City of Taylor, Michigan

Financial Report
with Supplemental Information
June 30, 2011

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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 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 (the "City") as of and for the year ended June 30, 2011, 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 $45,733,021 at March 31, 2011 and a net increase in net assets of $861,150 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 Taylor Housing Commission, is based solely on the report of the other auditors. The other auditor's report, dated December 15, 2011, 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. The District Court Funds of District No. 23, City of Taylor, Michigan was not audited in accordance with *Government Auditing Standards*.

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, 2011 and the respective changes in its 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 Honorable Mayor and Members
of the City Council
City of Taylor, Michigan

The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by 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 thereon dated December 22, 2011 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 grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. 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.

During the year, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Notes 18 and 20. As a result of this required implementation, the Tree Replacement Fund, which was previously recorded as a special revenue fund, is now reported as part of the General Fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

As further disclosed in Note 20 to the financial statements, the City has a significant unassigned deficit in its General Fund. This condition is negatively impacting City operations and available cash flows.

Plante & Moran, PLLC

December 22, 2011

Our discussion and analysis of the City of Taylor, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements.

In the City's General Fund, the main operating fund of the City, revenue decreased approximately $3.8 million from 2010.

- Property tax related revenue decreased approximately $2.2 million in 2011, and with the continuing decreases in property values, the City estimates its tax revenue from the general operating tax millage to decrease approximately $400,000 in FYE 2012 and another $700,000 for FYE 2013.

- State-shared revenue was $6.7 million in 2011 and our second largest revenue source, and was equal to the 2010 amount. The statutory portion has been eliminated and replaced by the Economic Vitality Incentive Program (EVIP). The City is potentially eligible to receive $1.7 million in EVIP funding if established targets are achieved. Thus, the total state-shared revenue for the 2012 FYE is expected to be $700,000 less than that received in the 2011 FYE.

- 23rd District Court revenue increased approximately $700,000 from the prior year amount of $2.9 million to approximately $3.6 million for the year ended June 30, 2011. Police traffic enforcement is the major source of this revenue. While traffic enforcement provides revenue, it also adds a significant cost to the taxpayers by increasing police pensions, which are funded by a specific millage. The City's annual contribution for police and fire retiree benefits has increased from $579,042 in 2002 to $5,917,992 in 2011, a 922 percent increase.

- The revenue was supplemented in FYE 2011 by an installment purchase contract borrowing totaling $3.1 million associated with the implementation of a new rubbish pick-up and recycling program.

General Fund expenditures were higher by approximately $371,000 compared to 2010, representing a nominal 1 percent increase, but included the expenditures related to the above noted rubbish pick-up and recycling program. Unfortunately, some anticipated savings from union concessions did not occur as several contracts remained unsettled.

Total unallocated employee fringe benefit expenses increased by approximately $798,000 over 2010. The primary drivers of the additional expense were healthcare costs for current and retired employees, up over $800,000, and workers' compensation costs associated with the deaths of a police officer and an auxiliary police officer.

- Included in fringe benefit expense was over $2.7 million in payoffs of unused compensated absences for 2011. Management realizes that compensated absences represent a significant budgetary problem and an opportunity for "spiking" final average compensation related to employee pension calculations, and is attempting to address those problems inherent in the employment contracts. As of June 30, 2011, the total liability for compensated absences had decreased, but is still $4.3 million.

The General Fund fund balance (the cumulative difference between revenue and expenses) has reached an extremely low level, and indeed the unassigned fund balance at June 30, 2011 is a deficit of $1.7 million. The situation was exacerbated in part by the non-realization of a proposed sale of a city-owned building for $2.5 million, and by the accrual of over $400,000 in compensated absences paid to employees laid off at year end. Current economic conditions continue to deteriorate. Because of the limits on the City's ability to increase revenue, it is imperative that management's focus be on immediate and long-term employee cost containment.

The City's golf courses operated at deficits, substantially as a result of depreciation of assets donated by the TIFA component unit. Although the golf courses reduced costs appreciably in order to operate more profitably before the effects of depreciation, they still have a long-standing negative cash flow. Revenue has been trending downward for several consecutive years, reflecting the poor economic conditions in southeast Michigan. Golf course restaurant operations are now closed during less-profitable winter months.

The Taylor Sportsplex had historically been operating at a loss and therefore the City leases the facility to an unrelated entity. The City is no longer subsidizing the operational cost. The TIFA will continue to pay the debt service on the Sportsplex.

Total net assets related to the City's governmental activities at the end of the year were approximately $162.8 million, a $14.8 million decrease from the prior year's approximately $177.6 million in net assets. The net decrease is mainly due to recording of the net OPEB (other postemployment benefits) obligation of $5.8 million, and the depreciation of capital assets.

Overview of the Financial Statements

This discussion and analysis is 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 supplemental information in addition to the basic financial statements.

Government-wide Financial Statements - The statement of net assets (deficit) and the statement of activities 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.

Fund Financial Statements - The fund financial statements are presented after the government-wide statements. 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 supplemental 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, 2011 and 2010:

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Assets						
Current assets	$ 28,545,175	$ 25,111,689	$ 15,131,358	16,480,006	$ 43,676,533	$ 41,591,695
Capital assets	212,535,488	206,559,435	134,465,078	131,018,737	347,000,566	337,578,172
Other noncurrent assets	2,240,609	1,108,928	8,762,490	11,496,746	11,003,099	12,605,674
Total assets	243,321,272	232,780,052	158,358,926	158,995,489	401,680,198	391,775,541
Liabilities						
Current liabilities	14,585,645	14,317,145	1,805,367	2,279,409	16,391,012	16,596,554
Long-term liabilities	51,097,686	55,683,664	57,355,861	53,552,288	108,453,547	109,235,952
Total liabilities	65,683,331	70,000,809	59,161,228	55,831,697	124,844,559	125,832,506
Net Assets						
Invested in capital assets - Net of related debt	181,030,772	175,649,422	83,136,855	84,688,267	264,167,627	260,337,689
Restricted	9,635,811	10,233,644	7,181,560	6,964,998	16,817,371	17,198,642
Unrestricted assets (deficit)	(13,028,642)	(23,103,823)	8,879,283	11,510,527	(4,149,359)	(11,593,296)
Total net assets	**$ 177,637,941**	**$ 162,779,243**	**$ 99,197,698**	**$ 103,163,792**	**$ 276,835,639**	**$ 265,943,035**

The City's combined net assets totaled $265.9 million, a decrease of 3.9 percent from the prior year. As we look at the governmental activities separately from the business-type activities, we can see that the current level of unrestricted deficit increased by $10.1 million for our governmental activities. The business-type activities unrestricted net assets increased by $2.6 million during 2011.

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

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Revenue						
Program revenue:						
Charges for services	$ 10,837,562	$ 10,642,525	$ 18,332,509	$ 17,897,605	$ 29,170,071	$ 28,540,130
Operating grants and contributions	9,843,157	7,505,852	-	-	9,843,157	7,505,852
Capital grants and contributions	5,072,087	2,159,985	694,820	358,616	5,766,907	2,518,601
General revenue:						
Property taxes	30,980,253	28,724,582	4,233,979	5,375,648	35,214,232	34,100,230
State-shared revenue	6,708,971	6,708,637	-	-	6,708,971	6,708,637
Unrestricted investment earnings	108,116	5,491	90,707	65,691	198,823	71,182
Rental income and fees	392,644	367,089	-	-	392,644	367,089
Gain (loss) on disposal of assets	(280,579)	-	-	1,850	(280,579)	1,850
Miscellaneous revenue	750,267	5,481,774	313,423	174,695	1,063,690	5,656,469
Total revenue	64,412,478	61,595,935	23,665,438	23,874,105	88,077,916	85,470,040
Program Expenses						
General government	12,585,103	12,003,513	-	-	12,585,103	12,003,513
Public safety	34,486,833	35,337,391	-	-	34,486,833	35,337,391
Public works	18,346,895	19,729,138	-	-	18,346,895	19,729,138
Community and economic development	3,295,443	3,363,491	-	-	3,295,443	3,363,491
Recreation and culture	5,443,991	5,036,420	-	-	5,443,991	5,036,420
Interest on long-term debt	1,514,890	984,680	-	-	1,514,890	984,680
Water	-	-	7,635,964	7,618,998	7,635,964	7,618,998
Sewer	-	-	8,353,848	7,988,574	8,353,848	7,988,574
Golf courses	-	-	4,885,471	4,107,886	4,885,471	4,107,886
Ecorse Creek	-	-	221,126	192,553	221,126	192,553
Total program expenses	75,673,155	76,454,633	21,096,409	19,908,011	96,769,564	96,362,644
Transfers	(432,401)	-	-	-	(432,401)	-
Change in Net Assets	**$ (11,693,078)**	**$ (14,858,698)**	**$ 2,569,029**	**$ 3,966,094**	**$ (9,124,049)**	**$ (10,892,604)**

Governmental Activities

The City's total governmental revenue was down from $64.4 million to $61.6 million, mainly due to the decreased tax revenue and operating and capital grants. The City's total governmental expenses increased by approximately $781,000, a 1 percent increase from 2010. Again during 2011, the City closely monitored its spending in all areas.

Business-type Activities

The City's business-type activities consist of the Water, Sewer, Ecorse Creek, and Golf Course Enterprise Funds. The City leases the Taylor Sportsplex; therefore, those activities are no longer reported as a business-type and are now included in the governmental activities. The City provides water to residents from the Detroit Water System. The City also provides 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 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 EPA levy is adjusted annually based on debt service for the upcoming year less any credits available at Wayne County. For all business-type activities in 2011, total revenue increased approximately $209,000. Total expenses were $1.2 million less than 2010.

The City of Taylor's Funds

Our analysis of the City's major funds begins on page 15, 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 only major governmental fund for 2011 is the General Fund.

The General Fund pays for most of the City's governmental services. The most significant are public safety, which incurred expenses of approximately $20.8 million, and public works, which incurred expenses of $15.1 million in 2011. Employee benefit expenses accounted for another $14.7 million.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. Overall, the General Fund's revenue budget was increased during the year by a net amount of approximately $10.5 million. Two of the major budget adjustments were for municipal debt proceeds and proposed property sales. The total revenue budget included appropriation of prior years' fund balance and reserves for restricted revenue in the amount of approximately $3.5 million. Actual revenue was less than the budget (excluding appropriation of prior years' fund balance and reserves) by approximately $3.2 million, or 6 percent. Included in that differential was the $2.5 million related to the anticipated sale of the City-owned building which has not yet been realized.

The City's expenditure budget was also increased approximately $10.5 million during the year to $61.1 million. Of the increase, $3.1 million related to the capital acquisitions for the new rubbish and recycling program. Otherwise, the inability to negotiate contract concessions anticipated in the budget resulted in the need to amend the budget upward. For the year, the City's departments overall stayed below the amended budget, resulting in total expenditures of $59.6 million, approximately 2.5 percent below the amended budget.

Capital Asset and Debt Administration

At the end of 2011, the City, including its component units, had approximately $378 million (net of depreciation) invested in a broad range of capital assets, including buildings, roads, water and sewer lines, parks, and machinery and equipment. The City finances most of its capital improvements through the issuance of long-term debt. The City's governmental activities incurred new debt of $3.3 million in 2011, primarily for new rubbish and recycling totes and new waste management trucks. New golf-cart lease debt was also incurred in 2011.

The City's investment in capital assets, net of related debt, decreased from approximately $264.2 million to approximately $260.3 million. The component units' investment in capital assets, net of related debt, increased approximately $717,000. The City's total debt was approximately $166.8 million, including approximately $78.9 million of component unit debt. Of the component unit debt, approximately $12 million relates to TIFA debt issued on behalf of the Sportsplex. The TIFA has been responsible for covering debt service on debt issued by the Taylor Building Authority since the Sportsplex has been leased out. Expected FYE 2012 debt service payments on all long-term obligations exclusive of interest are approximately $11.5 million for the City and component units in total. The overall debt, while manageable and within legal limits, does limit the flexibility of the City to respond to the future needs of the community.

Economic Factors and Next Year's Budgets

Like most other communities in Michigan, particularly southeast Michigan, the City continues to struggle with providing necessary services with limited revenue. The City has operated with a structural deficit for too many years, with the difference between revenue and expenditures sharply exacerbated by the economic decline. For the fiscal year ending June 30, 2012, the possibility of continuing reductions to the statutory portion of state revenue sharing became a reality with the introduction of the State's Economic Vitality Incentive Program and a reduction of approximately $700,000 in revenue sharing. State-shared gas and oil tax distributions that are used for road maintenance and construction also continue to trend downward. Despite increased employee co-pays, health insurance costs continue to increase; however, the City hopes to benefit from implementation of new high-deductible healthcare plans beginning January 1, 2012. The City's contributions to the Police and Fire Retirement System and General Employees' Retirement System have increased by approximately $147,000 and $235,000, respectively, from fiscal year 2011 to 2012. Prior investment losses in both Retirement Systems will continue to affect future pension contribution rates.

In the three years leading up to December 31, 2010, the City of Taylor lost nearly 20 percent of its taxable value. With the decline in market values of properties, the City is estimating a $400,000 decrease in general operating millage tax revenue for the FYE 2012. Taxable values are expected to drop another 8 percent for the following fiscal year and tax appeals may cost the City even more. Until the housing market rebounds, building fees and permit revenue will continue to be minimal. Because of the housing market collapse, the tax capture revenue to pay the debt on the Island Lakes (Midtown Basin) Brownfield bonds is much less than anticipated when the bonds were sold in 2005, and the developer's guarantee of support has been insufficient. The City has had to budget $133,000 from the General Fund in FYE 2012 to cover likely shortfalls in available funding for the Island Lakes bonds. Current projections are that the shortfall between taxes captured and debt service that must be paid by the City could range from $550,000 to $850,000 annually by the fiscal year beginning July 1, 2012. Similarly, the reduction in tax revenue from the 1996 voted millage caused by the severe decline in taxable values will likely result in the need for voter support of an increase in the levy prior to the maturity of the related debt in September 2016.

Municipal revenue opportunities are systematically limited by state law as well as the current economic conditions, so the General Fund budget continues to depend on uncertain revenue such as state-shared revenue, cable franchise fees, court fines, and charges for services. With revenue limited, the City understands the need to continue to control expenditure budgets very closely. But the gap cannot be closed quickly without substantial cooperation from everyone. Despite reducing the number of employees, limiting or eliminating wage increases, and implementing co-pay arrangements for health insurance, the 2011/2012 budget is still in a structural deficit, currently utilizing $1 million from estimated fund balance to balance revenue to expenditures. However, as previously noted, the City's General Fund ended the FYE 2011 with an unassigned deficit, and so the City must rely on the finalization of the proposed sale of city-owned property and additional cost savings from contract concessions or layoffs to bring the budget back into proper balance.

Given these strains on the budget, the City understands the need to reduce cost for personal services and employee benefits, as these are the largest portions of the budget. Approximately 70 percent of the City's General Fund costs are employee-related. Yet four expired employee union contracts are still under negotiation, thereby stalling potential cost-saving opportunities.

