

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Milan	County Washtenaw-Monroe
Fiscal Year End June 30, 2007	Opinion Date 11-19-2007	Date Audit Report Submitted to State 12-27-2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Post, Smythe, Lutz and Ziel of Plymouth LLP		Telephone Number 734-453-8770		
Street Address 1034 West Ann Arbor Trail		City Plymouth	State MI	Zip 48170
Authorizing CPA Signature  CPA		Printed Name David R. Williamson		License Number 12382

CITY OF MILAN
Washtenaw and Monroe Counties, Michigan

AUDITED FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2007

CITY OF MILAN
For the Year Ended June 30, 2007

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For the Year Ended June 30, 2007

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Independent Auditor's Report

November 19, 2007

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milan as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor and Members of the
City Council
City of Milan, Michigan

The management's discussion and analysis and the defined benefit pension plan trend information are not a required part of the basic financial statements but are supplementary 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 supplementary 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 Milan's basic financial statements. The General Fund budget to actual statement and other supplementary information have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink that reads "Post, Smythe, Lutz + Ziel of Plymouth". The signature is written in a cursive, flowing style.

Post, Smythe, Lutz and Ziel of Plymouth LLP
Certified Public Accountants



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Management's Discussion and Analysis

As management of the City of Milan, we offer readers of the City of Milan's financial statements this narrative overview and analysis of the financial activities of the City of Milan for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of the City of Milan exceeded its liabilities at the close of the most recent fiscal year by \$21,357,188 (net assets). Of this amount, \$2,250,065 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year the City of Milan's governmental funds reported combined ending fund balances of \$1,307,140, an increase of \$77,020 in comparison with the prior year. Approximately 73% of this total amount, \$957,857 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$280,236, or 7 percent of total general fund expenditures.
- The City of Milan's total debt decreased by \$882,552 during the current fiscal year.

Overview of the Financial Statements

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Milan's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Milan's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Milan is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Milan that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Milan include general government, public safety, highways and streets, sanitation, and culture and recreation. The business-type activities of the City of Milan include the water and sewer system, public transit, storm sewer, and Mooreville sewer.

The government-wide financial statements include not only the City of Milan itself (known as the *primary government*), but also a legally separate Brownfield Redevelopment Authority, and other "nonmajor" component units for which the City of Milan is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Milan, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Milan can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and

the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Milan maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Arkona Road Special Assessment Debt Service Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Milan adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City of Milan maintains four proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Milan used the enterprise fund to account for its water and sewer activity and the public transit fund as well as the other "nonmajor" proprietary funds. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Milan's various functions. The City of Milan uses an internal service fund to account for its fleet of vehicles and other equipment. Because both of these services predominantly benefit governmental rather than business-type functions they have been included within *governmental activities* in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Milan's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 20-21 of this report.

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. The notes to the financial statements can be found on pages 22-46 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Milan's progress in funding its obligation to provide pension benefits to its employees. This information can be found on page 47 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining statements can be found on pages 49-61 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Milan, assets exceeded liabilities by \$21,357,188 at the close of the most recent fiscal year.

By far the largest portion of the City of Milan's net assets (86 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Milan used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Milan's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Assets					
	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 3,905,138	\$ 3,894,295	\$ 2,196,140	\$ 6,552,629	\$ 6,101,278	\$ 10,446,924
Capital Assets	8,178,521	8,364,279	25,534,944	22,438,351	33,713,465	30,802,630
Total Assets	12,083,659	12,258,574	27,731,084	28,990,980	39,814,743	41,249,554
Long-term Liabilities	2,225,992	2,462,708	13,190,000	13,816,664	15,415,992	16,279,372
Other Liabilities	2,602,507	2,777,271	439,056	1,341,765	3,041,563	4,119,036
Total Liabilities	4,828,499	5,239,979	13,629,056	15,158,429	18,457,555	20,398,408
Net Assets:						
Invested in Capital Assets,						
net of related debt	5,952,529	5,901,571	12,344,944	12,845,268	18,297,473	18,746,839
Restricted	349,283	637,110	460,367	436,578	809,650	1,073,688
Unrestricted	953,348	479,914	1,296,717	550,705	2,250,065	1,030,619
Total Net Assets	\$ 7,255,160	\$ 7,018,595	\$ 14,102,028	\$ 13,832,551	\$ 21,357,188	\$ 20,851,146

An additional portion of the City of Milan's net assets (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$2,250,065) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year the City of Milan is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$506,042 during the current fiscal year as shown in the table below:

	Governmental Activities		Business Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues:						
Charges for Services	\$ 1,288,323	\$ 1,305,820	\$ 1,722,573	\$ 1,657,769	\$ 3,010,896	\$ 2,963,589
Operating Grants	507,085	498,160	245,034	303,152	752,119	801,312
Capital Grants	-	1,456	180,551	419,011	180,551	420,467
General Revenues:						
Property Taxes	3,530,863	3,315,945	-	-	3,530,863	3,315,945
State Shared Revenues	440,532	445,847	-	-	440,532	445,847
Investment Earnings	107,799	77,099	216,350	301,273	324,149	378,372
Transfers	(614,409)	(503,382)	581,609	426,352	(32,800)	(77,030)
Other	7,921	177,933	-	-	7,921	177,933
Total Revenues	<u>5,268,114</u>	<u>5,318,878</u>	<u>2,946,117</u>	<u>3,107,557</u>	<u>8,214,231</u>	<u>8,426,435</u>
Program Expenses:						
General Government	1,217,013	1,389,448	-	-	1,217,013	1,389,448
Public Safety	1,816,014	1,786,244	-	-	1,816,014	1,786,244
Public Works	1,371,599	1,626,038	-	-	1,371,599	1,626,038
Health and Welfare	79,866	107,370	-	-	79,866	107,370
Recreation and Culture	445,472	399,852	-	-	445,472	399,852
Interest- Long-Term Debt	101,585	95,832	-	-	101,585	95,832
Transit	-	-	414,087	485,552	414,087	485,552
Other	-	-	20,887	28,476	20,887	28,476
Water and Sewer	-	-	2,241,666	2,458,218	2,241,666	2,458,218
Total Expenses	<u>5,031,549</u>	<u>5,404,784</u>	<u>2,676,640</u>	<u>2,972,246</u>	<u>7,708,189</u>	<u>8,377,030</u>
Change in Net Assets	<u>\$ 236,565</u>	<u>\$ (85,906)</u>	<u>\$ 269,477</u>	<u>\$ 135,311</u>	<u>\$ 506,042</u>	<u>\$ 49,405</u>

Governmental activities. Governmental activities increased the City of Milan's net assets by \$236,565, as operating revenues exceeded expenses. This result was somewhat offset by to transfers to the Water and Sewer fund for debt service costs (\$752,763).

Business-type activities. Business-type activities increased the City of Milan's net assets by \$269,477. Key elements of this increase are as follows:

- Operating transfers from the general fund \$ 752,763
- Interest Expense water and sewer fund \$ 540,195
- Capital contributions \$ 180,551

Financial Analysis of the Government's Funds

As noted earlier, the City of Milan used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Milan's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Milan's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year the City of Milan's governmental funds reported combined ending fund balances of \$1,307,140, an increase of \$77,020 in comparison with the prior year. Approximately 73% of this total amount (\$957,857) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$198,231), 2) to accomplish capital projects (\$151,052).

The general fund is the chief operating fund of the City of Milan. At the end of the current fiscal year unreserved fund balance of the general fund and the total fund balance was \$280,236. Unreserved fund balance represents 7 percent of total general fund expenditures.

The fund balance of the City of Milan's general fund increased by \$212,746 during the current fiscal year. Key factors were as follows:

- \$189,866 in operating cost reductions, and \$205,735 in reduced capital outlay expenses, when compared to the prior year.
- Transfer of \$897,564 to other funds for operations and debt service, and \$34,000 to component units, which is a net increase of \$303,659 over the prior year.

Proprietary funds. The City of Milan's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,296,717. The total growth in net assets was \$269,477. Other factors concerning the finances of the fund have already been addressed in the discussion of the City of Milan's business-type activities.

General Fund Budgetary Highlights

Differences between the original expenditure budget and the final amended expenditure budget were \$88,048, which represented reductions in operating expenditures necessary to facilitate increased general fund support for proprietary debt service costs.

Capital Asset and Debt Administration

Capital assets. The City of Milan's investment in capital assets for its governmental and business type activities as of June 30, 2007 amounts to \$33,713,465 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads and highways. The total increase in the City of Milan's investment in capital assets for the current fiscal year was 9 percent (a 2 percent decrease for governmental activities and a 14 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Continuation of work on wastewater treatment plant expansion \$ 3,564,065
- Substantial completion of work on Southside Sewer \$ 336,246

Details to the City's capital assets are continued in the notes to the financial statements on pages 36 to 37.

Long-term debt. At the end of the current fiscal year the City of Milan had total bonded and installment debt outstanding of \$15,415,992 all of which is backed by the full faith and credit of the city.

Additional information on the City of Milan's long-term debt can be found in note IV.D on pages 40-41.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate is still high in the State of Michigan and the State's budget plan may result in reduced state shared revenues. The City of Milan's millage rate was reduced again by the Headlee Amendment rollback to 18.3166 for general operating purposes; however we will only levy 15.50 mills. These factors were considered in preparing the City of Milan's budget for the 2008 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased by \$212,746. The City of Milan has presented a balanced budget in the 2008 fiscal year budget, as there was no significant unreserved fund balance to appropriate, and significant contingencies (as discussed in note V.F. pages 45-46) exist relative to property tax litigation, and financing for the waste water treatment plant debt.

