

City of Taylor, Michigan

Financial Report with Supplemental Information June 30, 2003

City of Taylor, Michigan

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Independent Auditor's Report

To the City Council
City of Taylor, 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 Taylor, Michigan as of and for the year ended June 30, 2003, 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 Taylor, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Taylor Housing Commission (a discretely presented component unit), which reflect total assets of \$42,442,532 at March 31, 2003 and a net decrease in net assets of \$1,288,314 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Commission, is based solely on the report of the other auditors. The other auditors' report, dated August 25, 2003 (which includes the information for the Taylor Community Development Corporation, which was audited as of November 10, 2003), expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Taylor, Michigan as of June 30, 2003 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.

To the City Council
City of Taylor, Michigan

The management's discussion and analysis, budgetary comparison schedule - General Fund, and the pension systems schedule of funding progress, as identified in the table of contents, are not a required part 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Taylor, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2003 on our consideration of the City of Taylor, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 16, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2002.

Plante & Moran, PLLC

December 11, 2003

City of Taylor, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Taylor, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2003. 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 represent the most significant financial highlights for the year ended June 30, 2003:

- State-shared revenue, our second largest revenue source, was reduced by approximately \$575,000 this year as a result of mid-year budget cuts by the State of Michigan. The City reacted by utilizing its fund balance to support current operations while implementing a hiring freeze and planning for the long-term effect of the cuts.
- Total net assets related to the City's governmental activities at the end of the year were approximately \$142 million.
- The City continued its investment in capital improvements, issuing Taylor Building Authority bonds at favorable long-term interest rates to finance, among other items, a new fire station and a new courthouse. Construction will take place in the following fiscal years.
- The City also took advantage of the favorable interest rate climate to issue Taylor Building Authority Refunding bonds and defease a 1993 bond issue on the June 1, 2003 call date. The refunding of the higher interest rate bonds saved \$78,000.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Taylor, Michigan's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements - The statement of net assets (deficit) and the statement of activities are both new and provide information about the activities of the City on a government-wide basis. They are designed to present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting, similar to a private-sector business, 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.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements - The Fund financial statements are presented after the government-wide statements, and are also in a different format than in previous years; they present a short-term view, and 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.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund budget and the City's progress in funding its obligation to provide pension benefits to its employees. Other supplemental information is also presented in the form of combining statements for nonmajor governmental funds, fiduciary funds, and the Taylor Housing Commission component unit.

The City of Taylor as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2003:

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 13,920,297	\$ 7,251,950	\$ 21,172,247
Noncurrent assets	192,256,042	187,942,196	380,198,238
Total assets	206,176,339	195,194,146	401,370,485
Liabilities			
Current liabilities	11,830,393	6,826,386	18,656,779
Long-term liabilities	52,476,087	69,577,007	122,053,094
Total liabilities	64,306,480	76,403,393	140,709,873
Net Assets			
Invested in capital assets - Net of related debt	139,056,945	104,441,641	243,498,586
Restricted	3,604,257	12,507,514	16,111,771
Unrestricted (deficit)	(791,343)	1,841,598	1,050,255
Total net assets	<u>\$ 141,869,859</u>	<u>\$ 118,790,753</u>	<u>\$ 260,660,612</u>

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets increased .2 percent from a year ago - increasing from \$260,137,000 to \$260,661,000. As we look at the governmental activities separately from the business-type activities, we can see that the current level of unrestricted net assets for our governmental activities stands at (\$791,343). A negative balance in unrestricted net assets indicates that the taxpayers have not fully funded the cost of providing government services. The three-year trend of substantial cuts in state revenue-sharing, which have reduced the City's operating funds by over \$3.6 million from originally budgeted amounts, have been a significant factor in the reduction in unrestricted net assets.

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

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 10,146,461	\$ 17,123,518	\$ 27,269,979
Operating grants and contributions	7,340,437	-	7,340,437
Capital grants and contributions	4,701,507	1,260,831	5,962,338
General revenue:			
Property taxes	23,191,400	3,742,103	26,933,503
State-shared revenue	9,149,590	-	9,149,590
Unrestricted investment earnings	255,141	271,744	526,885
Rental income and fees	310,829	33,864	344,693
Miscellaneous revenue	540,929	35,994	576,923
Total revenue	55,636,294	22,468,054	78,104,348
Program Expenses			
General government	11,175,239	-	11,175,239
Public safety	21,664,376	-	21,664,376
Public works	12,883,878	-	12,883,878
Community and economic development	1,952,619	-	1,952,619
Recreation and culture	5,687,380	-	5,687,380
Interest on long-term debt	2,103,964	-	2,103,964
Water	-	5,659,986	5,659,986
Sewer	-	8,329,881	8,329,881
Taylor Sportsplex	-	2,494,600	2,494,600
Golf courses	-	5,293,215	5,293,215
Ecorse Creek	-	335,885	335,885
Total program expenses	55,467,456	22,113,567	77,581,023
Change in Net Assets	\$ 168,838	\$ 354,487	\$ 523,325

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues were approximately \$55.6 million. The City experienced decreases in State-shared revenue, federal grants, and interest income. The decrease was lessened by an increase in property tax revenue that resulted from continued growth in the City's tax base.

The City's total governmental expenses were approximately \$55.4 million. Debt service expenditures included defeasance of \$2,475,000 of Taylor Building Authority debt by issuing refunding bonds. The defeasance resulted in a net present value savings to the City of \$78,000. Other increases were led by large increases in health care costs and property insurance rates. To offset this, the City closely monitored its spending in all other areas, including hiring and capital outlay.

Business-type Activities

The City's business-type activities consist of the Water, Sewer, Ecorse Creek, Golf Courses, and Taylor Sportsplex Enterprise Funds. We provide water to residents from the Detroit Water System. We provide sewage treatment through a Wayne County-owned and operated sewage treatment plant. The City operates two outstanding golf courses. The Lakes of Taylor Golf Club is a championship caliber golf course designed to challenge golfers at every level. Taylor Meadows Golf Club is a links-style course, challenging yet still player-friendly. Both courses also provide food service and pro-shop operations as well. The Taylor Sportsplex is an indoor multi-function facility that features two ice arenas, a soccer arena, and a combination soccer/convention arena, as well as meeting areas and food service. For 2003 for all business-type activities, operating revenues increased \$912,000, and net assets increased \$355,000. The Sewer Fund accounts for the activity related to the City's participation in the Downriver Sewer System, including the tax levy mandated to pay for the City's share of debt issued by Wayne County to pay for the recent improvements to the system.

The City of Taylor's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Taylor as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond projects. The City's major funds for 2003 are the General Fund and the 2003 Taylor Building Authority (TBA) Project Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$14,952,000, and public works, which incurred expenses of \$13,439,000, in 2003.

The 2003 TBA Project Fund was established upon the issuance of TBA bonds in 2003, and will be accounting for the construction of the new fire station and new court house.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant change was to decrease the estimated State revenue-sharing budget by \$675,000. The State of Michigan cut revenue-sharing estimates at least three times during the year in an effort to balance its own budget in a difficult economy. The revenue-sharing budget reductions were substantially offset by increases to other revenue budgets, most notably property taxes. The property tax budget is typically projected initially based on conservative estimates of the taxable values, which are not yet finalized at the time of budget adoption. Overall, the General Fund's revenue budget was only reduced during the year by approximately \$8,000. Overall revenues were less than budgeted by \$1.574 million, or 3.2 percent. The largest variances were in property taxes (\$300,000), State grants (\$150,000), various charges for services (\$190,000), land sales (\$340,000) and the SMART transit grant (\$230,000).

The City's expenditure budget was increased nearly \$3.1 million by amendments during the year, primarily as a result of the carryover of \$2.3 million in unexpended items from the previous year. The City's departments overall stayed below budget, resulting in total expenditures of \$1,006,000 (1.9 percent) below budget, and that was despite an unexpected transfer of \$430,000 to support the Local Street Fund. The net result was a decrease in the General Fund's fund balance of \$568,000 greater than budgeted, which, it is important to note, is still less than the reductions in the State revenue-sharing budget of \$675,000 during the year and the \$575,000 reduction in the actual State revenue sharing paid in 2003 versus the amount paid in 2002.

Capital Asset and Debt Administration

At the end of 2003, the City, including its component units, had approximately \$400 million invested in a broad range of capital assets, including buildings, roads, water and sewer lines, parks, and machinery and equipment. The City finances much of its capital improvement through the issuance of long-term debt. During the year, the City issued additional Taylor Building Authority bonds in the amount of \$13.75 million to finance the planned construction of a fire station to replace the main fire station, and a new courthouse to replace the current courthouse. The City's investment in capital assets, net of related debt, is approximately \$265 million.

Economic Factors and Next Year's Budgets

For the fiscal year ending June 30, 2004, reductions to State revenue sharing continue to be a concern for municipalities throughout the State of Michigan, including the City of Taylor, Michigan, with reductions of 9.2 percent (\$842,000) from the 2003 amount already known. Health care costs continue to rise, making it necessary for the City to negotiate co-pay arrangements with the City's employees. The decline in the financial markets in recent years has resulted in the need to increase City contributions to the pension plans.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

On the other hand, the City continues to experience a resurgence in its housing market and growth in the tax base. Even so, because of the impact of Proposal A, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limited growth in taxable value on any individual property to the inflation factor of 1.5 percent for the 2003 tax year. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions. As costs such as health care continue to rise as much as 15 percent per year, the limitations on revenue growth give rise to the feeling that the municipal finance system in the state of Michigan is due for some changes.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors 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, contact the City Clerk's office, 23555 Goddard Road, Taylor, MI 48180.

City of Taylor, Michigan

Statement of Net Assets (Deficit) June 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 3,161,448	\$ 4,572,700	\$ 7,734,148	\$ 10,419,230
Receivables - Net	4,274,651	2,826,436	7,101,087	299,216
Internal balances	509,409	(509,409)	-	-
Due from other governmental units	5,195,413	-	5,195,413	-
Prepaid costs and other assets	779,376	1,134	780,510	3,276,232
Long-term advances to (from) other funds	1,471,966	(1,471,966)	-	-
Inventories	-	361,089	361,089	-
Restricted assets (Note 8)	18,164,971	11,640,738	29,805,709	2,967,112
Nondepreciable capital assets - Net (Note 5)	22,984,317	10,855,557	33,839,874	16,109,036
Depreciable capital assets - Net (Note 5)	149,634,788	166,917,867	316,552,655	34,769,080
Total assets	206,176,339	195,194,146	401,370,485	67,839,906
Liabilities				
Accounts payable	3,434,190	1,770,809	5,204,999	2,107,163
Accrued and other liabilities	3,361,368	1,300,801	4,662,169	1,020,763
Due to other governmental units	149,458	-	149,458	694,922
Deferred revenue (Note 4)	524,245	-	524,245	-
Noncurrent liabilities:				
Bond premium	249,660	-	249,660	-
Debt due within one year (Note 7)	2,716,399	3,754,776	6,471,175	4,509,693
Debt due in more than one year (Note 7)	49,010,732	69,577,007	118,587,739	78,640,797
Compensated absences due within one year	1,644,733	-	1,644,733	-
Compensated absence due in more than one year	3,215,695	-	3,215,695	-
Total liabilities	64,306,480	76,403,393	140,709,873	86,973,338
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	139,056,945	104,441,641	243,498,586	9,635,485
Restricted:				
Construction and other expenditures	466,746	-	466,746	-
Major and local street projects	93,115	-	93,115	-
Police forfeiture	811,278	-	811,278	-
Debt service	2,233,118	11,640,738	13,873,856	-
Sewer	-	866,776	866,776	2,634,345
Unrestricted	(791,343)	1,841,598	1,050,255	(31,403,262)
Total net assets (deficit)	\$ 141,869,859	\$ 118,790,753	\$ 260,660,612	\$ (19,133,432)