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, 2011

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and investments (Note 3)	$ 13,686,613	$ 12,391,304	$ 26,077,917	$ 15,667,212
Receivables - Net:				
Taxes	31,646	-	31,646	-
Customers	-	3,907,494	3,907,494	-
Other	2,361,988	83,309	2,445,297	1,003,762
Due from other governmental units	2,998,962	-	2,998,962	-
Special assessments	4,479,063	-	4,479,063	-
Due from component units	387,084	-	387,084	-
Due from primary government	-	-	-	624,900
Internal balances (Note 6)	160,506	(160,506)	-	-
Inventories	-	258,405	258,405	-
Prepaid costs and other assets	799,549	-	799,549	144,402
Restricted assets (Note 8)	1,047,829	10,343,115	11,390,944	5,336,570
Properties held for resale	206,278	-	206,278	9,144,263
Capital assets:				
Nondepreciable capital assets	31,194,018	4,848,020	36,042,038	38,951,451
Depreciable capital assets	175,365,417	126,170,717	301,536,134	-
Intangible assets (Note 5)	-	1,153,631	1,153,631	-
Unamortized bond issuance costs	61,099	-	61,099	98,215
Total assets	232,780,052	158,995,489	391,775,541	70,970,775
Liabilities				
Accounts payable	1,785,955	1,192,130	2,978,085	1,720,416
Due to other governmental units	1,125,480	454,363	1,579,843	110,441
Due to component units	583,796	41,104	624,900	-
Due to primary government	-	-	-	387,084
Accrued and other liabilities	3,372,146	589,242	3,961,388	2,097,564
Due to pension funds	3,071,862	-	3,071,862	-
Deferred revenue (Note 4)	4,377,906	2,570	4,380,476	743,673
Current liabilities payable from restricted assets	-	4,296,231	4,296,231	-
Tenant security deposit	-	-	-	350,934
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 7)	1,553,273	92,037	1,645,310	-
Bond premium (Note 7)	104,931	-	104,931	1,079
Workers' compensation claims	67,619	-	67,619	-
Longevity (Note 7)	333,498	-	333,498	-
Current portion of long-term debt (Note 7)	3,270,140	554,420	3,824,560	3,407,721
Due in more than one year:				
Compensated absences (Note 7)	2,579,994	124,624	2,704,618	-
Bond premium (Note 7)	625,204	-	625,204	16,720
Workers' compensation claims (Note 7)	1,193,162	-	1,193,162	-
Net OPEB obligation (Note 16)	18,811,067	2,494,005	21,305,072	-
Long-term debt (Note 7)	27,144,776	45,990,971	73,135,747	75,464,308
Total liabilities	70,000,809	55,831,697	125,832,506	84,299,940
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	175,649,422	84,688,267	260,337,689	13,693,275
Restricted for:				
Roads	1,904,965	-	1,904,965	-
Police forfeitures	3,327,284	-	3,327,284	-
Debt service	1,802,709	6,046,884	7,849,593	500,671
Sewer	-	918,114	918,114	-
Property and other project expenditures	-	-	-	3,552,701
Special millages	2,558,814	-	2,558,814	-
Capital projects	239,246	-	239,246	-
Grants	400,626	-	400,626	-
Unrestricted	(23,103,823)	11,510,527	(11,593,296)	(31,075,812)
Total net assets (deficit)	**$ 162,779,243**	**$ 103,163,792**	**$ 265,943,035**	**$ (13,329,165)**

The Notes to Financial Statements are an Integral Part of this Statement.

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	$ 12,003,513	$ 6,202,094	$ 125,651	$ 540,873
Public safety	35,337,391	3,225,876	1,251,899	23,494
Public works	19,729,138	351,282	3,704,071	1,044,586
Community and economic development	3,363,491	34,196	2,195,399	-
Recreation and culture	5,036,420	829,077	228,832	551,032
Interest on long-term debt	984,680	-	-	-
Total governmental activities	76,454,633	10,642,525	7,505,852	2,159,985
Business-type activities:				
Water	7,618,998	7,449,083	-	-
Sewer	7,988,574	6,528,657	-	-
Golf Courses	4,107,886	3,365,273	-	-
Ecorse Creek	192,553	554,592	-	358,616
Total business-type activities	19,908,011	17,897,605	-	358,616
Total primary government	**$ 96,362,644**	**$ 28,540,130**	**$ 7,505,852**	**$ 2,518,601**
Component units:				
Local Development Financing Authority	$ -	$ -	$ -	$ -
Tax Increment Financing Authority	3,646,279	-	-	-
Brownfield Redevelopment Authority	982,046	-	-	-
Downtown Development Authority	599,938	-	-	-
Housing Commission	17,830,745	6,117,838	11,955,434	-
Total component units:	**$ 23,059,008**	**$ 6,117,838**	**$ 11,955,434**	**$ -**

General revenue:
- Property taxes
- State-shared revenue
- Unrestricted investment earnings
- Rental income and fees
- Other miscellaneous income
- Gain on sale of fixed assets

Total general revenue

Change in Net Assets

Net Assets (Deficit) - Beginning of year

Prior Period Adjustment Related to Housing Commission Grants

Net Assets (Deficit) - Beginning of year - As restated

Net Assets (Deficit) - End of year

Statement of Activities
Year Ended June 30, 2011

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (5,134,895)	$ -	$ (5,134,895)	$ -
(30,836,122)	-	(30,836,122)	-
(14,629,199)	-	(14,629,199)	-
(1,133,896)	-	(1,133,896)	-
(3,427,479)	-	(3,427,479)	-
(984,680)	-	(984,680)	-
(56,146,271)	-	(56,146,271)	-
-	(169,915)	(169,915)	-
-	(1,459,917)	(1,459,917)	-
-	(742,613)	(742,613)	-
-	720,655	720,655	-
-	(1,651,790)	(1,651,790)	-
(56,146,271)	(1,651,790)	(57,798,061)	-
-	-	-	-
-	-	-	(3,646,279)
-	-	-	(982,046)
-	-	-	(599,938)
-	-	-	242,527
-	-	-	(4,985,736)
28,724,582	5,375,648	34,100,230	9,897,917
6,708,637	-	6,708,637	-
5,491	65,691	71,182	82,102
367,089	-	367,089	-
5,481,774	174,695	5,656,469	728,687
-	1,850	1,850	-
41,287,573	5,617,884	46,905,457	10,708,706
(14,858,698)	3,966,094	(10,892,604)	5,722,970
-	-	-	(19,100,365)
-	-	-	48,230
177,637,941	99,197,698	276,835,639	(19,052,135)
$ 162,779,243	**$ 103,163,792**	**$ 265,943,035**	**$ (13,329,165)**

City of Taylor, Michigan

Governmental Funds
Balance Sheet
June 30, 2011

	General Fund	Nonmajor Funds	Total
Assets			
Cash and investments (Note 3)	$ 6,723,159	$ 6,963,454	$ 13,686,613
Receivables:			
Taxes	30,307	1,339	31,646
Special assessments	4,472,263	6,800	4,479,063
Other	2,361,988	-	2,361,988
Due from other governmental units	1,591,773	1,407,189	2,998,962
Due from component units	381,432	5,652	387,084
Due from other funds (Note 6)	1,700,879	473,451	2,174,330
Advances to other funds	1,750,000	-	1,750,000
Prepaid expenses and other assets	799,549	-	799,549
Land held for resale	-	206,278	206,278
Restricted assets (Note 8)	812,791	235,038	1,047,829
Total assets	**$20,624,141**	**$ 9,299,201**	**$29,923,342**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 1,133,072	$ 652,883	$ 1,785,955
Due to other governmental units	1,092,461	33,019	1,125,480
Due to component units	545,004	38,792	583,796
Due to other funds (Note 6)	2,808,081	955,743	3,763,824
Accrued and other liabilities	2,862,486	131,468	2,993,954
Due to pension funds	3,071,862	-	3,071,862
Deferred revenue (Note 4)	5,236,182	219,945	5,456,127
Provision for claims	67,619	-	67,619
Total liabilities	16,816,767	2,031,850	18,848,617
Fund Balances			
Nonspendable:			
Inventory	1,772	-	1,772
Prepaids	797,777	-	797,777
Long-term receivable	1,750,000	-	1,750,000
Restricted:			
Roads	-	1,904,965	1,904,965
Police forfeitures	-	3,327,284	3,327,284
Debt service	-	1,802,709	1,802,709
Grants	400,626	-	400,626
Capital projects	-	239,246	239,246
Special millages	2,558,814	-	2,558,814
Unassigned	(1,701,615)	(6,853)	(1,708,468)
Total fund balances	3,807,374	7,267,351	11,074,725
Total liabilities and fund balances	**$20,624,141**	**$ 9,299,201**	**$29,923,342**

The Notes to Financial Statements are an
Integral Part of this Statement.

Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Assets (Deficit)
Year Ended June 30, 2011

Fund Balance Reported in Governmental Funds	$ 11,074,725
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 funds	206,559,435
Special assessment and other receivables are expected to be collected over several years and are not available to pay for current year expenditures	1,078,221
Unamortized bond issuance costs are not reported in the governmental funds	61,099
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds - long-term debt	(30,414,916)
Accrued longevity	(333,498)
Workers' compensation claims	(1,193,162)
Compensated absences	(4,133,267)
Net OPEB obligation	(18,811,067)
Bond premium	(730,135)
Accrued interest is not recorded in the funds	(378,192)
Net Assets of Governmental Activities	**$ 162,779,243**

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2011

	General Fund	Nonmajor Funds	Total
Revenue			
Property taxes	$ 29,237,442	$ 1,517,947	$ 30,755,389
Licenses and permits	1,182,348	1,350,068	2,532,416
Federal grants	491,761	3,386,248	3,878,009
State-shared revenue and grants	7,038,090	3,865,564	10,903,654
Charges for services	2,734,160	4,325	2,738,485
Fines and forfeitures	3,993,561	-	3,993,561
Interest income	-	14,459	14,459
Rental income	783,333	2,673,529	3,456,862
Other revenue	5,686,502	212,380	5,898,882
Total revenue	51,147,197	13,024,520	64,171,717
Expenditures			
Current:			
General government	6,162,777	-	6,162,777
Public safety	20,820,160	-	20,820,160
Public works and capital projects	15,061,918	3,814,520	18,876,438
Employee benefits	14,662,023	-	14,662,023
Economic and community development	332,307	2,236,462	2,568,769
Recreation and cultural	1,998,685	-	1,998,685
Capital outlay and other	-	1,346,377	1,346,377
Debt service	536,889	5,194,969	5,731,858
Total expenditures	59,574,759	12,592,328	72,167,087
Excess of Revenue (Under) Over Expenditures	(8,427,562)	432,192	(7,995,370)
Other Financing Sources (Uses)			
Face value of debt issue	3,310,848	-	3,310,848
Transfers in (Note 6)	-	1,375,766	1,375,766
Transfers out (Note 6)	-	(1,375,766)	(1,375,766)
Total other financing sources	3,310,848	-	3,310,848
Net Change in Fund Balances	(5,116,714)	432,192	(4,684,522)
Fund Balances - Beginning of year - As restated (Notes 18 and 20)	8,924,088	6,835,159	15,759,247
Fund Balances - End of year	**$ 3,807,374**	**$ 7,267,351**	**$ 11,074,725**

Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	$ (4,684,522)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are capitalized and expense is recorded over their estimated useful lives through depreciation	5,027,125
Statement of activities records depreciation on capital assets	(10,634,247)
Proceeds from asset sales are recorded in the governmental funds; on the statement of activities, a loss is recorded	(368,931)
Special assessment revenue is recorded in the statement of activities when the assessment is set; it is not reported in the funds until collected or collectible within 60 days of year end	115,540
Revenue is 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)	189,948
Governmental funds record the issuance of debt as proceeds; however, the issuance of debt is recorded as a liability on the statement of net assets (deficit)	(3,310,848)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	3,842,387
Amortization of bond premium liabilities and deferred cost of financing are reported as expense on the governmental funds when issued	58,264
Amortization of bond issuance costs are reported as an expense in the governmental funds when issued	8,471
Change in accrued interest on long-term debt is not recorded in the governmental funds	6,277
Compensated absences	1,135,955
Longevity	1,483
Workers' compensation claims	(468,971)
Net OPEB obligation	(5,776,629)
Change in Net Assets of Governmental Activities	**$ (14,858,698)**

The Notes to Financial Statements are an Integral Part of this Statement.

Proprietary Funds
Statement of Net Assets
June 30, 2011

	Enterprise Funds				
	Water	Sewer	Golf Courses	Nonmajor - Ecorse Creek	Total
Assets					
Current assets:					
Cash and investments (Note 3)	$ 7,303,811	$ 4,197,110	$ 127,773	$ 762,610	$ 12,391,304
Receivables:					
Customers	2,059,047	1,685,447	-	163,000	3,907,494
Other	62,839	-	20,470	-	83,309
Due from other funds (Note 6)	1,593,989	4,699,183	-	106,849	6,400,021
Inventory	122,523	4,456	131,426	-	258,405
Total current assets	11,142,209	10,586,196	279,669	1,032,459	23,040,533
Noncurrent assets:					
Restricted assets (Note 8)	-	10,343,115	-	-	10,343,115
Capital assets - Net: (Note 5)					
Assets not subject to depreciation	94,958	32,690	4,720,372	-	4,848,020
Assets subject to depreciation	20,004,913	96,243,246	9,922,558	-	126,170,717
Intangible assets	-	-	-	1,153,631	1,153,631
Total noncurrent assets	20,099,871	106,619,051	14,642,930	1,153,631	142,515,483
Total assets	31,242,080	117,205,247	14,922,599	2,186,090	165,556,016
Liabilities					
Current liabilities:					
Accounts payable	635,300	395,606	159,721	1,503	1,192,130
Due to other governmental units	166,358	3,738	23,183	261,084	454,363
Due to component units	4,322	36,782	-	-	41,104
Due to other funds (Note 6)	3,713,835	678,411	418,073	208	4,810,527
Accrued and other liabilities	61,543	298,137	228,062	1,500	589,242
Deferred revenue	-	-	2,570	-	2,570
Current portion of compensated absences (Note 7)	65,851	22,683	3,503	-	92,037
Current portion of long-term debt (Note 7)	100,000	318,930	96,778	38,712	554,420
Total current liabilities	4,747,209	1,754,287	931,890	303,007	7,736,393
Noncurrent liabilities:					
Long-term advance to other funds (Note 6)	-	-	1,750,000	-	1,750,000
Liabilities payable from restricted assets (Note 7)	-	4,296,231	-	-	4,296,231
Provision for compensated absences (Note 7)	96,111	26,310	2,203	-	124,624
Net OPEB obligation	1,321,583	563,597	608,825	-	2,494,005
Long-term debt - Net of current portion (Note 7)	845,000	44,736,709	233,053	176,209	45,990,971
Total noncurrent liabilities	2,262,694	49,622,847	2,594,081	176,209	54,655,831
Total liabilities	7,009,903	51,377,134	3,525,971	479,216	62,392,224
Net Assets					
Invested in capital assets - Net of related debt	19,154,871	51,220,297	14,313,099	-	84,688,267
Restricted:					
Debt service	-	6,046,884	-	-	6,046,884
Sewer grant expenditures	-	918,114	-	-	918,114
Unrestricted	5,077,306	7,642,818	(2,916,471)	1,706,874	11,510,527
Total net assets	**$ 24,232,177**	**$ 65,828,113**	**$ 11,396,628**	**$ 1,706,874**	**$ 103,163,792**

The Notes to Financial Statements are an Integral Part of this Statement.

