note 5)	<u>17,389,393</u>	<u>67,262,221</u>	<u>84,651,614</u>	<u>2,884,353</u>
Total assets	<u>35,932,279</u>	<u>71,559,292</u>	<u>107,491,571</u>	<u>3,284,456</u>
<b>Liabilities</b>				
Accounts payable	972,744	260,627	1,233,371	14,105
Accrued and other liabilities	1,039,382	732,789	1,772,171	-
Deferred revenue (Note 8)	1,337,847	-	1,337,847	-
Current liabilities payable from restricted assets (Note 4)	-	24,094	24,094	-
Noncurrent liabilities (Note 7):				
Due within one year	1,718,694	2,641,878	4,360,572	105,000
Due in more than one year	<u>3,615,140</u>	<u>44,307,805</u>	<u>47,922,945</u>	<u>2,135,000</u>
Total liabilities	<u>8,683,807</u>	<u>47,967,193</u>	<u>56,651,000</u>	<u>2,254,105</u>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	14,861,069	21,099,970	35,961,039	709,353
Restricted:				
Major and local streets	631,721	-	631,721	-
Community development block grant	36,464	-	36,464	-
Grant	50,955	-	50,955	-
Library	343,921	-	343,921	-
Unrestricted	<u>11,324,342</u>	<u>2,492,129</u>	<u>13,816,471</u>	<u>320,998</u>
Total net assets	<u>\$ 27,248,472</u>	<u>\$ 23,592,099</u>	<u>\$ 50,840,571</u>	<u>\$ 1,030,351</u>

# City of Trenton, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 3,654,012	\$ 774,738	\$ -	\$ 121,813
Public safety	9,986,224	992,970	1,330	205,600
Public works	5,413,493	168,407	1,005,456	-
Community and economic development	386,727	-	28,000	-
Recreation and culture	1,340,784	580,402	-	38,813
Special projects	459,979	473,887	-	-
Interest on long-term debt	106,366	-	-	-
Total governmental activities	21,347,585	2,990,404	1,034,786	366,226
Business-type activities:				
Water and sewer	8,086,070	4,894,716	-	1,038,228
Recreation	2,391,210	1,423,524	-	-
Total business-type activities	10,477,280	6,318,240	-	1,038,228
Total primary government	<u>\$ 31,824,865</u>	<u>\$ 9,308,644</u>	<u>\$ 1,034,786</u>	<u>\$ 1,404,454</u>
Component units:				
Downtown Development Authority	\$ 397,736	\$ -	\$ -	\$ -
Brownfield Redevelopment Authority	31,227	-	31,227	-
Total component units	<u>\$ 428,963</u>	<u>\$ -</u>	<u>\$ 31,227</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Loss on disposal of capital assets				
Miscellaneous income				
Transfers - Net (Note 6)				
Total general revenues and transfers				
<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 Units
Governmental Activities	Business-type Activities	Total	
\$ (2,757,461)	\$ -	\$ (2,757,461)	\$ -
(8,786,324)	-	(8,786,324)	-
(4,239,630)	-	(4,239,630)	-
(358,727)	-	(358,727)	-
(721,569)	-	(721,569)	-
13,908	-	13,908	-
<u>(106,366)</u>	<u>-</u>	<u>(106,366)</u>	<u>-</u>
(16,956,169)	-	(16,956,169)	-
-	(2,153,126)	(2,153,126)	-
<u>-</u>	<u>(967,686)</u>	<u>(967,686)</u>	<u>-</u>
-	(3,120,812)	(3,120,812)	-
(16,956,169)	(3,120,812)	(20,076,981)	-
-	-	-	(397,736)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	(397,736)
15,241,138	2,665,241	17,906,379	844,508
2,622,905	-	2,622,905	-
1,026,143	131,242	1,157,385	15,155
(5,196)	-	(5,196)	-
20,850	-	20,850	17,067
<u>(430,354)</u>	<u>430,354</u>	<u>-</u>	<u>-</u>
<u>18,475,486</u>	<u>3,226,837</u>	<u>21,702,323</u>	<u>876,730</u>
1,519,317	106,025	1,625,342	478,994
<u>25,729,155</u>	<u>23,486,074</u>	<u>49,215,229</u>	<u>551,357</u>
<b><u>\$ 27,248,472</u></b>	<b><u>\$ 23,592,099</u></b>	<b><u>\$ 50,840,571</u></b>	<b><u>\$ 1,030,351</u></b>

# City of Trenton, Michigan

## Governmental Funds Balance Sheet June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 8,886,040	\$ 5,522,521	\$ 14,408,561
Receivables:			
Taxes	419,817	3,756	423,573
Other	193,620	252,489	446,109
Due from other governmental units	264,737	257,021	521,758
Inventories	82,717	-	82,717
Long-term advance	65,000	-	65,000
Total assets	<u>\$ 9,911,931</u>	<u>\$ 6,035,787</u>	<u>\$ 15,947,718</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 704,426	\$ 234,018	\$ 938,444
Accrued and other liabilities	472,543	45,279	517,822
Deferred revenue (Note 8)	-	1,337,847	1,337,847
Total liabilities	1,176,969	1,617,144	2,794,113
<b>Fund Balances</b>			
Reserved for:			
Long-term advance	65,000	-	65,000
Inventories	82,717	-	82,717
Unreserved:			
General Fund (Note 1)	8,587,245	-	8,587,245
Special Revenue Funds	-	2,925,941	2,925,941
Capital Projects Fund	-	1,492,702	1,492,702
Total fund balances	<u>8,734,962</u>	<u>4,418,643</u>	<u>13,153,605</u>
Total liabilities and fund balances	<u>\$ 9,911,931</u>	<u>\$ 6,035,787</u>	<u>\$ 15,947,718</u>
<b>Fund Balance - Total Governmental Funds</b>			<b>\$ 13,153,605</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			15,521,171
State-shared revenue receivables not collected within 60 days are not reported in the funds			395,733
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(2,928,324)
Compensated absences and uninsured claims are included as a liability in governmental activities			(2,352,552)
Internal Service Funds are included as part of governmental activities			3,458,839
<b>Net Assets of Governmental Activities</b>			<b><u>\$ 27,248,472</u></b>

# City of Trenton, Michigan

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 14,476,282	\$ 764,856	\$ 15,241,138
Licenses and permits	425,118	-	425,118
Federal grants	-	405,472	405,472
State sources	2,227,172	1,009,510	3,236,682
Charges for services	904,229	-	904,229
Fines and forfeitures	391,680	-	391,680
Interest income	828,185	207,492	1,035,677
Other	415,029	920,194	1,335,223
	19,667,695	3,307,524	22,975,219
<b>Expenditures</b>			
Current:			
General government	3,287,856	-	3,287,856
Public safety	8,728,616	-	8,728,616
Public works	3,838,997	1,387,707	5,226,704
Recreation and culture	683,158	398,097	1,081,255
Other	2,384,876	1,294,440	3,679,316
Debt service	-	476,336	476,336
	18,923,503	3,556,580	22,480,083
<b>Excess of Revenue Over (Under) Expenditures</b>	744,192	(249,056)	495,136
<b>Other Financing Sources (Uses)</b>			
Transfers in (Note 6)	75,000	685,652	760,652
Transfers out (Note 6)	(497,700)	(693,306)	(1,191,006)
	(422,700)	(7,654)	(430,354)
<b>Net Change in Fund Balances</b>	321,492	(256,710)	64,782
<b>Fund Balances - Beginning of year</b>	8,413,470	4,675,353	13,088,823
<b>Fund Balances - End of year</b>	\$ 8,734,962	\$ 4,418,643	\$ 13,153,605

# City of Trenton, Michigan

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

**Net Change in Fund Balances - Total Governmental Funds** \$ 64,782

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 along with donated capital assets are allocated over their estimated useful lives as depreciation:

Capital outlay	1,278,331
Depreciation	(830,423)

Revenues are not reported in the governmental funds in the current year because they were not available to pay for current year expenditures	395,733
--	---------

Expense reported in statement of activities for loss on disposition of assets are not reported in governmental funds	(5,196)
--	---------

Repayment of bond and other debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	364,162
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Decrease in accumulated severance pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	32,459
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Internal Service Funds are also included as governmental activities	<u>219,469</u>
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**Change in Net Assets of Governmental Activities** **\$ 1,519,317**