City of Taylor, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 11,175,239	\$ 3,042,207	\$ 1,119,504	\$ 150,096
Public safety	21,664,376	6,016,825	1,004,875	-
Public works	12,883,878	296,406	4,108,992	4,551,411
Community and economic development	1,952,619	81,702	811,258	-
Recreation and culture	5,687,380	709,321	295,808	-
Interest on long-term debt	2,103,964	-	-	-
Total governmental activities	55,467,456	10,146,461	7,340,437	4,701,507
Business-type activities:				
Water	5,659,986	5,057,831	-	416,496
Sewer	8,329,881	5,586,327	-	87,768
Taylor Sportsplex	2,494,600	1,942,787	-	321,310
Golf courses	5,293,215	4,311,207	-	435,257
Ecorse Creek	335,885	225,366	-	-
Total business-type activities	22,113,567	17,123,518	-	1,260,831
Total primary government	\$ 77,581,023	\$ 27,269,979	\$ 7,340,437	\$ 5,962,338
Component units:				
Local Development Financing Authority	\$ 6,941	\$ -	\$ -	\$ -
Tax Increment Financing Authority	8,986,206	-	-	126,401
Brownfield Redevelopment Authority	87,632	-	-	-
Downtown Development Authority	878,299	-	-	782,696
Housing Commission	15,263,437	13,924,829	-	-
Total component units	\$ 25,222,515	\$ 13,924,829	\$ -	\$ 909,097
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Rental income and fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year, as adjusted (Note 16)				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2003

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (6,863,432)	\$ -	\$ (6,863,432)	\$ -
(14,642,676)	-	(14,642,676)	-
(3,927,069)	-	(3,927,069)	-
(1,059,659)	-	(1,059,659)	-
(4,682,251)	-	(4,682,251)	-
(2,103,964)	-	(2,103,964)	-
(33,279,051)	-	(33,279,051)	-
-	(185,659)	(185,659)	-
-	(2,655,786)	(2,655,786)	-
-	(230,503)	(230,503)	-
-	(546,751)	(546,751)	-
-	(110,519)	(110,519)	-
-	(3,729,218)	(3,729,218)	-
(33,279,051)	(3,729,218)	(37,008,269)	-
-	-	-	(6,941)
-	-	-	(8,859,805)
-	-	-	(87,632)
-	-	-	(95,603)
-	-	-	(1,338,608)
-	-	-	(10,388,589)
23,191,400	3,742,103	26,933,503	10,457,822
9,149,590	-	9,149,590	-
255,141	271,744	526,885	225,221
310,829	33,864	344,693	-
540,929	35,994	576,923	35,099
33,447,889	4,083,705	37,531,594	10,718,142
168,838	354,487	523,325	329,553
141,701,021	118,436,266	260,137,287	(19,462,985)
\$ 141,869,859	\$ 118,790,753	\$ 260,660,612	\$ (19,133,432)

City of Taylor, Michigan

Governmental Funds Balance Sheet June 30, 2003

	General Fund	2003 TBA Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 583,572	\$ -	\$ 2,577,876	\$ 3,161,448
Receivables:				
Taxes	2,238,056	-	-	2,238,056
Special assessments	816,801	-	-	816,801
Other	1,219,794	-	-	1,219,794
Due from other governmental units	4,260,953	-	934,460	5,195,413
Due from other funds	883,144	-	1,611,409	2,494,553
Prepaid costs and other assets	779,376	-	-	779,376
Long-term interfund receivable	1,471,966	-	-	1,471,966
Restricted assets	-	13,755,361	4,409,610	18,164,971
Total assets	\$ 12,253,662	\$ 13,755,361	\$ 9,533,355	\$ 35,542,378
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 2,263,922	\$ 48,109	\$ 1,122,159	\$ 3,434,190
Due to other governmental units	149,458	-	-	149,458
Due to other funds	1,156,537	52,477	776,130	1,985,144
Accrued and other liabilities	2,512,234	-	100,717	2,612,951
Deferred revenue	1,938,702	-	131,219	2,069,921
Total liabilities	8,020,853	100,586	2,130,225	10,251,664
Fund Balances				
Reserved for:				
Construction and other expenditures	466,746	13,654,775	5,076,897	19,198,418
Long-term assets	1,471,966	-	-	1,471,966
Unreserved - Reported in:				
General Fund	2,294,097	-	-	2,294,097
Special Revenue Funds	-	-	93,115	93,115
Debt Service Funds	-	-	2,233,118	2,233,118
Total fund balances	4,232,809	13,654,775	7,403,130	25,290,714
Total liabilities and fund balances	\$ 12,253,662	\$ 13,755,361	\$ 9,533,355	\$ 35,542,378

City of Taylor, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets (Deficit) June 30, 2003

Fund Balance - Total Governmental Funds	\$ 25,290,714
Amounts reported for governmental activities in the statement of net assets (deficit) are different because:	
Capital assets used in governmental activities are not financial resources, and are not reported in the governmental funds	172,619,105
Special assessment and other receivables are expected to be collected over several years, and are not available to pay for current year expenditures	1,545,676
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Long-term debt	(51,727,131)
Compensated absences	(4,860,428)
Bond premium	(249,660)
Tax rebates	(98,587)
Workers' compensation claims	(100,000)
Accrued interest	(549,830)
	<hr/>
Net Assets - Governmental Activities	<u>\$ 141,869,859</u>

City of Taylor, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2003

	General Fund	2003 TBA Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 22,655,688	\$ -	\$ 1,371,463	\$ 24,027,151
Licenses and permits	693,826	-	1,179,062	1,872,888
Federal sources	266,020	-	1,171,441	1,437,461
State sources	9,514,040	-	3,981,343	13,495,383
Charges for services	2,548,073	-	-	2,548,073
Fines and forfeitures	3,309,935	-	-	3,309,935
Interest and rent	560,750	2,311	3,571,363	4,134,424
DMA /911 revenue	-	-	899,048	899,048
Other	7,171,840	-	48,310	7,220,150
Total revenues	46,720,172	2,311	12,222,030	58,944,513
Expenditures				
General government	7,740,980	-	-	7,740,980
Public safety	14,951,858	-	-	14,951,858
Public works and capital projects	13,438,655	-	6,599,856	20,038,511
Community development	-	-	888,655	888,655
Recreation and cultural	4,364,727	-	-	4,364,727
General administration	793,161	-	-	793,161
Construction and development	-	-	1,938,176	1,938,176
Employee benefits	8,577,349	-	-	8,577,349
Capital outlay and other	-	347,196	1,892,572	2,239,768
Debt service	580,774	-	8,431,910	9,012,684
Total expenditures	50,447,504	347,196	19,751,169	70,545,869
Excess of Expenditures over Revenues	(3,727,332)	(344,885)	(7,529,139)	(11,601,356)
Other Financing Sources (Uses)				
Transfers in	-	-	2,561,048	2,561,048
Transfers out	(430,000)	-	(2,131,048)	(2,561,048)
Bond issuance	-	13,750,000	2,570,000	16,320,000
Bond premium	-	249,660	-	249,660
Proceeds of land, building, and equipment sales	490,913	-	-	490,913
Total other financing sources (uses)	60,913	13,999,660	3,000,000	17,060,573
Net Change in Fund Balances	(3,666,419)	13,654,775	(4,529,139)	5,459,217
Fund Balances - Beginning of year	7,899,228	-	11,932,269	19,831,497
Fund Balances - End of year	<u>\$ 4,232,809</u>	<u>\$ 13,654,775</u>	<u>\$ 7,403,130</u>	<u>\$ 25,290,714</u>

City of Taylor, Michigan

Governmental Funds Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds **\$ 5,459,217**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	1,245,784
Capital contribution from TIFA and DDA is not a current financial resource	3,922,766
Proceeds on asset sales are recorded in the governmental funds; on the statement of activities, a loss is recorded	(802,022)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(285,594)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	1,080,068
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	6,268,996
Bond proceeds and premiums are not reported as other financing sources on the statement of activities	(16,569,660)
Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	<u>(150,717)</u>

Change in Net Assets of Governmental Activities **\$ 168,838**

City of Taylor, Michigan

Proprietary Funds Statement of Net Assets June 30, 2003

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Current Assets						
Cash and investments	\$ 2,142,880	\$ 1,429,220	\$ 12,964	\$ 138,922	\$ 848,714	\$ 4,572,700
Receivables:						
Customers	1,340,425	1,365,001	-	-	63,412	2,768,838
Other	17,374	-	36,174	4,038	12	57,598
Due from other funds	225,934	2,141,042	-	-	-	2,366,976
Prepaid costs and other assets	-	1,134	-	-	-	1,134
Inventories	174,770	1,789	47,194	137,336	-	361,089
Total current assets	3,901,383	4,938,186	96,332	280,296	912,138	10,128,335
Noncurrent Assets						
Restricted assets	-	11,640,738	-	-	-	11,640,738
Capital assets	25,312,226	95,923,772	28,941,030	27,596,396	-	177,773,424
Total noncurrent assets	25,312,226	107,564,510	28,941,030	27,596,396	-	189,414,162
Total assets	29,213,609	112,502,696	29,037,362	27,876,692	912,138	199,542,497
Current Liabilities						
Accounts payable	843,489	573,553	161,176	192,411	180	1,770,809
Due to other funds	2,190,552	107,281	-	506,913	71,639	2,876,385
Accrued and other liabilities	346,471	437,954	91,388	424,988	-	1,300,801
Current portion of long-term debt	-	3,401,193	270,000	83,583	-	3,754,776
Total current liabilities	3,380,512	4,519,981	522,564	1,207,895	71,819	9,702,771
Noncurrent Liabilities						
Long-term advances from other funds	-	-	-	1,471,966	-	1,471,966
Long-term debt - Net of current portion	-	64,218,497	4,995,000	363,510	-	69,577,007
Total liabilities	3,380,512	68,738,478	5,517,564	3,043,371	71,819	80,751,744
Net Assets						
Invested in capital assets - Net of related debt	25,312,226	28,304,082	23,676,030	27,149,303	-	104,441,641
Restricted for debt service	-	11,640,738	-	-	-	11,640,738
Restricted for sewer grant expenditures	-	866,776	-	-	-	866,776
Unrestricted	520,871	2,952,622	(156,232)	(2,315,982)	840,319	1,841,598
Total net assets	\$ 25,833,097	\$ 43,764,218	\$ 23,519,798	\$ 24,833,321	\$ 840,319	\$ 118,790,753

City of Taylor, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2003

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Operating Revenues						
Water sales	\$ 3,949,678	\$ -	\$ -	\$ -	\$ -	\$ 3,949,678
Sewage disposal services	-	4,635,938	-	-	-	4,635,938
Charges for services	1,108,153	182,126	162,515	2,396,057	225,366	4,074,217
Sales of merchandise	-	-	379,972	1,915,150	-	2,295,122
Rental income	-	-	1,028,449	-	-	1,028,449
Other	2,655	813,539	371,851	-	-	1,188,045
Total operating revenues	5,060,486	5,631,603	1,942,787	4,311,207	225,366	17,171,449
Operating Expenses						
Cost of water operations	4,646,863	-	-	-	-	4,646,863
Cost of sewage disposal operations	-	4,861,602	-	-	-	4,861,602
Ecorse Creek user charge system	-	-	-	-	335,885	335,885
Cost of sales	-	-	180,965	769,181	-	950,146
Operation and maintenance	1,243	-	899,754	1,297,307	-	2,198,304
General and administrative	-	-	936,741	2,172,933	-	3,109,674
Other expenses	-	661	-	7,755	-	8,416
Depreciation and amortization	1,011,876	1,697,073	477,140	1,022,919	-	4,209,008
Total operating expenses	5,659,982	6,559,336	2,494,600	5,270,095	335,885	20,319,898
Operating Loss	(599,496)	(927,733)	(551,813)	(958,888)	(110,519)	(3,148,449)
Nonoperating Revenue (Expense)						
Property taxes	-	3,742,103	-	-	-	3,742,103
Gain on disposal of fixed assets	1,160	20,763	-	-	-	21,923
Interest income	38,306	222,625	-	-	10,813	271,744
Interest expense	-	(1,770,545)	-	(23,120)	-	(1,793,665)
Total nonoperating revenue (expense)	39,466	2,214,946	-	(23,120)	10,813	2,242,105
Net Income (Loss) - Before donated assets	(560,030)	1,287,213	(551,813)	(982,008)	(99,706)	(906,344)
Donated Assets	416,496	87,768	321,310	435,257	-	1,260,831
Change in Net Assets	(143,534)	1,374,981	(230,503)	(546,751)	(99,706)	354,487
Net Assets - Beginning of year	25,976,631	42,389,237	23,750,301	25,380,072	940,025	118,436,266
Net Assets - End of year	\$ 25,833,097	\$ 43,764,218	\$ 23,519,798	\$ 24,833,321	\$ 840,319	\$ 118,790,753