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2011

	Enterprise Funds				
	Water	Sewer	Golf Courses	Nonmajor - Ecorse Creek	Total
Operating Revenue					
Water sales	$ 6,086,578	$ -	$ -	$ -	$ 6,086,578
Sewage disposal services	-	5,648,542	-	-	5,648,542
Charges for services	1,360,938	880,115	1,855,844	554,592	4,651,489
Sale of merchandise	-	-	1,469,429	-	1,469,429
Other	1,567	-	40,000	-	41,567
Total operating revenue	7,449,083	6,528,657	3,365,273	554,592	17,897,605
Operating Expenses					
Cost of water operations	6,532,115	-	-	-	6,532,115
Cost of sewage disposal operations	-	4,919,140	-	-	4,919,140
Ecorse Creek user charge system	-	-	-	191,053	191,053
Cost of sales	-	-	656,025	-	656,025
Operation and maintenance	-	-	1,079,281	-	1,079,281
General and administrative	-	-	1,532,567	-	1,532,567
Other expenses	-	-	-	1,500	1,500
Depreciation and amortization	1,044,060	1,698,838	831,004	-	3,573,902
Total operating expenses	7,576,175	6,617,978	4,098,877	192,553	18,485,583
Operating (Loss) Income	(127,092)	(89,321)	(733,604)	362,039	(587,978)
Nonoperating Revenue (Expenses)					
Property taxes	-	5,375,648	-	-	5,375,648
Interest income	5,894	56,507	1,671	1,619	65,691
Interest expense	(42,823)	(1,370,596)	(9,009)	-	(1,422,428)
Gain on sale of assets	-	1,850	-	-	1,850
Other	-	174,695	-	-	174,695
Total nonoperating (expenses) revenue	(36,929)	4,238,104	(7,338)	1,619	4,195,456
(Loss) Income - Before contributions	(164,021)	4,148,783	(740,942)	363,658	3,607,478
Capital Contributions - Donated assets	-	-	-	358,616	358,616
Change in Net Assets	(164,021)	4,148,783	(740,942)	722,274	3,966,094
Net Assets - Beginning of year	24,396,198	61,679,330	12,137,570	984,600	99,197,698
Net Assets - End of year	**$ 24,232,177**	**$ 65,828,113**	**$ 11,396,628**	**$ 1,706,874**	**$ 103,163,792**

The Notes to Financial Statements are an Integral Part of this Statement.

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2011

	Enterprise Funds				
	Water	Sewer	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Cash Flow from Operating Activities					
Receipts from customers	$ 7,556,337	$ 6,637,431	$ 3,306,294	$ 528,290	$ 18,028,352
Internal activity - Payments to other funds	(1,141,029)	(1,763,535)	(265,209)	(50,634)	(3,220,407)
Payments to suppliers	(3,570,953)	(4,007,784)	(1,921,406)	69,938	(9,430,205)
Payments to employees	(2,446,213)	(634,494)	(1,301,210)	-	(4,381,917)
Internal activity - Receipts from other funds	1,304,880	520,407	-	208	1,825,495
Other receipts	1,567	-	40,000	-	41,567
Net cash provided by (used in) operating activities	1,704,589	752,025	(141,531)	547,802	2,862,885
Cash Flows from Capital and Related Financing Activities					
Issuance of debt	-	-	210,630	253,017	463,647
Property taxes	-	5,375,648	-	-	5,375,648
Purchase of capital assets	(72,501)	(119,009)	(216,964)	(514,102)	(922,576)
Principal and interest paid on capital debt	(143,125)	(269,671)	(69,505)	(36,596)	(518,897)
Payments to the County	-	(5,375,648)	-	-	(5,375,648)
Net cash used in capital and related financing activities	(215,626)	(388,680)	(75,839)	(297,681)	(977,826)
Cash Flows from Investment Activities - Interest received on investments	5,894	8,919	1,671	1,619	18,103
Net Increase (Decrease) in Cash and Cash Equivalents	1,494,857	372,264	(215,699)	251,740	1,903,162
Cash and Cash Equivalents - Beginning of year	5,808,954	3,824,846	343,472	510,870	10,488,142
Cash and Cash Equivalents - End of year	**$ 7,303,811**	**$ 4,197,110**	**$ 127,773**	**$ 762,610**	**$ 12,391,304**
Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments	**$ 7,303,811**	**$ 4,197,110**	**$ 127,773**	**$ 762,610**	**$ 12,391,304**

Proprietary Funds
Statement of Cash Flows (Continued)
Year Ended June 30, 2011

	Enterprise Funds				
	Water	Sewer	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating (loss) income	$ (127,092)	$ (89,321)	$ (733,604)	$ 362,039	$ (587,978)
Adjustments to reconcile operating(loss) income to net cash from operating activities -					
Depreciation and amortization	1,044,060	1,698,838	831,004	-	3,573,902
Changes in assets and liabilities:					
Receivables	108,821	108,774	(18,979)	(26,302)	172,314
Due from other funds	(1,141,029)	(1,763,535)	-	(50,634)	(2,955,198)
Inventories and other assets	47,591	1,367	(20,449)	-	28,509
Accrued liabilities	(8,510)	36,782	36,343	261,084	325,699
Accounts payable	77,159	69,435	(27,559)	1,407	120,442
Due to other funds	1,304,880	520,407	(265,209)	208	1,560,286
Accrued compensation	(9,616)	(2,922)	(117,018)	-	(129,556)
Net OPEB obligation	408,325	172,200	173,940	-	754,465
Net cash provided by (used in) operating activities	**$ 1,704,589**	**$ 752,025**	**$ (141,531)**	**$ 547,802**	**$ 2,862,885**

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2011, the City had several noncash transactions with the assets held at Wayne County, including interest earnings of $47,588, debt payments of $4,425,769, and interest payments of $1,309,382. The Ecorse Creek Fund received a donated asset in the amount of $358,616 from Wayne County.

Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2011

	Pension and Other Employee Benefit Plans*	Agency Funds
Assets		
Cash and equivalents	$ 4,646,234	$ 1,381,120
Investments:		
U.S. government securities	17,746,418	-
Common and preferred stock	58,276,049	-
Corporate bonds	20,387,907	-
Mutual funds	11,810,051	-
Partnerships	25,141,090	-
Receivables:		
Accrued interest receivable	369,238	-
Due from other governmental units	-	188,569
Due from primary government	3,071,862	-
Total assets	141,448,849	$ 1,569,689
Liabilities		
Accounts payable	-	$ 254
Due to other governmental units	-	1,200,553
Accrued and other liabilities	-	41,290
Tax collections distributable	-	327,592
Total liabilities	-	$ 1,569,689
Net Assets Held in Trust for Pension and Other Employee Benefits	$ 141,448,849	

* Balances are as of December 31, 2010 for the General Employees' Pension Plan and as of June 30, 2011 for the Police and Fire Retirement System.

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2011

	Pension and Other Employee Benefit Plans*
Additions	
Investment income:	
Interest and dividends	$ 2,578,311
Net increase in fair value of investments	19,428,809
Less investment expenses	(513,431)
Net investment income	21,493,689
Contributions:	
Employer	8,342,237
Employee	1,034,147
Total contributions	9,376,384
Total additions - Net of investment expenses	30,870,073
Deductions	
Benefit payments	15,257,758
General and administrative	137,627
Total deductions	15,395,385
Net Increase in Net Assets Held in Trust	15,474,688
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	125,974,161
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	**$ 141,448,849**

* Balances are as of December 31, 2010 for the General Employees' Pension Plan and as of June 30, 2011 for the Police and Fire Retirement System.

Component Units
Statement of Net Assets
June 30, 2011

	Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Total
Assets						
Cash and investments (Note 3)	$ 490,337	$ 5,418,294	$ 2,704,553	$ 709,905	$ 6,344,123	$ 15,667,212
Accounts receivable	-	-	743,673	-	260,089	1,003,762
Due from primary government	18,568	136,964	91,638	334,616	43,114	624,900
Internal balances	-	-	419,184	(419,184)	-	-
Prepaid expenses and other assets	-	-	-	-	144,402	144,402
Restricted assets (Note 8)	-	-	-	-	5,336,570	5,336,570
Deferred charges	-	-	-	-	9,144,263	9,144,263
Capital assets (Note 5)	17,745	13,536,684	77,187	859,375	24,460,460	38,951,451
Unamortized bond issuance costs	-	-	98,215	-	-	98,215
Total assets	526,650	19,091,942	4,134,450	1,484,712	45,733,021	70,970,775
Liabilities						
Accounts payable	-	1,033,464	61,795	6,061	619,096	1,720,416
Due to other governmental units	-	110,441	-	-	-	110,441
Due to primary government	-	98,516	100,837	109,845	77,885	387,083
Accrued and other liabilities	-	253,614	482,995	25,918	1,335,037	2,097,564
Deferred revenue (Note 4)	-	-	743,673	-	-	743,673
Tenant security deposit	-	-	-	-	350,935	350,935
Due within one year: (Note 7)						
Bond premium	-	-	1,079	-	-	1,079
Current portion of long-term debt	-	2,285,000	355,000	205,000	562,721	3,407,721
Due in more than one year: (Note 7)						
Bond premium	-	-	16,720	-	-	16,720
Long-term debt	-	25,903,400	16,040,000	1,180,000	32,340,908	75,464,308
Total liabilities	-	29,684,435	17,802,099	1,526,824	35,286,582	84,299,940
Net Assets						
Invested in capital assets - Net of related debt	17,745	13,536,684	77,187	859,375	(797,716)	13,693,275
Restricted	-	-	500,671	-	3,552,701	4,053,372
Unrestricted	508,905	(24,129,177)	(14,245,507)	(901,487)	7,691,454	(31,075,812)
Total net assets	**$ 526,650**	**$(10,592,493)**	**$ (13,667,649)**	**$ (42,112)**	**$ 10,446,439**	**$(13,329,165)**

* Balances are as of March 31, 2011 for the Housing Commission and as of June 30, 2011 for the Taylor Community Development Corp., its component unit.

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Local Development Financing Authority	$ -	$ -	$ -	$ -
Tax Increment Financing Authority - Public Works	3,646,279	-	-	-
Brownfield Redevelopment Authority - Public works	982,046	-	-	-
Downtown Development Authority - Public Works	599,938	-	-	-
Housing Commission	17,830,745	6,117,838	11,955,434	-
Total component units	**$ 23,059,008**	**$ 6,117,838**	**$ 11,955,434**	**$ -**

General revenue:
Property taxes
Interest income
Other

Total general revenue

Transfers

Change in Net Assets

Net Assets (Deficit) - Beginning of year

Prior Period Adjustment Related to Housing Commission Grants

Net Assets (Deficit) - Beginning of year - As restated

Net Assets (Deficit) - End of year

* Balances are as of March 31, 2011 for the Housing Commission and as of June 30, 2011 for the Taylor Community Development Corp., its component unit.

Component Units
Statement of Activities
Year Ended June 30, 2011

Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission	Total
Net (Expense) Revenue and Changes in Net Assets					
$ -	$ -	$ -	$ -	$ -	$ -
-	(3,646,279)	-	-	-	(3,646,279)
-	-	(982,046)	-	-	(982,046)
-	-	-	(599,938)	-	(599,938)
-	-	-	-	242,527	242,527
-	(3,646,279)	(982,046)	(599,938)	242,527	(4,985,736)
77,621	8,440,015	802,267	578,014	-	9,897,917
1,068	34,961	7,393	1,344	37,336	82,102
-	-	-	147,400	581,287	728,687
78,689	8,474,976	809,660	726,758	618,623	10,708,706
-	-	250,000	(250,000)	-	-
78,689	4,828,697	77,614	(123,180)	861,150	5,722,970
447,961	(15,421,190)	(13,745,263)	81,068	9,537,059	(19,100,365)
-	-	-	-	48,230	48,230
447,961	(15,421,190)	(13,745,263)	81,068	9,585,289	(19,052,135)
$ 526,650	**$ (10,592,493)**	**$ (13,667,649)**	**$ (42,112)**	**$ 10,446,439**	**$ (13,329,165)**

Note 1 - Nature of Business and 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 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, which 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.

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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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 U.S. 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 payment agreements with HUD. During the year ended June 30, 2011, rental revenue from HUD totaled approximately $5,000,000, representing 45 percent of net rental revenue.

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

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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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 revenue are reported instead as general revenue.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is 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.

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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted budget classifications could be used, it is the City's policy to spend funds in this order: restricted, committed, assigned, and unassigned.

The City's only major governmental fund for June 30, 2011 is the General Fund.

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.

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.

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 internal service and fiduciary activities:

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, 2010. Therefore, the General Employees' Pension Plan is included in this report as of December 31, 2010. 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, Agency 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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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 revenue 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.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, and unassigned.

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 2010 tax is levied and collectible on July 1, 2010 and is recognized as revenue in the year ended June 30, 2011, when the proceeds of the levy are budgeted and available for the financing of operations.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The 2010 taxable valuation of the City totaled $1,244,807,362, on which taxes levied consisted of 8.4211 mills for operating purposes, 0.8862 mills for library services, 5.2909 mills for public safety pension, 1.4225 mills for disposal authority, 2.6591 mills for garbage and rubbish services, 0.0364 mills for publicity services, 2.1888 mills for building authority, 3.4837 for EPA debt, and 0.9601 mills for the Southend Project. This resulted in approximately $10,500,000 for operating purposes, $1,100,000 for library services, $6,600,000 for public safety pension, $1,800,000 for disposal authority, $3,300,000 for garbage and rubbish services, $45,000 for publicity services, $2,700,000 for the building authority, $5,500,000 for EPA debt, and $1,500,000 for the Southend Project. These amounts are recognized in the respective General Fund, debt service funds, 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.

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 Items - 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 are required to be set aside for construction. In addition, restricted assets also include assets held at Wayne County.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Restricted deposits in the Taylor Housing Commission represent 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 of $3,463,870 at June 30, 2011 are held in a separate account and generally are not available for operating purposes. In August 2010, TCDC closed on a loan under the Green Retrofit Program. There is an escrow related to this loan for the future draws on qualified construction expenditures in the amount of $1,868,550. The portion of this escrow related to the unspent note is $1,783,869; the remaining amount is related to deposits that TCDC was required to make for the non-eligible units at The Ponds of The Villages of Taylor.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

Capital Assets - Capital assets, which include property, plant, equipment, intangible assets, 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.

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. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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.

Pension and Other Postemployment Benefit Costs - The City offers both pension and retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Fund Equity - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The City implemented Statement No. 54 during the year.