# City of Trenton, Michigan

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

	Major Business-type Activities			Governmental
	Enterprise -			Internal
	Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Service Funds
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 1,261,558	\$ 4,446	\$ 1,266,004	\$ 1,770,262
Receivables:				
Taxes	251,840	-	251,840	-
Customers	1,297,140	105,548	1,402,688	-
Due from other governmental units	66,339	-	66,339	-
Prepaid costs and other assets	20,794	-	20,794	327,186
Inventories	226,204	3,264	229,468	101,987
	<u>3,123,875</u>	<u>113,258</u>	<u>3,237,133</u>	<u>2,199,435</u>
Total current assets				
Noncurrent assets:				
Restricted assets (Note 4)	1,059,938	-	1,059,938	-
Capital assets (Note 5)	57,820,531	9,441,690	67,262,221	1,868,222
	<u>58,880,469</u>	<u>9,441,690</u>	<u>68,322,159</u>	<u>1,868,222</u>
Total noncurrent assets				
Total assets	62,004,344	9,554,948	71,559,292	4,067,657
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	219,707	40,920	260,627	34,300
Accrued and other liabilities	61,127	671,662	732,789	521,560
Current liabilities payable from restricted assets (Note 4)	24,094	-	24,094	-
Current portion of long-term debt (Note 7)	2,235,068	406,810	2,641,878	21,519
	<u>2,539,996</u>	<u>1,119,392</u>	<u>3,659,388</u>	<u>577,379</u>
Total current liabilities				
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	161,504	8,025	169,529	31,439
Long-term debt - Net of current portion (Note 7)	35,842,653	8,295,623	44,138,276	-
	<u>36,004,157</u>	<u>8,303,648</u>	<u>44,307,805</u>	<u>31,439</u>
Total noncurrent liabilities				
Total liabilities	38,544,153	9,423,040	47,967,193	608,818
<b>Net Assets</b>				
Investment in capital assets - Net of related debt	20,357,678	742,292	21,099,970	1,868,222
Unrestricted (deficit)	3,102,513	(610,384)	2,492,129	1,590,617
	<u>\$ 23,460,191</u>	<u>\$ 131,908</u>	<u>\$ 23,592,099</u>	<u>\$ 3,458,839</u>
Total net assets				

# City of Trenton, Michigan

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

	Major Business-type Activities			Governmental
	Enterprise -			Internal
	Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Service Funds
<b>Operating Revenue</b>				
Sale of water	\$ 1,832,487	\$ -	\$ 1,832,487	\$ -
Sewage disposal charges	2,903,061	-	2,903,061	-
Charges for services	-	1,423,524	1,423,524	5,732,549
Other charges	159,168	-	159,168	112,978
Total operating revenue	4,894,716	1,423,524	6,318,240	5,845,527
<b>Operating Expenses</b>				
Cost of water	1,137,288	-	1,137,288	-
Cost of sewage disposal	1,269,578	-	1,269,578	-
Transmission and distribution	746,684	-	746,684	-
Cost of recreation activity	-	1,312,386	1,312,386	-
Depreciation	1,743,337	620,185	2,363,522	355,707
General and administrative	2,202,709	-	2,202,709	963,692
Insurance, claims, and other	-	-	-	4,486,562
Total operating expenses	7,099,596	1,932,571	9,032,167	5,805,961
<b>Operating Income (Loss)</b>	(2,204,880)	(509,047)	(2,713,927)	39,566
<b>Nonoperating Revenue (Expenses)</b>				
Property taxes	2,665,241	-	2,665,241	-
Interest income (expense) - Net	(855,232)	(458,639)	(1,313,871)	89,254
Customer capital charges	788,228	-	788,228	-
Contribution from Downtown Development Authority (DDA)	250,000	-	250,000	-
Gain on disposal of capital assets	-	-	-	9,186
<b>Income (Loss) - Before capital contributions and transfers</b>	643,357	(967,686)	(324,329)	138,006
<b>Capital Contributions</b>	-	-	-	81,463
<b>Operating Transfers In (Note 6)</b>	-	505,354	505,354	-
<b>Operating Transfers Out (Note 6)</b>	(75,000)	-	(75,000)	-
<b>Change in Net Assets</b>	568,357	(462,332)	106,025	219,469
<b>Net Assets - Beginning of year</b>	22,891,834	594,240	23,486,074	3,239,370
<b>Net Assets - End of year</b>	<u>\$ 23,460,191</u>	<u>\$ 131,908</u>	<u>\$ 23,592,099</u>	<u>\$ 3,458,839</u>

# City of Trenton, Michigan

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

	Major Business-type Activities			Governmental
	Enterprise -			Internal
	Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Service Funds
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 5,093,184	\$ 1,410,266	\$ 6,503,450	\$ -
Charges for services	-	-	-	5,443,720
Payments to suppliers	(4,470,957)	(547,731)	(5,018,688)	(595,074)
Claims paid	-	-	-	(4,511,243)
Payments to employees	(1,350,928)	(556,477)	(1,907,405)	(383,746)
Other receipts	-	-	-	112,978
Net cash provided by (used in) operating activities	(728,701)	306,058	(422,643)	66,635
<b>Cash Flows from Investing Activities</b> - Interest received on investments and other assets	131,242	-	131,242	89,254
<b>Cash Flows from Noncapital Financing Activities</b> - Operating transfers in (out)	(75,000)	505,354	430,354	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Interest paid on long-term debt	(986,474)	(435,826)	(1,422,300)	-
Principal payments on long-term debt	(2,060,737)	(350,000)	(2,410,737)	-
Proceeds from sale of fixed assets	-	-	-	15,625
Purchases of capital assets	(195,796)	(25,586)	(221,382)	(150,814)
Collection of capital charges and DDA contribution	1,038,228	-	1,038,228	-
Property taxes	2,665,241	-	2,665,241	-
Net cash provided by (used in) capital and related financing activities	460,462	(811,412)	(350,950)	(135,189)
<b>Net Change in Cash and Cash Equivalents</b>	(211,997)	-	(211,997)	20,700
<b>Cash and Cash Equivalents</b> - Beginning of year	2,533,493	4,446	2,537,939	1,749,562
<b>Cash and Cash Equivalents</b> - End of year	<u>2,321,496</u>	<u>\$ 4,446</u>	<u>\$ 2,325,942</u>	<u>\$ 1,770,262</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and cash equivalents	\$ 1,261,558	\$ 4,446	\$ 1,266,004	\$ 1,770,262
Restricted cash	1,059,938	-	1,059,938	-
Total	<u>\$ 2,321,496</u>	<u>\$ 4,446</u>	<u>\$ 2,325,942</u>	<u>\$ 1,770,262</u>
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>				
Operating (loss) income	\$ (2,204,880)	\$ (509,047)	\$ (2,713,927)	\$ 39,566
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation	1,743,337	620,185	2,363,522	355,707
Loss on disposal of fixed assets	7,461	-	7,461	-
Changes in assets and liabilities:				
Receivables	187,480	(13,260)	174,220	-
Prepaid costs and other assets	3,527	-	3,527	(306,352)
Inventories	(984)	3,651	2,667	-
Accounts payable	(177,110)	(23,642)	(200,752)	(13,616)
Accrued and other liabilities	(287,532)	228,171	(59,361)	(8,670)
Net cash provided by (used in) operating activities	<u>\$ (728,701)</u>	<u>\$ 306,058</u>	<u>\$ (422,643)</u>	<u>\$ 66,635</u>

**Noncash Investing, Capital, and Financing Activities** - The Water and Sewer Fund reduced restricted assets and long-term debt by \$1,443,947 for un-drawn SRF bonds that will not be drawn down. In the Internal Service Funds, other funds of the City purchased vehicles and equipment totaling \$81,463 and donated them to the Motor Vehicle Pool Fund.

# City of Trenton, Michigan

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

	Pension and Other Employee Benefit Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 551,016	\$ 131,046
Investments (Note 3):		
U.S. government and agency securities	4,373,780	-
Corporate stocks	27,417,216	-
Corporate bonds and asset-backed securities	3,657,151	-
Investment pools	25,768,865	-
Real estate (REIT) fund interest	2,148,925	-
Accrued interest	101,814	-
Total assets	64,018,767	\$ 131,046
<b>Liabilities</b>		
Accrued and other liabilities	-	\$ -
Cash bonds and deposits	-	131,046
Total liabilities	-	\$ 131,046
<b>Net Assets</b> - Held in trust for pension and retiree health care	<b>\$ 64,018,767</b>	

# City of Trenton, Michigan

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

### Additions

Investment income:

Interest and dividends	\$ 1,623,136
Net increase in fair value of investments	8,622,939
Less investment expenses	<u>(242,837)</u>

Net investment income 10,003,238

Contributions:

Employer	1,100,318
Employee	<u>205,678</u>

Total contributions 1,305,996

Total additions 11,309,234

### Deductions

Benefit payments	3,488,117
Administrative expenses	<u>21,374</u>

Total deductions 3,509,491

**Net Increase** 7,799,743

### Net Assets Held in Trust for Pension and Retiree Health Care

Beginning of year 56,219,024

End of year **\$ 64,018,767**

# City of Trenton, Michigan

## Component Units Statement of Net Assets (Deficit) June 30, 2007

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 368,140	\$ 31,963	\$ 400,103
Capital assets - Net (Note 5)	2,884,353	-	2,884,353
Total assets	3,252,493	31,963	3,284,456
<b>Liabilities</b>			
Accounts payable	13,105	1,000	14,105
Noncurrent liabilities (Note 7):			
Due within one year	75,000	30,000	105,000
Due in more than one year	2,100,000	35,000	2,135,000
Total liabilities	2,188,105	66,000	2,254,105
<b>Net Assets (Deficit)</b>			
Investment in capital assets - Net of related debt	709,353	-	709,353
Unrestricted	355,035	(34,037)	320,998
Total net assets (deficit)	<b>\$ 1,064,388</b>	<b>\$ (34,037)</b>	<b>\$ 1,030,351</b>