Significant operational adjustments were necessary in the 2006-2007 budget year to accomplish the debt service payments, due to the shortfall of capital charges (tap fees) projected to provide the majority of the annual debt costs. The 2007-2008 budget shows the following sources for debt service costs:

- Transfers from General Fund \$546,720
- Surplus revenues Water and Sewer 250,000
- Tap Fees 156,500

The City administration and City Council will have to continue its diligent review of operating costs, to insure that these funding plans are viable. The City has inadequate reserves in the General Fund and the Water and Sewer fund to handle significant contingencies.

Requests for Information

This financial report is designed to provide a general overview of the City of Milan's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk-Treasurer, 147 Wabash Milan, MI 48160.

BASIC FINANCIAL STATEMENTS

CITY OF MILAN
Statement of Net Assets
June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 1,572,716	\$ 900,332	\$ 2,473,048	\$ 272,578
Receivables (net of allowance for uncollectibles):				
Special Assessments	1,936,851	-	1,936,851	-
Accounts	195,940	392,819	588,759	94
Due from Other Funds	64,057	18,481	82,538	-
Due from Other Governmental Units	111,016	6,142	117,158	-
Inventory	-	72,265	72,265	-
Prepaid Expenditures	24,558	694	25,252	-
Restricted Assets - Cash	-	687,338	687,338	-
Restricted Assets - Investment	-	118,069	118,069	-
Capital Assets (Net of Accumulated Depreciation)	8,178,521	25,534,944	33,713,465	-
Total Assets	<u>12,083,659</u>	<u>27,731,084</u>	<u>39,814,743</u>	<u>272,672</u>
LIABILITIES				
Accounts Payable	516,154	366,621	882,775	1,065
Accrued Liabilities	59,009	27,702	86,711	-
Due to Other Funds	17,343	44,733	62,076	-
Deferred Revenue	1,936,850	-	1,936,850	-
Noncurrent Liabilities:				
Due within one year	240,992	435,000	675,992	-
Compensated Absences Due in more than one year	73,151	-	73,151	-
Due in more than one year	1,985,000	12,755,000	14,740,000	-
Total Liabilities	<u>4,828,499</u>	<u>13,629,056</u>	<u>18,457,555</u>	<u>1,065</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	5,952,529	12,344,944	18,297,473	-
Restricted for:				
Capital Projects	151,052	435,958	587,010	-
Debt Service	198,231	24,409	222,640	-
Unrestricted	953,348	1,296,717	2,250,065	271,607
Total Net Assets	<u>\$ 7,255,160</u>	<u>\$ 14,102,028</u>	<u>\$ 21,357,188</u>	<u>\$ 271,607</u>

CITY OF MILAN
Statement of Activities
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	Program Revenues			
<u>Primary Government:</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General Government	\$ 1,217,013	\$ 386,261	\$ 76,357	\$ -
Public Safety	1,816,014	97,409	98,407	-
Public Works	1,371,599	684,282	323,627	-
Health and Welfare	79,866	-	8,694	-
Recreation and Cultural	445,472	120,371	-	-
Interest on Long-Term Debt	101,585	-	-	-
Total Governmental Activities	5,031,549	1,288,323	507,085	-
Business-type Activities:				
Water and Sewer	2,241,666	1,687,683	-	163,751
Transit	414,087	34,890	243,236	-
Other	20,887	-	1,798	16,800
Total Business-type Activities	2,676,640	1,722,573	245,034	180,551
Total Primary Government	\$ 7,708,189	\$ 3,010,896	\$ 752,119	\$ 180,551
 Component Units	 \$ 46,678	 \$ 4,124	 \$ -	 \$ -

General Revenues:
Property Taxes
State Shared Revenue
Unrestricted Investment Earnings
Gain(Loss) on Disposal of Capital Assets
Transfers In (out)
Total General Revenues and Transfers

Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (754,395)	\$ -	\$ (754,395)	\$ -
(1,620,198)	-	(1,620,198)	-
(363,690)	-	(363,690)	-
(71,172)	-	(71,172)	-
(325,101)	-	(325,101)	-
(101,585)	-	(101,585)	-
<u>(3,236,141)</u>	<u>-</u>	<u>(3,236,141)</u>	<u>-</u>
-	(390,232)	(390,232)	-
-	(135,961)	(135,961)	-
-	(2,289)	(2,289)	-
<u>-</u>	<u>(528,482)</u>	<u>(528,482)</u>	<u>-</u>
<u>(3,236,141)</u>	<u>(528,482)</u>	<u>(3,764,623)</u>	<u>-</u>
-	-	-	(42,554)
3,530,863	-	3,530,863	31,578
440,532	-	440,532	-
107,799	216,350	324,149	6,765
7,921	-	7,921	-
(614,409)	581,609	(32,800)	34,000
<u>3,472,706</u>	<u>797,959</u>	<u>4,270,665</u>	<u>72,343</u>
236,565	269,477	506,042	29,789
<u>7,018,595</u>	<u>13,832,551</u>	<u>20,851,146</u>	<u>241,818</u>
<u>\$ 7,255,160</u>	<u>\$ 14,102,028</u>	<u>\$ 21,357,188</u>	<u>\$ 271,607</u>

CITY OF MILAN
Balance Sheet
Governmental Funds
June 30, 2007

	<u>General</u>	<u>Arkona Rd. Special Asees. Debt Sevice</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 492,650	\$ 103,422	\$ 915,614	\$ 1,511,686
Receivables (net of allowance for uncollectibles):				
Accounts	144,955	-	49,822	194,777
Special Assessments	-	990,772	946,079	1,936,851
Due from Other Funds	53,757	-	-	53,757
Due from Other Governmental Units	60,213	-	50,803	111,016
Prepaid Expenditures	24,362	-	196	24,558
Total Assets	<u>\$ 775,937</u>	<u>\$ 1,094,194</u>	<u>\$ 1,962,514</u>	<u>\$ 3,832,645</u>

LIABILITIES AND FUND BALANCE

Liabilities:				
Accounts Payable	\$ 434,349	\$ -	\$ 73,154	\$ 507,503
Accrued and Other Liabilities	59,009	-	-	59,009
Due to Other Funds	2,343	-	19,800	22,143
Deferred Revenue	-	990,772	946,078	1,936,850
Total Liabilities	<u>495,701</u>	<u>990,772</u>	<u>1,039,032</u>	<u>2,525,505</u>
Fund Balances:				
Reserved for:				
Capital Projects	-	-	151,052	151,052
Debt Service	-	103,422	94,809	198,231
Unreserved for:				
General Fund	280,236	-	-	280,236
Special Revenue Funds	-	-	677,621	677,621
Total Fund Balances	<u>280,236</u>	<u>103,422</u>	<u>923,482</u>	<u>1,307,140</u>
Total Liabilities and Fund Balances	<u>\$ 775,937</u>	<u>\$ 1,094,194</u>	<u>\$ 1,962,514</u>	

Amounts reported for governmental activities in the statement of net assets are difference because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 7,829,170

Internal Service Funds are used by management to charge the costs of motor pool to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 380,327

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (2,261,477)

\$ 7,255,160

CITY OF MILAN
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	<u>General</u>	<u>Arkona Rd. Special Assess. Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>				
Property Taxes	\$ 3,530,863	\$ -	\$ -	\$ 3,530,863
Special Assessments	-	150,233	115,368	265,601
Licenses and Permits	90,280	-	-	90,280
Intergovernmental:				
Federal, State and Local	469,226	-	328,670	797,896
Charges for Services	838,458	-	2,997	841,455
Fines and Forfeitures	37,637	-	-	37,637
Interest	67,241	16	40,539	107,796
Other	119,128	-	83,942	203,070
Total Revenues	<u>5,152,833</u>	<u>150,249</u>	<u>571,516</u>	<u>5,874,598</u>
<u>Expenditures</u>				
Current:				
General Government	1,031,488	-	71,058	1,102,546
Public Safety	1,752,849	-	11,076	1,763,925
Public Works	832,249	-	209,293	1,041,542
Health and Welfare	79,866	-	-	79,866
Recreation and Cultural	418,499	-	-	418,499
Debt Service:				
Principal	-	95,000	105,000	200,000
Interest and Other Charges	-	41,112	56,356	97,468
Capital Outlay	8,334	-	450,992	459,326
Total Expenditures	<u>4,123,285</u>	<u>136,112</u>	<u>903,775</u>	<u>5,163,172</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,029,548</u>	<u>14,137</u>	<u>(332,259)</u>	<u>711,426</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	114,762	-	193,396	308,158
Transfers Out	(897,564)	-	(11,000)	(908,564)
Transfers Out-Component Unit	(34,000)	-	-	(34,000)
Total Other Financing Sources and Uses	<u>(816,802)</u>	<u>-</u>	<u>182,396</u>	<u>(634,406)</u>
Net Change in Fund Balances	212,746	14,137	(149,863)	77,020
Fund Balances - Beginning	<u>67,490</u>	<u>89,285</u>	<u>1,073,345</u>	<u>1,230,120</u>
Fund Balances - Ending	<u>\$ 280,236</u>	<u>\$ 103,422</u>	<u>\$ 923,482</u>	<u>\$ 1,307,140</u>

CITY OF MILAN
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007

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

Net change in fund balances - total governmental funds	\$	77,020
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
		(85,929)
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		192,004
<p>Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net expenses of certain activities of internal service funds is reported with governmental activities.</p>		
		<u>53,470</u>
Change in net assets in governmental activities	\$	<u><u>236,565</u></u>