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- Committed: Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.
- Assigned: Intent to spend resources on specific purposes expressed by the Honorable Mayor and members of the City Council
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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 accounting principles generally accepted in the United States of America 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's management and adopted by the City Council; subsequent amendments are approved by the City Council.

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

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, 2011 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Fund Deficits - On the modified accrual basis, the General Fund and the Neighborhood Stabilization Program Fund both have fund balance deficits at June 30, 2011. The component units are presented on the full accrual basis in the basic financial statements, resulting in deficits on that basis in the Tax Increment Financing Authority, Brownfield Redevelopment Authority, and Downtown Development Authority. The Golf Courses Fund has an unrestricted net deficit as of June 30, 2011. There are no other proprietary funds with a deficit at June 30, 2011.

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 law also allows investments outside the State of Michigan when fully insured. 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 mature 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.

Note 3 - Deposits and Investments (Continued)

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed $250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had $14,757,521 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had $7,410,760 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity; U.S. Treasury bills and U.S. Treasury notes or bonds must mature within one year. The General Employees' Pension Plan does not restrict investment maturities, other than fixed-income portfolios which can only be purchased with less than a 20-year maturity. At year end, the average maturities of investments are as follows:

At year end, the City had the following investments and maturities:

General Employees' Pension Plan	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Corporate bonds	$ 6,597,100	$ -	$ 5,267,158	$ 1,329,942	$ -
U.S. government securities	9,420,178	1,514,334	7,905,844	-	-
Total	$ 16,017,278	$ 1,514,334	$ 13,173,002	$ 1,329,942	$ -

Police and Fire Retirement System	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Corporate bonds	$ 13,790,807	$ 314,633	$ 5,244,146	$ 8,159,501	$ 72,527
U.S. government securities	8,326,240	2,267,592	1,969,082	1,704,579	2,384,987
Total	$ 22,117,047	$ 2,582,225	$ 7,213,228	$ 9,864,080	$ 2,457,514

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. The General Employees' Pension Plan's investment policy does not restrict investment ratings, other than convertible securities which should be rated B- or higher at time of purchase and fixed-income securities which should be rated BBB- or higher at time of purchase. In addition, asset-backed securities, mortgage-backed securities, and CMOs should be rated AAA at the time of purchase. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Component Units			
Bank investment pools	$ 844	AAA	S&P
Bank investment pools	660,704	Not rated	N/A
General Employees' Pension Plan			
Corporate bonds	511,150	AA+	S&P
Corporate bonds	1,846,035	A+	S&P
Corporate bonds	1,306,157	A	S&P
Corporate bonds	1,047,866	A-	S&P
Corporate bonds	1,159,421	BBB+	S&P
Corporate bonds	187,806	BBB	S&P
Corporate bonds	538,665	BBB-	S&P
U.S. government securities	4,126,482	Not rated	N/A
Police and Fire Retirement System			
Agency bonds	323,059	AAA	Moody's
Corporate bonds	408,183	A1	Moody's
Corporate bonds	1,161,295	A2	Moody's
Corporate bonds	1,089,700	A3	Moody's
Corporate bonds	76,794	Aa1	Moody's
Corporate bonds	938,827	Aa2	Moody's
Corporate bonds	651,314	Aa3	Moody's
Corporate bonds	3,033,063	Aaa	Moody's
Corporate bonds	217,725	B1	Moody's
Corporate bonds	34,850	B2	Moody's
Corporate bonds	58,425	B3	Moody's
Corporate bonds	308,136	Ba1	Moody's
Corporate bonds	327,123	Ba2	Moody's
Corporate bonds	234,350	Ba3	Moody's
Corporate bonds	1,871,392	Baa1	Moody's
Corporate bonds	2,264,424	Baa2	Moody's
Corporate bonds	833,858	Baa3	Moody's
Corporate bonds	36,225	Caa1	Moody's
Corporate bonds	245,123	Not rated	N/A
Mortgage backed bonds	68,278	AAA	Moody's
Other fixed-income assets	64,795	B1	Moody's
Other fixed-income assets	58,692	Not rated	N/A
U.S. government securities	4,645,970	AAA	Moody's
U.S. government securities	3,165,446	Not rated	N/A

Note 3 - Deposits and Investments (Continued)

Risks and Uncertainties - The City invests in various securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

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:

	Governmental Funds			
	Unavailable	Unearned	Total	Enterprise Funds
Special assessments	$ 334,802	$ 4,377,906	$ 4,712,708	$ 2,570
Grant receivables	220,183	-	220,183	-
ALS receivables	412,429	-	412,429	-
Other	110,807	-	110,807	-
Total	$ 1,078,221	$ 4,377,906	$ 5,456,127	$ 2,570

In addition, the component units have recorded $743,673 of deferred revenue which relates to a reserve against a grant receivable.

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2010	Reclassifications	Additions	Disposals	Balance June 30, 2011
Capital assets not being depreciated:					
Land	$ 29,390,817	$ -	$ -	$ (3,170)	$ 29,387,647
Construction in progress	3,641,421	(2,174,807)	467,037	(127,280)	1,806,371
Subtotal	33,032,238	(2,174,807)	467,037	(130,450)	31,194,018
Capital assets being depreciated:					
Buildings and improvements	87,063,842	263,259	349,388	(7,129)	87,669,360
Machinery and equipment	35,011,095	-	4,160,895	(766,620)	38,405,370
Other improvements	18,865,043	19,266	14,925	(341,390)	18,557,844
Roads and sidewalks	245,596,343	1,892,282	34,880	-	247,523,505
Subtotal	386,536,323	2,174,807	4,560,088	(1,115,139)	392,156,079
Accumulated depreciation:					
Buildings and improvements	25,196,050	-	2,058,907	(2,637)	27,252,320
Machinery and equipment	26,361,093	-	2,399,936	(574,229)	28,186,800
Other improvements	11,789,111	-	891,887	(299,792)	12,381,206
Roads and sidewalks	143,686,819	-	5,283,517	-	148,970,336
Subtotal	207,033,073	-	10,634,247	(876,658)	216,790,662
Net capital assets being depreciated	179,503,250	2,174,807	(6,074,159)	(238,481)	175,365,417
Net capital assets	$ 212,535,488	$ -	$ (5,607,122)	$ (368,931)	$ 206,559,435

Business-type Activities	Balance July 1, 2010	Reclassifications	Additions	Disposals	Balance June 30, 2011
Capital assets not being depreciated:					
Land	$ 4,758,372	$ -	$ -	$ -	$ 4,758,372
Construction in progress	48,169	(38,747)	80,226	-	89,648
Intangible ECPAD improvement	280,913	-	872,718	-	1,153,631
Subtotal	5,087,454	(38,747)	952,944	-	6,001,651
Capital assets being depreciated:					
Water mains and meters	34,745,294	-	2,645	(4,571)	34,743,368
Sanitary sewer system	119,019,405	38,747	43,578	-	119,101,730
Buildings and improvements	9,732,984	-	6,335	-	9,739,319
Machinery and equipment	3,293,712	-	275,690	(290,967)	3,278,435
Vehicles	654,526	-	-	-	654,526
Furniture and fixtures	1,206,178	-	-	-	1,206,178
Land improvements	8,820,615	-	-	-	8,820,615
Subtotal	177,472,714	38,747	328,248	(295,538)	177,544,171
Accumulated depreciation:					
Water mains and meters	14,171,881	-	955,755	(4,570)	15,123,066
Sanitary sewer system	21,510,157	-	1,581,325	-	23,091,482
Buildings and improvements	2,739,786	-	219,871	-	2,959,657
Machinery and equipment	2,228,337	-	284,534	(290,968)	2,221,903
Vehicles	471,902	-	34,405	-	506,307
Furniture and fixtures	922,399	-	41,025	-	963,424
Land improvements	6,050,628	-	456,987	-	6,507,615
Subtotal	48,095,090	-	3,573,902	(295,538)	51,373,454
Net capital assets being depreciated	129,377,624	38,747	(3,245,654)	-	126,170,717
Net capital assets	$ 134,465,078	$ -	$ (2,292,710)	$ -	$ 132,172,368

Note 5 - Capital Assets (Continued)

Component Units	Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission	Total
Capital assets not being depreciated:						
Land	$ 17,745	$ 13,536,684	$ 77,187	$ 859,375	$ 760,000	$ 15,250,991
Construction in progress	-	-	-	-	251,465	251,465
Subtotal	17,745	13,536,684	77,187	859,375	1,011,465	15,502,456
Capital assets being depreciated:						
Land improvements	-	-	-	-	6,630,956	6,630,956
Vehicles, machinery, and equipment	-	-	-	-	8,034,484	8,034,484
Building	-	-	-	-	32,949,907	32,949,907
Subtotal	-	-	-	-	47,615,347	47,615,347
Accumulated depreciation	-	-	-	-	24,166,352	24,166,352
Net capital assets being depreciated	-	-	-	-	23,448,995	23,448,995
Net capital assets	$ 17,745	$ 13,536,684	$ 77,187	$ 859,375	$ 24,460,460	$ 38,951,451

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

Governmental activities:	
General government	$ 891,683
Public safety	1,807,384
Public works	6,271,465
Economic development	211,926
Recreation and culture	1,451,789
Total governmental activities	$ 10,634,247
Business-type activities:	
Water and Sewer	$ 1,044,060
Sewer	1,698,838
Golf	831,004
Total business-type activities	$ 3,573,902
Component unit activities - Housing commission	$ 1,881,043

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	Water Fund	$ 273,307
	Sewer Fund	53,756
	Golf Courses Fund	418,073
	Other nonmajor governmental funds	955,743
	Total General Fund	1,700,879
Other nonmajor governmental funds	General Fund	473,451
Water Fund	General Fund	969,126
	Sewer Fund	624,655
	Ecorse Creek Fund	208
	Total Water Fund	1,593,989
Sewer Fund	General Fund	1,365,504
	Water Fund	3,333,679
	Total Sewer Fund	4,699,183
Ecorse Creek	Water Fund	106,849
	Total	$ 8,574,351

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 from/to Other Funds		
General Fund	Golf Courses Fund	$ 1,750,000

The advance from the General Fund to the Golf Courses Fund is expected to be repaid based on anticipated revenue from the golf courses in future years.

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

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

Receivable Fund	Payable Fund	Amount
Other nonmajor governmental funds	Other nonmajor governmental funds	$ 1,375,766

Transfers between other nonmajor governmental funds were mainly between the City's two street funds to redistribute Act 51 revenue from the Major Streets Fund to the Local Streets Fund where the funds were utilized for budgeted activities and to transfer debt proceeds from the 2008 MI Transportation Bond Construction Fund to the Major Streets Fund for capital projects.

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.

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
Bonds and contractual obligations:						
2001 Certificates of Participation - Honeywell Project - Amount of issue - $4,125,000	5.0%	$ 495,000	$ -	$ 495,000	$ -	$ -
2001 Installment Purchase Agreement - Downriver Mutual Aid E911 - Amount of issue - $7,250,000	6.45%	511,459	-	511,459	-	-
Building Authority Bonds - Series 2000 - Amount of issue - $10,475,000	5.125%-6.0%	2,170,000	-	705,000	1,465,000	710,000
Building Authority Public Facilities Bonds - Series 2003 - Amount of issue - $13,750,000	3.0%-5.0%	10,535,000	-	590,000	9,945,000	605,000
2004 Building Authority Public Facilities Bonds - Amount of issue - $1,250,000	2.8%-4.75%	1,005,000	-	55,000	950,000	55,000
General Obligation Bonds - Series 2004 - Storm - Amount of issue - $945,000	3.625%-4.4%	515,000	-	50,000	465,000	50,000
Limited Tax General Obligation Bonds - Series 2005 - Amount of issue - $14,795,000	5.0%	9,805,000	-	1,120,000	8,685,000	1,200,000
Limited Tax General Obligation Bonds - Series 2005 - Amount of issue - $14,795,000	5.0%	3,401,600	-	-	3,401,600	-
2008 Ambulance lease - Amount of issue - $313,074	4.38%	195,832	-	62,500	133,332	65,237
2008 Michigan Transportation Fund Bonds - Amount of issue - $3,075,000	4.30%	2,590,000	-	245,000	2,345,000	255,000
Avaya Phone System - Amount of issue $198,848	4.13%	-	198,848	5,862	192,986	63,570
2011 Installment purchase contract trash totes - Amount of Issue - $1,880,000	3.83%	-	1,880,000	-	1,880,000	158,000
2011 Installment purchase contract trash trucks - Amount of issue - $1,232,000	4.36%	-	1,232,000	-	1,232,000	155,000
2007 Pitney Bowes Mailing Machine: Amount of issue - $10,714	9.50%	2,566	-	2,566	-	-
Deferred costs of financing		(326,669)	-	(46,667)	(280,002)	(46,667)
Total bonds payable		30,899,788	3,310,848	3,795,720	30,414,916	3,270,140
Other long-term obligations:						
Accrued longevity		334,981	333,498	334,981	333,498	333,498
Workers' compensation claims		724,192	1,000,805	464,216	1,260,781	67,619
Bond premium		835,066	-	104,931	730,135	104,931
Compensated absences		5,269,222	1,267,160	2,403,115	4,133,267	1,553,273
Total governmental activities		$ 38,063,249	$ 5,912,311	$ 7,102,963	$ 36,872,597	$ 5,329,461

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities						
General obligation bonds:						
Series 2004 - Water and Sewer - Amount of issue - $1,655,000	3.625%-4.4%	$ 1,205,000	$ -	$ 115,000	$ 1,090,000	$ 115,000
1994 Downriver Sewage Disposal System Bonds - Amount of issue - $87,367,763	Various	53,850,231	-	4,643,364	49,206,867	4,600,161
Series 2009A - ECPAD 1 CWRF - Amount of issue - $3,717,000	2.50%	-	253,017	38,095	214,922	38,712
Lease purchase agreement - Golf carts for LTGC - Amount of issue - $191,368c	4.44%	179,801	-	45,064	134,737	47,106
Lease purchase agreement - Beverage carts for LTGC and LTGC - Amount of issue - $14,820	5.75%	-	14,820	3,969	10,851	3,417
Lease purchase agreement - Golf carts for TMGC - Amount of issue - $195,810	4.44%	-	195,810	11,565	184,245	46,255
Total bonds payable		55,235,032	463,647	4,857,057	50,841,622	4,850,651
Other long-term obligation - Compensated absences		381,289	128,710	293,338	216,661	92,037
Total business-type activities		$ 55,616,321	$ 592,357	$ 5,150,395	$ 51,058,283	$ 4,942,688

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Unit Activities						
TIFA:						
TIFA Bonds - 2000-A HUD Section 108 Loan - Senior Activities Center - Amount of issue - $1,500,000	Various	$ 420,000	$ -	$ 120,000	$ 300,000	$ 120,000
Tax Increment Bonds - Series 1998 Refunding - Amount of issue - $19,570,000	4.5%	2,180,000	-	2,180,000	-	-
Land contract - Alert Kennel	6.0%	375,000	-	375,000	-	-
Tax Increment Bonds - Series 2001 - Amount of issue - $36,000,000	4.25%-5.5%	26,780,000	-	1,625,000	25,155,000	1,765,000
Sportsplex Building Authority Bonds - Series 2000 - Amount of issue - $5,525,000	4.65%-5.125%	1,215,000	-	395,000	820,000	400,000
2005 Building Authority Refunding Bonds - Amount of issue - $1,870,000	5.0%	1,913,400	-	-	1,913,400	-
Total TIFA		32,883,400	-	4,695,000	28,188,400	2,285,000
Brownfield:						
Brownfield Redevelopment Tax Increment Bonds, tax exempt - Series 2006 - Amount of issue - $3,100,000	5.5%-6.0%	2,765,000	-	90,000	2,675,000	100,000
Brownfield Redevelopment Tax Increment Bonds, tax exempt - Series 2005 - Amount of issue - $11,080,000	3.625%-5.00%	10,975,000	-	120,000	10,855,000	135,000
Brownfield Redevelopment Tax Increment Bonds, taxable Series 2005 - Amount of issue - $3,080,000	4.40%-5.30%	2,975,000	-	110,000	2,865,000	120,000
Other long-term obligation - Bond premium		18,878	-	1,079	17,799	1,079
Total Brownfield		16,733,878	-	321,079	16,412,799	356,079
DDA:						
DDA Bonds - Downtown Development Bond - Series 2002 - Amount of issue - $2,500,000	4.125%-4.7%	1,580,000	-	195,000	1,385,000	205,000
Housing Commission - Bonds and mortgage payable	Various	27,432,994	5,991,981	521,346	32,903,629	562,721
Total bonds payable		$ 78,630,272	$ 5,991,981	$ 5,732,425	$ 78,889,828	$ 3,408,800

Note 7 - Long-term Debt (Continued)

Component Unit Debt

The Housing Commission's debt represents the debt owed by its component unit, the TCDC. The debt represents $23,545,000 of MSHDA bonds, a mortgage loan, and commercial loans 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 .004023 percent (APR). The interest on the three bonds is due monthly, and they also have principal reserve (sinking fund) requirements. These requirements began on September 15, 2002 and September 15, 2009 for two of the bonds and will begin on September 15, 2013 for the remaining bond. 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.