# City of Trenton, Michigan

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	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority:				
Special projects	\$ 298,786	\$ -	\$ -	\$ -
Interest expense	98,950	-	-	-
Brownfield Redevelopment Authority -				
Special projects	<u>31,227</u>	<u>-</u>	<u>31,227</u>	<u>-</u>
 Total governmental activities	 <u>\$ 428,963</u>	 <u>\$ -</u>	 <u>\$ 31,227</u>	 <u>\$ -</u>

General revenues:

Property taxes

Interest

Miscellaneous revenue

Total general revenues

**Change in Net Assets**

**Net Assets (Deficit) - Beginning of year**

**Net Assets (Deficit) - End of year**

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

Net (Expense) Revenue and Changes in Net Assets (Deficit)		
Downtown Development Authority	Brownfield Redevelopment Authority	Total
\$ (298,786)	\$ -	\$ (298,786)
(98,950)	-	(98,950)
-	-	-
(397,736)	-	(397,736)
844,508	-	844,508
13,455	1,700	15,155
17,067	-	17,067
875,030	1,700	876,730
477,294	1,700	478,994
587,094	(35,737)	551,357
<b>\$ 1,064,388</b>	<b>\$ (34,037)</b>	<b>\$ 1,030,351</b>

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

The accounting policies of the City of Trenton, 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 mayor and six-member council. 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 legal separate 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 City of Trenton Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government by blending it with the activities of the Recreation Fund because its primary purpose is to finance and construct the City's public buildings, including the Kennedy Recreation Center.

**Discretely Presented Component Units** - The following component units are reported within the component unit column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The Downtown Development Authority's governing body consists of the mayor and 11 individuals appointed by the mayor, subject to approval by the City Council.

The Brownfield Redevelopment Authority was created to facilitate the long-term redevelopment and remediation of environmentally contaminated sites within the City. The Brownfield Redevelopment Authority's governing body consists of the mayor and six individuals appointed by the mayor, subject to approval by the City Council.

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

### **Major Taxpayers**

Approximately 29 percent of property tax revenue is from two companies with properties in the City of Trenton, and approximately 30 percent of the total water, sewer, and industrial charge revenue is from three businesses located in the City.

### **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 units. For the most part, the effect of interfund activity has been removed from these financial 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.

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.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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. 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.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the General Fund as a major governmental 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.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection system.
- The Recreation Fund accounts for activities of the recreation center.

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

Additionally, the City reports the following fund types:

- The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. Included in this category are the Motor Vehicle Pool Fund and the Self-insurance Fund.
- The Pension Retirement Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified police and fire employees.
- The Other Employee Benefit Trust Fund accounts for activities and accumulates resources associated with providing postemployment benefits to retirees.
- The Agency Funds account 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.

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.

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of 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.

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

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Cash held in trust by the General Cash Fund for other funds is reported in the financial statements as being held by the individual funds.

**Investments** - Investments are stated at fair value, based on quoted market prices. Investments that do not have an established market are reported at estimated fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is 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. Property taxes are levied on each July 1 and December 1 on the taxable valuation of property as of the preceding December 31. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. 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.

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

**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.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Roads and sidewalks	20 to 30 years
Water and sewer distribution systems	50 to 66 years
Water and sewer treatment facilities	50 years
Buildings and building improvements	15 to 50 years
Machinery, equipment, and furniture	7 to 20 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. All vacation, sick, and personal pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**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.

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

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

The following is a summary of the unreserved fund balance of the General Fund with management's designations:

Designated:	
Equipment	\$ 1,000,000
Uninsured risks	200,000
Capital projects	1,100,000
Postretirement benefits	2,000,000
Defined benefit pension	625,000
Severance pay	1,317,913
Deficit elimination of Kennedy Recreation Fund	500,000
Retiree health care	1,000,000
Receivables	<u>613,436</u>
Total designated	8,356,349
Undesignated	<u>230,896</u>
Total unreserved	<u>\$ 8,587,245</u>

**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 - Stewardship, Compliance, and Accountability

**Budgetary Information** - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budgetary comparison schedule (non-GAAP budgetary basis) for the General Fund is included in the required supplemental information and is presented in greater detail than the accounting used in preparing the adopted budget. The budgets have been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The adopted budget for the nonmajor Special Revenue Funds can be obtained from City Hall.

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the City has adopted this accounting treatment. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Excess costs - Beginning of year	\$ (897,412)
Building permit revenue	425,118
Direct costs	<u>(425,571)</u>
Excess costs - End of year	<u>\$ (897,865)</u>

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

<u>Genral Fund</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Total public works	\$ 3,571,808	\$ 3,838,997	\$ (267,189)

Public works expenses exceeded budget primarily due to the purchase of trash cans during the year that were not budgeted. The trash cans were not budgeted because they were intended to be purchased under an installment purchase agreement.

**Fund Deficit** - The Brownfield Redevelopment Authority component unit had a deficit at June 30, 2007 totaling approximately (\$34,000). The deficit will be funded primarily by property tax collections or a transfer from another fund at the City.

## **Note 3 - 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 Police and Fire Retirement System and the Retiree Health Care Trust Fund 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, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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 deposit policy for custodial credit risk. At year end, the City had approximately \$15,500,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized (approximately \$451,000 of the uninsured amount is held in the Firemen and Policemen Retirement System Fund). 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 3 - 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 restricts bond maturities to not exceed 30 years. At year end, the average maturities of investments are as follows:

Investment Type *	Fair Value	Investment Maturities		
		Less than 5 Years	5 to 15 Years	Over 15 Years
U.S Treasury notes*	\$ 1,545,217	\$ 555,713	\$ 834,631	\$ 154,873
U.S. federal agencies*	2,828,563	1,299,598	-	1,528,965
U.S. federal agencies**	2,963,955	2,963,955	-	-
Corporate bonds and asset-backed securities*	3,657,151	77,557	1,210,936	2,368,658
Total	<u>\$ 10,994,886</u>	<u>\$ 4,896,823</u>	<u>\$ 2,045,567</u>	<u>\$ 4,052,496</u>

\* Police and Fire Retirement System Trust Fund assets

\*\* City government-wide assets

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits investments in fixed income securities to bond ratings not less than Baa by Moody's and/or Bbb by Standard & Poor's. Short-term fixed income securities must have a minimum rating of A-1, P-1, or F-1 as defined by Moody's, Standard & Poor's, or Fitch's Rating Services, respectively. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

### Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
Real estate investments *	\$ 2,148,925	Not Rated	
U.S. federal agencies *	17,818	AAA	Moody's
U.S. federal agencies *	2,810,745	Not Rated	
U.S. federal agencies ***	1,233,957	Not Rated	
U.S. federal agencies ***	1,729,998	AAA	Moody's
Corporate bonds and asset-backed securities *	39,679	A1	Moody's
Corporate bonds and asset-backed securities *	172,196	A2	Moody's
Corporate bonds and asset-backed securities *	263,206	A3	Moody's
Corporate bonds and asset-backed securities *	125,983	AA2	Moody's
Corporate bonds and asset-backed securities *	93,551	AA3	Moody's
Corporate bonds and asset-backed securities *	1,638,393	AAA	Moody's
Corporate bonds and asset-backed securities *	198,841	BAA1	Moody's
Corporate bonds and asset-backed securities *	357,591	BAA2	Moody's
Corporate bonds and asset-backed securities *	69,244	BAA3	Moody's
Corporate bonds and asset-backed securities *	698,468	Not Rated	
Pooled investments *	23,403,264	Not Rated	
Pooled investments **	2,365,601	Not Rated	

\* Police and Fire Retirement System Trust Fund assets

\*\* Retiree Health Care Trust Fund assets

\*\*\* City government-wide assets

### Note 4 - Restricted Assets

Through the fiscal year ended June 30, 2007, the City has obtained approximately \$46,080,000 of General Obligation State Revolving Fund Limited Tax Bond financing for improvements to the City's sewer system pursuant to an administrative consent order by the State of Michigan. The proceeds of these bonds are drawn down by the City as the funds are needed. The City believes the project discussed above is complete and that it will not draw down the remaining available funds. The undrawn funds, which totaled \$1,443,947, have reduced the related recorded outstanding debt (see Note 7) and the related accounts receivable balance that was included in restricted assets in prior years. The only item left as a restricted asset is a retainage payable.

The Grosse Ile/Trenton Utility Bond restricted assets represent unspent bond proceeds that have been restricted for construction, water and sewer line replacement, and capital asset acquisitions, including unspent proceeds earning interest, from the obligation to the Grosse Ile/Trenton Utilities Authority.

A portion of the water and sewer user fee (capital charges) has been restricted by the City to be used solely for the purpose of making capital improvements in the water and sewer system.