City of Taylor, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2003

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Cash Flows from Operating Activities						
Receipts from customers	\$ 5,002,389	\$ 4,822,237	\$ 2,010,651	\$ 4,311,653	\$ 241,184	\$ 16,388,114
Payments to suppliers	(3,475,274)	(4,071,829)	(1,095,207)	(2,984,035)	(335,705)	(11,962,050)
Payments to employees	(1,203,413)	(303,995)	(936,741)	(1,230,380)	-	(3,674,529)
Internal activity - Payments to other funds	70,690	(474,410)	-	(337,879)	13,375	(728,224)
Other receipts (payments)	2,655	812,878	-	(7,755)	-	807,778
Net cash (used in) provided by operating activities	397,047	784,881	(21,297)	(248,396)	(81,146)	831,089
Cash Flows from Capital and Related Financing Activities						
Purchase of capital assets	(1,017,501)	(845,268)	-	(7,521)	-	(1,870,290)
Proceeds from sales of capital assets	-	83,001	-	-	-	83,001
Principal and interest paid on capital debt	-	(4,160,353)	-	(54,008)	-	(4,214,361)
Payments on long-term advances	-	-	-	(22,948)	-	(22,948)
Property taxes	-	3,742,103	-	-	-	3,742,103
Net cash used in capital and related financing activities	(1,017,501)	(1,180,517)	-	(84,477)	-	(2,282,495)
Cash Flows from Investing Activities -						
Interest received on investments	38,306	222,625	-	-	10,813	271,744
Net Decrease in Cash and Cash Equivalents	(582,148)	(173,011)	(21,297)	(332,873)	(70,333)	(1,179,662)
Cash and Cash Equivalents - Beginning of year	2,725,028	1,602,231	34,261	471,795	919,047	5,752,362
Cash and Cash Equivalents - End of year	<u>\$ 2,142,880</u>	<u>\$ 1,429,220</u>	<u>\$ 12,964</u>	<u>\$ 138,922</u>	<u>\$ 848,714</u>	<u>\$ 4,572,700</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities						
Operating loss	\$ (599,496)	\$ (927,733)	\$ (551,813)	\$ (958,888)	\$ (110,519)	\$ (3,148,449)
Adjustments to reconcile operating loss to net cash from operating activities:						
Depreciation and amortization	1,011,876	1,697,073	477,140	1,022,919	-	4,209,008
Changes in assets and liabilities:						
Receivables	(55,442)	(535)	67,864	446	15,818	28,151
Due to other funds	(3,808)	(69,701)	-	(337,879)	(228,837)	(640,225)
Other assets	6,590	4,459	6,886	15,253	-	33,188
Accounts payable	(85,861)	79,089	(21,374)	(13,216)	180	(41,182)
Accrued and other liabilities	48,690	406,938	-	22,969	-	478,597
Due from other funds	74,498	(404,709)	-	-	242,212	(87,999)
Net cash (used in) provided by operating activities	<u>\$ 397,047</u>	<u>\$ 784,881</u>	<u>\$ (21,297)</u>	<u>\$ (248,396)</u>	<u>\$ (81,146)</u>	<u>\$ 831,089</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2003, various parties and various developers constructed water and sewer lines with an estimated value of \$504,264 and donated them to the Commission. During the year ended June 30, 2003, \$495,778 of assets constructed by the TIFA were contributed to the golf courses and the golf courses entered into a lease agreement for \$477,981. In addition, during the year ended June 30, 2003, \$260,000 of debt principal payments and \$3,856 of interest payments were contributed to the Taylor Sportsplex by the Taylor Building Authority Debt Service Fund and \$57,454 of assets constructed by the TIFA were contributed to the Taylor Sportsplex.

City of Taylor, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2003

	Pension and Other Employee Benefit Plans*	Agency Funds
Assets		
Cash and equivalents	\$ 249,799	\$ 983,795
Investments:		
Corporate bonds	23,200,600	-
U.S. government securities	28,761,256	-
Common and preferred stock	54,897,700	-
Bank investment pool funds	8,188,052	237,744
Annuity contracts	5,200,214	-
Mutual funds	15,466,916	-
Accrued interest	726,193	-
	136,690,730	<u><u>\$ 1,221,539</u></u>
Liabilities		
Accounts payable	-	\$ 121,216
Due to other governmental units	-	917,699
Cash bonds and deposits	-	162,374
Tax collections distributable	-	7,746
Refunds payable	-	12,504
	-	<u><u>\$ 1,221,539</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 136,690,730</u></u>	

* Balances are as of December 31, 2002 for the General Employees' Pension Plan and as of June 30, 2003 for the Police and Fire Retirement System.

City of Taylor, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2003

	Pension and Other Employee Benefit Plans*
Additions	
Investment income (loss):	
Interest and dividends	\$ 4,682,162
Net decrease in fair value of investments	(7,683,941)
Less investment expenses	<u>(408,265)</u>
Net investment income (loss)	(3,410,044)
Contributions:	
Employer	1,258,709
Employee	<u>1,328,233</u>
Total contributions	<u>2,586,942</u>
Total additions - Net of investment loss	(823,102)
Deductions	
General and administrative	153,820
Benefit payments	<u>12,715,760</u>
Total deductions	<u>12,869,580</u>
Net Decrease in Net Assets	(13,692,682)
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>150,383,412</u>
End of year	<u>\$ 136,690,730</u>

* Balances are as of December 31, 2002 for the General Employees' Pension Plan and as of June 30, 2003 for the Police and Fire Retirement System.

City of Taylor, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2003

	Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Totals
Assets						
Cash and investments	\$ 15,020	\$ 8,131,298	\$ 201,013	\$ 449,436	\$ 1,622,463	\$ 10,419,230
Accounts receivable	-	-	-	-	299,216	299,216
Due from other governmental units	-	688,253	15,881	573,602	50,895	1,328,631
Deferred charges	-	-	-	-	1,689,656	1,689,656
Prepaid expenses and other assets	-	-	-	-	257,945	257,945
Restricted assets	-	-	-	332,767	2,634,345	2,967,112
Capital assets	<u>17,745</u>	<u>13,156,678</u>	<u>77,187</u>	<u>1,738,494</u>	<u>35,888,012</u>	<u>50,878,116</u>
Total assets	32,765	21,976,229	294,081	3,094,299	42,442,532	67,839,906
Liabilities						
Accounts payable	-	545,950	1,884	400,197	1,159,132	2,107,163
Due to other governmental units	-	644,027	-	-	50,895	694,922
Tenant security deposits	-	-	-	-	22,140	22,140
Accrued and other liabilities	-	475,675	-	42,432	295,476	813,583
Notes payable	-	-	-	-	185,040	185,040
Long-term debt	-	52,885,000	-	2,445,000	27,820,490	83,150,490
Total liabilities	-	54,550,652	1,884	2,887,629	29,533,173	86,973,338
Net Assets (Deficit)						
Investment in capital assets - Net of related debt	17,745	-	77,187	(373,739)	9,914,292	9,635,485
Restricted	-	-	-	-	2,634,345	2,634,345
Unrestricted	<u>15,020</u>	<u>(32,574,423)</u>	<u>215,010</u>	<u>580,409</u>	<u>360,722</u>	<u>(31,403,262)</u>
Total net assets (deficit)	\$ 32,765	\$ (32,574,423)	\$ 292,197	\$ 206,670	\$ 12,909,359	\$ (19,133,432)

* Balances are as of March 31, 2003 for Housing Commission and as of June 30, 2003 for the Taylor Community Development Corp., its component unit.

City of Taylor, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions
Local Development Financing Authority - Public Works	\$ 6,941	\$ -	\$ -	\$ -
Tax Increment Financing Authority - Public Works	8,986,206	-	-	126,401
Brownfield Redevelopment Authority - Public Works	87,632	-	-	-
Downtown Development Authority - Public Works	878,299	-	-	782,696
Housing Commission	<u>15,263,437</u>	<u>13,924,829</u>	<u>-</u>	<u>-</u>
Total component unit activities	<u>\$ 25,222,515</u>	<u>\$ 13,924,829</u>	<u>\$ -</u>	<u>\$ 909,097</u>

General revenues:

Capture taxes
Interest
Other

Total general revenues

Change in Net Assets (Deficit)

Net Assets (Deficit) - Beginning of year

Net Assets (Deficit) - End of year

* Balances are as of March 31, 2003 for the Housing Commission and as of June 30, 2003 for the Taylor Community Development Corp., its component unit.

**Component Units
Statement of Activities
Year Ended June 30, 2003**

Net (Expense) Revenue and Changes in Net Assets					
Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Total
\$ (6,941)	\$ -	\$ -	\$ -	\$ -	\$ (6,941)
-	(8,859,805)	-	-	-	(8,859,805)
-	-	(87,632)	-	-	(87,632)
-	-	-	(95,603)	-	(95,603)
-	-	-	-	(1,338,608)	(1,338,608)
(6,941)	(8,859,805)	(87,632)	(95,603)	(1,338,608)	(10,388,589)
39,700	9,929,780	225,880	262,462	-	10,457,822
6	175,606	2,104	32,310	15,195	225,221
-	-	-	-	35,099	35,099
39,706	10,105,386	227,984	294,772	50,294	10,718,142
32,765	1,245,581	140,352	199,169	(1,288,314)	329,553
-	(33,820,004)	151,845	7,501	14,197,673	(19,462,985)
\$ 32,765	\$ (32,574,423)	\$ 292,197	\$ 206,670	\$ 12,909,359	\$ (19,133,432)

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Taylor, 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 of Taylor, Michigan:

Reporting Entity

The City of Taylor, Michigan is governed by an elected seven-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).

Blended Presented Component Units - The Taylor Building Authority is governed by a board that is appointed by the mayor. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

The 23rd Judicial District Court is reported within the Trust and Agency Fund. Although it is legally separate from the City, it is reported as if it were part of the primary government because of the fiduciary relationship it has with the City.

Discretely Presented Component Units - The Local Development Financing Authority and the Tax Increment Financing Authority (the "Authorities") were created to promote economic development within a seven-square mile district of the City and are funded primarily by property tax revenue captures. The Authorities are governed by 11-member and 13-member boards, respectively, and are appointed by the mayor and confirmed by the City Council.

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 that district. The DDA's governing body, which consists of 13 members, is appointed by the mayor and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council.

Note I - Summary of Significant Accounting Policies (Continued)

The Brownfield Redevelopment Authority was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the 24-square mile boundary of the City. The Brownfield Redevelopment Authority is funded primarily by property tax revenue captures. The Brownfield Redevelopment Authority is governed by a 13-member board that is appointed by the mayor and confirmed by the City Council.

Separate financial statements for the above discretely presented component units are not prepared.