CITY OF MILAN
Balance Sheet
Proprietary Funds
June 30, 2007

	Business Type Activities Enterprise Funds			Governmental Activities - Internal Service	
	Water & Sewer	Public Transit	Nonmajor Funds	Total	Motor Pool Fund
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 780,900	\$ 5,121	\$ 114,311	\$ 900,332	\$ 61,030
Accounts Receivable	388,292	4,527	-	392,819	1,163
Due From Other Funds	17,343	-	1,138	18,481	15,100
Due From Other Governmental Units:					
Federal	-	5,898	-	5,898	-
State	-	244	-	244	-
Inventory	72,265	-	-	72,265	-
Prepaid Expense	596	-	98	694	-
Total Current Assets	<u>1,259,396</u>	<u>15,790</u>	<u>115,547</u>	<u>1,390,733</u>	<u>77,293</u>
Restricted Assets:					
Cash-Debt Retirement	24,409	-	-	24,409	-
Cash-Construction	662,929	-	-	662,929	-
Investment-Construction	118,069	-	-	118,069	-
Total Restricted Assets	<u>805,407</u>	<u>-</u>	<u>-</u>	<u>805,407</u>	<u>-</u>
Property, Plant and Equipment:					
Land and Land Improvements	981,712	-	-	981,712	-
Building	8,142,887	34,590	-	8,177,477	-
Water and Sewer Infrastructure	9,343,775	-	-	9,343,775	-
Machinery, Equipment and Vehicles	4,550,982	591,035	-	5,142,017	1,417,146
Construction in Progress	13,725,940	-	-	13,725,940	-
Less: Accumulated Depreciation	(11,398,571)	(437,406)	-	(11,835,977)	(1,067,795)
Net Property, Plant and Equipment	<u>25,346,725</u>	<u>188,219</u>	<u>-</u>	<u>25,534,944</u>	<u>349,351</u>
Total Assets	<u>\$ 27,411,528</u>	<u>\$ 204,009</u>	<u>\$ 115,547</u>	<u>\$ 27,731,084</u>	<u>\$ 426,644</u>
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts Payable-from Unrestricted	\$ 65,844	\$ 1,908	\$ -	\$ 67,752	\$ 7,326
Accounts Payable-from Restricted	298,869	-	-	298,869	-
Accrued Liabilities	2,456	6,528	218	9,202	1,325
Due to Other Funds	1,138	33,295	10,300	44,733	-
Due to Other Governmental Units:					
State	-	18,500	-	18,500	-
Current Portion of Notes Payable	-	-	-	-	37,666
Current Portion of Bonds Payable	435,000	-	-	435,000	-
Total Current Liabilities	<u>803,307</u>	<u>60,231</u>	<u>10,518</u>	<u>874,056</u>	<u>46,317</u>
Long-Term Liabilities:					
Bonds Payable	12,755,000	-	-	12,755,000	-
Total Long-Term Liabilities	<u>12,755,000</u>	<u>-</u>	<u>-</u>	<u>12,755,000</u>	<u>-</u>
Equity:					
Invested in Capital Assets, Net of Related Debt	12,156,725	188,219	-	12,344,944	311,685
Restricted	460,367	-	-	460,367	-
Unrestricted	1,236,129	(44,441)	105,029	1,296,717	68,642
Total Equity	<u>13,853,221</u>	<u>143,778</u>	<u>105,029</u>	<u>14,102,028</u>	<u>380,327</u>
Total Liabilities and Equity	<u>\$ 27,411,528</u>	<u>\$ 204,009</u>	<u>\$ 115,547</u>	<u>\$ 27,731,084</u>	<u>\$ 426,644</u>

CITY OF MILAN
Statement of Revenues, Expenses and Changes in Fund Equity
Proprietary Funds
For the Year Ended June 30, 2007

	Business Type Activities Enterprise Funds			Governmental Activities - Internal Service	
	Water & Sewer	Public Transit	Nonmajor Funds	Total	Motor Pool Fund
Operating Revenues:					
Intergovernmental- State	\$ -	\$ 134,441	\$ -	\$ 134,441	\$ -
Intergovernmental- Federal	-	52,594	-	52,594	-
Intergovernmental-Local	-	56,201	1,798	57,999	-
Water Charges	653,802	-	-	653,802	-
Sewer Charges	875,146	-	-	875,146	-
Billing Fees	108,000	-	-	108,000	-
Other Charges for Services	50,735	34,890	-	85,625	295,750
Total Operating Revenues	<u>1,687,683</u>	<u>278,126</u>	<u>1,798</u>	<u>1,967,607</u>	<u>295,750</u>
Operating Expenses:					
Water Operating Expenses:					
Wages	125,851	-	-	125,851	-
Administrative Fees	97,895	-	-	97,895	-
Fringe Benefits	68,753	-	-	68,753	-
Other Operating Costs	269,325	-	-	269,325	-
Total Water Operating Expenses	<u>561,824</u>	<u>-</u>	<u>-</u>	<u>561,824</u>	<u>-</u>
Sewer Operating Expenses:					
Wages	150,636	-	-	150,636	-
Administrative Fees	97,895	-	-	97,895	-
Fringe Benefits	77,991	-	-	77,991	-
Other Operating Costs	430,712	-	-	430,712	-
Total Sewer Operating Expenses	<u>757,234</u>	<u>-</u>	<u>-</u>	<u>757,234</u>	<u>-</u>
Other Operating Expenses	-	329,028	20,887	349,915	171,101
Depreciation	382,413	85,059	-	467,472	94,984
Total Operating Expenses	<u>1,701,471</u>	<u>414,087</u>	<u>20,887</u>	<u>2,136,445</u>	<u>266,085</u>
Operating Income (Loss)	<u>(13,788)</u>	<u>(135,961)</u>	<u>(19,089)</u>	<u>(168,838)</u>	<u>29,665</u>
Non-Operating Revenues (Expenses):					
Interest Earned	210,991	2	5,357	216,350	4
Interest Expense	(540,195)	-	-	(540,195)	(4,117)
Gain on Asset Sales	-	-	-	-	7,921
Total Non-Operating Revenues (Expenses)	<u>(329,204)</u>	<u>2</u>	<u>5,357</u>	<u>(323,845)</u>	<u>3,808</u>
Income (Loss) before Operating Transfers	<u>(342,992)</u>	<u>(135,959)</u>	<u>(13,732)</u>	<u>(492,683)</u>	<u>33,473</u>
Operating Transfers:					
Operating Transfer In	752,763	20,000	-	772,763	37,666
Operating Transfers (Out)	(189,854)	(1,300)	-	(191,154)	(17,669)
Net Operating Transfers	<u>562,909</u>	<u>18,700</u>	<u>-</u>	<u>581,609</u>	<u>19,997</u>
Net Income (Loss)	219,917	(117,259)	(13,732)	88,926	53,470
Capital Contributions	163,751	-	16,800	180,551	-
Fund Equity, Beginning	<u>13,469,553</u>	<u>261,037</u>	<u>101,961</u>	<u>13,832,551</u>	<u>326,857</u>
Fund Equity, Ending	<u>\$ 13,853,221</u>	<u>\$ 143,778</u>	<u>\$ 105,029</u>	<u>\$ 14,102,028</u>	<u>\$ 380,327</u>

CITY OF MILAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

	Business Type Activities Enterprise Funds			Governmental Activities - Internal Service	
	Water & Sewer	Public Transit	Nonmajor Funds	Total	Motor Pool Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from customers and users	\$ 1,676,987	\$ 49,801	\$ -	\$ 1,726,788	\$ -
Receipts from quasi-external transactions	-	251,609	1,060	252,669	308,029
Payments to suppliers	(1,001,845)	(151,549)	(5,547)	(1,158,941)	(187,412)
Payments to employees	(306,822)	(187,465)	(5,380)	(499,667)	(54,188)
Net Cash Provided (Used) by Operating Activities	<u>368,320</u>	<u>(37,604)</u>	<u>(9,867)</u>	<u>320,849</u>	<u>66,429</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Transfer from other funds	752,763	20,000	-	772,763	37,666
Transfer to other funds	(189,854)	(1,300)	-	(191,154)	(17,669)
Net Cash Provided by Noncapital Financing Activities	<u>562,909</u>	<u>18,700</u>	<u>-</u>	<u>581,609</u>	<u>19,997</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Proceeds from Capital Charges	163,751	-	16,800	180,551	-
Change in Trade Accounts Payable for Capital Assets	(871,398)	-	-	(871,398)	-
Purchases of Capital Assets	(3,564,065)	-	-	(3,564,065)	-
Proceeds From Sale of Capital Assets	-	-	-	-	12,766
Principal Paid on Capital Debt	(626,664)	-	-	(626,664)	(33,549)
Interest Paid on Capital Debt	(540,195)	-	-	(540,195)	(4,117)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,438,571)</u>	<u>-</u>	<u>16,800</u>	<u>(5,421,771)</u>	<u>(24,900)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Sale of Investments	4,915,192	-	-	4,915,192	-
Interest Earned	210,991	2	5,357	216,350	4
Net Cash Provided (Used) by Investing Activities	<u>5,126,183</u>	<u>2</u>	<u>5,357</u>	<u>5,131,542</u>	<u>4</u>
Net Increase (Decrease) in Cash and Cash Equivalents	618,841	(18,902)	12,290	612,229	61,530
Cash and Cash Equivalents, Beginning	849,397	24,023	102,021	975,441	(500)
Cash and Cash Equivalents, Ending	<u>\$ 1,468,238</u>	<u>\$ 5,121</u>	<u>\$ 114,311</u>	<u>\$ 1,587,670</u>	<u>\$ 61,030</u>
<u>Balance Sheet Classifications:</u>					
Cash and Cash Equivalents	\$ 780,900	\$ 5,121	\$ 114,311	\$ 900,332	\$ 61,030
Restricted Assets - Cash and Cash Equivalents	687,338	-	-	687,338	-
Total	<u>\$ 1,468,238</u>	<u>\$ 5,121</u>	<u>\$ 114,311</u>	<u>\$ 1,587,670</u>	<u>\$ 61,030</u>
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>					
Operating Income (Loss)	\$ (13,788)	\$ (135,961)	\$ (19,089)	\$ (168,838)	\$ 29,665
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation and Amortization Expense	382,413	85,058	-	467,471	94,984
(Increase) Decrease in Receivables	(69,353)	14,911	-	(54,442)	3,179
(Increase) Decrease in Due from Other Funds	58,657	5,000	-	63,657	9,100
(Increase) Decrease in Due from Other Units	-	3,373	(738)	2,635	-
(Increase) Decrease in Prepaid Expenses	54,407	946	(20)	55,333	399
(Increase) Decrease in Inventory	(13,256)	-	-	(13,256)	-
Increase (Decrease) in Compensated Absences	(30,335)	-	-	(30,335)	-
Increase (Decrease) in Accounts Payable	20,413	(3,674)	(300)	16,439	(3,089)
Increase (Decrease) in Accrued Liabilities	(7,760)	2,775	(20)	(5,005)	(7,689)
Increase (Decrease) in Due to Other Funds	(13,078)	(28,532)	10,300	(31,310)	(60,120)
Increase (Decrease) In Due to Other Units	-	18,500	-	18,500	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 368,320</u>	<u>\$ (37,604)</u>	<u>\$ (9,867)</u>	<u>\$ 320,849</u>	<u>\$ 66,429</u>