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, 2011, the fair value of the Bonds approximates the amounts recorded in the financial statements.

In September 2004, the TCDC obtained a commercial mortgage with a bank for $2,500,000 in order to finance the demolition of the Springs Apartment buildings. The mortgage requires monthly payments of $14,603 including interest of 5.68 percent per annum until October 1, 2013, when the remaining unpaid principal balance is due. The balance outstanding on this mortgage at June 30, 2011 was $2,246,928.

Note 7 - Long-term Debt (Continued)

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

	Governmental Activities			Business-type Activities			Component Unit Activities		
Year Ending June 30	Principal*	Interest	Total	Principal	Interest	Total	Principal *	Interest	Total
2012	$ 3,316,807	$ 1,355,768	$ 4,672,575	$ 4,850,651	$ 1,343,299	$ 6,193,950	$ 3,408,800	$ 2,565,145	$ 5,973,945
2013	3,504,340	1,203,292	4,707,632	4,987,772	1,212,032	6,199,804	3,800,928	2,396,523	6,197,451
2014	3,616,571	1,019,486	4,636,057	5,104,143	1,076,276	6,180,419	6,018,175	2,127,041	8,145,216
2015	3,742,600	855,948	4,598,548	5,031,869	941,297	5,973,166	4,170,288	1,917,876	6,088,164
2016	3,946,400	683,562	4,629,962	5,050,108	809,163	5,859,271	4,570,310	1,735,801	6,306,111
2017-2021	9,488,200	1,583,279	11,071,479	20,070,932	2,220,342	22,291,274	23,097,817	5,860,567	28,958,384
2022-2026	3,080,000	235,213	3,315,213	3,578,924	726,633	4,305,557	9,934,635	2,722,838	12,657,473
2027-2031	-	-	-	2,167,223	113,144	2,280,367	12,479,656	1,654,420	14,134,076
2032-2036	-	-	-	-	-	-	11,409,219	349,420	11,758,639
Total	$ 30,694,918	$ 6,936,548	$ 37,631,466	$ 50,841,622	$ 8,442,186	$ 59,283,808	$ 78,889,828	$ 21,329,631	$ 100,219,459

* Balances exclude deferred costs of financing.

In conjunction with the issuance of $36,000,000 for the Tax Increment Financing Authority (TIFA) bond Series 2001, the component unit is required to maintain debt service reserves in the amount of $3,448,681. In order to cover the reserve requirement, the TIFA component unit has obtained insurance coverage totaling $3,448,681 for this purpose. In addition to the reserves and in conjunction with the above debt issue, 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.

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 restricted assets are restricted for the following purposes:

	Governmental Activities	Business-type Activities	Component Units	Total
Unspent bond proceeds and related interest	$ 235,038	$ -	$ -	$ 235,038
Restricted cash - EPA levy	812,791	-	-	812,791
Assets held at Wayne County for future debt payments	-	8,367,453	-	8,367,453
Assets held at Wayne County for sewer operations	-	1,975,662	-	1,975,662
Restricted deposits - Cash	-	-	3,463,870	3,463,870
Restricted deposits held by lender	-	-	1,868,550	1,868,550
Total restricted assets	$ 1,047,829	$ 10,343,115	$ 5,332,420	$ 16,723,364

The above contractual obligations to the County are the result of the county issuance of bonds on the City's behalf. The City has pledged substantially all revenue of the Sewer Fund, net of operating expenses, to repay $6,944,987 of the obligations; in addition, it has pledged to raise property taxes, to the extent permitted by law, to fund $42,261,883 of the obligation to repay the County. Proceeds from the County bonds provided financing for the construction of the expansion of the Downriver Wastewater Treatment Plant and System. The remaining principal and interest to be paid on the revenue bonds total $57,385,757. During the current year, net revenue of the system was $1,715,937 compared to the annual debt requirements of $391,446. Annual tax collections related to the debt were $5,459,711 compared to the annual debt requirements of $5,396,462.

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.

Note 9 - Risk Management (Continued)

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including 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:

	2011	2010
Unpaid claims - Beginning of year	$ 724,192	$ 321,521
Incurred claims, including claims incurred but not reported	1,000,805	717,161
Claim payments (net of insurance refunds)	(464,216)	(314,490)
Unpaid claims - End of year	$ 1,260,781	$ 724,192

Note 10 - Defined Benefit Pension Plan - Police and Fire Retirement System

Plan Description

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, 2010, the date of the most recent actuarial valuation, membership consisted of 203 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 143 current active employees. The plan does not issue a separate financial report.

Contributions

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

Funding Policy

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.

Note 10 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

Annual Pension Cost

For the year ended June 30, 2011, the City's contribution of approximately $5,918,000 equaled the annual pension cost, of which approximately $2,959,000 was paid subsequent to June 30, 2011.

The three-year trend info for the Police and Fire Retirement Systems is as follows:

	Fiscal Year Ended June 30		
	2011	2010	2009
Annual pension cost (APC)	$ 5,918,000	$ 5,614,000	$ 5,483,000
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at June 30, 2009 using the individual 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 5.0 percent is attributable to inflation, (b) projected salary increases of 5.0 to 8.0 percent per year compounded annually, attributable to inflation of 5.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll. The remaining amortization period is 20 years.

Reserves - As of June 30, 2011, the plan's legally required reserves have been funded as follows:

Police and Fire Retirement System:	
Reserve for employees' contributions	$ 8,287,016
Reserve for retired benefit payments	100,165,026

For the Police and Fire Retirement Systems, the reserves were more than the net assets of the Plan as of June 30, 2011.

Note 11 - Defined Benefit Pension Plan - General Employees' Retirement System

Plan Description

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, police, and fire employees. The system provides retirement disability and death benefits to plan members and their beneficiaries. At December 31, 2009, the date of the most recent actuarial valuation, membership consisted of 214 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 125 current active employees. The plan does not issue a separate financial report.

Contributions

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

Funding Policy

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

For the year ended December 31, 2010, the City's annual pension cost of approximately $2,424,000 for the plan was equal to the City's required contribution.

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

	Fiscal Year Ended December 31		
	2010	2009	2008
Annual pension cost (APC)	$ 2,424,000	$ 2,515,000	$ 2,328,000
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

Note 11 - Defined Benefit Pension Plan - General Employees' Retirement System (Continued)

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Actuarial Methods and Assumptions

The annual required contribution was determined as part of an actuarial valuation at December 31, 2008 using the aggregate 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 (b) projected salary increases of 2.5 percent per year compounded annually, attributable to inflation, and (c) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined based on market value. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as level dollar on a closed basis. The remaining amortization period is 15 years.

Reserves - As of December 31, 2010, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	$ 3,554,302
Reserve for retired benefit payments	35,472,337

Note 12 - Defined Benefit Pension Plan - Michigan Municipal Employees' Retirement System

Plan Description

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

Contributions

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

Note 12 - Defined Benefit Pension Plan - Michigan Municipal Employees' Retirement System (Continued)

Funding Policy

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

Annual Pension Cost

For the year ended June 30, 2011, the City's actual pension cost of $32,120 was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2008 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 (2 percent for calendar years 2010-2014) plus a percentage based on an age related scale to reflect merit, longevity, and promotional pay increases, and (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation. 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 28 years.

The three-year trend infomation for the Michigan Municipal Employees' Retirement System is as follows:

	Fiscal Year Ended June 30		
	2011	2010	2009
Annual pension cost (APC)	$ 32,120	$ 28,546	$ 34,099
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

	Fiscal Year Ended December 31		
	2010	2009	2008
Actuarial value of assets	$ 2,637,607	$ 2,521,749	$ 2,387,776
Actuarial accrued liability (AAL) (entry age)	2,816,618	2,522,533	2,548,652
Unfunded AAL (UAAL)	179,011	784	160,876
Funded ratio	93.6 %	100.0 %	93.7 %
Covered payroll	540,148	690,803	734,516
UAAL as a percentage of covered payroll	33.1 %	0.1 %	21.9 %

Note 13 - Pension and Other Employee Benefit Trust Funds

As of June 30, 2011, the statement of net assets and the statement of changes in net assets for the pension plan are as follows:

	Police and Fire System	General Employees' Pension Plan*	Total
Statement of Net Assets			
Cash and investments	$95,553,274	$42,454,475	$ 138,007,749
Other assets	3,260,872	180,228	3,441,100
Net assets	$98,814,146	$42,634,703	$ 141,448,849
Statement of Changes in Net Assets			
Investment income - Net of investment expenses	$17,668,478	$ 3,825,211	$ 21,493,689
Contributions	6,600,246	2,776,138	9,376,384
Benefit payments	9,540,079	5,717,679	15,257,758
Other deductions	28,961	108,666	137,627
Net change in net assets	$14,699,684	$ 775,004	$ 15,474,688

Note 14 - Defined Contribution Pension 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, 2003. 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 pretax earnings, and up to 25 percent of their after-tax earnings. The City contributes between 50 percent and 200 percent of no greater than 4 percent of the employee contributions as an employer match. Employee contributions are immediately vested. Earnings and the employer match are fully vested after five years of service.

The City's total payroll during the current year was $25,116,919. The current year contribution was calculated based on covered payroll of $2,578,043, resulting in an employer contribution of $109,667 and employee contributions of $103,122.

Note 15 - 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. In addition, the City is involved in certain labor negotiation discussions. The City has not recorded an estimate of any liabilities that may result from these matters at June 30, 2011.

The City receives numerous federal grants. Each grant has compliance requirements which are subject to review by the granting agency before the grant is closed. The City has been contacted by the Environmental Protection Agency that there may be questioned costs in the amount of approximately $190,000 related to the Brownfield Cleanup Revolving Loan Pilot CFDA No. 66.811.

In 2005, the City issued Brownfield Redevelopment Tax Increment Bonds in the amount of $14,160,000. The plan for payment on the bonds was to use the tax revenue captured from the building of approximately 200 residential homes. Due to current economic conditions, the development and sale of the homes are not occurring at the anticipated rate. As a result, during the year ended June 30, 2010, the City drew upon a $1,500,000 letter of credit issued by a bank and funded by the developer. The ability of the City to draw upon this letter of credit is currently being contested by the developer. If there is any future shortfall in the captured tax revenue needed to repay the bonds, the City will be required to subsidize the repayment of the loan.

Construction Commitments - The City has active construction projects at year end. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Street projects:		
Component units	$ 2,226,162	$ 591,614
Primary government	406,443	288,932
Enterprise funds	1,500,958	-
Total	$ 4,133,563	$ 880,546

Note 16 - Other Postemployment Benefits

Plan Description - The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan. This is a single employer defined benefit plan administered by the City.

Note 16 - Other Postemployment Benefits (Continued)

Funding Policy - The labor contracts require no contribution by the participant. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

Funding Progress - For the year ended June 30, 2011, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2010. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	$ 13,465,246
Interest on the prior year's net OPEB obligation	590,959
Less adjustment to the annual required contribution	(654,385)
Annual OPEB cost	13,401,820
Amounts contributed:	
Payments of current premiums	6,870,726
Advance funding	-
Increase in net OPEB obligation	6,531,094
OPEB obligation - Beginning of year	14,773,978
OPEB obligation - End of year	$ 21,305,072

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage of ARC Contributed	Net OPEB Obligation
6/30/09	6/30/08	$ 12,759,379	43.1	$ 7,265,786
6/30/10	6/30/08	13,221,333	46.0	14,773,978
6/30/11	6/30/10	13,465,246	63.2	21,305,072

Note 16 - Other Postemployment Benefits (Continued)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/08	$ -	$173,173,410	$173,173,410	-	$ -	-
6/30/10	-	208,546,075	208,546,075	-	-	-

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return per year compounded annually, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10.0 percent initially, reduced by decrements to an ultimate rate of 3.5 percent after 10 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010 was 30 years.

Note 17 - Use Agreement

The TCDC and HUD entered into a use agreement that contains restrictions governing the rental operations of the Villages of Taylor. The use agreement required the TCDC to make certain renovations specified in the Application for Transfer of Physical Assets submitted to HUD on March 12, 1998, to maintain a replacement reserve with its mortgagor, to 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 17 - 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 mortgage loan
- Repayment of the City's equity investment of $17,633,330 plus 6 percent interest compounded annually, which accumulated to $38,290,710 at June 30, 2011
- Repayment of HUD's equity investment of $16,276,340 plus interest at 6 percent compounded annually. At June 30, 2011, this amount totaled $35,344,011.
- 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 pays the City for programs that benefit low- and moderate-income residents.

There were no distributions of net assets during the year ended June 30, 2011.