The Taylor Housing Commission is a nonprofit corporation that was organized under the laws of the State of Michigan to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development (HUD). The Taylor Housing Commission operates with a fiscal year ended March 31. The Taylor Housing Commission is governed by a five-member board that is appointed by the mayor and confirmed by the City Council.

The Taylor Community Development Corporation (TCDC) is a nonprofit organization formed by its sole member, the Taylor Housing Commission, to acquire, renovate, and operate certain apartment complexes located within the City of Taylor, Michigan. The City acquired these apartment complexes, now known as the Villages of Taylor (the "Project"), and then donated the complexes to the TCDC. The TCDC is operated by a seven-member Board of Directors appointed by the Taylor Housing Commission. The TCDC is a component unit of the Taylor Housing Commission.

The Project is operated and regulated by a use agreement with the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project's major program is its Section 8 Housing Assistance Payments agreements with HUD. During the year ended June 30, 2003, rental revenue from HUD totaled \$6,982,598, representing 50 percent of net rental revenue.

A complete financial statement for the Taylor Housing Commission can be obtained at 15270 Plaza South, Taylor, MI 48180.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) 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 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Note I - Summary of Significant Accounting Policies (Continued)

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

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

The City reports the following major governmental funds:

General Fund - The General Fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

2003 TBA Project Fund - The 2003 TBA Project Fund accounts for the activity associated with the municipal improvement project (primarily the construction/renovation of a courthouse and fire station) and other miscellaneous improvement projects.

The City reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system.

Taylor Sportsplex Fund - The Taylor Sportsplex Fund accounts for the activity of the Taylor Sportsplex, which primarily is the revenue related to charges for services and rentals along with the expenses of maintaining and operating the Taylor Sportsplex.

Note 1 - Summary of Significant Accounting Policies (Continued)

Golf Courses Fund - The Golf Courses Fund accounts for the activity related to the City's two golf courses, Taylor Meadows and Lakes of Taylor.

Additionally, the City reports the following fund types:

Pension Trust Fund - The Pension Trust Fund accounts for the activities of the City's two defined benefit pension plans, including the Police and Fire Retirement System and the General Employees' Pension Plan. The General Employees' Pension Plan is audited as of December 31, 2002. Therefore, the General Employees' Pension Plan is included in this report as of December 31, 2002. The plans accumulate resources for pension benefit payments to qualified employees.

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City's Agency Funds are its Tax Receiving Fund and the 23rd District Court Fund.

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.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note 1 - 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 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, rentals, and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative and operating expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

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

The City's 2002 tax is levied and collectible on July 1, 2002, and is recognized as revenue in the year ended June 30, 2003, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2002 taxable valuation of the City totaled \$1,381,986,599, on which taxes levied consisted of 8.5669 mills for operating purposes, 0.9016 mills for library services, 2.1556 mills for public safety pension, 1.5375 mills for disposal authority, 2.7052 mills for garbage and rubbish services, 0.0470 mills for publicity services, 2.7000 mills for the building authority, 3.3879 for EPA debt, and .9768 mills for the Southend Project. This resulted in approximately \$9,500,000 for operating purposes, \$1,000,000 for library services, \$2,400,000 for public safety pension, \$1,700,000 for disposal authority, \$3,000,000 for garbage and rubbish services, \$50,000 for publicity services, \$3,800,000 for the building authority, \$3,750,000 for EPA debt, and \$1,350,000 for the Southend Project. These amounts are recognized in the respective General, Debt Service, and Enterprise Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

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

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. 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.

Restricted Assets - Unspent bond proceeds of the Capital Projects Funds and Downtown Development Authority Fund are required to be set aside for construction. In addition, restricted assets also include assets held at Wayne County.

Restricted deposits in the Taylor Housing Commission represents assets held under various bond agreements in a separate account for replacement of property and other project expenditures as approved by the mortgagor. Restricted deposits are held in a separate account and generally are not available for operating purposes. During the year ended June 30, 2003, withdrawals of \$245,663 were taken from the replacement reserve.

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 \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10-65 years
Buildings	15-50 years
Sanitary sewer system	15-50 years
Water mains and meters	15-67 years
Improvements other than buildings	20 years
Machinery and equipment	2-20 years
Vehicles	4-10 years
Furniture and fixtures	10-20 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 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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 - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers, debt proceeds, bond premiums, and sales of fixed assets have been included in the "revenue" and/or "expenditure" categories, rather than as "other financing sources (uses)". All annual appropriations lapse at fiscal year end. The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council.

The budget process is initiated in January, when the departments are given information and guidelines to assist them in formulating their budget requests. The department heads summarize the departmental appropriation requests and submit them to the mayor, on or before March 1. During the month of March, the mayor reviews the appropriation requests, meets with the departments, and puts together the budget. The budget is submitted to the City Council on or before April 1. During the next month, the City Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by resolution no later than May 1.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis level.

The amount of encumbrances outstanding at June 30, 2003 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

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

	<u>Budget</u>	<u>Actual</u>
General Fund - Transfer to Local Street Fund	\$ -	\$ 430,000

Fund Deficits - There are no fund deficits on the modified accrual basis at June 30, 2003. The component units are presented on the full accrual basis in the basic financial statements, resulting in a deficit on that basis in the Tax Increment Financing Authority.

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 City has designated 10 banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all of the items described above, except for bankers' acceptances of United States banks and obligations of the State of Michigan or its political subdivisions.

To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool, except that Agency Funds' investment earnings are allocated to the General Fund.

The City of Taylor's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 3,161,448	\$ 4,572,700	\$ 137,186,076	\$ 144,920,224	\$ 10,419,230
Restricted assets (Note 8)	18,164,971	-	-	18,164,971	448,736
Total	<u>\$ 21,326,419</u>	<u>\$ 4,572,700</u>	<u>\$ 137,186,076</u>	<u>\$ 163,085,195</u>	<u>\$ 10,867,966</u>

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 18,131,222	\$ 6,739,436
Investments in securities, mutual funds, and similar vehicles	144,923,473	4,127,280
Petty cash or cash on hand	<u>30,500</u>	<u>1,250</u>
Total	<u>\$ 163,085,195</u>	<u>\$ 10,867,966</u>

The bank balance of the City's deposits is approximately \$23,312,000, of which \$800,000 is covered by federal depository insurance and approximately \$22,512,000 is uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of approximately \$6,739,000, of which \$600,000 was covered by federal depository insurance and approximately \$6,139,000 is uninsured and uncollateralized.

The pension trust funds are also authorized by Michigan Public Act 485 of 1996 (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.

Note 3 - Deposits and Investments (Continued)

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds*	\$ -	\$ -	\$ 23,200,600	\$ 23,200,600
U.S. government securities*	-	-	28,761,256	28,761,256
Common and preferred stock*	-	-	54,897,700	54,897,700
Subtotal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,859,556</u>	106,859,556
Investments not subject to categorization:				
Bank investment pool funds				17,396,787
Annuity contracts				5,200,214
Mutual funds				15,466,916
Total primary government				<u>\$ 144,923,473</u>
Component units - Bank investment pool funds				<u>\$ 4,127,280</u>

* Included within the City's two pension plans

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools, annuity contracts, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Note 3 - Deposits and Investments (Continued)

Included in the General Employees' Retirement System investments at June 30, 2003 are the following:

- Approximately \$1,342,000 of securities issued by the Federal National Mortgage Association (FNMA) and approximately \$1,535,000 issued by the Federal Home Loan Mortgage Corporation (FHLMC). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Asset-backed securities of approximately \$420,000. These securities are backed by credit card or other receivables and typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment of these "pay through" securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.
- Collateralized mortgage obligations of approximately \$273,000. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Included in the Police and Fire Retirement System investments at June 30, 2003 are the following:

- Approximately \$435,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 3 - Deposits and Investments (Continued)

- Approximately \$6,492,000 of securities issued by the Federal National Mortgage Association (FNMA) and approximately \$4,084,000 of securities issued by the Federal Home Loan Mortgage Corporation (FHLMC) or Federal Home Loan Bank (FHLB). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Asset-backed securities of approximately \$3,755,000. These securities are backed by credit card or other receivables and typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment of these “pay through” securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is 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. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Delinquent property taxes	\$ 150,833	\$ -
Special assessments	465,608	524,245
Grant receivables	398,962	-
ALS receivables	160,100	-
Due from other governmental units	157,067	-
Other	213,106	-
	<hr/>	<hr/>
Total	<u>\$ 1,545,676</u>	<u>\$ 524,245</u>

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2002	Additions	Disposals and Adjustments	Reclassifications	Balance June 30, 2003
Capital assets not being depreciated:					
Land	\$ 17,925,636	\$ 3,276,058	\$ (3,041)	\$ -	\$ 21,198,653
Construction in progress	<u>2,045,578</u>	<u>1,768,864</u>	<u>-</u>	<u>(2,028,778)</u>	<u>1,785,664</u>
Subtotal	19,971,214	5,044,922	(3,041)	(2,028,778)	22,984,317
Capital assets being depreciated:					
Roads and sidewalks	203,327,556	6,409,238	-	567,783	210,304,577
Buildings and improvements	44,506,944	315,854	-	1,477,795	46,300,593
Other improvements	3,249,433	524,605	-	(16,800)	3,757,238
Machinery and equipment	<u>28,300,228</u>	<u>1,738,966</u>	<u>(1,402,757)</u>	<u>-</u>	<u>28,636,437</u>
Subtotal	279,384,161	8,988,663	(1,402,757)	2,028,778	288,998,845
Accumulated depreciation:					
Roads and sidewalks	110,213,625	4,234,728	-	-	114,448,353
Buildings and improvements	10,195,935	1,147,220	-	-	11,343,155
Other improvements	1,521,119	222,013	-	-	1,743,132
Machinery and equipment	<u>9,172,119</u>	<u>3,261,074</u>	<u>(603,776)</u>	<u>-</u>	<u>11,829,417</u>
Subtotal	<u>131,102,798</u>	<u>8,865,035</u>	<u>(603,776)</u>	<u>-</u>	<u>139,364,057</u>
Net capital assets being depreciated	<u>148,281,363</u>	<u>123,628</u>	<u>(798,981)</u>	<u>2,028,778</u>	<u>149,634,788</u>
Net capital assets	<u>\$ 168,252,577</u>	<u>\$ 5,168,550</u>	<u>\$ (802,022)</u>	<u>\$ -</u>	<u>\$ 172,619,105</u>

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2002	Additions	Disposals	Reclassifications	Balance June 30, 2003
Capital assets not being depreciated:					
Land	\$ 10,419,311	\$ -	\$ -	\$ -	\$ 10,419,311
Construction in progress	<u>10,239,423</u>	<u>1,282,882</u>	<u>-</u>	<u>(11,086,059)</u>	<u>436,246</u>
Subtotal	20,658,734	1,282,882	-	(11,086,059)	10,855,557
Capital assets being depreciated:					
Land improvements	18,658,657	15,643	-	-	18,674,300
Machinery and equipment	2,917,855	868,755	(270,589)	124,492	3,640,513
Buildings and building improvements	31,902,095	262,528	(60,521)	(119,992)	31,984,110
Vehicles	587,830	139,517	(81,113)	-	646,234
Sanitary sewer system	98,455,765	87,768	-	7,780,780	106,324,313
Water mains and meters	28,853,905	416,496	-	3,300,779	32,571,180
Furniture and fixtures	<u>995,058</u>	<u>332,178</u>	<u>-</u>	<u>-</u>	<u>1,327,236</u>
Subtotal	182,371,165	2,122,885	(412,223)	11,086,059	195,167,886
Accumulated depreciation:					
Land improvements	3,529,141	571,386	-	-	4,100,527
Machinery and equipment	1,172,793	343,706	(209,508)	-	1,306,991
Buildings and building improvements	1,618,310	636,670	-	-	2,254,980
Vehicles	347,480	56,342	(81,113)	-	322,709
Sanitary sewer system	9,636,893	1,583,554	-	-	11,220,447
Water mains and meters	7,273,736	897,753	-	-	8,171,489
Furniture and fixtures	<u>753,279</u>	<u>119,597</u>	<u>-</u>	<u>-</u>	<u>872,876</u>
Subtotal	<u>24,331,632</u>	<u>4,209,008</u>	<u>(290,621)</u>	<u>-</u>	<u>28,250,019</u>
Net capital assets being depreciated	<u>158,039,533</u>	<u>(2,086,123)</u>	<u>(121,602)</u>	<u>11,086,059</u>	<u>166,917,867</u>
Net capital assets	<u>\$ 178,698,267</u>	<u>\$ (803,241)</u>	<u>\$ (121,602)</u>	<u>\$ -</u>	<u>\$ 177,773,424</u>