CITY OF MILAN
Statement of Net Assets
Fiduciary Funds
June 30, 2007

<u>ASSETS</u>	Retirement Health Savings	Trust Funds	Agency Funds
Cash	\$ -	\$ 21,153	\$ 40,824
Investments, at Fair Value	245,819	-	-
Accounts Receivable	-	-	291
Total Assets	<u>245,819</u>	<u>21,153</u>	<u>41,115</u>
<u>LIABILITIES</u>			
Accounts Payable	-	5,857	20,723
Due to Other Funds	-	70	20,392
Total Liabilities	<u>-</u>	<u>5,927</u>	<u>41,115</u>
Net Assets Held in Trust	<u>\$ 245,819</u>	<u>\$ 15,226</u>	<u>\$ -</u>

CITY OF MILAN
Statement of Changes in Net Assets
Fiduciary Funds
For the Year Ended June 30, 2007

<u>ADDITIONS</u>	Retirement Health Savings	Trust Funds
Investment Income:		
Earnings on Investments	\$ 16,899	\$ 830
Contributions:		
Employee	2,085	-
Total Additions	<u>18,984</u>	<u>830</u>
 <u>DEDUCTIONS</u>		
Benefits Paid	<u>14,364</u>	<u>-</u>
Net Increase (Decrease) Before Transfers	4,620	830
Transfers to Other Funds	<u>-</u>	<u>(1,200)</u>
Net Increase (Decrease)	4,620	(370)
Net Assets Held in Trust		
July 1	<u>241,199</u>	<u>15,596</u>
June 30	<u>\$ 245,819</u>	<u>\$ 15,226</u>

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Milan, Michigan, a Municipal Corporation, was established in 1831, chartered as a Village in 1885 and became a City in 1967. Located 12 miles south of Ann Arbor, 45 miles southwest of Detroit and 25 miles north of the Ohio State line, the City covers an area of 3.00 square miles. Milan is a Home-Rule City, which operates under an elected City Council which consists of the Mayor and six Council members, with the daily activity managed by the City Administrator and Department Heads. The City provides services to its more than 5,200 residents in many areas including law enforcement, fire protection, water, sewer, transportation, parks and recreation.

As required by generally accepted accounting principles, these financial statements present the City of Milan and its component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the government. Each discretely presented component unit has a June 30 year end.

Discretely Presented Component Units

The City of Milan Downtown Development Authority (DDA) Board is comprised of the Mayor and eight (8) members appointed by the City Council. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Milan City Council.

The City of Milan Economic Development Corporation (EDC) is governed by a nine (9) member board appointed by the City Council. The EDC was established to promote economic development within the City. The annual operating budget and any modifications require the approval of the Milan City Council.

The City of Milan Brownfield Redevelopment Authority (BRA) was established pursuant to Public Act 381 of 1996 to promote the revitalization of environmentally distressed areas in the City. The BRA is governed by a seven member board appointed by the Milan City Council. The annual operating budget and any modifications require the approval of the Milan City Council.

The City of Milan Historical Commission (HC) was established to preserve the Hack House property. The Historical Commission consists of a five (5) member board appointed by the Milan City Council. The annual operating budget and any modifications require the approval of the Milan City Council.

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A. Reporting Entity – Continued

Discretely Presented Component Units – Continued

The above component units are discretely presented with the City's financial statements because they are legally separate and financially accountable to the City. Financial accountability is demonstrated by the City Council making the appointments to the respective Boards, approving the annual operating budgets and any amendments of each component unit and approving the projects undertaken by the BRA and HC and the development and financing plans of the EDC and DDA (Condensed financial information represented below).

STATEMENT OF NET ASSETS - COMPONENT UNITS

	<u>Brownfield Redevelopment Authority</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Component Units</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 248,815	\$ 23,763	\$ 272,578
Accounts Receivable	-	94	94
Total Assets	<u>248,815</u>	<u>23,857</u>	<u>272,672</u>
<u>LIABILITIES</u>			
Accounts Payable	-	1,065	1,065
Total Liabilities	<u>-</u>	<u>1,065</u>	<u>1,065</u>
<u>NET ASSETS</u>			
Unrestricted	<u>\$ 248,815</u>	<u>\$ 22,792</u>	<u>\$ 271,607</u>

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A. Reporting Entity – Continued

Discretely Presented Component Units – Continued

	Brownfield Redevelopment Authority	Other Nonmajor Governmental Funds	Total Component Units
Expenses	\$ (2,000)	\$ (44,678)	\$ (46,678)
Program Revenues	684	3,440	4,124
Net Revenues	<u>(1,316)</u>	<u>(41,238)</u>	<u>(42,554)</u>
General Revenues:			
Property Taxes	24,809	6,769	31,578
Transfers in from Primary Government	-	34,000	34,000
Unrestricted investment Earnings (Loss)	<u>6,272</u>	<u>493</u>	<u>6,765</u>
Change in Net Assets	29,765	24	29,789
Net Assets-Beginning	219,050	22,768	241,818
Net Assets-Ending	<u>\$ 248,815</u>	<u>\$ 22,792</u>	<u>\$ 271,607</u>

Joint Venture

The City is a participant with London Township, Milan Township, and York Township in the Milan Area Fire Department. The Department was established by inter local agreements between the parties in 1980, and was established to provide fire protection services to the participating communities. The Department is governed by an executive committee consisting of the chief executive from each of the communities, along with appointed members by each community's governing body. No share ownership of the assets are available since the Department does not maintain the separate accounting of the fixed assets required by the agreements. Financial statements are available by contacting the Milan Area Fire Department.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental*

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements – Continued

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

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

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.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are 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 revenues 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*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds

The City reports the following major governmental funds:

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

Arkona Road Special Assessment Debt Service Fund-used to account for financial resources accumulated to pay principal and interest on the special assessment bonds.

In addition, the City reports on the following fund types:

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The capital project funds are used to account for construction projects and their related revenue sources.

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund types:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City's enterprise funds are the Water and Sewer Fund and Public Transit funds which are reported as major funds, and the nonmajor enterprise funds, Storm Sewer, and Mooreville Sewer funds.

Internal Service Funds account for operations that provide services to other departments or agencies of the City on a cost reimbursement basis. As these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental* activities in the government-wide financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds include the following fund types:

The trust funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments or other funds.

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Fiduciary Funds – Continued

The agency funds are used to account for assets that the government holds for others in an agency capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are accounted for using the modified accrual basis of accounting.

Restricted Resources

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

2. Receivables and Payables – Continued

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowances for uncollectible accounts, which are recorded \$-0- at June 30, 2007.

3. Inventory

Inventories are valued at cost using the first-in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

4. Restricted Assets

Resources for the debt service and construction activity within the Water and Sewer Fund (Enterprise Fund) are segregated and classified as "Restricted Assets". Assets restricted for debt service total \$24,409 at June 30, 2007, while assets restricted for construction total \$780,998.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Equipment	5-20
Infrastructure	15-30

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and 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 if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the Statement of Net Assets. The total liability at June 30, 2007 is \$73,151.

7. Long-term Obligations

In the government-wide financial statements, and 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.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

8. Fund Equity

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

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The detail of this \$2,261,477 difference is as follows:

General Obligation Bonds and Notes Payable	\$2,188,326
Compensated Absences Payable	<u>73,151</u>
	<u>\$2,261,477</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The detail of this \$(85,929) difference is as follows:

Capital Outlay	\$ 459,326
Depreciation Expense	<u>(545,255)</u>
	<u>\$ (85,929)</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities". The details of this \$192,004 difference are as follows:

Principal Repayments - categorized as debt service	\$ 200,000
Principal Repayments - in General Fund Police Budget	3,167
Compensated Absences	<u>(11,163)</u>
	<u>\$ 192,004</u>

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:
 - a. Budgets must be adopted for the General and Special Revenue Funds.
 - b. Budgets must be balanced.
 - c. Budgets must be amended as necessary.
 - d. Public hearings must be held prior to adoption.
 - e. Expenditures cannot exceed budget appropriations.
 - f. Expenditures must be authorized by a budget appropriation prior to being incurred.

2. The City follows these procedures in establishing the budgetary data reflected in these financial statements:
 - a. In accordance with State law, prior to May 1, the Mayor and City Administrator submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year. Detail line item budgets are included for administrative control. The level of control for the detail budgets is at the department level.
 - b. Public hearings are conducted at City Hall to obtain taxpayer comments.
 - c. Prior to June 30, the budgets are legally enacted at the activity level for the General Fund and at the total fund expenditure level for the Special Revenue Funds through passage of a resolution.
 - d. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
 - e. Budget appropriations lapse at year end.
 - f. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.
 - g. Budgeted amounts are reported as originally adopted, or as amended by the City Council.