### Note 4 - Restricted Assets (Continued)

A summary of primary government and component unit restricted assets and current liabilities payable from restricted assets at June 30, 2007 follows:

	Primary Government - Water and Sewer Fund			Total Primary Government
	Administrative Consent Order Construction	Grosse Ile/ Trenton Utility Bonds	Capital Charges	
Restricted assets:				
Cash	\$ -	\$ 483,951	\$ 575,987	\$ 1,059,938
Accounts receivable	-	-	-	-
Total restricted assets	<u>\$ -</u>	<u>\$ 483,951</u>	<u>\$ 575,987</u>	<u>\$ 1,059,938</u>
Current liabilities payable from restricted assets:				
Retainage payable	\$ 24,094	\$ -	\$ -	\$ 24,094
Current portion of long-term debt	-	-	-	-
Total current liabilities payable from restricted assets	<u>\$ 24,094</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,094</u>

### Note 5 - Capital Assets

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

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,083,387	\$ -	\$ -	\$ 1,083,387
Construction in progress	-	49,000	-	49,000
Subtotal	1,083,387	49,000	-	1,132,387
Capital assets being depreciated:				
Land improvements	3,932,701	76,419	-	4,009,120
Roads and sidewalks	18,460,953	585,625	(115,827)	18,930,751
Buildings and improvements	8,396,141	50,406	-	8,446,547
Vehicles	4,605,093	232,277	(134,602)	4,702,768
Furniture and equipment	4,864,840	516,881	(20,733)	5,360,988
Subtotal	40,259,728	1,461,608	(271,162)	41,450,174
Less accumulated depreciation	24,266,565	1,186,130	(259,527)	25,193,168
Net capital assets being depreciated	15,993,163	275,478	(11,635)	16,257,006
Net capital assets	<u>\$ 17,076,550</u>	<u>\$ 324,478</u>	<u>\$ (11,635)</u>	<u>\$ 17,389,393</u>

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Reclassifications and Transfers	Additions	Disposals	Balance June 30, 2007
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 13,500	\$ -	\$ -	\$ -	\$ 13,500
Construction in progress	-	-	29,165	-	29,165
Subtotal	13,500	-	29,165	-	42,665
Capital assets being depreciated:					
Land improvements	1,795,277	-	14,604	-	1,809,881
Water and sewer distribution systems	61,045,552	-	44,157	(7,460)	61,082,249
Treatment facilities	12,070,976	231,984	12,250	-	12,315,210
Buildings and building improvements	11,607,002	-	-	-	11,607,002
Machinery and equipment	2,916,313	(231,984)	121,206	(31,338)	2,774,197
Subtotal	89,435,120	-	192,217	(38,798)	89,588,539
Less accumulated depreciation	20,036,798	-	2,363,522	(31,337)	22,368,983
Net capital assets being depreciated	69,398,322	-	(2,171,305)	(7,461)	67,219,556
Net capital assets	\$ 69,411,822	\$ -	\$ (2,142,140)	\$ (7,461)	\$ 67,262,221
Components units:					
Capital assets not being depreciated - Construction in progress					
	\$ 593,397	\$ (593,397)	\$ -	\$ -	\$ -
Capital assets being depreciated - Land improvements					
	2,146,076	593,397	260,376	-	2,999,849
Less accumulated depreciation	51,530	-	63,966	-	115,496
Net capital assets being depreciated	2,094,546	593,397	196,410	-	2,884,353
Net capital assets	\$ 2,687,943	\$ -	\$ 196,410	\$ -	\$ 2,884,353

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 442,469
Public safety	106,717
Public works	10,430
Recreation and culture	270,807
Internal Service Fund depreciation is charged to various functions based on their usage of the asset	<u>355,707</u>
Total governmental activities	<u><u>\$ 1,186,130</u></u>
Business-type activities:	
Water and sewer	\$ 1,743,337
Recreation	<u>620,185</u>
Total business-type activities	<u><u>\$ 2,363,522</u></u>

### Note 6 - Interfund Transfers

The composition of interfund transfers at the fund level is as follows:

	Transfers Out			Total
	General Fund	Other Governmental Funds	Business-type Activities	
Transfers in:				
General Fund	\$ -	\$ -	\$ 75,000	\$ 75,000
Other governmental funds	-	685,652	-	685,652
Business-type activities	<u>497,700</u>	<u>7,654</u>	<u>-</u>	<u>505,354</u>
Total	<u><u>\$ 497,700</u></u>	<u><u>\$ 693,306</u></u>	<u><u>\$ 75,000</u></u>	<u><u>\$ 1,266,006</u></u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations and projects accounted for in the respective funds.

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - 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.

Long-term obligation activity can be summarized as follows:

	Maturing Through	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental activities:</b>							
General obligation unlimited tax bonds - Library Bonds - Amount of issue - \$4,000,000	2013	3.900% - 5.875%	\$350,000 - \$500,000	\$ 2,700,000	\$ (300,000)	\$ 2,400,000	\$ 350,000
Installment purchase agreements: Computer equipment and software - Amount of issue - \$320,810	2010	3.49%	\$64,162	192,486	(64,162)	128,324	64,162
Other long-term obligations: Compensated absences				2,430,633	(25,123)	2,405,510	1,104,532
Uninsured claims				400,000	-	400,000	200,000
Total other long-term obligations				2,830,633	(25,123)	2,805,510	1,304,532
Total governmental activities				5,723,119	(389,285)	5,333,834	1,718,694
<b>Business-type activities:</b>							
<b>General obligation bonds:</b>							
Water and Sewer Fund Contractual Obligation - Related to Grosse Ile/Trenton Utilities Authority Bonds, Series B - Amount of issue - \$1,999,850	2018	4.20% - 6.25%	\$95,738 - \$148,925	1,553,075	(95,738)	1,457,337	95,738
State Revolving Fund Limited Tax Bonds - Program 5127-01 - Amount of issue - \$12,095,000	2021	2.5%	\$550,000 - \$760,000	9,615,000	(558,834)	9,056,166	550,000
State Revolving Fund Limited Tax Bonds - Program 5127-02 - Amount of issue - \$16,535,000	2022	2.5%	\$730,000 - \$1,035,000	13,855,000	(1,319,397)	12,535,603	730,000
State Revolving Fund Limited Tax Bonds - Program 5127-03 - Amount of issue - \$1,005,000	2024	2.5%	\$45,000 - \$65,000	885,000	(94,352)	790,648	45,000
State Revolving Fund Limited Tax Bonds - Program 5127-04 - Amount of issue - \$10,325,000	2024	2.5%	\$435,000 - \$650,000	9,505,000	(1,032,482)	8,472,518	435,000
State Revolving Fund Limited Tax Bonds - Program 5127-05 - Amount of issue - \$1,990,000	2025	2.5%	\$80,000 - \$125,000	1,910,000	(233,882)	1,676,118	80,000
State Revolving Fund Limited Tax Bonds - Program 5127-06 - Amount of issue - \$4,130,000	2026	2.5%	\$170,000 - \$250,000	4,130,000	(170,000)	3,960,000	170,000
Building Authority Bonds - Amount of issue - \$1,800,000	2022	3.00% - 4.60%	\$100,000 - \$140,000	1,725,000	(75,000)	1,650,000	100,000
Building Authority Bonds - Amount of issue - \$8,000,000	2011	5.125% - 5.625%	\$300,000 - \$400,000	1,550,000	(250,000)	1,300,000	300,000
Building Authority Refunding Bonds - Amount of issue - \$6,115,000	2021	3.25% - 5.00%	\$25,000 - \$635,000	6,115,000	(25,000)	6,090,000	25,000
Building Authority Refunding Bonds - Deferred charges				(365,000)	22,812	(342,188)	(22,812)
Total general obligation bond				50,478,075	(3,831,873)	46,646,202	2,507,926
Compensated absences				341,859	(38,378)	303,481	133,952
Total business-type activities				50,819,934	(3,870,251)	46,949,683	2,641,878
Total governmental activities and business-type activities				\$ 56,543,053	\$ (4,259,536)	\$ 52,283,517	\$ 4,360,572

### Note 7 - Long-term Debt (Continued)

	Maturing Through	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Component units:							
General obligation limited tax bonds - Downtown							
Development Authority Bonds -							
Amount of issue - \$1,400,000							
	2023	3.8% - 5.5%	\$50,000 - \$100,000	\$ 1,325,000	\$ (25,000)	\$ 1,300,000	\$ 50,000
General obligation limited tax bonds - Downtown							
Development Authority Bonds -							
Amount of issue - \$920,000							
	2024	3.8% - 5.5%	\$25,000 - \$90,000	900,000	(25,000)	875,000	25,000
Other long-term obligations - Brownfield Authority							
Advance from General Fund -							
Amount of issue - \$135,000							
	2008	1.45%	\$20,000 - \$25,000	65,000	-	65,000	30,000
Total component units				\$ 2,290,000	\$ (50,000)	\$ 2,240,000	\$ 105,000

Approximately 24.5 percent of the installment purchase agreement for computer equipment and software relates to the acquisition of computer equipment and software on behalf of the Shared Information Network Consortium (S.I.N.C.), a Special Revenue Fund. The City expects that this percentage of the debt service will be provided by S.I.N.C. The consortium, which is essentially a cost-sharing arrangement between six communities including the City, will provide computer services to its member communities' law enforcement agencies. The consortium expects to obtain its required operating revenue from funds obtained from the District Court's technology fund. Any costs not covered by the technology fund will be funded by the participating communities.