Note 18 - Accounting and Reporting Change

During the year, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. As as result of this change, the Tree Replacement Fund that was previously reported as a special revenue fund will now be reported as part of the General Fund. Beginning fund balance was restated as follows:

Fund balance - June 30, 2010 - As previously reported	$ 8,920,496
Tree Replacement Fund - June 30, 2010 fund balance	3,592
Fund balance - June 30, 2011 - As restated	$ 8,924,088

Note 19 - Upcoming Accounting Pronouncements

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses financial reporting related to service concession arrangements which are a type of public private or public public partnership. An SCA is an arrangement between a transferor (a government) and an operator (whether a government or nongovernment) in which the transferor conveys to an operator the right and relation obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting components units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.

In December 2010, the GASB issue Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the City's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Note 20 - Unassigned General Fund Deficit

At June 30, 2011 the City has an unassigned deficit totaling $1,701,615 in its General Fund. This unassigned deficit is the cumulative result of a structural deficit situation which has existed for several years. City Management and City Council are currently preparing a deficit elimination plan to address the unassigned deficit position including the related negative impact on available cash flows.

The City has implemented or is making the following efforts to address the unassigned deficit position:

- Negotiating concessions in open employee contracts
- Reducing staffing through layoffs and attrition
- Working to preserve revenue opportunities including earning EVIP monies
- Delaying projects and other capital items to reduce expenditures
- Executed a new police contract which allows for new hires at a lower pay and benefit structure
- Implementing high deductible healthcare plans to reduce costs
- Has a pending sale of the City's FIA building

Management believes these efforts along with other initiatives will help to address the structural deficit condition and improve the unassigned deficit position.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	$ 29,709,695	$ 29,704,695	$ 29,237,442	$ (467,253)
Fees and permits	1,017,500	1,162,000	1,182,348	20,348
Federal grants	306,000	511,000	491,761	(19,239)
State-shared revenue and grants	6,226,000	7,012,971	7,038,090	25,119
Charges for services	2,888,380	2,979,700	2,734,160	(245,540)
Fines and forfeitures	2,708,000	3,889,200	3,993,561	104,361
Rental income	689,500	763,375	783,333	19,958
Other revenue*	7,047,400	15,109,107	8,997,350	(6,111,757)
Total revenue	50,592,475	61,132,048	54,458,045	(6,674,003)
Expenditures - Current				
General government	6,202,300	6,487,300	6,162,777	324,523
Public safety	18,286,000	21,190,473	20,820,160	370,313
Public works **	12,722,200	16,176,400	15,598,807	577,593
Employee benefits	10,638,200	14,592,850	14,662,023	(69,173)
Economic and community development	381,900	351,450	332,307	19,143
Recreation and culture	2,361,875	2,333,575	1,998,685	334,890
Total expenditures	50,592,475	61,132,048	59,574,759	1,557,289
Net Change in Fund Balance	-	-	(5,116,714)	(5,116,714)
Fund Balance - Beginning of year	8,924,088	8,924,088	8,924,088	-
Fund Balance - End of year	**$ 8,924,088**	**$ 8,924,088**	**$ 3,807,374**	**$ (5,116,714)**

* Other revenue includes bond proceeds, which are included as an other financing source in the governmental fund statement of revenue, expenditures, and changes in fund balances for the year ended June 30, 2011. In addition, the original and amended budgets include a $730,000 and $3,460,832 appropriation of fund balance, respectively.

** Public works includes debt service payments, which are included in debt service in the governmental fund statement of revenue, expenditures, and changes in fund balances for the year ended June 30, 2011.

Police and Fire Retirement System

The schedule of funding progress is as follows: (dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/05	$ 99.0	$ 123.4	$ 24.4	80.2	$ 12.6	193.6
6/30/06	100.0	132.7	32.7	75.3	13.4	244.0
6/30/07	105.3	138.9	33.6	75.8	14.3	235.0
6/30/08	107.6	143.6	36.0	74.9	14.0	257.1
6/30/09	106.0	146.4	40.4	72.4	13.9	290.6
6/30/10	104.1	150.8	46.7	69.0	12.8	364.8

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/06	6/30/04	$ 2,943,025	100.0
6/30/07	6/30/05	4,023,065	100.0
6/30/08	6/30/06	4,977,904	100.0
6/30/09	6/30/07	5,483,018	100.0
6/30/10	6/30/08	5,613,904	100.0
6/30/11	6/30/09	5,917,992	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2010, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent
Amortization period (perpetual)	20 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.6%
Projected salary increases	5.0%-8.0%
*Includes inflation at	5.0%
Cost of living adjustments	None

General Employees' Retirement System

The schedule of funding progress is as follows: (dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/04	$ 54.1	$ 54.1	$ -	100.0	$ 10.3	-
12/31/05	52.8	52.8	-	100.0	10.1	-
12/31/06 *	49.4	64.8	15.4	76.2	8.4	183.3
12/31/07 *	51.6	67.4	15.8	76.6	8.1	195.1
12/31/08 *	50.5	70.4	19.9	71.7	8.1	245.7
12/31/09 *	49.5	71.0	21.5	69.7	7.1	302.8

* Reflects the entry age normal actuarial cost method

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
12/31/05	12/31/03	$ 1,122,958	100.0
12/31/06	12/31/04	1,508,514	100.0
12/31/07	12/31/05	2,086,320	100.0
12/31/08	12/31/06	2,327,966	100.0
12/31/09	12/31/07	2,514,943	100.0
12/31/10	12/31/08	2,424,245	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of 12/31/2010, the latest actuarial valuation, follows:

Actuarial cost method	Aggregate
Amortization method	Level dollar, closed
Amortization period (perpetual)	14 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	2.5%
*Includes inflation at	2.5%
Cost of living adjustments	None

Other Supplemental Information

	Special Revenue Funds						
	Major Streets	Local Streets	Police Forfeiture	Treasury Forfeiture	Justice Forfeiture	Community Development Block Grant	Building Department
Assets							
Cash and investments	$ 1,329,937	$ 529,706	$ 981,341	$ 327,346	$ 2,027,257	$ -	$ 47,272
Accounts receivables:							
Taxes	-	-	-	-	-	-	-
Special assessments	-	6,800	-	-	-	-	-
Due from other governmental units	439,990	155,460	-	-	-	176,717	-
Due from component units	-	-	-	-	-	-	1,444
Due from other funds	-	-	2,108	-	-	-	96,967
Land held for resale	-	-	-	-	-	-	-
Restricted assets	-	-	-	-	-	-	-
Total assets	**$ 1,769,927**	**$ 691,966**	**$ 983,449**	**$ 327,346**	**$ 2,027,257**	**$ 176,717**	**$ 145,683**
Liabilities and Fund Balances							
Liabilities							
Accounts payable	$ 45,309	$ 39,199	$ 119	$ -	$ 6,261	$ 39,715	$ 1,795
Due to other governmental units	-	-	-	-	-	-	-
Due to component units	-	-	-	-	-	-	-
Due to other funds	126,388	339,307	1,783	-	2,605	137,002	137,398
Accrued liabilities and other	-	-	-	-	-	-	6,490
Deferred revenue	-	6,800	-	-	-	-	-
Total liabilities	171,697	385,306	1,902	-	8,866	176,717	145,683
Fund Balances							
Restricted:							
Roads	1,598,230	306,660	-	-	-	-	-
Drug enforcement	-	-	981,547	327,346	2,018,391	-	-
Debt service	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total fund balances	1,598,230	306,660	981,547	327,346	2,018,391	-	-
Total liabilities and fund balances	**$ 1,769,927**	**$ 691,966**	**$ 983,449**	**$ 327,346**	**$ 2,027,257**	**$ 176,717**	**$ 145,683**

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue Funds				Debt Service Funds			Capital Projects Fund	
	1996 Voted Levy	DARE/ GREAT	Neighborhood Stabilization Program	Energy Efficiency and Conservation Block Grant	Taylor Building Authority Debt	DMA/911 Debt	2008 MI Transportation Bond Debt	2008 MI Transportation Bond Construction Fund	Total Nonmajor Governmental Funds
	$ 1,665,837	$ 51,398	$ 3,264	$ -	$ 21	$ -	$ 75	$ -	$ 6,963,454
	1,339	-	-	-	-	-	-	-	1,339
	-	-	-	-	-	-	-	-	6,800
	-	-	635,022	-	-	-	-	-	1,407,189
	-	-	-	-	-	-	-	4,208	5,652
	248,020	-	-	126,356	-	-	-	-	473,451
	-	-	206,278	-	-	-	-	-	206,278
	-	-	-	-	-	-	-	235,038	235,038
	$1,915,196	**$ 51,398**	**$ 844,564**	**$ 126,356**	**$ 21**	**$ -**	**$ 75**	**$ 239,246**	**$ 9,299,201**
	$ 657	$ 277	$ 393,195	$ 126,356	$ -	$ -	$ -	$ -	$ 652,883
	33,019	-	-	-	-	-	-	-	33,019
	-	-	38,792	-	-	-	-	-	38,792
	4,755	199	206,299	-	7	-	-	-	955,743
	74,056	50,922	-	-	-	-	-	-	131,468
	-	-	213,145	-	-	-	-	-	219,945
	112,487	51,398	851,431	126,356	7	-	-	-	2,031,850
	-	-	-	-	-	-	75	-	1,904,965
	-	-	-	-	-	-	-	-	3,327,284
	1,802,709	-	-	-	-	-	-	-	1,802,709
	-	-	-	-	-	-	-	239,246	239,246
	-	-	(6,867)	-	14	-	-	-	(6,853)
	1,802,709	-	(6,867)	-	14	-	75	239,246	7,267,351
	$1,915,196	**$ 51,398**	**$ 844,564**	**$ 126,356**	**$ 21**	**$ -**	**$ 75**	**$ 239,246**	**$ 9,299,201**

	Special Revenue Funds						
	Major Streets	Local Streets	Police Forfeiture	Treasury Forfeiture	Justice Forfeiture	Community Development Block Grant	Building Department
Revenue							
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-	-	-	1,350,068
Federal grants	-	-	-	101,944	528,907	483,216	-
State-shared revenue and grants	2,734,548	963,512	167,504	-	-	-	-
Charges for services	-	4,325	-	-	-	-	-
Interest income	-	1,352	2,292	711	4,613	-	678
Rental income	-	-	-	-	-	-	-
DMA/911 and other revenue	-	-	-	-	-	-	-
Total revenue	2,734,548	969,189	169,796	102,655	533,520	483,216	1,350,746
Expenditures							
Current:							
Public works:							
Public works and capital projects	598,026	1,828,070	-	-	-	-	1,350,746
Construction and development	5,013	20,466	-	-	-	-	-
Community development	-	-	-	-	-	483,216	-
Capital outlay	195,660	129,186	12,431	-	481,822	-	-
Debt service	-	71,238	-	-	-	-	-
Total expenditures	798,699	2,048,960	12,431	-	481,822	483,216	1,350,746
Excess of Revenue Over (Under) Expenditures	1,935,849	(1,079,771)	157,365	102,655	51,698	-	-
Other Financing Sources (Uses)							
Transfers in	-	1,023,803	-	-	-	-	-
Transfers out	(1,375,766)	-	-	-	-	-	-
Total other financing sources (uses)	(1,375,766)	1,023,803	-	-	-	-	-
Net Change in Fund Balances	560,083	(55,968)	157,365	102,655	51,698	-	-
Fund Balances - Beginning of year	1,038,147	362,628	824,182	224,691	1,966,693	-	-
Fund Balances - End of year	**$ 1,598,230**	**$ 306,660**	**$ 981,547**	**$ 327,346**	**$ 2,018,391**	**$ -**	**$ -**

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2011

Special Revenue Funds				Debt Service Funds			Capital Projects Fund	
1996 Voted Levy	DARE/ GREAT	Neighborhood Stabilization Program	Energy Efficiency and Conservation Block Grant	Taylor Building Authority Debt	DMA/911 Debt	2008 MI Transportation Bond Debt	2008 MI Transportation Bond Construction Fund	Total Nonmajor Governmental Funds
$ 1,517,947	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,517,947
-	-	-	-	-	-	-	-	1,350,068
-	-	1,746,379	525,802	-	-	-	-	3,386,248
-	-	-	-	-	-	-	-	3,865,564
-	-	-	-	-	-	-	-	4,325
3,813	121	-	-	14	331	-	534	14,459
-	-	-	-	2,673,529	-	-	-	2,673,529
-	1,355	-	-	-	211,025	-	-	212,380
1,521,760	1,476	1,746,379	525,802	2,673,543	211,356	-	534	13,024,520
-	-	-	-	-	-	-	-	3,776,842
12,199	-	-	-	-	-	-	-	37,678
-	-	1,753,246	-	-	-	-	-	2,236,462
-	1,476	-	525,802	-	-	-	-	1,346,377
1,577,050	-	-	-	2,673,529	521,189	351,963	-	5,194,969
1,589,249	1,476	1,753,246	525,802	2,673,529	521,189	351,963	-	12,592,328
(67,489)	-	(6,867)	-	14	(309,833)	(351,963)	534	432,192
-	-	-	-	-	-	351,963	-	1,375,766
-	-	-	-	-	-	-	-	(1,375,766)
-	-	-	-	-	-	351,963	-	-
(67,489)	-	(6,867)	-	14	(309,833)	-	534	432,192
1,870,198	-	-	-	-	309,833	75	238,712	6,835,159
$1,802,709	**$ -**	**$ (6,867)**	**$ -**	**$ 14**	**$ -**	**$ 75**	**$ 239,246**	**$ 7,267,351**

Other Supplemental Information
Combining Statement of Net Assets
Fiduciary Funds
June 30, 2011

	Trust Funds						
	Pension and Other Employee Benefit Plans			Agency Funds			
	Police and Fire Retirement System	General Employees' Pension Plan*	Total	Tax Receiving	Agency	23rd District Court	Total Agency Funds
Assets							
Cash and cash equivalents	$ 3,915,726	$ 730,508	$ 4,646,234	$ 754,433	$ 41,290	$ 585,397	$ 1,381,120
Investments:							
U.S. government securities	8,326,240	9,420,178	17,746,418	-	-	-	-
Common and preferred stock	32,569,360	25,706,689	58,276,049	-	-	-	-
Corporate bonds	13,790,807	6,597,100	20,387,907	-	-	-	-
Mutual funds	11,810,051	-	11,810,051	-	-	-	-
Partnerships	25,141,090	-	25,141,090	-	-	-	-
Receivables:							
Accrued interest receivable	232,089	137,149	369,238	-	-	-	-
Due from other governmental units	-	-	-	188,569	-	-	188,569
Due from primary government	3,028,783	43,079	3,071,862	-	-	-	-
Total assets	98,814,146	42,634,703	141,448,849	**$ 943,002**	**$ 41,290**	**$ 585,397**	**$ 1,569,689**
Liabilities							
Accounts payable	-	-	$ -	$ 254	$ -	$ -	$ 254
Due to other governmental units	-	-	-	615,156	-	585,397	1,200,553
Accrued liabilities and other	-	-	-	-	41,290	-	41,290
Tax collections distributable	-	-	-	327,592	-	-	327,592
Total liabilities	-	-	-	**$ 943,002**	**$ 41,290**	**$ 585,397**	**$ 1,569,689**
Net Assets Held in Trust for Pension and Other Employee Benefits	**$ 98,814,146**	**$ 42,634,703**	**$ 141,448,849**				

* Balances are as of December 31, 2010.