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The City has no fund balance deficits.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level. Expenditures in excess of budget appropriations are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures Over Appropriations</u>
General Fund:			
Community Promotion	\$ 8,550	\$ 8,594	\$ (44)

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law the City is permitted 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 City 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.

The Retiree Health Savings Fund is also authorized by Michigan Public Act 149 of 1999, 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.

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

The City's cash and investments are subject to several types of risk, which are detailed below:

Custodial Credit Risk of Bank Deposits

In the event of a bank failure, the City's deposits may not be recovered. The City does not have a deposit policy for custodial credit risk. As of June 30, 2007, the City's book balance of its deposits was \$3,222,363; the total book balance was \$3,222,013, due to \$350 in cash on hand. The bank balance was \$3,429,286 which was exposed to custodial credit risk, as follows:

	Bank Balance		
Insured by F.D.I.C	\$ 210,000		
Uninsured and Uncollateralized	3,219,286		
Total	\$3,429,286		
	Carrying Amount	Bank Balance	FDIC Insured
Downtown Development Authority	\$ 1,320	\$ 911	\$ 911
Economic Development Corporation	9,200	9,200	9,200
Brownfield Redevelopment Authority	248,815	147,861	37,436
Historical Commission	13,243	13,321	13,321
	\$ 272,578	\$ 171,293	\$ 60,868

A reconciliation of cash to the accompanying financial statement follows:

Statement of Net Assets:	
Cash and Cash Equivalents	\$2,473,048
Restricted Assets-Cash	687,338
Fiduciary Fund:	
Cash	61,977
Total	\$3,222,363

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 maximum 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government and agency securities:		
T-Bills	\$ 21,490	7 years
Federal Home Loan Mortgage Corporation	96,579	77 days

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. 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. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$ 118,069	AAA	S&P

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City has more than 5 percent of its investments in the following:

Federated Home Loan Mortgage Corporation	81.8%
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Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 118,069	Counterparty
I.C.M.A. Retirement Funds	<u>245,819</u>	Counterparty
	<u>\$ 363,888</u>	

Reported as:

Statement of Net Assets:	
Restricted Assets – Investments	\$ 118,069
Statement of Net Assets – Fiduciary Funds	<u>245,819</u>
	<u>\$ 363,888</u>

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ <u>113,500</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>113,500</u>
Capital Assets, being depreciated:				
Land Improvements	986,730	-	-	986,730
Building	3,450,610	-	-	3,450,610
Building Improvements	67,991	-	-	67,991
Machinery and Equipment	913,028	8,334	-	921,362
Construction in Progress	283,303	336,246	-	619,549
Infrastructure	8,974,624	114,746	-	9,089,370
Internal Service Fund-	1,464,308	-	(47,162)	1,417,146
	<u>16,140,594</u>	<u>459,326</u>	<u>(47,162)</u>	<u>16,552,758</u>
Less: Accumulated Depreciation:				
Land Improvements	(704,491)	(47,899)	-	(752,390)
Building	(1,141,242)	(69,282)	-	(1,210,524)
Building Improvements	(11,694)	(2,495)	-	(14,189)
Machinery and Equipment	(730,667)	(66,594)	-	(797,261)
Infrastructure	(4,286,593)	(358,985)	-	(4,645,578)
Internal Service Fund	(1,015,128)	(94,984)	42,317	(1,067,795)
	<u>(7,889,815)</u>	<u>(640,239)</u>	<u>42,317</u>	<u>(8,487,737)</u>
Governmental Activities				
Capital Assets, net	\$ <u><u>8,364,279</u></u>	\$ <u><u>(180,913)</u></u>	\$ <u><u>(4,845)</u></u>	\$ <u><u>8,178,521</u></u>

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets – Continued

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 30,500	\$ -	\$ -	\$ 30,500
Capital Assets, being depreciated:				
Milan Public Transit	625,625	-		625,625
Water and Sewer	<u>33,150,731</u>	<u>3,564,065</u>	-	<u>36,714,796</u>
	<u>33,776,356</u>	<u>3,564,065</u>	-	<u>37,340,421</u>
Less: Accumulated Depreciation:				
Milan Public Transit	(352,347)	(85,059)		(437,406)
Water and Sewer	<u>(11,016,158)</u>	<u>(382,413)</u>	-	<u>(11,398,571)</u>
	<u>(11,368,505)</u>	<u>(467,472)</u>	-	<u>(11,835,977)</u>
Business Activities				
Capital Assets, net	<u>\$ 22,438,351</u>	<u>\$ 3,096,593</u>	<u>\$ -</u>	<u>\$ 25,534,944</u>

Depreciated expense was charged to functions of the primary government as follows:

General Government	\$ 103,304
Public Safety	51,556
Public Works	363,422
Recreation and Culture	26,973
Charged though internal service funds	<u>94,984</u>
	<u>\$ 640,239</u>

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers

1. Interfund Receivables and Payables

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Transit	\$ 33,295
	Trust and Agency	70
	Payroll	20,392
		<u>53,757</u>
Water and Sewer	General Fund	2,343
	Construction	15,000
		<u>17,343</u>
Mooreville Sewer	Water and Sewer	<u>1,138</u>
Motor Pool	Local Streets	4,800
	Mooreville Sewer	300
	Storm Sewer	10,000
		<u>15,100</u>
Total		<u>\$ 87,338</u>

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers – Continued

2. Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Major Streets	General Fund	\$ 81,000
Water and Sewer		752,763
Transit		20,000
Local Streets		22,000
Southside Debt		21,801
		<u>897,564</u>
Local Streets	Major Streets	<u>11,000</u>
General Fund	Transit	<u>1,300</u>
General Fund	Motor Pool	<u>17,669</u>
General Fund	Trust and Agency	<u>1,200</u>
General Fund	Water and Sewer	94,593
Motor Pool		37,666
Major Streets		7,000
Local Streets		20,000
G.O. Bond		26,245
Southside Debt		4,350
		<u>189,854</u>
Total		<u>\$ 1,118,587</u>

Interfund accounts payable/receivables represent uncleared balances from trade accounts payable at year end, and short term advances. Transfers are the results of planned (budgeted) operating for the following:

- General Fund to Water and Sewer – assist with debt service payments
- General Fund to Other Funds – budgeted operating assistance
- Major Streets to Local Streets – transfer to accomplish local street projects
- Water and Sewer to various funds – budgeted operating assistance

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2007:

	Balance <u>July 1, 2006</u>	Additions	Reductions	Balance <u>June 30, 2007</u>	Balance Due <u>Within 1 Year</u>
Gov. Activities:					
G.O. Bonds	\$ 220,000	\$ -	\$ 15,000	\$ 205,000	\$ 15,000
Act 99-Note Payable	6,493	-	3,167	3,326	3,326
Special Assess. Bonds	2,165,000	-	185,000	1,980,000	185,000
Comp. Absences	61,988	11,163	-	73,151	-
Act 99-Motor Pool	71,215	-	33,549	37,666	37,666
	<u>\$ 2,524,696</u>	<u>\$ 11,163</u>	<u>\$ 236,716</u>	<u>\$ 2,299,143</u>	<u>\$ 240,992</u>
Business Type Activities:					
Rev. Bonds	\$ 50,000	\$ -	\$ 50,000	\$ -	\$ -
G.O. Bonds	13,600,000	-	410,000	13,190,000	435,000
Comp. Absences	30,335	-	30,335	-	-
Deferred Finance Chg	(8,336)	-	(8,336)	-	-
Contracts Payable	175,000	-	175,000	-	-
	<u>\$ 13,846,999</u>	<u>\$ -</u>	<u>\$ 656,999</u>	<u>\$ 13,190,000</u>	<u>\$ 435,000</u>

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the City as of June 30, 2007:

	Number of <u>Issues</u>	Interest <u>Rate</u>	Maturing <u>Through</u>	Principal <u>Outstanding</u>
Governmental Activities:				
General Obligation Bonds	1	4.50%-5.10%	2018	\$ 205,000
Installment Notes	1	6.50%	2008	3,326
Special Assessment Bonds	3	2.50%-5.10%	2018	1,980,000
Notes Payable Equipment	1	3.830%	2008	37,666
Total Governmental Activities				<u>\$ 2,225,992</u>
Business Type Activities:				
General Obligation Bonds	1	3.0%-4.250%	2026	<u>\$ 13,190,000</u>

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

The annual debt service requirements to maturity for debt outstanding as of June 30:

<u>Year Ended</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 240,992	\$ 89,857	\$ 435,000	\$ 517,161
2009	180,000	82,840	465,000	504,112
2010	190,000	76,495	490,000	490,161
2011	180,000	69,372	520,000	474,236
2012	190,000	62,327	545,000	457,336
2013-2017	945,000	193,016	3,105,000	1,965,206
2018-2026	300,000	21,360	7,630,000	1,696,872
	<u>\$ 2,225,992</u>	<u>\$ 595,267</u>	<u>\$ 13,190,000</u>	<u>\$ 6,105,084</u>

E. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2007, is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<u>Fund Balance</u>				
Reserved For:				
Capital Projects	\$ -	\$ -	\$ -	\$ 151,052
Debt Service	-	-	198,231	-
Total Reserved	<u>-</u>	<u>-</u>	<u>198,231</u>	<u>151,052</u>
Unreserved:				
Undesignated	280,236	677,621	-	-
Total Unreserved	<u>280,236</u>	<u>677,621</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 280,236</u>	<u>\$ 677,621</u>	<u>\$ 198,231</u>	<u>\$ 151,052</u>

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

IV. DETAILED NOTES ON ALL FUNDS – Continued

F. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year; taxes are considered delinquent on March 1, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills prior to “rollback” required by State laws. The City's tax levy for the 2006 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

<u>Purpose</u>	<u>Authorization</u>	<u>Term</u>	<u>Pre- Rollback Auth. Rate</u>	<u>Post Rollback Auth. Rate</u>	<u>Levied</u>
Operating	Charter	-	<u>20.0000</u>	<u>18.3166</u>	<u>15.500</u>

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City of Milan is in an agent multiple-employer defined pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2006.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal St., Lansing, Michigan 48917-9755.