Note 5 - Capital Assets (Continued)

The component unit capital assets are composed of the following:

	LDFA	TIFA	BRDA	DDA	Housing Commission	Total
Capital assets not being depreciated:						
Land	\$ 17,745	\$ 13,035,343	\$ 77,187	\$ 1,601,194	\$ -	\$ 14,731,469
Assets held for sale*	-	-	-	-	1,377,567	1,377,567
Subtotal	17,745	13,035,343	77,187	1,601,194	1,377,567	16,109,036
Capital assets being depreciated:						
Land improvements	-	63,400	-	88,000	8,146,340	8,297,740
Vehicles, machinery, and equipment	-	15,768	-	49,300	3,644,425	3,709,493
Building	-	57,937	-	-	32,130,311	32,188,248
Subtotal	-	137,105	-	137,300	43,921,076	44,195,481
Accumulated depreciation	-	(15,770)	-	-	(9,410,631)	(9,426,401)
Net capital assets being depreciated	-	121,335	-	137,300	34,510,445	34,769,080
Net capital assets	<u>\$ 17,745</u>	<u>\$ 13,156,678</u>	<u>\$ 77,187</u>	<u>\$ 1,738,494</u>	<u>\$ 35,888,012</u>	<u>\$ 50,878,116</u>

* A portion of the property is being converted to condominiums for eventual sales. As such, those assets are segregated and not depreciated for financial statement purposes.

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

Governmental activities:

General government	\$ 1,329,755
Public safety	886,504
Public works	4,875,769
Economic development	221,626
Recreation and culture	1,551,381

Total governmental activities \$ 8,865,035

Business-type activities:

Water	\$ 1,011,876
Sewer	1,697,073
Golf	1,022,919
Sportsplex	477,140

Total business-type activities \$ 4,209,008

Note 5 - Capital Assets (Continued)

Component unit activities:	
TIFA	\$ 5,733
Housing Commission	<u>2,125,872</u>
Total component unit activities	<u>\$ 2,131,605</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	2003 TBA Project Fund (major fund)	\$ 52,477
	Water Fund (major fund)	17,412
	Sewer Fund (major fund)	106,469
	Golf Courses Fund (major fund)	506,913
	Other nonmajor governmental funds	197,515
	Ecorse Creek Fund	<u>2,358</u>
	Total General Fund	883,144
Other nonmajor governmental funds	General Fund	1,156,537
	Other nonmajor governmental funds	422,730
	Water Fund (major fund)	<u>32,142</u>
	Total nonmajor governmental funds	1,611,409
Sewer Fund (major fund)	Water Fund (major fund)	2,140,998
	Ecorse Creek	<u>44</u>
	Total Sewer Fund	2,141,042

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Water Fund (major fund)	Sewer Fund (major fund)	\$ 812
	Ecorse Creek Fund	69,237
	Other nonmajor governmental funds	<u>155,885</u>
	Total Water Fund	<u>225,934</u>
	Total	<u>\$ 4,861,529</u>

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

Receivable Fund	Payable Fund	Amount
Advances to/from Other Funds		
General Fund	Golf Courses Fund	<u>\$ 1,471,966</u>

Interfund Transfers

	Transfer Out			Total
	2003 Building Authority Fund	Other Nonmajor Governmental Funds	General Fund	
Transfer in - Other nonmajor governmental funds	\$ 430,000	\$ -	\$ 2,131,048	\$ 2,561,048

The transfer from the General Fund was to the Local Street Fund and represents the use of unrestricted resources to finance that program. Remaining transfers were mainly between the City's two street funds to redistribute Act 51 revenue from the Major Street to the Local Street Fund, where the funds were then spent.

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. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
Bonds and contractual obligations:						
1996 Michigan Transportation Fund - Debt Retirement - Amount of issue - \$3,000,000	4.8%-5.0%	\$ 1,955,000	\$ -	\$ 240,000	\$ 1,715,000	\$ 250,000
2000 Municipal Purchase Contract - Telephone System - Amount of issue - \$216,427	Various	116,488	-	56,301	60,187	60,187
2001 Certificates of Participation - Honeywell Project - Amount of issue - \$4,125,000	Various	3,770,000	-	355,000	3,415,000	370,000
2001 Installment Purchase Agreement - Downriver Mutual Aid E911 - Amount of issue - \$7,250,000	6.45%	6,477,841	-	589,040	5,888,801	621,006
County bonds and contract obligations:						
Ecorse Creek Pollution Abatement Drain I Bonds - Amount of issue - \$4,392,988	N/A	331,546	-	331,546	-	-
Ecorse Creek Pollution Abatement Drain I Phase II 1987 Refunding Bonds, Series II - Amount of issue - \$330,470	N/A	30,043	-	30,043	-	-
Ecorse Creek Pollution Abatement Drain I Refunding Bonds - Amount of issue - \$2,274,404	N/A	317,847	-	317,847	-	-
Taylor Building Authority Debt:						
1993 Public Facility Bonds - City Hall - Amount of issue - \$4,945,000	4.75%-5.0%	2,815,000	-	2,815,000	-	-
1998 Public Facility Bonds - Recreation Facility - Amount of issue - \$2,200,000	N/A	585,000	-	585,000	-	-
1998 Public Facility Bonds - Villages of Taylor - Amount of issue - \$16,095,000	4.25%-5.0%	15,060,000	-	465,000	14,595,000	520,000
Building Authority Bonds - Series 2000 - Amount of issue - \$10,475,000	4.55%-5.125%	10,025,000	-	460,000	9,565,000	480,000
2003 Building Authority Refunding Bonds - Amount of issue - \$2,570,000	1.5%-3.0%	-	2,570,000	-	2,570,000	390,000
Building Authority Bonds Public Facilities Bonds - Series 2003 - Amount of issue - \$13,750,000	2.0%-5.0%	-	13,750,000	-	13,750,000	-
Road loan - State Infrastructure Bank (SIB) - Racho Road - Amount of issue - \$260,000	4.0%	192,362	-	24,219	168,143	25,206
Total governmental activities		<u>\$ 41,676,127</u>	<u>\$ 16,320,000</u>	<u>\$ 6,268,996</u>	<u>\$ 51,727,131</u>	<u>\$ 2,716,399</u>
Business-type Activities						
General obligation bonds:						
Building Authority Bonds - Series 2000 - Amount of issue - \$5,525,000	4.55%-5.125%	\$ 5,525,000	\$ -	\$ 260,000	\$ 5,265,000	\$ 270,000
E-Z - Go Textron Financial Lease - Amount of issue - \$477,981	5.50%	-	477,981	30,888	447,093	83,583
1994 Downriver Sewage Disposal System Bonds - Amount of issue - \$80,916,895	Various	70,933,445	-	3,313,755	67,619,690	3,401,193
Total business-type activities		<u>\$ 76,458,445</u>	<u>\$ 477,981</u>	<u>\$ 3,604,643</u>	<u>\$ 73,331,783</u>	<u>\$ 3,754,776</u>

Note 7 - Long-term Debt (Continued)

	Interest Rate Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Units						
TIFA Bonds - 2000-A HUD Section 108 Loan - Senior Activities Center - Amount of issue - \$1,500,000	Various	\$ 1,380,000	\$ -	\$ 120,000	\$ 1,260,000	\$ 120,000
Tax Increment Bonds - Series 1993	5.7%	2,515,000	-	1,220,000	1,295,000	1,295,000
Installment mortgage loan	5.0%	-	600,000	-	600,000	300,000
Tax Increment Bonds - Series 1998 Refunding	4.4%-4.5%	16,470,000	-	1,525,000	14,945,000	1,590,000
Tax Increment Bonds - Series 2001	3.7%-5.0%	<u>35,495,000</u>	<u>-</u>	<u>710,000</u>	<u>34,785,000</u>	<u>740,000</u>
Total TIFA		55,860,000	600,000	3,575,000	52,885,000	4,045,000
DDA Bonds - Downtown Development Bond - Series 2002	3.0-4.7%	2,500,000	-	55,000	2,445,000	75,000
Housing Commission - Bonds and mortgage payable	Various	<u>21,560,000</u>	<u>28,777,670</u>	<u>22,517,180</u>	<u>27,820,490</u>	<u>389,693</u>
Total component units		<u>\$ 79,920,000</u>	<u>\$ 29,377,670</u>	<u>\$ 26,147,180</u>	<u>\$ 83,150,490</u>	<u>\$ 4,509,693</u>

Component Unit Debt

The Housing Commission's debt represents the debt owed by its component unit, the TCDC. The debt represents \$24,970,000 of MSHDA bonds, a mortgage loan, and a construction loan payable. The debt is comprised mainly of Michigan State Housing Development Authority (MSHDA) Limited Obligation Multifamily Housing Revenue Bonds, Series 2003A (the "Bonds"). In 2002, the TCDC formed three single-member limited liability companies, of which the TCDC is the sole member. The Ponds of Taylor Limited Dividend Housing Association LLC (the "Ponds"), The Parks of Taylor Limited Dividend Housing Association LLC (the "Parks"), and the Courtyards of Taylor Limited Dividend Housing Association LLC (the "Courtyards") were formed with their sole assets to be those of each corresponding apartment complex. On this same date, the Parks, Ponds, and Courtyards entered into agreements to issue the MSHDA bonds and to obtain taxable supplemental real estate loans.

The Bonds have a tax-exempt variable interest rate that is determined weekly based on the remarketing agent's submitting the bonds to the market for bidding. During the audit period, the weekly interest rate fluctuated and averaged approximately 1.25 percent (APR). The interest on the bonds is due monthly, and they also have principal reserve (sinking fund) requirements that begin on the dates noted above. The interest rate on the taxable loans is fixed throughout the term. Their principal and interest payment is also paid monthly. The respective loans are secured by all of the assets of each respective LLC.

Note 7 - Long-term Debt (Continued)

During the year ended June 30, 2003, the lender neglected to withhold principal reserve payments. During the year ending June 30, 2004, the TCDC will accelerate the principal reserve payments to compensate for the 2003 underfunding.

The fair value of the bonds and commercial loans payable is estimated based on the current rates offered to the TCDC for debt of the same remaining maturities. At June 30, 2003, the fair value of the bonds approximates the amounts recorded in the financial statements.

The TCDC has a revolving construction line of credit with a bank for \$3,000,000. The construction line of credit requires monthly interest payments at the bank's prime rate, which was 4 percent per annum at June 30, 2003. The note has a maturity date of October 1, 2004. The TCDC is allowed to take draws on the construction line based on delivery of certain amounts of fully executed purchase agreements for each building that remains to be converted to condominiums. The TCDC is required to make payments on the construction line when each condominium is sold. These payments are determined by the condominium type. This loan is secured by a mortgage on the property, security interest in all fixtures and equipment, and a lien on all of the TCDC's assets. The balance outstanding on this line of credit at June 30, 2003 was \$795,925.

