

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name)		Telephone Number
Street Address	City	State Zip
Authorizing CPA Signature 	Printed Name	License Number

City of Taylor, Michigan

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

City of Taylor, Michigan

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Independent Auditor's Report

To the City Council
City of Taylor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Taylor, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Taylor Housing Commission (a discretely presented component unit), which reflect total assets of \$41,104,026 at March 31, 2007 and a net increase in net assets of \$1,664,101 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Commission, is based solely on the report of the other auditors. The other auditors' report, dated November 16, 2007, which includes the information for the Taylor Community Development Corporation (audited by other auditors as of June 30, 2007 with a report date of November 15, 2007), expressed an unqualified opinion on the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan as of June 30, 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.

To the City Council
City of Taylor, Michigan

The management's discussion and analysis, budgetary comparison schedule - General Fund, and the pension systems schedule of funding progress, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Taylor, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2007 on our consideration of the City of Taylor, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

December 10, 2007

City of Taylor, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Taylor, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

- State-shared revenue, our second largest revenue source, was reduced by approximately \$240,000 in 2007. While the constitutional portion remained relatively flat, the statutory portion decreased for the sixth consecutive year. The statutory portion, at approximately \$3.37 million, represents a significant amount of at-risk revenue.
- Revenues from the 23rd District Court increased approximately \$531,000 over the prior year amount, to approximately \$5.3 million for the year ended June 30, 2007. Police traffic enforcement is the major source of this revenue. Work details are assigned overtime to conduct traffic enforcement. In the past, the officers' pension earnings did not include overtime worked. The previous administration negotiated several enhancements to police officers' and firefighters' pension benefits. The inclusion of overtime earnings as part of the officers' basis for their monthly pension benefit was one of the major enhancements. Because of limits on its ability to increase revenues from other sources, the City continues to increase its reliance on court revenues to finance day-to-day operations. Currently, the City cannot afford to cut back or eliminate the traffic enforcement operations. The cost of police and fire retirement expenses is levied as a special property tax millage. The City's annual contribution for police and fire retiree benefits has increased from \$579,042 in 2002 to \$4,023,065 in 2007, a 594.8 percent increase. It is essential that the City take the necessary steps to address and drastically reduce this increasing cost to the taxpayers.
- In the City's General Fund, the main operating fund of the City, expenditures were reduced by approximately \$784,000 compared to 2006, mainly because of significant one-time expenses in 2006 due to staff reductions and changes in employee benefits as well as deferrals of expected equipment purchases in 2006/2007 to a future period. Because of the limits on the City's ability to increase revenues, it is imperative that management's focus remains on cost containment. The General Fund fund balance (the cumulative difference between revenues and expenses) remains unacceptably low.
- The City's golf courses operated at deficits, substantially as a result of depreciation of assets donated by the TIFA component unit. The golf courses reduced costs appreciably in order to operate more profitably before the effects of depreciation, and will receive additional assistance from the TIFA in conjunction with a deficit elimination plan. The Sportsplex had historically been operating at a loss. In November 2006, the outside firm managing the complex on behalf of the City was terminated, and the City entered into an arrangement to lease the facility to an unrelated entity. Therefore, the City will no longer be subsidizing the operational cost. The TIFA will continue to pay the debt service on the Sportsplex.
- Total net assets related to the City's governmental activities at the end of the year were approximately \$157 million, a \$3 million increase over the prior year's approximately \$154 million in net assets. Business-type net assets increased by approximately \$3.7 million from \$113.9 to \$117.6 million.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Overview of the Financial Statements

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

Government-wide Financial Statements - The statement of net assets (deficit) and the statement of activities are both new and provide information about the activities of the City on a government-wide basis. They are designed to present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting, similar to a private sector business, so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

Fund Financial Statements - The fund financial statements are presented after the government-wide statements. They present a short-term view, and tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

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

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

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

The City of Taylor as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2007 and 2006:

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Assets						
Current assets	\$ 24,623,910	\$ 23,241,732	\$ 7,776,510	\$ 9,934,198	\$ 32,400,420	\$ 33,175,930
Noncurrent assets	198,677,915	193,770,012	175,063,923	171,346,458	373,741,838	365,116,470
Total assets	223,301,825	217,011,744	182,840,433	181,280,656	406,142,258	398,292,400
Liabilities						
Current liabilities	23,674,529	19,199,648	8,049,655	7,073,282	31,724,184	26,272,930
Long-term liabilities	45,170,849	40,921,913	60,859,797	56,595,490	106,030,646	97,517,403
Total liabilities	68,845,378	60,121,561	68,909,452	63,668,772	137,754,830	123,790,333
Net Assets						
Invested in capital assets - Net of related debt	151,693,997	151,569,039	100,914,668	99,222,482	252,608,665	250,791,521
Restricted	5,650,252	8,071,209	12,229,133	12,310,074	17,879,385	20,381,283
Unrestricted (deficit)	(2,887,802)	(2,750,065)	787,180	6,079,328	(2,100,622)	3,329,263
Total net assets	\$ 154,456,447	\$ 156,890,183	\$ 113,930,981	\$ 117,611,884	\$ 268,387,428	\$ 274,502,067