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate; the rate for 2007 was 23.28% for employees in management group, all other employee groups are subject to flat rate charges. The contribution requirements of plan members and the City are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

c. Annual Pension Costs

During the fiscal year ended June 30, 2007 the City's contributions totaling \$332,118 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Fiscal Year Ended <u>June 30,</u>	<u>Three Year Trend Information</u>			
	<u>Valuation Date Dec. 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	2002	\$261,468	100%	-0-
2006	2003	271,365	100%	-0-
2007	2004	332,118	100%	-0-

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Defined Contribution Plan

a. Plan Description

The City of Milan contributes to the City of Milan defined contribution plan, which is a defined contribution money purchase pension plan. The plan is administered by the ICMA Retirement Corporation (ICMA) who sponsors the prototype plan. Amendments are developed by ICMA and submitted to the City Council for approval.

A defined contribution money purchase pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. All employees hired on or after July 1, 1998 are eligible to participate in the plan. Contributions made by the City or an employee vest immediately.

b. Contributions Required and Contributions Made

Each participating employee contributes 3% of gross earnings to the plan which the City will match. The employees may contribute an additional 2% for a total of 5% to the plan which will also be matched by the City. Employer contributions on behalf of the employee shall not exceed 5% of an employee's gross earnings. During the year, employee contributions totaled \$52,619 and the City's required and actual contributions amounted to \$52,619.

B. Post Retirement Health Care Benefits

In addition to providing pension benefits, the City provides certain health care insurance benefits to all full time employees of the City. All eligible full time employees who retire within the guidelines specified by the collective bargaining agreements, or City's personnel policies, are entitled to receive benefits at the levels specified in the collective bargaining agreements, or the City's personnel policies, during their retirement. Currently 4 retirees are covered by this plan. These benefits are expensed in the year paid, on a pay-as-you-go basis. For the year ended June 30, 2007, these costs amounted to \$18,445.

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

V. OTHER INFORMATION – Continued

C. Risk Management

The City purchases insurance coverage through traditional means. The City's property and liability and workers compensation coverages are on file in the Risk Administrator's office.

D. Major Customers

The City receives a major portion of its revenue generated from utility billing and real estate taxes from certain major customers.

The following is a summary of the fiscal 2007 revenue and percentage of total revenue for its major customers:

	<u>Utility Billing</u>		<u>Property Taxes</u>	
Federal Corrections Institution	\$ 355,233	21.05%	\$ -	
ACH LLC	\$ 175,920	10.42%	\$ 761,993	22.39%

E. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative excess revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts for the period January 1, 2000 through June 30, 2007 are as follows:

Balance at July 1, 2006	\$ (237,166)
Fees Collected	81,899
Expenditures	<u>(211,440)</u>
Excess Revenues Over (Under Expenditures)	<u>\$ (366,707)</u>

F. Contingencies

1. Property Tax Litigation

The City's major taxpayer has filed an appeal for the 2006 and 2007 assessments requesting reductions of its property assessments by nearly sixty million dollars, which would result in a reduction of city tax revenues by nearly \$900,000, for each year appealed. The City intends to vigorously contest this appeal; however, the outcome at this time is uncertain.

CITY OF MILAN
Notes to Financial Statements
June 30, 2007

V. OTHER INFORMATION – Continued

F. Contingencies – Continued

2. Other Matters

As a result of prior operating deficits in the General and Water and Sewer funds, the City has inadequate reserves to fund unexpected costs, or revenue shortfalls. As noted previously, the City's major tax payer has filed a tax appeal, which could result in refunds of approximately \$1,800,000, if the taxpayer prevails. In addition, a significant source of repayment of the \$13,600,000 general obligation, limited tax bonds issued in 2005, was expected to be generated from collection of capital charge/tap fee revenues commencing in fiscal year 2007, and continuing through fiscal year 2027. Management does not expect revenues used in the repayment plan (average of \$666,964 in each year of the plan) to occur in the short or near term, which raised some doubt about the City's ability to meet current obligations, without significant adjustments to short and near term spending plans.

The City Council (January of 2007) approved management's plan to deal with the short term cash flow issues, created by the lack of tap income:

- The 2007-2008 budget is based on the cost savings achieved in the prior fiscal year, which totaled nearly \$400,000, mostly as a result of not filling vacancies in the police and other departments, delayed capital expenditures, as well as operational reductions.
- Water and Sewer rate increases.
- Privatization of DPW services such as operations of water treatment plant.
- Sale of surplus property.

The City does have the ability to levy additional ad-valorem taxes (see note IV. F.), which management indicates will be the source for any tax refunds required by the aforementioned litigation, as well as any additional budgetary shortfalls.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILAN
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2007

Municipal Employees Retirement System
Schedule of Funding Progress

<u>Schedule of Funding Progress</u>						UAAAL as a Percent of
Actuarial Covered Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL (UAAAL)	Funded Ratio	Covered Payroll	Payroll
12/31/94	\$2,172,951	\$2,935,603	\$ 762,652	74%	\$1,299,831	59 %
12/31/95	2,447,033	3,573,181	1,126,148	68	1,247,941	90
12/31/96	2,716,726	3,701,115	984,389	73	1,369,376	72
12/31/97	3,040,850	4,221,977	1,181,127	72	1,404,607	84
12/31/98	3,507,054	4,853,420	1,346,366	72	1,520,652	89
12/31/99	4,094,880	5,144,094	1,049,214	80	1,553,117	68
12/31/00	4,549,492	6,399,189	1,849,697	71	1,496,671	124
12/31/01	4,885,257	6,856,882	1,971,625	71	1,320,930	149
12/31/02	5,029,143	7,263,495	2,234,352	69	1,343,043	166
12/31/03	5,354,398	7,845,735	2,491,337	68	1,330,272	187
12/31/04	5,664,975	8,457,910	2,792,935	67	1,372,432	204
12/31/05	5,995,335	9,084,445	3,089,110	66	1,157,127	266
12/31/06	6,302,165	9,656,218	3,354,053	65	1,233,706	272

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2006, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases includes inflation at 4.5%	4.50-8.66%
Cost of living adjustments	None

CITY OF MILAN
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$ 3,864,773	\$ 3,864,773	\$ 3,530,863	\$ (333,910)
Licenses and Permits	304,591	304,591	90,280	(214,311)
Intergovernmental - State	444,000	444,000	440,532	(3,468)
Intergovernmental - Local	25,600	26,892	28,694	1,802
Charges for Services	846,537	859,792	838,458	(21,334)
Fines and Forfeitures	33,450	33,450	37,637	4,187
Interest Earnings	45,000	45,000	67,241	22,241
Other Revenues	135,715	148,815	119,128	(29,687)
Total Revenues	<u>5,699,666</u>	<u>5,727,313</u>	<u>5,152,833</u>	<u>(574,480)</u>
Expenditures:				
General Government:				
City Council	191,782	191,782	80,827	110,955
City Administrator	178,975	167,975	158,041	9,934
Elections	14,350	14,350	6,641	7,709
Assessor	89,402	89,402	87,282	2,120
Clerk/Treasurer	336,675	336,675	297,371	39,304
City Hall	284,720	276,720	258,133	18,587
City Hall and Grounds	42,500	42,500	33,187	9,313
Other	27,000	110,401	110,006	395
	<u>1,165,404</u>	<u>1,229,805</u>	<u>1,031,488</u>	<u>198,317</u>
Public Safety:				
Police	1,562,600	1,431,055	1,323,346	107,709
Fire	190,096	217,946	217,922	24
Building	256,732	254,732	211,440	43,292
Planning and Zoning	21,500	18,000	141	17,859
	<u>2,030,928</u>	<u>1,921,733</u>	<u>1,752,849</u>	<u>168,884</u>
Public Works:				
Department of Public Works	485,187	468,387	428,204	40,183
Sanitation	406,984	406,984	404,045	2,939
	<u>892,171</u>	<u>875,371</u>	<u>832,249</u>	<u>43,122</u>
Recreation and Cultural:				
Health and Welfare:				
Senior Citizens	81,545	82,837	71,272	11,565
Community Promotion	26,950	8,550	8,594	(44)
	<u>108,495</u>	<u>91,387</u>	<u>79,866</u>	<u>11,521</u>
Recreation and Cultural-Parks & Recreation	507,544	483,594	418,499	65,095
Capital Outlay	69,150	18,150	8,334	9,816
Contingency	180,000	213,046	-	213,046
Total Expenditures	<u>4,953,692</u>	<u>4,833,086</u>	<u>4,123,285</u>	<u>709,801</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>745,974</u>	<u>894,227</u>	<u>1,029,548</u>	<u>135,321</u>
Other Financing Sources (Uses):				
Operating Transfers In	3,800	64,201	114,762	50,561
Operating Transfers Out	(690,103)	(924,057)	(897,564)	26,493
Operating Transfers Out-Component Unit	(59,671)	(34,371)	(34,000)	371
Total Other Financing Sources (Uses)	<u>(745,974)</u>	<u>(894,227)</u>	<u>(816,802)</u>	<u>77,425</u>
Net Change in Fund Balance	-	-	212,746	212,746
Fund Balance - Beginning	<u>67,490</u>	<u>67,490</u>	<u>67,490</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 67,490</u>	<u>\$ 67,490</u>	<u>\$ 280,236</u>	<u>\$ 212,746</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF MILAN
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total Nonmajor Governmental Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 602,224	\$ 94,808	\$ 218,582	\$ 915,614
Accounts Receivable	49,822	-	-	49,822
Special Assessment Receivable	-	946,079	-	946,079
Due from Other Governmental Units	50,803	-	-	50,803
Prepaid Expenditures	196	-	-	196
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ <u>703,045</u>	\$ <u>1,040,887</u>	\$ <u>218,582</u>	\$ <u>1,962,514</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts Payable	\$ 5,624	\$ -	\$ 67,530	\$ 73,154
Deferred Revenue	-	946,078	-	946,078
Due to Other Funds	19,800	-	-	19,800
Total Liabilities	<u>25,424</u>	<u>946,078</u>	<u>67,530</u>	<u>1,039,032</u>
Fund Balance:				
Reserved for :				
Capital Projects	-	-	151,052	151,052
Debt Service	-	94,809	-	94,809
Unreserved	677,621	-	-	677,621
Total Fund Balance	<u>677,621</u>	<u>94,809</u>	<u>151,052</u>	<u>923,482</u>
Total Liabilities and Fund Balance	\$ <u>703,045</u>	\$ <u>1,040,887</u>	\$ <u>218,582</u>	\$ <u>1,962,514</u>