The compensated absences liability represents the estimated liability to be paid to employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the City.

The Water and Sewer Contractual Obligation represents the City's obligation to service a portion of a \$4,700,000 bond issued by the Grosse Ile - Trenton Utilities Authority representing the percentage of the total bond proceeds that was disbursed to the City for system construction projects. The City's transactions with the Authority are limited to the issuance and repayment of this obligation (see Note 14).

The Downtown Development Authority Bonds represent monies to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The City has pledged its full faith and credit in support of these obligations.

### Note 7 - Long-term Debt (Continued)

The long-term advance from the General Fund to the Brownfield Redevelopment Authority represents monies advanced to cover a portion of the costs associated with long-term redevelopment and remediation of environmentally contaminated sites within the Brownfield District. The advance is to be repaid, with interest, from property taxes captured by the Brownfield Redevelopment Authority.

Annual debt service requirements, exclusive of compensated absences and uninsured claims, to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 414,162	\$ 95,614	\$ 509,776	\$ 2,530,738	\$ 1,334,368	\$ 3,865,106	\$ 105,000	\$ 95,813	\$ 200,813
2009	414,162	77,887	492,049	2,612,013	1,259,971	3,871,984	110,000	91,988	201,988
2010	400,000	59,700	459,700	2,657,013	1,183,685	3,840,698	75,000	88,588	163,588
2011	400,000	42,900	442,900	2,817,013	1,106,086	3,923,099	75,000	85,575	160,575
2012	400,000	27,300	427,300	2,888,288	1,011,634	3,899,922	100,000	82,013	182,013
2013-2017	500,000	9,750	509,750	15,763,350	3,685,555	19,448,905	650,000	336,068	986,068
2018-2022	-	-	-	15,855,690	1,292,470	17,148,160	845,000	164,748	1,009,748
2023-2027	-	-	-	1,864,285	55,554	1,919,839	280,000	10,240	290,240
Total	\$ 2,528,324	\$ 313,151	\$ 2,841,475	\$ 46,988,390	\$ 10,929,323	\$ 57,917,713	\$ 2,240,000	\$ 955,033	\$ 3,195,033

Total interest expense incurred by the City for the year approximated \$1,551,000.

### Note 8 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2007, the City had deferred revenue related to grant monies received prior to meeting all eligibility requirements of \$1,337,847.

### Note 9 - Property Taxes

Property taxes for the City based on a taxable value of approximately \$848,000,000 are comprised of the following components:

	General Fund			Other Tax Collection and Trailer Park Fees	Special Revenue Fund	Enterprise Fund	
	Firemen and Policemen Retirement System	Solid Waste	Operating		Library Operating and Library Debt	Total Governmental Activities	Sewer Debt
Millage rate	1.2697	1.4567	14.3387	-	0.8922	17.9573	3.0426
Total	\$ 1,071,223	\$ 1,228,991	\$ 12,097,297	\$ 78,771	\$ 764,856	\$ 15,241,138	\$ 2,665,241

The Firemen and Policemen retirement system, solid waste, library operating and debt service, and sewer debt mills were approved specifically for the use in funding a pension plan, providing particular services by the City, and funding certain debt service requirements. To the extent that property taxes levied exceed actual costs, fund balance/net assets will be reserved. There were no reserves necessary at June 30, 2007.

### Note 10 - Postemployment Benefits

The City provides life insurance and healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 200 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare and life insurance benefits include insurance premiums that become due during the current year and discretionary contributions made to the Retiree Health Care Trust Fund. Total expense for insurance premiums was approximately \$2,287,000 for the year ended June 30, 2007.

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

### Upcoming Reporting Change

The Governmental Accounting Standards Board has recently 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 (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, 2009.

## **Note 11 - 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 participates in the Michigan Municipal League (risk pool) for claims relating to property loss, general liability, and workers’ compensation. The City has also assumed a significant amount of financial responsibility for its actual incurred medical claims cost, subject to certain insured aggregate limitations of \$75,000 per specific claim and approximately \$2,500,000 in the aggregate.

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.

### Note 11 - Risk Management (Continued)

The City estimates the liability for medical and other claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are generally recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability are as follows:

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 925,201	\$ 868,894
Estimated claims incurred, including charges in estimates and related administrative costs	4,206,848	3,964,582
Claim and related administrative payments	<u>(4,222,786)</u>	<u>(3,908,275)</u>
Estimated liability - End of year	<u>\$ 909,263</u>	<u>\$ 925,201</u>

A total of \$400,000 of the total estimated liability, related to a personal property tax dispute, has been recorded in long-term debt (see Note 7). The remaining liability represents the accrual for claims incurred but not reported and is recorded in accrued and other liabilities of the Self-insurance Internal Service Fund.

### Note 12 - Pension Plans

#### Descriptions of Defined Benefit Plans

**Municipal Employees' Retirement System of Michigan** - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City hired before January 1, 1996, other than firemen and policemen. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

## **Note 12 - Pension Plans (Continued)**

**Firemen and Policemen Retirement System** - The City contributes to the Firemen and Policemen Retirement System, which is the administrator of a single-employer public benefit pension plan that currently covers substantially all full-time fire and police employees hired before January 1, 1996. 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 96 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 56 current active employees. The plan does not issue a separate financial report.

### **Defined Benefit Contributions and Funding Status**

**Municipal Employees' Retirement System of Michigan - Funding Policy** - 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 approximately 3 percent to 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Firemen and Policemen Retirement System - 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.

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 5 percent. Administrative costs of the plan are financed through investment earnings.

### Note 12 - Pension Plans (Continued)

#### Defined Benefit Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost of \$603,845 for the MERS plan, exclusive of \$128,513 of employee contributions, was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, (c) additional projected salary increases of 0 percent to 8.40 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases of 2.5 percent annually, limited cumulative to increases in the Consumer Price Index. Both (a) and (b) include an inflation component of 4.5 percent.

The actuarial value of assets was determined on the basis of a valuation method that uses techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll determined using the individual attained age actuarial funding method over an open amortization period of 30 years.

For the year ended June 30, 2007, the City's annual Firemen and Policemen Retirement System pension cost for the plan and its actual contribution, exclusive of \$205,678 of employee contributions, were equal to the City's \$1,100,318 required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005, using the aggregate actuarial cost method. Significant actuarial assumptions used include (a) an 8.2 percent investment rate of return for 2006, graded to 7.0 percent in 2015 and thereafter, (b) projected salary increases of 3.5 percent per year, (c) additional projected salary increases of 0.2 percent to 8.0 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases of 10 percent after five years, 10 percent after 10 years, and 5 percent after 15 years. Both (a) and (b) include an inflation component of 3.50 percent. 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 seven years at June 30, 2007.

### Note 12 - Pension Plans (Continued)

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

Reserve for employees' contributions	\$ 2,838,822
Reserve for retired benefit payments	31,411,790

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2005	2006	2007
Municipal Employees' Retirement System of Michigan:			
Annual pension costs (APC)	\$ 544,173	\$ 517,429	\$ 603,845
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 29,028,412	\$ 29,398,634	\$ 30,012,752
Actuarial accrued liability (AAL)	\$ 37,865,871	\$ 39,805,214	\$ 40,591,815
Unfunded AAL (UAAL)	\$ 8,837,459	\$ 10,406,580	\$ 10,579,063
Funded ratio	77%	74%	74%
Covered payroll	\$ 3,235,182	\$ 2,834,457	\$ 2,638,363
UAAL as a percentage of covered payroll	273%	367%	401%
Firemen and Policemen Retirement System:			
Annual pension costs (APC)	\$ 1,154,506	\$ 1,225,411	\$ 1,100,318
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

### Defined Contribution Pension Plans

Full-time employees hired after January 1, 1996 (except the AFSCME Local 292, for which the effective date was July 1, 1996) do not become members of either of the two defined benefit pension plans discussed above. Rather, they participate in one of the City's two defined contribution plans: the General Employees' Money Purchase Plan ("General Employees Plan") or the City of Trenton Fire Fighters and Police Officers Money Purchase Plan ("Fire Fighters and Police Officers Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

As established by various employee competitive bargaining units, the City contributes 6 percent and 12 percent of employees' gross earnings for the General Employees Plan and Fire Fighters and Police Officers Plan, respectively, and the employees contribute 6 percent of earnings for both plans. The City's contributions for each employee plus interest allocated to the employee's account are fully vested after five years of service.