Other Supplemental Information
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2011

	Police and Fire Retirement System	General Employees' Pension Plan *	Total
Additions			
Investment income:			
Interest and dividends	$ 1,502,659	$ 1,075,652	$ 2,578,311
Net increase in fair value of investments	16,411,186	3,017,623	19,428,809
Less investment expenses	(245,367)	(268,064)	(513,431)
Net investment income	17,668,478	3,825,211	21,493,689
Contributions:			
Employer	5,917,992	2,424,245	8,342,237
Employee	682,254	351,893	1,034,147
Total contributions	6,600,246	2,776,138	9,376,384
Total additions - Net of investment expenses	24,268,724	6,601,349	30,870,073
Deductions			
Benefit payments	9,540,079	5,717,679	15,257,758
General and administrative	28,961	108,666	137,627
Total deductions	9,569,040	5,826,345	15,395,385
Net Increase in Net Assets Held in Trust	14,699,684	775,004	15,474,688
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	84,114,462	41,859,699	125,974,161
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	**$ 98,814,146**	**$ 42,634,703**	**$ 141,448,849**

* Balances are as of December 31, 2010.

Other Supplemental Information
Combining Statement of Net Assets
Component Unit - Housing Commission
June 30, 2011

	Housing Commission*	Taylor Community Development Corporation*	Total
Assets			
Current assets:			
Cash and investments	$ 2,803,553	$ 3,540,570	$ 6,344,123
Receivables	1,363	258,726	260,089
Due from primary government	-	43,114	43,114
Prepaid expenses and other assets	9,289	135,113	144,402
Other assets	-	9,144,263	9,144,263
Total current assets	2,814,205	13,121,786	15,935,991
Noncurrent assets:			
Restricted assets	-	5,336,570	5,336,570
Capital assets	2,184,009	22,276,451	24,460,460
Total noncurrent assets	2,184,009	27,613,021	29,797,030
Total assets	4,998,214	40,734,807	45,733,021
Liabilities			
Current liabilities:			
Accounts payable	15,237	603,859	619,096
Due to primary government	-	77,885	77,885
Tenant security deposits	36,009	314,926	350,935
Accrued liabilities and other	17,024	1,318,013	1,335,037
Total current liabilities	68,270	2,314,683	2,382,953
Noncurrent liabilities - Long-term debt	-	32,903,629	32,903,629
Total liabilities	68,270	35,218,312	35,286,582
Net Assets			
Invested in capital assets - Net of related debt	2,184,009	(2,981,725)	(797,716)
Restricted	-	3,552,701	3,552,701
Unrestricted	2,745,935	4,945,519	7,691,454
Total net assets	**$ 4,929,944**	**$ 5,516,495**	**$ 10,446,439**

* Balances are as of March 31, 2011 for the Housing Commission and as of June 30, 2011 for the Taylor Community Development Corp., its component unit.

Other Supplemental Information
Combining Statement of Changes in Net Assets
Component Unit - Housing Commission
Year Ended June 30, 2011

	Housing Commission*	Taylor Community Development Corporation*	Total
Revenue			
Rental income	$ 304,032	$ 5,813,806	$ 6,117,838
Other income	7,020,929	4,934,505	11,955,434
Total revenue	7,324,961	10,748,311	18,073,272
Expenditures			
General administration	422,455	2,758,588	3,181,043
Housing assistance payments	5,920,683	-	5,920,683
Utilities	150,249	1,731,803	1,882,052
Operation and maintenance	277,531	3,265,548	3,543,079
Depreciation and amortization	176,464	1,735,919	1,912,383
Other	70,668	798,482	869,150
Total expenditures	7,018,050	10,290,340	17,308,390
Operating Income	306,911	457,971	764,882
Nonoperating Revenue (Expenses)			
Other nonoperating income	116,918	464,369	581,287
Interest income	25,521	11,815	37,336
Interest expense	-	(522,355)	(522,355)
Total nonoperating revenue (expense)	142,439	(46,171)	96,268
Change in Net Assets	449,350	411,800	861,150
Net Assets - Beginning of year	4,432,364	-	4,432,364
Prior Period Adjustment Related to Housing Commission Grants	48,230	-	48,230
Net Assets - As restated	4,480,594	5,104,695	9,585,289
Net Assets - End of year	**$ 4,929,944**	**$ 5,516,495**	**$ 10,446,439**

* Balances are as of March 31, 2011 for the Housing Commission and as of June 30, 2011 for the Taylor Community Development Corp., its component unit.

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December 22, 2011

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 (the "City") as of and for the year ended June 30, 2011 and have issued our report thereon dated December 22, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 6, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the City's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated December 22, 2011 regarding our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the City, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding those acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 11, 2011.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions,* in 2011. Fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications required under GASB No. 54. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- The estimates of the incurred but not reported amounts related to the City's self-insured workers' compensation obligations are disclosed in Note 9 to the financial statements. Management's estimate of the various incurred but not reported amounts is based on historical information regarding claims. We evaluated the key factors and assumptions used to develop the estimates and determined they are reasonable in relation to the financial statements taken as a whole.

- The pension and other postemployment benefit cost recorded in the financial statements are based on the actuary's calculation of the annual required contributions. The actuary's calculations are based on numerous significant estimates, including future rate of return on investments, future healthcare costs, employee eligibility rates, life expectancies, and projected salary increases. Management is responsible for reviewing the assumptions used in the actuary's calculation for reasonableness. We evaluated key factors and assumptions used to develop these estimates and determined they are reasonable in relation to the financial statements taken as a whole.

- The practice of Wayne County has been to repay the City for all delinquent real properties at the end of each fiscal year. At a future date, Wayne County will make a final determination as to whether it can collect the delinquent taxes from the property owners. If it is determined that the collections are unlikely to occur, the County will charge back the related taxes to the City. Due to the decline in the economy, the County "chargebacks" have increased significantly from prior years. The City has recorded an estimate of the potential "chargebacks" from the County, as it relates to the previous tax years, as a liability at June 30, 2011. We evaluated key factors and assumptions used to develop this liability estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

- The estimated reserves related to potential reductions for taxpayer challenges of property tax value assessments. We evaluated the key factors and assumptions used to calculate the estimated reserves and determined they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The most sensitive disclosures affecting the financial statements were Note 3 - Deposits and Investments, Note 7 - Long-term Debt, Notes 10 and 11 - Retirement Plans, Note 15 - Contingent Liabilities, and Note 16 - Other Postemployment Benefits.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

All identified material misstatements detected as a result of audit procedures were corrected by management. These entries primarily related to: accounts payable, tax revenue, accounts receivable, pension fund reserve transfers, and liabilities for County chargebacks on property taxes.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 22, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition affecting our retention as the City's auditors.

In addition to the comments in this letter, our observations and comments regarding the City's internal control, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (A-133 single audit report) and we recommend that the matters we have noted there receive your careful consideration.

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

December 22, 2011

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

Very truly yours,

Plante & Moran, PLLC

Douglas G. Bohrer

Kari L. Shea

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December 22, 2011

To the Honorable Mayor and Members
of the City Council
City of Taylor, Michigan
23555 Goddard Road
Taylor, MI 48180

Dear Honorable Mayor and City Council Members:

We recently completed our audit of the financial statements of the City of Taylor (the "City") for the year ended June 30, 2011. As a result of our audit, we offer the following comments and observations for your review and consideration:

<u>Overview of the City's Financial Condition and Current Economic Climate</u>

General Fund

As we have discussed many times over the last several years, the national and local economic climate continues to be extremely challenging for businesses and communities. The City of Taylor continues to face critical revenue restrictions/reductions due to declining property tax values, Headlee limitations, Proposal A caps, and declining revenue-sharing payments received from the State of Michigan, all of which further exacerbate the City's ongoing structural deficit situation. The General Fund ended the 2011 fiscal year with a total fund balance of $3,807,374. The nonspendable portion of this balance is $2,549,549 which is comprised of prepaids, inventory, and a long-term advance to the golf course. The restricted fund balance totals $2,959,440 and consists of restrictions for special millages and grant funds. In aggregate, the nonspendable and restricted amounts total $5,508,989. As a result, the City's General Fund has a large unassigned deficit totaling ($1,701,615) which is indicative of an extremely critical and negative financial position. In 2011, it appears that the City may have utilized restricted monies in the General Fund to fund expenditures not connected to the purpose for the restricted monies. Currently, the City is projecting to use approximately $994,000 of fund balance to balance its 2011/2012 budget. Unless this use of existing fund balance is utilizing restricted fund balance dollars for allowable 2011/2012 expenditures, there is no available unassigned fund balance that can be used to balance the budget.

Furthermore, along with the structural financial challenges for 2011/2012, healthcare costs and actuarial required pension contributions continue to significantly outpace the rate of inflation. As a result and consistent with the prior year's comments, there continues to be a critical need for City management and Council to work together and objectively assess the level of community core services currently provided, including the associated cost of those services.

In particular, because labor-related expenses, including fringes, comprise such a significant portion of the overall recurring operating expenses, they must continually be evaluated to assess the City's current and future ability to pay for these costs. Lastly, because the larger recurring revenue sources are generally limited to inflationary increases (or currently are declining sharply) and certain less controllable expenses such as utilities, pension, health care, etc. generally have recurring annual increases which have substantially outpaced inflation, significant decreases or elimination of other more controllable expenses need to occur to keep the City's future operations viable.

As City management and Council are aware, it continues to be imperative that an adequate level of unassigned and available fund balance be maintained to enable management to adjust to both expected and immediately unanticipated financial challenges. As indicated above, the unassigned fund balance is actually a deficit totaling ($1,701,615) at June 30, 2011. An adequate level of fund balance positions the City to address negative financial changes without significantly disrupting the level of services provided to citizens or the City's ability to fund future obligations. Because of the unassigned deficit situation, the City is at a point where the current service delivery model needs to change. It is essential that the mayor and Council continue to actively monitor the financial position of the City and immediately make necessary amendments to the 2011/2012 budget to restore the unassigned fund balance to a positive condition and ensure restricted funds are appropriately spent.

Golf Courses Fund

The Golf Courses Fund continues to have an operating loss. Even after adjusting for noncash outlays such as depreciation, this fund does not independently generate sufficient cash flows to fund operations, debt service requirements, and capital improvement needs. Previously, the General Fund had paid certain expenses on behalf of the Golf Courses Fund, for which the Golf Courses Fund would then reimburse the General Fund from available operating revenue. As of June 30, 2011, the cumulative balance owed to the General Fund for operating expense advances totals $1,750,000. Based on future cash flow projections, it was determined that the Golf Courses Fund would be unable to repay this amount to the General Fund in the fiscal year ending June 30, 2012. Therefore, this amount has been reclassified as a long-term advance. We understand that City management is continuing to review the golf course operations to evaluate future funding alternatives associated with a repayment plan to the General Fund. We also encourage the City to consider charging a reasonable interest rate to the Golf Courses Fund for the long-term loan payable balance owed to the General Fund.

Financial Forecasts

As mentioned in previous communications to the mayor and Council and due to the City's structural deficit, unassigned fund balance deficit condition, and the current negative economic business climate, we once again strongly recommend that the City immediately create/update its multi-year operating plan, capital, and financial forecasts to include current and alternative scenarios the City could expect to encounter. The following are examples of different situations that will arise:

- It is likely that the City's General Fund will experience cash shortages again in 2011/2012. Proper planning to address those expected shortage is critical.

- Expected changes in employee workforce (contract expirations, renegotiations, attrition, etc.), including the projected savings and/or costs of any employee labor contract adjustments and related fringes

- Continuing healthcare costs. Taylor has seen significant increases for active employees and retirees for many consecutive years.

- The declining level of state-shared revenue received, including the high vulnerability of the statutory portion of state-shared revenue. Over the past 11 years, the City has lost over $20 million dollars in cumulative revenue.

- The expected levels of targeted capital and infrastructure expenditures, including future debt service requirements

- The decline of property tax values resulting in significant reductions in future property tax revenue. Taxable value has been dramatically decreasing in recent years.

- Evaluating the City's ability to provide future services consistent with today's level

- The City's shortfall in funding its Retiree Healthcare (OPEB) obligation is 55 times greater than the General Fund's fund balance at June 30, 2011.

Considering the current economic climate, expected cash flow challenges, and related revenue restrictions, certain deferred maintenance projects, capital outlay constraints, future debt service commitments related to the road, facility, and infrastructure reconstruction programs, the development of an operating plan and cash flow forecast is imperative. The City must critically assess all future costs on an ability-to-pay basis. Strong consideration should be given to identifying the recurring dedicated revenue sources that will support all budgeted costs. By preparing plans under different scenarios, the City would be better equipped to respond to expected and unexpected short-term and long-term financial constraints.

Internal Control and Other Recommendations

In planning and performing our audit of the financial statements of the City of Taylor as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiencies in the City's internal control to be material weaknesses:

- **Account Balance Adjustment** - During our audit, adjusting journal entries were necessary to adjust certain account balances in the fund level statements for proper presentation as of June 30, 2011. Some of the larger adjustments related to accounts payable, property tax chargebacks, other liabilities and pension reserve transfers.

- **Water and Sewer Funds Bank Reconciliations** - During the year there were various personnel changes in the water and sewer department. As a result, bank reconciliations were not performed timely from January 2011 through September 2011. The bank reconciliations were completed and caught up in September/October 2011.

- **General Fund Potential Use of Restricted Funds** - The General Fund ended the year in an unassigned deficit as a result of the nonspendable and restricted classifications exceeding the total fund balance. There is the potential that the City has utilized restricted funds to fund General Fund expenditures not specific to the restricted purpose.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the government's internal control to be a significant deficiency:

- **Police and Fire Pension Review Procedures** - Upon review of the Police and Fire Pension Board minutes, we did not find documented approval of the final average compensation (FAC) calculations for the fiscal year ended June 30, 2011. The board utilizes the services of a bookkeeper to prepare these calculations. These calculations do not appear to be subject to an independent second review. In addition, it is our understanding that the Police and Fire Pension bookkeeper is related to a member of the pension board. We strongly recommend that procedures be established that ensure an independent second review be completed in the budget and finance department (where payroll records are maintained), on all calculations. These calculations should then be reviewed and approved by the board with notations in the minutes documenting the approval process.

We noted during the audit that the employee census data utilized to determine pensionable wages could not initially be reconciled with the underlying City payroll records. Subsequent discussions identified what the differences pertained to; however, there was not a determination made as to whether the items identified as differences should be included. We recommend that a individual from City human resources and a representative from police and fire review the census data to conclude whether existing information is complete and consistent with the applicable underlying contracts.

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

- During our testing of federal awards, we again noted that a detailed inclusive list of all outstanding lien receivables related to CDBG home rehab loans is not maintained and periodically agreed to the general ledger balance. We recommend the City put in place a process to track all outstanding lien receivables related to CDBG home rehab loans.