CITY OF MILAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:				
Special Assessments	\$ -	\$ 115,368	\$ -	\$ 115,368
Intergovernmental	328,670	-	-	328,670
Charges for Services	2,997	-	-	2,997
Interest	12,665	2,323	25,551	40,539
Other	83,942	-	-	83,942
Total Revenues	<u>428,274</u>	<u>117,691</u>	<u>25,551</u>	<u>571,516</u>
Expenditures:				
General Government	71,058	-	-	71,058
Public Safety	11,076	-	-	11,076
Public Works	209,293	-	-	209,293
Debt Service:				
Principal	-	105,000	-	105,000
Interest and Other Charges	-	56,356	-	56,356
Capital Outlay	114,746	-	336,246	450,992
Total Expenditures	<u>406,173</u>	<u>161,356</u>	<u>336,246</u>	<u>903,775</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>22,101</u>	<u>(43,665)</u>	<u>(310,695)</u>	<u>(332,259)</u>
Other Financing Sources (Uses):				
Operating Transfers In	141,000	52,396	-	193,396
Operating Transfers Out	(11,000)	-	-	(11,000)
Total Other Financing Sources (Uses)	<u>130,000</u>	<u>52,396</u>	<u>-</u>	<u>182,396</u>
Net Change in Fund Balances	152,101	8,731	(310,695)	(149,863)
Fund Balance, July 1	<u>525,520</u>	<u>86,078</u>	<u>461,747</u>	<u>1,073,345</u>
Fund Balance, June 30	<u>\$ 677,621</u>	<u>\$ 94,809</u>	<u>\$ 151,052</u>	<u>\$ 923,482</u>

CITY OF MILAN
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007

	<u>Major Street</u>	<u>Local Street</u>	<u>Drug Enforcement</u>	<u>Solid Waste Community Recycling</u>	<u>Environmental Defense</u>	<u>Police Training</u>
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 305,227	\$ 109,776	\$ 19,996	\$ 18,040	\$ 23,422	\$ 13,484
Accounts Receivable	3,895	504	-	-	-	-
Due From Other Governmental Units	38,100	12,703	-	-	-	-
Prepaid Expenditures	<u>98</u>	<u>98</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 347,320</u>	<u>\$ 123,081</u>	<u>\$ 19,996</u>	<u>\$ 18,040</u>	<u>\$ 23,422</u>	<u>\$ 13,484</u>
<u>LIABILITIES AND FUND BALANCE</u>						
Liabilities:						
Accounts Payable	\$ 4,651	\$ 425	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	-	-	-	-	-	-
Due to Other Funds	-	4,800	-	-	-	-
Total Liabilities	<u>4,651</u>	<u>5,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:						
Unreserved:						
Undesignated	<u>342,669</u>	<u>117,856</u>	<u>19,996</u>	<u>18,040</u>	<u>23,422</u>	<u>13,484</u>
Total Liabilities and Fund Balance	<u>\$ 347,320</u>	<u>\$ 123,081</u>	<u>\$ 19,996</u>	<u>\$ 18,040</u>	<u>\$ 23,422</u>	<u>\$ 13,484</u>

<u>E 911</u>	<u>Youth Program</u>	<u>Forestry</u>	<u>Cable Television</u>	<u>Construction Inspection Engineering</u>	<u>Total</u>
\$ 59,961	\$ 12,181	\$ 1,221	\$ 31,806	\$ 7,110	\$ 602,224
4,248	-	-	14,363	26,812	49,822
-	-	-	-	-	50,803
-	-	-	-	-	196
<u>\$ 64,209</u>	<u>\$ 12,181</u>	<u>\$ 1,221</u>	<u>\$ 46,169</u>	<u>\$ 33,922</u>	<u>\$ 703,045</u>
\$ 8	\$ -	\$ -	\$ -	\$ -	\$ 5,084
-	-	-	540	-	540
-	-	-	-	15,000	19,800
<u>8</u>	<u>-</u>	<u>-</u>	<u>540</u>	<u>15,000</u>	<u>25,424</u>
<u>64,201</u>	<u>12,181</u>	<u>1,221</u>	<u>45,629</u>	<u>18,922</u>	<u>677,621</u>
<u>\$ 64,209</u>	<u>\$ 12,181</u>	<u>\$ 1,221</u>	<u>\$ 46,169</u>	<u>\$ 33,922</u>	<u>\$ 703,045</u>

CITY OF MILAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

<u>Revenues:</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Drug Enforcement</u>	<u>Solid Waste Community Recycling</u>	<u>Environmental Defense</u>	<u>Police Training</u>
Intergovernmental	\$ 232,056	\$ 77,365	\$ -	\$ -	\$ -	\$ 1,552
Charges for Services	432	2,565	-	-	-	-
Interest	5,624	278	77	780	1,309	539
Other	4,467	14,588	10,585	-	-	100
Total Revenues	<u>242,579</u>	<u>94,796</u>	<u>10,662</u>	<u>780</u>	<u>1,309</u>	<u>2,191</u>
<u>Expenditures:</u>						
General Government	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-
Public Works	115,006	90,587	-	3,700	-	-
Capital Outlay	114,746	-	-	-	-	-
Total Expenditures	<u>229,752</u>	<u>90,587</u>	<u>-</u>	<u>3,700</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>12,827</u>	<u>4,209</u>	<u>10,662</u>	<u>(2,920)</u>	<u>1,309</u>	<u>2,191</u>
<u>Other Financing Sources (Uses):</u>						
Operating Transfers In	88,000	53,000	-	-	-	-
Operating Transfers Out	(11,000)	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>77,000</u>	<u>53,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	89,827	57,209	10,662	(2,920)	1,309	2,191
Fund Balance , July 1	<u>252,842</u>	<u>60,647</u>	<u>9,334</u>	<u>20,960</u>	<u>22,113</u>	<u>11,293</u>
Fund Balance , June 30	<u>\$ 342,669</u>	<u>\$ 117,856</u>	<u>\$ 19,996</u>	<u>\$ 18,040</u>	<u>\$ 23,422</u>	<u>\$ 13,484</u>

<u>E 911</u>	<u>Youth Program</u>	<u>Forestry</u>	<u>Cable Television</u>	<u>Construction Inspection Engineering</u>	<u>Total</u>
\$ 17,697	\$ -	\$ -	\$ -	\$ -	\$ 328,670
-	-	-	-	-	2,997
2,382	151	6	760	759	12,665
-	200	-	54,002	-	83,942
<u>20,079</u>	<u>351</u>	<u>6</u>	<u>54,762</u>	<u>759</u>	<u>428,274</u>
-	10,763	-	48,247	12,048	71,058
11,076	-	-	-	-	11,076
-	-	-	-	-	209,293
-	-	-	-	-	114,746
<u>11,076</u>	<u>10,763</u>	<u>-</u>	<u>48,247</u>	<u>12,048</u>	<u>406,173</u>
<u>9,003</u>	<u>(10,412)</u>	<u>6</u>	<u>6,515</u>	<u>(11,289)</u>	<u>22,101</u>
-	-	-	-	-	141,000
-	-	-	-	-	(11,000)
-	-	-	-	-	130,000
9,003	(10,412)	6	6,515	(11,289)	152,101
<u>55,198</u>	<u>22,593</u>	<u>1,215</u>	<u>39,114</u>	<u>30,211</u>	<u>525,520</u>
<u>\$ 64,201</u>	<u>\$ 12,181</u>	<u>\$ 1,221</u>	<u>\$ 45,629</u>	<u>\$ 18,922</u>	<u>\$ 677,621</u>

CITY OF MILAN
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2007

	General Obligation	Northside Special Assessment	Southside Trunk Sewer	Total
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 718	\$ 66,421	\$ 27,669	\$ 94,808
Special Assessments Receivable	-	248,269	697,810	946,079
Total Assets	\$ 718	\$ 314,690	\$ 725,479	\$ 1,040,887
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Deferred Revenue	\$ -	\$ 248,269	\$ 697,809	\$ 946,078
Fund Balance:				
Reserved for Debt Service	718	66,421	27,670	94,809
Total Liabilities and Fund Balance	\$ 718	\$ 314,690	\$ 725,479	\$ 1,040,887

CITY OF MILAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Debt Service Funds
For the Year Ended June 30, 2007