### Note 12 - Pension Plans (Continued)

In accordance with these requirements, the City contributed \$125,990 and \$102,719 during the current year and the employees contributed \$125,990 and \$51,340 during the current year for the General Employees Plan and Fire Fighters and Police Officers Plan, respectively. The plans' assets, which aggregated \$1,938,378 at June 30, 2007, are held by an independent third-party administrator.

### Note 13 - Pension and Other Employee Benefit Trust Fund

The following are condensed financial statements for the Pension and Other Employee Benefit Trust Fund which include the Firemen and Policemen Retirement System and the Retiree Health Care Trust Funds:

	Firemen and Policemen Retirement System Trust Fund	Retiree Health Care Trust Fund	Total
Statement of net assets:			
Cash and investments	\$ 61,551,352	\$ 2,365,601	\$ 63,916,953
Receivables	101,814	-	101,814
Total net assets	<u>\$ 61,653,166</u>	<u>\$ 2,365,601</u>	<u>\$ 64,018,767</u>
Statement of changes in net assets:			
Investment income	\$ 9,660,115	\$ 343,123	\$ 10,003,238
Contributions	1,305,996	-	1,305,996
Benefit payments	(3,488,117)	-	(3,488,117)
Administrative expenses	(21,374)	-	(21,374)
Change in net assets	<u>\$ 7,456,620</u>	<u>\$ 343,123</u>	<u>\$ 7,799,743</u>

### Note 14 - Joint Ventures

#### 33<sup>rd</sup> District Court System

The City is a member of the 33<sup>rd</sup> District Court System (the "District Court"), which provides judicial services to the City and various other surrounding communities. The City appoints one member to the joint venture's governing board, which then approves the annual budget.

During the current year, the District Court paid approximately \$4,000 to the City, representing the City's share of the District Court's net activity. Complete financial statements are available at the City offices. The District Court receives its operating revenue principally through contributions from member communities, fines, and forfeitures.

## **Note 14 - Joint Ventures (Continued)**

### **Grosse Ile-Trenton Utilities Authority**

The City is also a member of the Grosse Ile-Trenton Utilities Authority (the "Authority") joint venture. The Authority's governing body is composed of two appointees, one from each member of the joint venture. The Authority was established in order to provide an efficient means of acquiring and constructing water supply and sewage disposal systems and to extend use privileges to each other's residents where deemed appropriate by the communities.

## **Required Supplemental Information**

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# City of Trenton, 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>	\$ 8,413,470	\$ 8,413,470	\$ 8,413,470	\$ -
<b>Resources (Inflows)</b>				
Property taxes	14,361,027	14,361,027	14,476,282	115,255
Licenses and permits	384,775	384,775	425,118	40,343
State sources	2,261,464	2,261,464	2,227,172	(34,292)
Charges for services	784,550	784,550	904,229	119,679
Fines and forfeitures	392,500	392,500	391,680	(820)
Interest income	550,000	550,000	828,185	278,185
Other	628,116	628,116	415,029	(213,087)
Transfer from other funds	212,000	212,000	75,000	(137,000)
Total resources (inflows)	19,574,432	19,574,432	19,742,695	168,263
<b>Charges to Appropriations (Outflows)</b>				
General government:				
Mayor and Council	108,906	108,906	84,520	24,386
District Court	390,000	390,000	386,605	3,395
City administrator	363,755	363,755	365,998	(2,243)
City clerk - Elections	45,057	45,057	23,793	21,264
City assessor	183,297	183,297	173,543	9,754
City attorney	221,000	221,000	208,238	12,762
City clerk - General	215,483	215,483	222,581	(7,098)
City controller	280,014	280,014	281,895	(1,881)
Tax Review Board	2,000	2,000	1,650	350
City treasurer	187,824	187,824	186,002	1,822
Municipal buildings/facilities	1,164,208	1,164,208	1,090,974	73,234
Planning Commission	15,000	15,000	16,294	(1,294)
Zoning Board of Appeals	1,530	1,530	2,130	(600)
Building Board of Appeals	390	390	45	345
Central office	237,126	237,126	243,588	(6,462)
Total general government	3,415,590	3,415,590	3,287,856	127,734
Public safety:				
Police department	4,644,913	4,644,913	4,579,942	64,971
Traffic Safety Commission	1,150	1,150	1,335	(185)
Fire department	3,563,811	3,563,811	3,538,506	25,305
Emergency	55,831	55,831	47,347	8,484
Corrections department/jail	47,200	47,200	32,345	14,855
Building inspection	446,340	446,340	425,571	20,769
Civil defense	31,536	31,536	33,393	(1,857)
Crossing guards	77,782	77,782	70,177	7,605
Total public safety	8,868,563	8,868,563	8,728,616	139,947

Note - The above General Fund charges to appropriations (outflows) - Budget and actual is for additional information only, and represents greater detail than the adopted budget, except for department totals.

# City of Trenton, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Charges to Appropriations (Outflows) (Continued)</b>				
Public works:				
Department of Public Works	\$ 1,102,976	\$ 1,169,976	\$ 1,153,121	\$ 16,855
City engineer	508,297	508,297	490,042	18,255
Street lighting	615,000	615,000	611,030	3,970
Sanitation	1,262,352	1,195,352	1,513,268	(317,916)
Protection to animals	83,183	83,183	71,536	11,647
Total public works	3,571,808	3,571,808	3,838,997	(267,189)
Health and welfare - Environmental Control				
Commission	500	500	-	500
Culture and recreation:				
Parks department	644,823	644,823	616,922	27,901
Cultural Center	53,880	53,880	43,069	10,811
Historical Commission	7,875	7,875	6,554	1,321
Library Commission	400	400	720	(320)
Cultural Commission	4,580	4,580	-	4,580
Recreation Commission	1,350	1,350	630	720
Civic Commission	12,510	12,510	12,374	136
Youth Commission	1,000	1,000	1,271	(271)
Beautification Commission	3,650	3,650	1,618	2,032
Total culture and recreation	730,068	730,068	683,158	46,910
Other	2,490,203	2,490,203	2,384,876	105,327
Transfers to other funds	497,700	497,700	497,700	-
Total charges to appropriations (outflows)	19,574,432	19,574,432	19,421,203	153,229
<b>Fund Balance - End of year</b>	<b><u>\$ 8,413,470</u></b>	<b><u>\$ 8,413,470</u></b>	<b><u>\$ 8,734,962</u></b>	<b><u>\$ 321,492</u></b>

Note - The above General Fund charges to appropriations (outflows) - Budget and actual is for additional information only, and represents greater detail than the adopted budget, except for department totals.

# City of Trenton, Michigan

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio Percent (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<b><u>Firemen and Policemen Retirement System</u></b>						
6/30/01	\$ 46,679,422	\$ 46,679,422	-	100	\$ 4,606,237	-
6/30/02	46,492,395	46,492,395	-	100	4,521,806	-
6/30/03	45,598,928	45,598,928	-	100	4,364,481	-
6/30/04	45,716,012	45,716,012	-	100	4,132,159	-
6/30/05	49,342,884	49,342,884	-	100	4,023,462	-
6/30/06	52,250,005	52,250,005	-	100	4,066,424	-

\* Required by Governmental Accounting Standards Board Statement No. 25

# City of Trenton, Michigan

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

### Firemen and Policemen Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
06/30/02	06/30/00	\$ 741,372	100
06/30/03	06/30/01	695,508	100
06/30/04	06/30/02	883,109	100
06/30/05	06/30/03	1,154,506	100
06/30/06	06/30/04	1,225,411	100
06/30/07	06/30/05	1,100,318	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 date for the Firemen and Policemen Retirement System, is as follows:

### Firemen and Policemen Retirement System

Actuarial cost method	Aggregate actuarial cost method
Amortization method	Level over future working lifetime
Remaining amortization period	7 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.25% for 2006, graded to 7% in 2015 and thereafter
Projected salary increases*	3.7% - 8.0%
*Includes inflation at	3.5%
Postretirement benefit increases	10% after 5 years, 10% after 10 years, and 5% after 15 years

## **Other Supplemental Information**

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# City of Trenton, Michigan

	Special Revenue					
	Major Roads	Local Roads	Community Development Block Grant	Severance Pay	Special Projects	Grant
<b>Assets</b>						
Cash and investments	\$ 234,181	\$ 222,399	\$ 78,659	\$ 1,089,633	\$ 749,821	\$ 1,206,075
Receivables	-	75	32,102	-	8,052	2,131
Due from other governmental units	115,338	104,759	-	-	-	20,771
Total assets	<b>\$ 349,519</b>	<b>\$ 327,233</b>	<b>\$ 110,761</b>	<b>\$ 1,089,633</b>	<b>\$ 757,873</b>	<b>\$ 1,228,977</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 10,055	\$ 26,457	\$ 5,099	\$ -	\$ 147,781	\$ 4,396
Accrued and other liabilities	4,168	4,351	-	33,539	-	2,182
Deferred revenue	-	-	69,198	-	-	1,171,444
Total liabilities	14,223	30,808	74,297	33,539	147,781	1,178,022
<b>Fund Balances - Unreserved and undesignated</b>	<b>335,296</b>	<b>296,425</b>	<b>36,464</b>	<b>1,056,094</b>	<b>610,092</b>	<b>50,955</b>
Total liabilities and fund balances	<b>\$ 349,519</b>	<b>\$ 327,233</b>	<b>\$ 110,761</b>	<b>\$ 1,089,633</b>	<b>\$ 757,873</b>	<b>\$ 1,228,977</b>