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

	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 2,716,399	\$ 2,253,746	\$ 4,970,145	\$ 3,754,776	\$ 1,953,967	\$ 5,708,743	\$ 4,509,693	\$ 3,123,740	\$ 7,633,433
2005	3,335,087	2,231,570	5,566,657	3,852,146	1,852,855	5,705,001	4,243,674	2,930,260	7,173,934
2006	3,524,442	2,089,360	5,613,802	4,140,625	1,743,383	5,884,008	3,331,799	2,774,236	6,106,035
2007	3,710,544	1,932,353	5,642,897	3,958,944	1,607,155	5,566,099	3,527,013	2,631,693	6,158,706
2008	3,926,953	1,764,414	5,691,367	4,066,780	1,533,859	5,600,639	3,969,013	2,472,316	6,441,329
2009-2013	16,128,704	6,132,425	22,261,129	22,092,217	5,867,015	27,959,232	18,375,396	10,668,051	29,043,447
2014-2018	13,140,002	2,575,670	15,715,672	23,378,261	2,784,412	26,162,673	16,927,771	5,970,574	22,898,345
2019-2023	4,260,000	782,200	5,042,200	8,088,034	354,430	8,442,464	13,863,111	2,476,375	16,339,486
2024-2028	985,000	24,625	1,009,625	-	-	-	6,752,909	1,560,625	8,313,534
2029-2033	-	-	-	-	-	-	7,650,111	1,287,515	8,937,626
Total	\$ 51,727,131	\$ 19,786,363	\$ 71,513,494	\$ 73,331,783	\$ 17,697,076	\$ 91,028,859	\$ 83,150,490	\$ 35,895,385	\$ 119,045,875

Note 7 - Long-term Debt (Continued)

In conjunction with the issuances of \$11,205,000, \$19,570,000, and \$36,000,000 of Tax Increment Financing Authority (TIFA) bonds series 1993, 1998, and 2001, respectively, the component unit is required to maintain debt service reserves in the amounts of \$1,115,507, \$1,494,500, and \$3,448,681, respectively. In order to cover the reserve requirement, the TIFA component unit has obtained insurance coverage totaling \$6,431,181 for this purpose. In addition to the reserves and in conjunction with the above debt issues, the City has agreed to certain covenants, including, but not limited to, restriction on amendments to the TIFA plan districts and continued compliance with the State of Michigan regulations and statutes affecting the TIFA bond indenture.

Defeased Debt

During the year ended June 30, 1999, the TIFA defeased certain bonds (TIFA series 1989A and 1991) related to the Tax Increment Financing Authority by placing the proceeds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The debt service on the original liability was being service by the TIFA. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At June 30, 2003, \$14,375,000, representing a portion of the TIFA's bonds outstanding, is considered defeased.

No Commitment Debt - Excluded from long-term debt are bonds issued under the Economic Development Corporation Act of 1974, as amended, which authorizes the formation of economic development corporations and their participation in economic development projects in the City. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities	Component Units
Unspent bond proceeds and related interest	\$ 18,164,971	\$ -	\$ 332,767
Deposits held at Wayne County	-	11,640,738	-
Restricted deposits - Cash	-	-	115,969
Restricted deposits held by lender	-	-	2,518,376
	<u> </u>	<u> </u>	<u> </u>
Total restricted assets	<u>\$ 18,164,971</u>	<u>\$ 11,640,738</u>	<u>\$ 2,967,112</u>

Note 9 - Risk Management

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

The City estimates the liability for workers' compensation 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. Changes in the estimated liability for the past two fiscal years were as follows:

	2003	2002
Unpaid claims - Beginning of year	\$ 98,587	\$ 163,196
Incurred claims - Including claims incurred but not reported	377,925	(5,434)
Claim payments	<u>(377,925)</u>	<u>(59,175)</u>
Unpaid claims - End of year	<u>\$ 98,587</u>	<u>\$ 98,587</u>

Note 10 - Defined Benefit Pension Plan

Plan Description

Police and Fire Retirement System - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administered by the City of Taylor, Michigan; this plan covers almost all police and fire employees of the City. The system provides retirement disability and death benefits to plan members and their beneficiaries. At June 30, 2002, the date of the most recent actuarial valuation, membership consisted of 163 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 166 current active employees. The plan does not issue a separate financial report.

General Employees' Pension Plan - The General Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City of Taylor, Michigan; this plan covers all employees other than court and police and fire employees. The system provides retirement disability and death benefits to plan members and their beneficiaries. At December 31, 2002, the date of the most recent actuarial valuation, membership consisted of 194 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 215 current active employees. At December 31, 2002, the General Employees' Pension Plan had 11.6 percent of net assets available for benefits in annuities with one insurance company. The plan does not issue a separate financial report.

Michigan Municipal Employees' Retirement System - The City also participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all 23rd District Court employees of the City. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

Police and Fire Retirement System, General Employees' Pension Plan, and Michigan Municipal Employees' Retirement System - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Note 10 - Defined Benefit Pension Plan (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates.

Annual Pension Cost

Police and Fire Retirement System - For the year ended June 30, 2003, the City's contribution of approximately \$1,259,000 equaled the annual pension cost. The annual required contribution was determined as part of an actuarial valuation at June 30, 2001 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.6 percent per year compounded annually, of which 5 percent is attributable to inflation, (b) projected salary increases of 5.0 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10-25 years.

General Employees' Pension Plan - For the year ended December 31, 2002, the City's annual pension cost of \$0 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2000 using the aggregate cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.25 percent per year compounded annually, of which 4 percent is attributable to inflation, (b) projected salary increases of 4.0 percent per year compounded annually, attributable to inflation, and (c) no postretirement benefit increases. The actuarial value of assets was determined based on market value.

Note 10 - Defined Benefit Pension Plan (Continued)

Michigan Municipal Employees' Retirement System - For the year ended June 30, 2003, the City's actual pension cost of \$11,166 was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2000 using the entry age normal cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, 4.5 percent attributable to inflation (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Reserves

As of June 30, 2003, the plans' legally required reserves have been fully funded as follows:

Police and Fire Retirement System:

Reserve for employees' contributions	\$ 5,102,405
Reserve for retired benefit payments	84,680,543

General Employees' Pension Plan - Reserve for employees' contributions

4,845,495

Three-year trend information for the Police and Fire Retirement System is as follows:

	Fiscal Year Ended June 30		
	2003	2002	2001
Annual pension cost (APC)	\$ 1,259,000	\$ 792,000	\$ 1,018,000
Percentage of APC contributed	100.00%	100.00%	100.00%

Note 10 - Defined Benefit Pension Plan (Continued)

Three-year trend information for the Michigan Municipal Employees' Retirement System is as follows:

	Fiscal Year Ended June 30		
	2003	2002	2001
Annual pension cost (APC)	\$ 11,166	\$ 7,716	\$ 24,214
Percentage of APC contributed	100.00%	100.00%	100.00%
	Calendar Year Ended December 31		
	2002	2001	2000
Actuarial value of assets	\$ 1,397,830	\$ 1,292,060	\$ 1,147,312
Actuarial accrued liability (AAL)			
(entry age)	\$ 1,515,175	\$ 1,244,053	\$ 1,101,504
Unfunded AAL (UAAL)	\$ 117,345	\$ (48,007)	\$ (45,808)
Funded ratio	92.3%	103.9%	104.2%
Covered payroll	\$ 772,725	\$ 652,589	\$ 656,471
UAAL as a percentage of covered payroll	15.00%	-%	-%

Three-year trend information for the General Employees' Pension Plan is as follows:

	Year Ended December 31		
	2002	2001	2000
Annual pension cost (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	-%	-%	-%

Note 11 - Defined Contribution Plan

The City provides benefits to recently hired employees that are not eligible for the defined benefit plans through a defined contribution plan established July 1, 2002. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of hire. As established by various collective bargaining agreements, the employees are permitted to contribute up to 4 percent of their pre-tax earnings, and up to 25 percent of their after-tax earnings. The City contributes between 25 percent and 200 percent of no greater than 4 percent of the employee contributions as an employer match. The amounts in the employee's account, including earnings and employer match, are fully vested after five years of service.

The City's total payroll during the current year was \$25,074,942. The current year contribution was calculated based on covered payroll of \$431,286, resulting in an employer contribution of \$22,272 and employee contributions of \$17,251.

Note 12 - Subsequent Events

Subsequent to June 30, 2003, the City approved a contract for the construction of a new fire station and courthouse, as well as other improvements to the municipal complex. The contract is for a guaranteed maximum price not to exceed \$18,263,583 to design and build the facilities. The City previously issued Taylor Building Authority bonds, and anticipates issuing \$1,250,000 in additional Taylor Building Authority bonds in 2004 to finance the projects.

Note 13 - Contingent Liabilities

The City has been named as a defendant in numerous claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. The various proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability at June 30, 2003.

Note 13 - Contingent Liabilities (Continued)

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under terms of a consent decree, the communities will be required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$283,000,000, with the City's share estimated to be \$82,000,000, which is to be financed over 23 years through the sale of a series of county bonds and State Revolving Fund financing. Pursuant to the order of the U.S. District Court, the City will be entitled to judgment levy the amount necessary to pay the bond principal and interest amount. To date, approximately \$28,400,000 has been collected through the property tax levy for debt payments. As of June 30, 2003, the City has recorded approximately \$68,000,000 in remaining debt outstanding related to the required projects.

Note 14 - Other Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 348 retirees are eligible, including 30 Water and Sewer Commission employees. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$2,296,000 paid out of the General Fund, including approximately \$230,000 for Water and Sewer Commission retirees, which was reimbursed to the General Fund out of that Enterprise Fund.

Note 15 - Use Agreement

The TCDC and HUD entered into a use agreement that contains restrictions governing the operations of the Villages of Taylor. The use agreement requires the TCDC to make certain renovations specified in the Application for Transfer of Physical Assets submitted to HUD on March 12, 1998, maintain a replacement reserve with its mortgagor, relocate tenants as agreed, and to rent 77 percent of the project's units in accordance with affordability restrictions until September 1, 2012. In addition, the use agreement contains restrictions on the amount of rental charges and distributions.

Note 15 - Use Agreement (Continued)

The use agreement requires allocation of any distribution of income from operations or upon the sale of individual units as follows:

- Repayment of the National City Bank mortgage loan
- Repayment of the City's equity investment of \$17,633,330 plus 6 percent interest compounded annually, which accumulated to \$23,500,906 at June 30, 2003
- Repayment of HUD's equity investment of \$16,276,340 plus interest at 6 percent compounded annually. At June 30, 2003, this amount approximately \$21,678,671.
- Any remaining distribution to the City to fund programs that benefit low and moderate income residents

If the distributions are the result of a sale or refinancing of the project or a portion of the project, then the distribution first repays the mortgage, next equally pays the City's and HUD's equity investments, and finally to the City for programs that benefit low and moderate income residents.

Note 16 - Accounting and Reporting Change

GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City has applied the provisions of this statement in the accompanying financial statements (including notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds

Note 16 - Accounting and Reporting Change (Continued)

- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets totaling \$85,596,704 that would previously have been reported in the General Fixed Assets Account Group
- Capital assets at July 1, 2002 previously reported in the General Fixed Assets Account Group have been adjusted by \$10,431,115 to reflect the historical cost of the City's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$46,539,928 previously reported in the General Long-term Debt Account Group.
- The EPA Debt Fund was reclassified to the Sewer Fund, resulting in a transfer of approximately \$12,100,000 of assets recorded in the EPA Debt Fund at June 30, 2002. In addition, the related debt and capital asset is recorded in the Sewer Fund at July 1, 2002.