- Through discussion with City personnel, it was noted that the City understands the requirement to submit investment reports to the City Council on a quarterly basis in accordance with Public Act 213 of 2007. The City was not able to locate copies of the reports for all quarters of fiscal year 2011. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. We also suggest that the required quarterly reports list investments by institution along with maturity dates and interest rates.

- As discussed in last year's letter to the mayor and members of the City Council, it was noted that the City did not have a formal process for adding new vendors. The City has since implemented procedures so only one individual in the budget and finance office can add new vendors. During the year, the City put procedures in place to verify that all new vendors are valid businesses. We suggest that the City maintain the documentation that this process is being performed periodically (at least on an annual basis).

- The Federal Funding Accountability and Transparency Act (FFATA) reporting requirements apply for any federal sub-awards over $25,000 awarded to the City after October 1, 2010.

- The City's 1996 levy will expire in July of 2015. The revenue generated from this levy is currently being used to pay for the 2005 general obligation principal and interest payments are declining. As of June 30, 2011, the debt had approximately $8.6 million in remaining payments which are payable through 2017. We suggest the City analyze its future cash flow needs to determine how the later years' payments will be funded if the current projected tax revenue is insufficient. City management is currently considering potential alternative scenarios regarding voted millages to address the anticipated revenue shortfall.

- During our testing, we reviewed in detail the cash collection procedures at the compost site. Our testing noted a lack of segregation of duties with regard to the cash collections and reconciliation procedures.

  In addition, we noted that the cash drawer is not locked during the day. We recommend that the City review the procedures and make necessary adjustments to ensure that the custody, reconciliation and approval processes are separated among employees as much as possible. The City could consider adding video surveillance to serve as a deterrent for theft. Another option is for the City to consider converting to an electronic system (i.e. purchasing a cash register or utilizing a computer software program). Further comments regarding improvement procedures at the compost site have been provided in a separate memo correspondence to the mayor and deputy treasurer.

- During our testing of the General Employee's Pension Plan, we noted that the statements received from Merrill Lynch, excluded ishare transactions. We suggest that the City work with Merrill Lynch to ensure that all statements and related investment transactions are received on a regular basis by the City to ensure all transactions are reviewed and accounted for. Although a detailed second review of final average compensation (FAC) is performed by the GEPP Board, we recommend this review be performed by the budget and finance department (where payroll records are maintained).

- The City has several interfund balances between funds. During our testing, we noted that the interfunds in many cases are an accumulation of one or more years and that they are not being repaid/collected on a regular basis. We recommend that the City implement procedures to ensure that these interfund balances are relieved on a regular basis in order to avoid large accumulations.

Postemployment Benefits

As discussed in previous years, there were two new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB). GASB Nos. 43 and 45 address the accounting and disclosures related to postemployment benefits other than pensions. In short, these pronouncements require communities to account for and disclose liabilities related to healthcare promises to retirees, much in the same way that pensions are handled. Effective July 1, 2008, the City was required to measure its retiree healthcare liability through actuarial valuations that are to be performed biannually. These valuations compute an "annual required contribution." The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years. The annual required contribution by City for the year ended June 30, 2011 was approximately $13.5 million ($7.4 million for General City (includes $1.5 million for Water, Sewer, and Golf Course Enterprise Fund employees)) $5.7 million for police and fire, and $.4 million for court employees), which includes the benefits paid on behalf of current year retirees. During 2010/2011, the City paid approximately $6.9 million on behalf of the retirees; therefore, the unpaid balance of the annual required contribution was approximately an additional $6.6 million, and this amount has been recognized as an additional liability on the City's government-wide and business-type financial statements.

The overall unfunded retiree healthcare liabilities that the actuary calculated as of June 30, 2010 was approximately $209 million. This amount represents the expected future liabilities to be paid on behalf of all employees of the City. Although only a portion of that obligation is required to be currently recognized as a liability on the City's financial statements, representing the unpaid portion of the annual required contribution (which is amortized over 30 years), the City should be aware of the magnitude of the future liabilities the City owes under the current benefit structure related to retiree health care.

Public Safety and General Employee Benefit Plan Costs

Funding - During our review of the Police and Fire Retirement System, we noted that the overall funded ratio has continued to significantly decrease, going from 98.0 percent to 68.9 percent during the period from June 30, 2002 through June 30, 2010 (there is a one-year lag on the actuarial report for the system). While the retirement system's funding ratio has decreased, the City's contribution has grown at a high rate, increasing from approximately $579,000 for the fiscal year ended 2002 to approximately $5,918,000 for the fiscal year ended 2011.

For general employees, the overall funded ratio has declined from 100 percent funded in 2002 to 70 percent funded as of December 31, 2009 (the latest available data). The required pension contribution has also significantly increased from $0 in 2002 to approximately $2,424,000 for the year ended December 31, 2010.

Additionally, due to a dramatic declines in the investment values from 2008 through 2009, the unfunded actuarial liabilities for both benefit plans significantly increased, which will cause even more of an increase to the required employer contributions in future years. While there was some recovery from June 30, 2009 to 2011, it has not offset the previous declines. See the table below for example information from the police and fire and general employees' retirement systems:

Police and Fire	As of June 30, 2009	As of June 30, 2010	As of June 30, 2011*
Actuarial value of assets (in dollars)	$ 108,000,000	$ 106,000,000	$ 104,000,000
Actuarial accrued liability (AAL) (in dollars)	144,000,000	146,000,000	151,000,000
Unfunded liability (assets less liabilities)	(36,000,000)	(40,000,000)	(47,000,000)
Funded percentage	75%	72%	69%

* Latest available information with respect to the actuarial accrued liability, which is June 30, 2010

General Employees	As of December 31, 2007	As of December 31, 2008	As of December 31, 2009
Actuarial value of assets (in dollars)	$ 52,000,000	$ 51,000,000	$ 50,000,000
Actuarial accrued liability (AAL) (in dollars)	67,000,000	70,000,000	71,000,000
Unfunded liability (assets less liabilities)	(16,000,000)	(20,000,000)	(22,000,000)
Funded percentage	77%	72%	70%

City management and Council need to critically continue to assess all employee benefit plans (pension and retiree health care). This assessment must include an objective evaluation of benefits currently offered, the ability to continue to offer the current benefit package, recent plan investment performance, projected future millage increases (if applicable) to fund benefit costs, and an overall analysis of the City's ability to control these costs and pay for future benefits.

As a reminder, we recommend that a summary of pension plan investment activities for public safety and general employee plans continue to be provided to City management and Council on an annual or semiannual basis. This will allow for a review of investment results and the ability to identify performance improvement opportunities and alternatives to help reduce the overall cost of the plans.

Legislative Items

Impact of Census Results on State-shared Revenue

The 2010 census data was released on March 22, 2011. Census results indicated an overall decline in population for the State of Michigan of 0.6 percent. The impact of the Census on local units of government will vary widely; based mostly upon whether or not a local unit is receiving statutory revenue-sharing payments. For the City of Taylor, the impact of the census was a retroactive revenue reduction of $105,554 in June and August of 2011. Going forward, the increase/decrease in population will have an impact on both constitutional revenue sharing and payments through the new EVIP program noted below.

State Initiatives Impacting Local Units of Government

Governor Snyder has begun his tenure with several significant initiatives, and he is moving his agenda forward at a quick pace. One of these initiatives is to improve the transparency and efficiency of local units - cities, townships, villages, and counties. More specifically, his current local government initiatives include;

- Replace "statutory revenue sharing" with a newly named "Economic Vitality Incentive Program" that will be reduced by approximately one-third and require local units to compete for the remaining $200 million by demonstrating best practices in the following areas:
    - Transparency - provide more accessible financial information to citizens
    - Service sharing - consolidation or collaboration with other units of government
    - Employee benefits - slimmed down pension and healthcare benefits
- Significantly strengthening the powers of emergency managers
- Changes to Act 312, police and fire arbitration
- Potential changes to the Urban Cooperation Act
- Potential elimination of personal property taxes

Each of these initiatives could have an impact on the City of Taylor and are discussed in more detail below.

Accountability and Transparency

Governor Snyder's proposals call for each local unit to produce a citizen's guide to its finances (a "transparency tool") and a performance "dashboard" by October 1, 2011. These two tools should be readily available to the public, which likely means available via the Internet. The citizen's guide can be thought of as a simplified view of financial data, much like a Popular Annual Financial Report (PAFR). The performance dashboard will include comparisons of key metrics both within your community and to other communities (comparables).

We are happy to report that the City of Taylor prepared and submitted its transparency tools, thus resulting in guaranteed receipt of this portion of the EVIP funding.

Service Sharing and Consolidation

The second requirement to compete for statutory revenue sharing has an implementation date of January 1, 2012. The State is requiring local units to submit a plan that identifies the increased sharing of services with other governments, or consolidation of services. While it appears that past endeavors will be considered this first year, the State is also looking for communities to develop plans to enter into new sharing arrangements. At this time, communities are required to certify that that they have plans that they intend to implement. Actual sharing agreements do not need to be in place by January 1, 2012.

The State requires the service sharing plans to include estimates of potential savings and costs associated with sharing services. In addition, the State has set aside a small amount ($5 million out of the $200 million) to assist communities with one-time implementation costs related to launching new service sharing initiatives.

Employee Compensation Best Practices

The new EVIP program requires changes only to new, modified, or extended employee contracts. Such contracts would be subject to the following criteria:

a) Placing all new hires in a defined contribution plan or a hybrid retirement plan that caps annual employer contributions at 10 percent of base salary

b) Where applicable a 1.5 percent multiplier should be used to determine employee pensions. A 2 percent multiplier should be used for employees who are not eligible for Social Security benefits.

c) Implementing controls to avoid pension spiking such as using a three-year salary average that does not include more than a total of 240 hours of paid leave and overtime to determine benefit levels

d) If health care is offered, all new hires must be on an 80/20 employer to employee healthcare premium split.

This requirement begins on May 1, 2012. At that point, the City will have to certify that it is either abiding by these provisions, or plan to with each new contract.

Other Legislative Developments

Healthcare Initiatives

Senate Bill 7 (now PA 152 of 2011), the "Publicly Funded Health Insurance Contribution Act," was signed into law by the governor in late September 2011. This new law requires all public employers to place hard caps on the amounts they contribute toward health care with an option to elect an 80 percent contribution cap rather than a hard cap. There is also an option for the local unit to opt out entirely.

PA 152 would limit annual costs for medical benefit plans to the following:

- $5,500 for single coverage
- $11,000 for individual and spousal coverage
- $15,000 for family coverage

These limits would apply once contracts expire or by January 1, 2012 if there is no contract.

Alternatively, given a majority vote of its governing bodies, a public employer can opt out of the hard cap and into an 80 percent contribution cap. Under this option, public employers would pay no more than 80 percent of the total annual costs for all of the medical benefit plans it offers or contributed to for its employees and elected public officials. This option would require that publically elected officials would have to pay 20 percent or more of the total annual costs of that plan, but the employee's share of the costs could be allocated as the government sees fit.

This act does contain a complete opt-out provision. It would allow communities to opt out of these provisions entirely with a two-thirds vote of the governing body.

Failure to comply with the provisions in this act will result in a 10 percent reduction in each EVIP payment for the period of noncompliance. Opting out by a two-thirds vote of the governing body under the provisions of this act is not considered failure to comply.

The law, which applies to all public employers, will take effect on January 1, 2012. However, any collective bargaining agreement or other contract executed on or after September 15, 2011 would also have to comply once the bill is signed.

Senate Bill 34 - Elimination of the Personal Property Tax

On January 19, 2011, SB 34 was introduced. Very simply, this bill, if it becomes law, will amend PA 206 of 1893 and exempt all personal property from the collection of taxes. Altogether, this would reduce revenue for communities across the state by approximately $770 million. Including the school districts, the lost revenue would be over $1 billion. This bill does not provide any source of revenue to replace that which is lost.

Obviously, this would be devastating to many communities as personal property taxes are a significant component of a local unit's tax structure. During the governor's announcement of his budget, he did state that the elimination of the personal property tax was not part of his 2012 budget. However, since that time, the topic has received much focus by the Legislature. The City of Taylor's personal property tax currently generates approximately $800,000 in revenue.

Emergency Managers - Public Act 4 of 2011

On March 16, 2011, PA 4, *Local Government and School District Fiscal Accountability Act*, was signed into law. This Act repeals Public Act 72 of 1990, the previous *Local Government Fiscal Responsibility Act*. Under the new act, the State Treasurer can conduct a preliminary review to determine the existence of a local government financial problem if one or more of 18 different "triggering events" occur. Some of these events are truly a sign of financial stress, such as incurring payless paydays or defaulting on a bond or note payment. Others are more subjective, including a blanket statement that the existence of "other facts or circumstances…as determined by the state treasurer" is sufficient to start the process.

If a finding of probable financial stress is made, the governor shall appoint a review team. The team would conduct its review and report back to the governor and state treasurer within 60 days of its appointment. Depending on the severity of the findings during the review, the actions then taken could range from none to a declaration of a financial emergency, the local unit would be placed in receivership, and an Emergency Manager (EM) appointed in place of the existing governing body and chief administrative officer.

For communities that have some of the triggers but seem to have a plan to address them, there is an in-between step whereby a consent agreement is entered into and monitored.

Clearly, this legislation is causing great anxiety in terms of both the uncertainty as to how aggressive the State will be in implementing the legislation as well the broadness of the powers granted to an EM. Any new EMs would have the authority to reject, modify, or terminate the terms of an existing contract or collective bargaining agreement.

This legislation may ultimately change the tenor of future union negotiations, in that it gives the collective bargaining representatives a strong incentive to work with the City to avoid receivership by an EM.

Changes to Act 312, Police and Fire Arbitration

Public Act 312 prohibited public police and fire department employees from the right to strike. Whenever contracts are not resolved, the employees or employer may initiate binding arbitration in lieu of striking. The arbitrator's decision is final and binding upon the parties involved.

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

December 22, 2011

The governor has called for reforming Act 312 of 1969, the Police and Fire Arbitration Act. In July 2011, Public Act 116 of 2011 was signed into law and contains the following provisions:

- A stronger consideration of a community's ability to pay
- Internal salary and benefit comparisons
- Reducing the timeframe of the process to no more than 180 days

Proposed Amendments to the Urban Cooperation Act and Related Statutes

Various House and Senate bills intend to amend the numerous statutes that govern local unit service sharing. These bills eliminate certain guarantees and provisions of collectively bargained agreements. The problem in trying to form new collaborative ventures is that the existing act includes a clause that prevents the immediate negotiation of new contracts. This stands in the way of even the consideration of mergers by many local units because the new entity is hampered by a multi-layer set of work rules, wages, and benefits which effectively eliminate the economic efficiencies that are the very reason to consolidate. Under the amended act, management and employees should be allowed to immediately begin the collective bargaining process for the new entity and complete this within an appropriate time.

The bills are still a work in progress.

Retro-pay Prohibition

Public Act 54 of 2011, which was signed by the governor on June 7, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits. This act was ordered to take effect immediately.

Very truly yours,

Plante & Moran, PLLC

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Douglass Bohrer

Kari R. Shea

Kari Shea