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

Funds			
Library	S.I.N.C.	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 292,321	\$ 151,161	\$ 1,498,271	\$ 5,522,521
60,849	153,036	-	256,245
16,153	-	-	257,021
<b><u>\$ 369,323</u></b>	<b><u>\$ 304,197</u></b>	<b><u>\$ 1,498,271</u></b>	<b><u>\$ 6,035,787</u></b>
\$ 24,363	\$ 10,298	\$ 5,569	\$ 234,018
1,039	-	-	45,279
-	97,205	-	1,337,847
25,402	107,503	5,569	1,617,144
343,921	196,694	1,492,702	4,418,643
<b><u>\$ 369,323</u></b>	<b><u>\$ 304,197</u></b>	<b><u>\$ 1,498,271</u></b>	<b><u>\$ 6,035,787</u></b>

# City of Trenton, Michigan

	Special Revenue					
	Major Roads	Local Roads	Community Development Block Grant	Severance Pay	Special Projects	Grant
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	28,000	-	-	377,472
State sources	702,423	303,033	-	-	-	4,054
Interest income	21,912	-	-	61,062	-	-
Other	46,168	51,116	-	-	445,931	-
<b>Total revenue</b>	<b>770,503</b>	<b>354,149</b>	<b>28,000</b>	<b>61,062</b>	<b>445,931</b>	<b>381,526</b>
<b>Expenditures</b>						
Current:						
Public works department	630,444	757,263	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Special projects	-	-	56,169	-	389,060	465,452
Other	-	-	-	165,007	-	-
Debt service	-	-	-	-	-	-
<b>Total expenditures</b>	<b>630,444</b>	<b>757,263</b>	<b>56,169</b>	<b>165,007</b>	<b>389,060</b>	<b>465,452</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>140,059</b>	<b>(403,114)</b>	<b>(28,169)</b>	<b>(103,945)</b>	<b>56,871</b>	<b>(83,926)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	653,277	-	-	-	-
Transfers out	(347,473)	-	-	-	(32,375)	-
<b>Total other financing sources (uses)</b>	<b>(347,473)</b>	<b>653,277</b>	<b>-</b>	<b>-</b>	<b>(32,375)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(207,414)</b>	<b>250,163</b>	<b>(28,169)</b>	<b>(103,945)</b>	<b>24,496</b>	<b>(83,926)</b>
<b>Fund Balances - Beginning of year</b>	<b>542,710</b>	<b>46,262</b>	<b>64,633</b>	<b>1,160,039</b>	<b>585,596</b>	<b>134,881</b>
<b>Fund Balances - End of year</b>	<b>\$ 335,296</b>	<b>\$ 296,425</b>	<b>\$ 36,464</b>	<b>\$ 1,056,094</b>	<b>\$ 610,092</b>	<b>\$ 50,955</b>

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

Funds			
Library	S.I.N.C.	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 764,856	\$ -	\$ -	\$ 764,856
-	-	-	405,472
-	-	-	1,009,510
28,755	5,808	89,955	207,492
<u>67,539</u>	<u>286,005</u>	<u>23,435</u>	<u>920,194</u>
861,150	291,813	113,390	3,307,524
-	-	-	1,387,707
398,097	-	-	398,097
-	139,901	78,851	1,129,433
-	-	-	165,007
<u>406,200</u>	<u>70,136</u>	<u>-</u>	<u>476,336</u>
<u>804,297</u>	<u>210,037</u>	<u>78,851</u>	<u>3,556,580</u>
56,853	81,776	34,539	(249,056)
25,000	-	7,375	685,652
<u>-</u>	<u>-</u>	<u>(313,458)</u>	<u>(693,306)</u>
<u>25,000</u>	<u>-</u>	<u>(306,083)</u>	<u>(7,654)</u>
81,853	81,776	(271,544)	(256,710)
<u>262,068</u>	<u>114,918</u>	<u>1,764,246</u>	<u>4,675,353</u>
<b><u>\$ 343,921</u></b>	<b><u>\$ 196,694</u></b>	<b><u>\$ 1,492,702</u></b>	<b><u>\$ 4,418,643</u></b>

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2007

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 524,814	\$ 1,245,448	\$ 1,770,262
Prepaid costs and other assets	2,231	324,955	327,186
Inventories	101,987	-	101,987
Total current assets	629,032	1,570,403	2,199,435
Noncurrent assets - Capital assets	1,868,222	-	1,868,222
Total assets	2,497,254	1,570,403	4,067,657
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	34,300	-	34,300
Accrued liabilities	12,297	509,263	521,560
Current portion of compensated absences	21,519	-	21,519
Total current liabilities	68,116	509,263	577,379
Noncurrent liabilities - Provision for compensated absences	31,439	-	31,439
Total liabilities	99,555	509,263	608,818
<b>Net Assets</b>			
Invested in capital assets	1,868,222	-	1,868,222
Unrestricted	529,477	1,061,140	1,590,617
Total net assets	<b>\$ 2,397,699</b>	<b>\$ 1,061,140</b>	<b>\$ 3,458,839</b>

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2007

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
<b>Operating Revenue</b>			
Charges for services	\$ 978,417	\$ 4,754,132	\$ 5,732,549
Other	<u>892</u>	<u>112,086</u>	<u>112,978</u>
Total operating revenue	979,309	4,866,218	5,845,527
<b>Operating Expenses</b>			
Insurance, claims, and other	-	4,486,562	4,486,562
General and administrative expenses	963,692	-	963,692
Depreciation	<u>355,707</u>	<u>-</u>	<u>355,707</u>
Total operating expenses	<u>1,319,399</u>	<u>4,486,562</u>	<u>5,805,961</u>
<b>Operating Income (Loss)</b>	(340,090)	379,656	39,566
<b>Nonoperating Income</b>			
Interest income	28,816	60,438	89,254
Gain on disposal of capital assets	<u>9,186</u>	<u>-</u>	<u>9,186</u>
Total nonoperating income	<u>38,002</u>	<u>60,438</u>	<u>98,440</u>
<b>Income (Loss) - Before capital contributions</b>	(302,088)	440,094	138,006
<b>Capital Contributions</b>	<u>81,463</u>	<u>-</u>	<u>81,463</u>
<b>Net Income (Loss)</b>	(220,625)	440,094	219,469
<b>Net Assets - Beginning of year</b>	<u>2,618,324</u>	<u>621,046</u>	<u>3,239,370</u>
<b>Net Assets - End of year</b>	<u><u>\$ 2,397,699</u></u>	<u><u>\$ 1,061,140</u></u>	<u><u>\$ 3,458,839</u></u>

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2007

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
<b>Cash Flows from Operating Activities</b>			
Charges for services	\$ 976,248	\$ 4,467,472	\$ 5,443,720
Payments to suppliers	(595,074)	-	(595,074)
Claims paid	-	(4,511,243)	(4,511,243)
Payments to employees	(383,746)	-	(383,746)
Other receipts	892	112,086	112,978
Net cash provided by (used in) operating activities	(1,680)	68,315	66,635
<b>Cash Flows from Investing Activities</b> - Interest received on investments and other assets			
	28,816	60,438	89,254
<b>Cash Flows from Capital and Related Financing Activities</b>			
Proceeds from sale of assets	15,625	-	15,625
Purchase of capital assets	(150,814)	-	(150,814)
Net cash used in capital and related financing activities	(135,189)	-	(135,189)
<b>Net Change in Cash and Cash Equivalents</b>	(108,053)	128,753	20,700
<b>Cash and Cash Equivalents</b> - Beginning of year	632,867	1,116,695	1,749,562
<b>Cash and Cash Equivalents</b> - End of year	<b>\$ 524,814</b>	<b>\$ 1,245,448</b>	<b>\$ 1,770,262</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
Operating income (loss)	\$ (340,090)	\$ 379,656	\$ 39,566
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	355,707	-	355,707
Changes in assets and liabilities:			
Prepaid costs and other assets	(19,692)	(286,660)	(306,352)
Accounts payable	(6,747)	(6,869)	(13,616)
Accrued and other liabilities	9,142	(17,812)	(8,670)
Net cash provided by (used in) operating activities	<b>\$ (1,680)</b>	<b>\$ 68,315</b>	<b>\$ 66,635</b>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2007, other funds of the City purchased vehicles and equipment totaling \$81,463 and donated them to the Motor Vehicle Pool Fund.