	<u>General Obligation</u>	<u>Northside Special Assessment</u>	<u>Southside Trunk Sewer</u>	<u>Total</u>
<u>Revenues:</u>				
Special Assessment	\$ -	\$ 66,647	\$ 48,721	\$ 115,368
Interest	-	1,213	1,110	2,323
Total Revenues	<u>-</u>	<u>67,860</u>	<u>49,831</u>	<u>117,691</u>
<u>Expenditures:</u>				
Debt Service				
Principal Retirement	15,000	40,000	50,000	105,000
Interest, Fiscal Charges	<u>11,251</u>	<u>16,250</u>	<u>28,855</u>	<u>56,356</u>
Total Expenditures	<u>26,251</u>	<u>56,250</u>	<u>78,855</u>	<u>161,356</u>
Excess (Deficiency) of Revenues Over Expenditures	(26,251)	11,610	(29,024)	(43,665)
<u>Other Financing Sources:</u>				
Operating Transfers In	<u>26,245</u>	<u>-</u>	<u>26,151</u>	<u>52,396</u>
Net Change in Fund Balance	(6)	11,610	(2,873)	8,731
Fund Balance, July 1	<u>724</u>	<u>54,811</u>	<u>30,543</u>	<u>86,078</u>
Fund Balance, June 30	<u>\$ 718</u>	<u>\$ 66,421</u>	<u>\$ 27,670</u>	<u>\$ 94,809</u>

CITY OF MILAN
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2007

	<u>Capital Improvement</u>	<u>Southside Sewer</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 3,098	\$ 215,484	\$ 218,582
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts Payable	\$ -	\$ 67,530	\$ 67,530
Fund Balance:			
Reserved for Construction	<u>3,098</u>	<u>147,954</u>	<u>151,052</u>
Total Liabilities and Fund Balance	<u>\$ 3,098</u>	<u>\$ 215,484</u>	<u>\$ 218,582</u>

CITY OF MILAN
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
Nonmajor Capital Project Funds
For the Year Ended June 30, 2007

	<u>Capital Improvement</u>	<u>Southside Sewer</u>	<u>Total</u>
<u>Revenues:</u>			
Interest Income	\$ 3	\$ 25,548	\$ 25,551
<u>Expenditures:</u>			
Construction	<u>-</u>	<u>336,246</u>	<u>336,246</u>
Excess (Deficiency) of Revenues Over Expenditures	3	(310,698)	(310,695)
Fund Balance - July 1	<u>3,095</u>	<u>458,652</u>	<u>461,747</u>
Fund Balance - June 30	<u>\$ 3,098</u>	<u>\$ 147,954</u>	<u>\$ 151,052</u>

CITY OF MILAN
Combining Balance Sheet
Nonmajor Proprietary Funds
June 30, 2007

	Storm Sewer	Mooreville Sewer	Total
<u>ASSETS</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 85,058	\$ 29,253	\$ 114,311
Due From Other Funds	-	1,138	1,138
Prepaid Expense	98	-	98
Total Assets	\$ 85,156	\$ 30,391	\$ 115,547
<u>LIABILITIES AND EQUITY</u>			
Current Liabilities:			
Accrued Liabilities	\$ 218	\$ -	\$ 218
Due to Other Funds	10,000	300	10,300
Total Current Liabilities	10,218	300	10,518
Equity-Unrestricted	74,938	30,091	105,029
Total Liabilities and Equity	\$ 85,156	\$ 30,391	\$ 115,547

CITY OF MILAN
Combining Statement of Revenues, Expenses and Changes in Fund Equity
Nonmajor Proprietary Funds
For the Year Ended June 30, 2007

	<u>Storm Sewer</u>	<u>Mooreville Sewer</u>	<u>Total</u>
<u>Operating Revenues</u>			
Intergovernmental-Local	\$ -	\$ 1,798	\$ 1,798
<u>Operating Expenses:</u>			
Other	<u>18,335</u>	<u>2,552</u>	<u>20,887</u>
Operating Income (Loss)	(18,335)	(754)	(19,089)
<u>Non-Operating Revenues (Expenses):</u>			
Interest Earned	<u>3,673</u>	<u>1,684</u>	<u>5,357</u>
Net Income (Loss)	(14,662)	930	(13,732)
Capital Contributions	16,800	-	16,800
Fund Equity, Beginning	<u>72,800</u>	<u>29,161</u>	<u>101,961</u>
Fund Equity, Ending	<u>\$ 74,938</u>	<u>\$ 30,091</u>	<u>\$ 105,029</u>

CITY OF MILAN
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2007

	<u>Storm Sewer</u>	<u>Mooreville Sewer</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Receipts from quasi-external transactions	\$ -	\$ 1,060	\$ 1,060
Payments to suppliers	(3,749)	(1,798)	(5,547)
Payments to employees	(4,849)	(531)	(5,380)
Net Cash Provided (Used) by Operating Activities	<u>(8,598)</u>	<u>(1,269)</u>	<u>(9,867)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Proceeds from Capital Charges	<u>16,800</u>	<u>-</u>	<u>16,800</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>16,800</u>	<u>-</u>	<u>16,800</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest Earned	<u>3,673</u>	<u>1,684</u>	<u>5,357</u>
Net Cash Provided (Used) by Investing Activities	<u>3,673</u>	<u>1,684</u>	<u>5,357</u>
Net Increase (Decrease) in Cash and Cash Equivalents	11,875	415	12,290
Cash and Cash Equivalents, Beginning	<u>73,183</u>	<u>28,838</u>	<u>102,021</u>
Cash and Cash Equivalents, Ending	<u>\$ 85,058</u>	<u>\$ 29,253</u>	<u>\$ 114,311</u>
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	\$ (18,335)	\$ (754)	\$ (19,089)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
(Increase) Decrease in Due from Other Units	-	(738)	(738)
(Increase) Decrease in Prepaid Expenses	(20)	-	(20)
Increase (Decrease) in Accounts Payable	(250)	(50)	(300)
Increase (Decrease) in Accrued Liabilities	7	(27)	(20)
Increase (Decrease) in Due to Other Funds	10,000	300	10,300
Net Cash Provided (Used) by Operating Activities	<u>\$ (8,598)</u>	<u>\$ (1,269)</u>	<u>\$ (9,867)</u>

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November 19, 2007

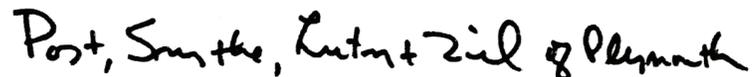
Mayor and City Council
City of Milan
Milan, Michigan

In planning and performing our audit of the City of Milan for the year ended June 30, 2007, we have considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions in these areas. This letter does not affect our report dated November 19, 2007, on the financial statements of the City of Milan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional studies or assist in their implementation.

Respectfully,



Post, Smythe, Lutz and Ziel of Plymouth LLP
Certified Public Accountants

General Fund Balance

The results of operations from fiscal year 2006/2007 showed a current year increase of \$212,746 which increased fund balance to \$280,236. This result left the City with fund balance reserve of 5.4% of general fund revenues.

We recommend that the City determine ways to increase this "reserve" to higher levels in the near term. The City has a non diversified tax base, and should have a higher "rainy day" fund than other communities of similar size. In addition, the City is facing a legal challenge from its largest taxpayer for assessments on the 2006 and 2007 tax rolls. If the taxpayer were to prevail, the tax refund (without factoring interest) would be over \$1.8 million dollars, which could result in major cash flow issues and disruptions to services.

Water and Sewer Rates

The 2008 budget did not reflect an increase in utility rates. We strongly recommend that the City Council review rates, as the Water and Sewer fund doesn't have adequate reserves to fund capital projects other than minor repairs/replacements. A rate increase could also provide additional revenues to service the debt on the \$13.6 million dollar G.O. bonds issued to finance the expansion of the waste water treatment plant.

In addition, the City Council should review the existing rate structure and consider changes to "readiness to serve charge". The customer base is concentrated in several large users, who pay over 50% of the commodity based (unit charges), but less than 4% of the "readiness to serve" fixed charges.

Accounting Issues

The accounting processes at the City of Milan need additional resources and more formalized processes performed on a consistent basis, to accomplish better interim financial reporting, and timelier year end closings, and reduced audit adjustments. Our specific suggestions are:

- Expenditures such as accounts payable and payroll should be recorded on the accrual method of accounting – currently the City recognizes expenditures on the cash basis until year end.
- Account Reconciliations – significant balance sheet accounts should be recorded to subsidiary records on a monthly basis.
- Banks should be reconciled each month on a timely basis; this is a key internal control component. Also, the bank reconciliation process is made more complex by the large number of reconciling items, many of which are corrections in the accounting process, which should be remedied by journal entry.

Accounting Issues-Continued

- Fixed Asset accounting is currently accomplished using electronic spreadsheets, which is time consuming and prone to error. With the GASB 34 reporting requirements placing the burden of maintaining records for all City assets on the administrations, we suggest that the City acquire software specifically designed to accomplish the necessary reporting.
- Billing for inspection services was not performed in a timely fashion during the fiscal year. We recommend that the accounting department accomplish the billings (with the review by the Public Service Department) on a monthly basis, using the accounting software system's automated billing process.

Other Internal Control Matters

To improve internal control, and cash flow, we suggest the following:

- Consider "positive pay" which is a service offered by your bank which records pertinent information about each check such as the amount, the check number, bank information and date, and then transmits it to the bank to be verified, before the check can be paid. This will help insure that only authorized payments are paid by the bank. All Depository accounts should be separated from disbursement accounts, and ACH filters and or blocks should be used on all accounts.
- Establish a separate accounts payable checking account for larger transactions and limit the dollar amount of the "typical" payable and payroll checks to a specific amount. Your bank offers a service which automatically returns checks unpaid if they exceed a given dollar limit.
- Consider expanded use of regional "lock box" services offered by your bank. "Lock boxes" are post office boxes where City funds are directed through the mail, and deposited into the appropriate (general, tax, and utility) City accounts directly by your bank. These banking services will also work with your accounting software to update customer accounts in an automated fashion. Use of "lock boxes" generally improve internal control, cash flow and can be used to lower administrative costs.
- Study the possibility of third party payroll – the City has significant staff resources committed to accomplishing payroll "in house", which could be "re-deployed" to other areas. Additionally better internal controls generally results as duties are far easier to segregate.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the City as a whole to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid, in the "Entity Wide" financial statements. The new pronouncement is effective for the year ending June 30, 2008, and will require actuarial valuations of the liability at least tri-annually.