Required Supplemental Information

City of Taylor, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 7,899,228	\$ 7,899,228	\$ 7,899,228	\$ -
Revenue				
Property taxes	22,096,000	22,964,750	22,655,688	(309,062)
Federal sources	117,000	209,000	266,020	57,020
State sources	944,000	514,235	364,450	(149,785)
State-shared revenue	9,840,000	9,165,000	9,149,590	(15,410)
Fees and permits	690,000	693,000	693,826	826
Fines and forfeitures	3,366,000	3,366,000	3,309,935	(56,065)
Charges for services	2,829,400	2,706,143	2,548,073	(158,070)
Interest income and rents	800,000	600,000	560,750	(39,250)
Other	7,631,200	8,017,004	7,193,954	(823,050)
Transfer from other funds*	480,000	550,000	468,799	(81,201)
Total revenue	48,793,600	48,785,132	47,211,085	(1,574,047)
Expenditures				
General government	7,929,650	8,000,912	7,740,980	259,932
Public safety	14,488,050	15,056,444	14,951,858	104,586
Public works	13,571,600	13,953,067	13,438,655	514,412
Recreation and culture	3,358,600	4,667,534	4,364,727	302,807
General administration	401,800	860,800	793,161	67,639
Employee benefits	8,463,000	8,763,764	8,577,349	186,415
Debt service	580,900	580,900	580,774	126
Operating transfers out	-	-	430,000	(430,000)
Total expenditures	48,793,600	51,883,421	50,877,504	1,005,917
Fund Balance - End of year	\$ 7,899,228	\$ 4,800,939	\$ 4,232,809	\$ (568,130)

* This transfer is included in other revenue in the governmental funds statement of revenue, expenditures, and changes in fund balances for the year ended June 30, 2003, as they represent transfers in from the TIFA Fund.

City of Taylor, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2003 (dollar amounts in millions)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability		Underfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
		(AAL) - Entry Age (b)					

Police and Fire Retirement System

06/30/97	\$ 80.6	\$ 77.1	\$ (3.5)	104.6	\$ 8.5	-
06/30/98	90.2	80.2	(10.0)	112.5	8.6	-
06/30/99	100.5	95.7	(4.8)	105.0	9.7	-
06/30/00	107.0	100.5	(6.5)	106.4	9.1	-
06/30/01	109.9	106.8	(3.1)	102.9	9.6	-
06/30/02	108.0	110.5	2.5	97.7	10.6	23.6

Note: The General Employees' Pension Plan is using the aggregate cost method. Schedules of funding progress and employer contributions are not required under this method.

City of Taylor, Michigan

Required Supplemental Information Schedule of Employer Contributions June 30, 2003

Police and Fire Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1998	\$ 826,202	100
1999	871,027	100
2000	340,256	100
2001	812,963	100
2002	579,042	100
2003	1,258,709	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002 (Police and Fire Retirement System) and December 31, 2002 (General Employees' Pension Plan), the latest actuarial valuation dates, follows:

	Police and Fire Retirement System	General Employees' Pension Plan
Actuarial cost method	Individual entry age	Aggregate
Amortization method	Level percent, closed	Level percent, closed
Remaining amortization period	10-25 years	0 years
Asset valuation method	4-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.60%	7.25%
Projected salary increases*	5.00%-8.00%	4.00%
*Includes inflation at	5.00%	4.00%
Cost of living adjustments	None	None

Other Supplemental Information

City of Taylor, Michigan

	Special Revenue Funds							
	Major Streets	Local Streets	Police Forfeiture	Community Development Block Grant	Building Department	1996 Voted Levy	DARE/ GREAT	Local Law Enforcement Block Grant
Assets								
Cash and investments	\$ 259,583	\$ 98,641	\$ 903,521	\$ -	\$ 13,534	\$ 375,464	\$ 45,790	\$ 86,470
Accounts receivable - Other	-	-	-	-	-	-	-	-
Due from other governmental units	549,620	172,352	-	212,488	-	-	-	-
Due from other funds	83,409	89,755	-	-	-	-	-	-
Restricted assets	-	-	-	-	-	-	-	-
Total assets	\$ 892,612	\$ 360,748	\$ 903,521	\$ 212,488	\$ 13,534	\$ 375,464	\$ 45,790	\$ 86,470
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 751,288	\$ 151,948	\$ 84,366	\$ 111,132	\$ 3,840	\$ 1,861	\$ 945	\$ -
Deferred revenue	-	-	-	-	-	-	44,749	86,470
Due to other funds	49,858	207,151	7,877	101,356	9,694	372,133	96	-
Accrued and other liabilities	-	-	-	-	-	-	-	-
Total liabilities	801,146	359,099	92,243	212,488	13,534	373,994	45,790	86,470
Fund Balances								
Reserved for construction and other expenditures	-	-	811,278	-	-	1,470	-	-
Unreserved	91,466	1,649	-	-	-	-	-	-
Total fund balances	91,466	1,649	811,278	-	-	1,470	-	-
Total liabilities and fund balances	\$ 892,612	\$ 360,748	\$ 903,521	\$ 212,488	\$ 13,534	\$ 375,464	\$ 45,790	\$ 86,470

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003**

Debt Service Funds				Capital Project Fund	Total Nonmajor Governmental Funds
General Obligation Debt	Taylor Building Authority Debt	1996 Michigan Transportation Fund Bond	DMA / 911 Debt	TBA Construction	
\$ 199,762	\$ 22,804	\$ 338,739	\$ 233,568	\$ -	\$ 2,577,876
-	-	-	-	-	-
1,000	1,437,245	-	-	-	934,460
-	-	-	-	4,409,610	1,611,409
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,409,610</u>	<u>4,409,610</u>
\$ 200,762	\$ 1,460,049	\$ 338,739	\$ 233,568	\$ 4,409,610	\$ 9,533,355
\$ -	\$ -	\$ -	\$ -	\$ 16,779	\$ 1,122,159
-	-	-	-	-	131,219
-	-	-	-	27,965	776,130
-	-	-	-	100,717	100,717
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>145,461</u>	<u>2,130,225</u>
-	-	-	-	4,264,149	5,076,897
<u>200,762</u>	<u>1,460,049</u>	<u>338,739</u>	<u>233,568</u>	<u>-</u>	<u>2,326,233</u>
<u>200,762</u>	<u>1,460,049</u>	<u>338,739</u>	<u>233,568</u>	<u>4,264,149</u>	<u>7,403,130</u>
\$ 200,762	\$ 1,460,049	\$ 338,739	\$ 233,568	\$ 4,409,610	\$ 9,533,355

City of Taylor, Michigan

	Special Revenue Funds							
	Major Streets	Local Streets	Police Forfeiture	Community Development Block Grant	Building Department	1996 Voted Levy	DARE / GREAT	Local Law Enforcement Block Grant
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,371,463	\$ -	\$ -
Licenses and permits	-	-	-	-	1,179,062	-	-	-
Federal sources	-	-	260,104	888,655	-	-	-	22,682
State sources	2,904,146	998,105	79,092	-	-	-	-	-
Interest and rent	11,293	3,830	14,098	-	2,895	7,918	460	909
DMA/911 revenue	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	13,885	-
Total revenues	2,915,439	1,001,935	353,294	888,655	1,181,957	1,379,381	14,345	23,591
Expenditures								
Current:								
Public works and capital projects	634,350	2,096,034	-	-	1,181,957	-	-	-
Community development	-	-	-	888,655	-	-	-	-
Construction and development	797,813	1,109,703	-	-	-	30,660	-	-
Capital outlay and other	25,000	25,528	423,891	-	-	1,371,463	14,345	32,345
Debt service	32,056	-	-	-	-	-	-	-
Total expenditures	1,489,219	3,231,265	423,891	888,655	1,181,957	1,402,123	14,345	32,345
Excess of Revenues Over (Under) Expenditures	1,426,220	(2,229,330)	(70,597)	-	-	(22,742)	-	(8,754)
Other Financing Sources (Uses)								
Operating transfers in	-	2,222,076	-	-	-	-	-	8,754
Operating transfers out	(2,122,294)	-	(8,754)	-	-	-	-	-
Proceeds from the issuance of bonds	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(2,122,294)	2,222,076	(8,754)	-	-	-	-	8,754
Change in Fund Balance	(696,074)	(7,254)	(79,351)	-	-	(22,742)	-	-
Fund Balances - Beginning of year	787,540	8,903	890,629	-	-	24,212	-	-
Fund Balances - End of year	\$ 91,466	\$ 1,649	\$ 811,278	\$ -	\$ -	\$ 1,470	\$ -	\$ -

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2003

Debt Service Funds				Capital Project	Total Nonmajor Governmental Funds
General Obligation Debt	Taylor Building Authority Debt	1996 Michigan Transportation Fund Bond	DMA / 911 Debt	Fund TBA Construction	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,371,463
-	-	-	-	-	1,179,062
-	-	-	-	-	1,171,441
-	-	-	-	-	3,981,343
7,019	3,433,039	1,657	3,155	85,090	3,571,363
-	-	-	899,048	-	899,048
<u>34,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,310</u>
41,444	3,433,039	1,657	902,203	85,090	12,222,030
-	-	-	-	2,687,515	6,599,856
-	-	-	-	-	888,655
-	-	-	-	-	1,938,176
-	-	-	-	-	1,892,572
<u>731,448</u>	<u>6,237,810</u>	<u>330,843</u>	<u>989,721</u>	<u>110,032</u>	<u>8,431,910</u>
<u>731,448</u>	<u>6,237,810</u>	<u>330,843</u>	<u>989,721</u>	<u>2,797,547</u>	<u>19,751,169</u>
(690,004)	(2,804,771)	(329,186)	(87,518)	(2,712,457)	(7,529,139)
-	-	330,218	-	-	2,561,048
-	-	-	-	-	(2,131,048)
-	<u>2,570,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,570,000</u>
-	<u>2,570,000</u>	<u>330,218</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
(690,004)	(234,771)	1,032	(87,518)	(2,712,457)	(4,529,139)
<u>890,766</u>	<u>1,694,820</u>	<u>337,707</u>	<u>321,086</u>	<u>6,976,606</u>	<u>11,932,269</u>
<u>\$ 200,762</u>	<u>\$ 1,460,049</u>	<u>\$ 338,739</u>	<u>\$ 233,568</u>	<u>\$ 4,264,149</u>	<u>\$ 7,403,130</u>

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2003

	Trust Funds					
	Pension and Other Retirement Benefit Funds			Agency Funds		
	Police and Fire Retirement System	General Employees' Pension Plan*	Total	Tax Receiving	23rd District Court	Total
Assets						
Cash and equivalents	\$ 249,299	\$ 500	\$ 249,799	\$ 935,796	\$ 47,999	\$ 983,795
Investments:						
Corporate bonds	16,985,618	6,214,982	23,200,600	-	-	-
U.S. government securities	20,417,595	8,343,661	28,761,256	-	-	-
Common and preferred stock	31,926,761	22,970,939	54,897,700	-	-	-
Bank investment pool funds	6,212,067	1,975,985	8,188,052	-	237,744	237,744
Annuity contracts	-	5,200,214	5,200,214	-	-	-
Mutual funds	15,466,916	-	15,466,916	-	-	-
Accrued interest	531,235	194,958	726,193	-	-	-
Total assets	91,789,491	44,901,239	136,690,730	<u>\$ 935,796</u>	<u>\$ 285,743</u>	<u>\$ 1,221,539</u>
Liabilities						
Accounts payable	-	-	-	\$ 121,216	\$ -	\$ 121,216
Due to other governmental units	-	-	-	794,330	123,369	917,699
Cash bonds and deposits	-	-	-	-	162,374	162,374
Tax collections distributable	-	-	-	7,746	-	7,746
Refunds payable	-	-	-	12,504	-	12,504
Total liabilities	-	-	-	<u>\$ 935,796</u>	<u>\$ 285,743</u>	<u>\$ 1,221,539</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 91,789,491</u>	<u>\$ 44,901,239</u>	<u>\$ 136,690,730</u>			