# City of Trenton, Michigan

	Trust Funds		
	Firemen and Policemen Retirement System	Retiree Health Care	Total Trust Funds
<b>Assets</b>			
Cash and investments	\$ 61,551,352	\$ 2,365,601	\$ 63,916,953
Receivables	101,814	-	101,814
Due from other funds	-	-	-
Total assets	<u>\$ 61,653,166</u>	<u>\$ 2,365,601</u>	<u>\$ 64,018,767</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accrued and other liabilities	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Due to component units	-	-	-
Cash bonds and deposits	-	-	-
Total liabilities	-	-	-
<b>Fund Balances</b> - Held in trust for pension and other employee benefits	<u>61,653,166</u>	<u>2,365,601</u>	<u>64,018,767</u>
Total liabilities and fund balances	<u>\$ 61,653,166</u>	<u>\$ 2,365,601</u>	<u>\$ 64,018,767</u>

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

Agency Funds

General Cash Fund	Escrow Fund	Wayne County and School Tax Fund	Subtotal	Eliminations	Total Agency Funds
\$ 18,449,646	\$ 131,046	\$ -	\$ 18,580,692	\$ (18,449,646)	\$ 131,046
	-	-	-		-
<u>2,141,174</u>	<u>-</u>	<u>-</u>	<u>2,141,174</u>	<u>(2,141,174)</u>	<u>-</u>
<b><u>\$ 20,590,820</u></b>	<b><u>\$ 131,046</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 20,721,866</u></b>	<b><u>\$ (20,590,820)</u></b>	<b><u>\$ 131,046</u></b>
\$ 51,934	\$ -	\$ -	\$ 51,934	\$ (51,934)	\$ -
20,138,783	-	-	20,138,783	(20,138,783)	-
400,103	-	-	400,103	(400,103)	-
<u>-</u>	<u>131,046</u>	<u>-</u>	<u>131,046</u>	<u>-</u>	<u>131,046</u>
20,590,820	131,046	-	20,721,866	(20,590,820)	131,046
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>\$ 20,590,820</u></b>	<b><u>\$ 131,046</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 20,721,866</u></b>	<b><u>\$ (20,590,820)</u></b>	<b><u>\$ 131,046</u></b>

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds June 30, 2007

	Firemen and Policemen Retirement System Trust Fund	Retiree Health Care Trust Fund	<u>Total</u>
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 1,623,136	\$ -	\$ 1,623,136
Net increase in fair value of investments	8,279,816	343,123	8,622,939
Less investment expenses	<u>(242,837)</u>	<u>-</u>	<u>(242,837)</u>
Net investment income	9,660,115	343,123	10,003,238
Contributions:			
Employer	1,100,318	-	1,100,318
Employee	<u>205,678</u>	<u>-</u>	<u>205,678</u>
Total contributions	<u>1,305,996</u>	<u>-</u>	<u>1,305,996</u>
Total additions	10,966,111	343,123	11,309,234
<b>Deductions</b>			
Benefit payments	3,488,117	-	3,488,117
Administrative expenses	<u>21,374</u>	<u>-</u>	<u>21,374</u>
Total deductions	<u>3,509,491</u>	<u>-</u>	<u>3,509,491</u>
<b>Net Increase</b>	7,456,620	343,123	7,799,743
<b>Net Assets Held in Trust for Pension and Retiree Health Care</b>			
Beginning of year	<u>54,196,546</u>	<u>2,022,478</u>	<u>56,219,024</u>
End of year	<u><b>\$ 61,653,166</b></u>	<u><b>\$ 2,365,601</b></u>	<u><b>\$ 64,018,767</b></u>



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November 13, 2007

To the Honorable Mayor and Members  
of the City Council  
City of Trenton  
2800 Third Street  
Trenton, MI 48183

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Trenton for the year ended June 30, 2007. In addition to the audit report, we offer the following comments for your consideration.

### **New Auditing Standards**

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 a deficiency in internal control that we consider to be a significant deficiency.

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.

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. We believe that the following deficiency constitutes a material weakness:

- Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles. It should be noted that a number of these journal entries were related to transactions that were unusual or infrequent in nature.

In addition to the above, we have identified additional matters that we would like to communicate as a result of our audit. These matters are not considered to be significant deficiencies or material weaknesses.

### **Fund Deficits**

At June 30, 2007, the City had a fund deficit in the Brownfield Redevelopment Authority of \$34,037.

In addition, the City also had a fund deficit in unrestricted net assets in the Recreation Fund of \$610,384 at June 30, 2007.

## Healthcare Funding

As you may already know, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local governmental units in recognizing the cost of retiree healthcare and other non-pension postemployment benefits. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of an employee, rather than at the time the healthcare premiums are paid.

The pronouncement is effective for the year ending June 30, 2009. These new standards allow the City to fund the actuarial accrued liability for benefits provided and earned to date over a period of up to 30 years. This new pronouncement could have a significant effect on the City if it intends to actuarially fund this obligation. It is our understanding that the City is in the process of having a valuation done for this liability. The City will need to disclose the results of the actuarial valuation in the June 30, 2008 financial statements.

Finally, we offer the following comments and recommendations relating to legislative matters for your consideration:

## State-shared Revenue

State-shared revenue accounted for approximately 11 percent of the City's General Fund revenue for the year ended June 30, 2007. These percentages have eroded over the past six years, due to the State's economic difficulties. The following chart depicts the City's actual revenue-sharing payments over a six-year period from the State's fiscal year ended September 30, 2002 through the fiscal year ended September 30, 2007:

	<u>Actual FY 2002</u>	<u>Actual FY 2003</u>	<u>Actual FY 2004</u>	<u>Actual FY 2005</u>	<u>Actual FY 2006</u>	<u>Actual FY 2007</u>
Constitutional	\$ 1,283,793	\$ 1,305,528	\$ 1,291,348	\$ 1,282,491	\$ 1,339,496	\$ 1,342,681
Statutory	<u>1,468,828</u>	<u>1,243,590</u>	<u>999,679</u>	<u>992,823</u>	<u>898,497</u>	<u>872,825</u>
Total payments	<u>\$ 2,752,621</u>	<u>\$ 2,549,118</u>	<u>\$ 2,291,027</u>	<u>\$ 2,275,314</u>	<u>\$ 2,237,993</u>	<u>\$ 2,215,506</u>
Cumulative loss since 2002		\$ (203,503)	\$ (665,097)	\$ (1,142,404)	\$ (1,657,032)	\$ (2,194,147)

The future of the State's revenue-sharing program continues to be directly 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 State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than \$750 million) and to enact a new 6 percent tax on certain services (raising approximately \$700 million per year). As part of the continuation budget that was also passed on October 1, there are still approximately \$400 million of "to-be-determined" cuts that remain to be agreed upon and announced for the fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well and the services tax is being reconsidered. 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.
- **Changes to Michigan's 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. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Further changes to Michigan's tax structure were made on October 1 as described above to partially close the structural budget deficit that exists.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not yet been announced, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007/2008 will more than likely be tied to fiscal year 2006/2007 funding levels.

It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal years 2006/2007 and 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$873,000 at risk in its General Fund. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

### **Property Taxes**

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:

2007	3.7%	2001	3.2%
2006	3.3%	2000	1.9%
2005	2.3%	1999	1.6%
2004	2.3%	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%

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.

For the year ended June 30, 2007, the City's Headlee maximum property tax rate for its operating levy was 19.0260 mills (actual levy was 17.8044) even though City Charter would allow the City to levy 20 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated in several published studies and reports, due to definitional changes made to the General Property Tax Act in 1994, 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) will continue downward pressure on millage rates particularly given the significant gap that now exists between taxable value and state equalized value.

### **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 timeframe 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.

### **New Michigan Business Tax (and Its Impact on Local Government)**

As previously indicated, the new Michigan business tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT.

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes - a modified gross receipts tax and a business income tax. The modified gross receipts tax is imposed at .8 percent on a tax base composed of gross receipts less certain purchases. The business income tax will be imposed at a rate of less than 5 percent on business income. The MBT provides for new investment, compensation, and research and development credits to businesses. The MBT also allows certain qualified small businesses to opt out of the MBT and pay a straight 1.8 percent tax on adjusted business income.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes - specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected. Also, for those local governments with tax increment financing authorities that continue to have existing eligible obligations outstanding and are therefore allowed to capture school taxes (to the extent of these eligible obligations), the personal property tax exemptions on school millages will likely decrease the amount of school taxes available to capture.

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees, impact on school dollars available for capture for certain tax increment financing authorities, and property classifications) that are the most directly impacted by the new MBT.

We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

### **Recent Revisions to State Transportation Funding Program**

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the Major and Local Street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

### **New Cable Franchise Legislation**

The governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the "Uniform Video Services Local Franchise Act," which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5 percent of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2 percent of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date, in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.
- A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills' franchise fee.
- Audits of the video service providers' calculation of gross revenue are limited to once every two years.

Local governments were scheduled to receive their first payment under the new Act beginning in May 2007 or shortly thereafter. We strongly encourage you to review this payment compared to payments previously received and follow up with your provider as required.

Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

We would like to thank you and your staff again this year for the cooperation and assistance provided during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations or any other matters, we would be happy to discuss them at your convenience.

Yours truly,

**Plante & Moran, PLLC**



Mark E. Chmielewski



William E. Brickey