* Balances are as of December 31, 2002

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2003

	Police and Fire Retirement System	General Employees' Pension Plan*	Total
Additions			
Investment income (loss):			
Interest and dividends	\$ 3,005,869	\$ 1,676,293	\$ 4,682,162
Net decrease in fair value of investments	(450,359)	(7,233,582)	(7,683,941)
Less investment expenses	(174,242)	(234,023)	(408,265)
Net investment income (loss)	2,381,268	(5,791,312)	(3,410,044)
Contributions:			
Employer	1,258,709	-	1,258,709
Employee	802,596	525,637	1,328,233
Total contributions	2,061,305	525,637	2,586,942
Total additions - Net of investment loss	4,442,573	(5,265,675)	(823,102)
Deductions			
General and administrative	40,205	113,615	153,820
Benefit payments	7,352,408	5,363,352	12,715,760
Total deductions	7,392,613	5,476,967	12,869,580
Net Decrease in Net Assets	(2,950,040)	(10,742,642)	(13,692,682)
Net Assets Held in Trust for Pension and Other Employee Benefits			
Beginning of year	94,739,531	55,643,881	150,383,412
End of year	<u>\$ 91,789,491</u>	<u>\$ 44,901,239</u>	<u>\$ 136,690,730</u>

* Balances are as of December 31, 2002

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Net Assets (Deficit) Component Unit - Housing Commission Year Ended June 30, 2003

	Housing Commission*	Taylor Community Development Corporation*	Total
Assets			
Cash and cash equivalents	\$ 646,300	\$ 976,163	\$ 1,622,463
Due from other governmental units	50,895	-	50,895
Accounts receivable	47,549	251,667	299,216
Deferred charges	-	1,689,656	1,689,656
Prepaid expenses and other assets	20,836	237,109	257,945
Restricted assets	-	2,634,345	2,634,345
Capital assets	<u>2,303,244</u>	<u>33,584,768</u>	<u>35,888,012</u>
Total assets	3,068,824	39,373,708	42,442,532
Liabilities			
Accounts payable	188,564	970,568	1,159,132
Due to other governmental units	50,895	-	50,895
Tenant security deposits	22,140	-	22,140
Accrued liabilities and other	12,176	283,300	295,476
Notes payable	-	185,040	185,040
Long-term debt	-	<u>27,820,490</u>	<u>27,820,490</u>
Total liabilities	<u>273,775</u>	<u>29,259,398</u>	<u>29,533,173</u>
Net Assets (Deficit)			
Invested in capital assets - Net of related debt	2,303,244	7,611,048	9,914,292
Restricted	-	2,634,345	2,634,345
Unrestricted (deficit)	<u>491,805</u>	<u>(131,083)</u>	<u>360,722</u>
Total net assets (deficit)	<u>\$ 2,795,049</u>	<u>\$ 10,114,310</u>	<u>\$ 12,909,359</u>

* Balances are as of March 31, 2003 for the Housing Commission and as of June 30, 2003 for the Taylor Community Development Corp., its component unit.

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Component Unit - Housing Commission Year Ended June 30, 2003

	Housing Commission*	Taylor Community Development Corporation*	Total
Revenue			
Rental income	\$ 252,716	\$ 6,689,515	\$ 6,942,231
Other income	<u>2,846,443</u>	<u>4,136,155</u>	<u>6,982,598</u>
Total revenue	3,099,159	10,825,670	13,924,829
Expenditures			
General administration	288,463	2,236,361	2,524,824
Housing assistance payments	2,270,338	-	2,270,338
Utilities	109,619	1,628,533	1,738,152
Operation and maintenance	138,891	3,701,490	3,840,381
Depreciation and amortization	126,465	1,999,407	2,125,872
Other	<u>36,832</u>	<u>971,349</u>	<u>1,008,181</u>
Total expenditures	<u>2,970,608</u>	<u>10,537,140</u>	<u>13,507,748</u>
Operating Income	128,551	288,530	417,081
Nonoperating Revenue (Expenses)			
Other nonoperating income	16,065	19,034	35,099
Loss on sale of property	-	(946,131)	(946,131)
Interest income	3,262	11,933	15,195
Interest expense	<u>-</u>	<u>(809,558)</u>	<u>(809,558)</u>
Total nonoperating revenue (expenses)	<u>19,327</u>	<u>(1,724,722)</u>	<u>(1,705,395)</u>
Net Income (Loss)	147,878	(1,436,192)	(1,288,314)
Net Assets - Beginning of year	<u>2,647,171</u>	<u>11,550,502</u>	<u>14,197,673</u>
Net Assets - End of year	<u><u>\$ 2,795,049</u></u>	<u><u>\$ 10,114,310</u></u>	<u><u>\$ 12,909,359</u></u>

* Balances are as of March 31, 2003 for the Housing Commission and as of June 30, 2003 for the Taylor Community Development Corp., its component unit.

City of Taylor, Michigan

**Federal Awards
Supplemental Information
June 30, 2003**

City of Taylor, Michigan

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Independent Auditor's Report

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

We have audited the basic financial statements of the City of Taylor, Michigan for the year ended June 30, 2003 and have issued our report thereon dated December 11, 2003. Those basic financial statements are the responsibility of the management of the City of Taylor, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Taylor, Michigan taken as a whole. The accompanying schedules of expenditures of federal awards and reconciliation of the basic financial statements federal revenue with the schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules 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

December 11, 2003

Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements

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

We have audited the financial statements of the City of Taylor, Michigan as of and for the year ended June 30, 2003 and have issued our report thereon dated December 11, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Taylor, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

Plante & Moran, PLLC

December 11, 2003

Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

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

Compliance

We have audited the compliance of the City of Taylor, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The major federal programs of the City of Taylor, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Taylor, Michigan's management. Our responsibility is to express an opinion on the City of Taylor, Michigan's compliance based on our audit.

The City of Taylor, Michigan's basic financial statements include the operations of the Taylor Housing Commission, which received federal awards that are not included in the attached schedule for the year ended June 30, 2003. Our audit, as described below, did not include the operations of the Taylor Housing Commission because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Taylor, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Taylor, Michigan's compliance with those requirements.

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

In our opinion, the City of Taylor, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2003-1.

Internal Control Over Compliance

The management of the City of Taylor, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Taylor, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Taylor, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2003-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

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

Plante & Moran, PLLC

December 11, 2003

City of Taylor, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Direct Program -				
Community Development Block Grant - Entitlement Grant:				
Program year 2001-2002 - B01-MC-26-0015	14.218	NA	\$ 813,000	\$ 688,345
Program year 2002-2003 - B02-MC-26-0015	14.218	NA	772,000	200,309
Program year 2003-2004 - B03-MC-26-0015	14.218	NA	640,000	-
Total U.S. Department of Housing and Urban Development				888,654
U.S. Department of Justice:				
Passed through Taylor School District - Drug-free Schools and Communities Act of 1986:				
TTOP JAIBG - 4/1/02-3/31/03	16.540	02-82022	31,444	28,075
TTOP JAIBG - 4/1/03-3/31/04	16.540	03-82002	21,526	6,074
Total passed through Taylor School District - Drug-free Schools and Communities Act of 1986				34,149
Passed through the State of Michigan - Office of Criminal Justice:				
DRANO Enhancement Grant:				
State Police pass-through grant - 10/1/01-9/30/02	16.579	70439-9K02	17,017	4,254
State Police pass-through grant - 10/1/02-9/30/03	16.579	70439-1K03	17,017	12,762
Total DRANO Enhancement Grant				17,016
HIDTA - State Police/DCC pass-through grant - 1/1/02-12/31/02	16.unknown	NA	8,178	8,178
Total passed through the State of Michigan - Office of Criminal Justice				25,194
Bureau of Justice Assistance:				
Passed through Wayne County - STOP - Violence against women:				
10/01/01-9/30/02	16.588	DV97820031-1	41,735	9,750
10/01/02-9/30/03	16.588	DV97820031-1	40,942	36,563
Total passed through Wayne County - STOP - Violence against women				46,313
Local Law Enforcement Block Grant:				
2001 LB-BX 3990 #6 10/1/01-9/30/03	16.592	NA	107,635	24,744
2002 LB-BX 0482 #7 10/1/03-9/30/04	16.592	NA	78,785	2,983
Total Local Law Enforcement Block Grant				27,727
C.O.P.S. in Schools Grant - 2001 SH-WX-0596	16.710	NA	125,000	62,449
Bulletproof Vest Program:				
Bulletproof Vest Partnership 2002	16.607	NA	11,625	10,000
Bulletproof Vest Partnership 2003	16.607	NA	12,000	7,200
Total Bulletproof Vest Program				17,200
Total Bureau of Justice Assistance				153,689
Federal Equitable Sharing Program - Justice	16.unknown	NA	-	340,137
Total U.S. Department of Justice				553,169

City of Taylor, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2003

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Treasury:				
Federal Equitable Sharing Program - Treasury	16.unknown	NA	\$ -	\$ 92,045
U.S. Custom Service Outbound Currency Task Force	16.unknown	NA	-	<u>12,115</u>
Total U.S. Department of Treasury				104,160
U.S. Department of Transportation - Federal Aid to Urban Systems (FAUS) - Passed through Michigan Department of Transportation:				
Federal Transportation Enhancement Grants - Goddard Road Transportation Enhancement - 54867A	20.205	STP-0282(332)	902,080	451,632
Michigan State Police - Office of Highway Safety Planning:				
Seat Belt Grant 10/1/01-9/30/02	20.600	OP-02-12	23,746	2,887
Seat Belt Grant 10/1/02-9/30/03	20.600	OP-01-06	38,000	<u>29,434</u>
Total Michigan State Police - Office of Highway Safety Planning				<u>32,321</u>
Total U.S. Department of Transportation				483,953
U.S. Environmental Protection Agency - Brownfield Cleanup Revolving Loan Fund Pilot				
	66.811	n/a	1,000,000	-
Federal Emergency Management Agency - Passed through Michigan State Police Emergency Management Division				
FEMA-EMW-2001-F6-06832	83.544	EMW2001-FG-06832	105,400	<u>19,684</u>
Total federal awards				<u>\$ 2,049,620</u>

City of Taylor, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Revenue from federal sources - As reported on financial statements within the governmental funds	\$ 1,435,678
Revenue from federal sources - As reported within the discretely presented component units	419,849
Federal revenue not reported in the financial statements:	
MDOT Activity	158,184
U.S. Custom Service Outbound Currency Task Force	12,115
Federal expenditures of prior years federal revenue:	
Federal Forfeiture Justice Funds	125,603
Federal Forfeiture Treasury Funds	46,475
Emergency Management Funds	19,684
LLEBG	6,828
Federal revenue reported in the financial statements, not expended in the current period:	
MDOT activity	(126,401)
Miscellaneous law enforcement grants	<u>(48,395)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 2,049,620</u>

City of Taylor, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Taylor, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The City of Taylor, Michigan had the following loan balances outstanding at June 30, 2003. These loan balances are not included in the federal expenditures presented in the schedule of expenditures of federal awards.

<u>Cluster/Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Community Development Block Grant	14.218	\$ 1,260,000

Note 3 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 70,034

City of Taylor, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2003

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grant
16.unknown	Federal Equitable Sharing Program
20.205	Transportation Enhancement Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

City of Taylor, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Findings
2003-1	<p>Program Name - Community Development Block Grant</p> <p>Finding Type - Material noncompliance, reportable condition</p> <p>Criteria - HUD regulations require that on-site job interviews and weekly payroll submissions and certification be performed on projects with costs greater than \$2,000 (other than housing rehabilitation) to ensure Davis-Bacon requirements have been met.</p> <p>Condition - The City did not perform on-site job interviews and did not receive weekly payroll submissions or certifications during the Burns Drain Project, which had a total contract cost of approximately \$101,000.</p> <p>Recommendation - The City should ensure that it performs on-site job interviews for all required projects and ensure that it performs and/or receives weekly payroll submissions and certifications for all required projects.</p> <p>Grantee Response - The City's Community Development Department is responsible for compliance with Davis-Bacon requirements. In order to ensure compliance in the future, the Community Development Department will be required to submit actual interview forms and/or payroll certifications to the Budget and Finance Department for review.</p>