The City's combined net assets totaled \$274,502,067, an increase of 2.3 percent from the prior year. As we look at the governmental activities separately from the business-type activities, we can see that the current level of unrestricted net assets for our governmental activities is a deficit of nearly \$3 million, reflective of the structural operating deficit. The business-type activities unrestricted net assets increased by \$5.3 million during 2007.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

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

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Revenue						
Program revenue:						
Charges for services	\$ 12,595,473	\$ 14,332,348	\$ 18,536,554	\$ 19,538,805	\$ 31,132,027	\$ 33,871,153
Operating grants and contributions	8,919,543	8,386,654	-	-	8,919,543	8,386,654
Capital grants and contributions	12,283,095	2,031,942	851,227	896,340	13,134,322	2,928,282
General revenue:						
Property taxes	27,774,269	31,009,816	2,808,253	5,134,240	30,582,522	36,144,056
State-shared revenue	8,043,087	7,805,159	-	-	8,043,087	7,805,159
Unrestricted investment earnings	485,575	626,366	1,232,105	690,976	1,717,680	1,317,342
Rental income and fees	514,914	553,380	14,308	7,764	529,222	561,144
Gain on disposal of assets	84,821	(110,933)	15,141	(10,866)	99,962	(121,799)
Miscellaneous revenue	1,517,407	954,278	37,817	21,255	1,555,224	975,533
Total revenue	72,218,184	65,589,010	23,495,405	26,278,514	95,713,589	91,867,524
Program Expenses						
General government	11,713,075	10,565,270	-	-	11,713,075	10,565,270
Public safety	27,655,566	30,580,066	-	-	27,655,566	30,580,066
Public works	16,722,970	13,896,417	-	-	16,722,970	13,896,417
Community and economic development	1,857,624	1,495,559	-	-	1,857,624	1,495,559
Recreation and culture	4,917,533	4,669,113	-	-	4,917,533	4,669,113
Interest on long-term debt	2,142,578	1,948,849	-	-	2,142,578	1,948,849
Water	-	-	5,779,251	6,678,307	5,779,251	6,678,307
Sewer	-	-	8,503,359	7,949,329	8,503,359	7,949,329
Taylor Sportsplex	-	-	2,697,151	1,464,836	2,697,151	1,464,836
Golf courses	-	-	5,927,940	5,703,739	5,927,940	5,703,739
Corse Creek	-	-	399,042	801,400	399,042	801,400
Total program expenses	65,009,346	63,155,274	23,306,743	22,597,611	88,316,089	85,752,885
Change in Net Assets	\$ 7,208,838	\$ 2,433,736	\$ 188,662	\$ 3,680,903	\$ 7,397,500	\$ 6,114,639

Governmental Activities

The City's total governmental revenues were down from \$72.2 million to \$65.6 million, mainly due to reductions in capital grants and contributions and state-shared revenue. Property tax revenues were higher, due to the increased millage for police and fire retirement benefits and continued growth, albeit Proposal A limited, in the City's tax base.

The City's total governmental expenses decreased by approximately \$1.9 million as a result of significant reductions in spending in all categories except public safety and healthcare costs. Healthcare cost increases were less than in prior years due to negotiated changes in employee benefits.

During 2007, the City closely monitored its spending in all areas, including hiring and capital outlay.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water, Sewer, Ecorse Creek, Golf Courses, and Taylor Sportsplex Enterprise Funds. The City provides water to residents from the Detroit Water System. The City also provides sewage treatment through a Wayne County-owned and operated sewage treatment plant. The City operates two outstanding golf courses. The Lakes of Taylor Golf Club is a championship caliber golf course designed to challenge golfers at every level. Taylor Meadows Golf Club is a links-style course, challenging yet still player-friendly. Both courses also provide food service and pro-shop operations as well. The Taylor Sportsplex is an indoor multi-function facility that features two ice arenas, a soccer arena, and a combination soccer/convention arena, as well as meeting areas and food service. For all business-type activities in 2007, total revenues increased approximately \$2.8 million. The Sewer Fund accounts for the activity related to the City's participation in the Downriver Sewer System, including the tax levy mandated to pay for the City's share of debt issued by Wayne County to pay for the recent improvements to the system. The EPA levy is adjusted annually based on debt service for the upcoming year less any credits available at Wayne County.

The City of Taylor's Funds

Our analysis of the City's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Taylor as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond projects. The City's only major fund for 2007 is the General Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$20.5 million, and public works, which incurred expenses of \$13.6 million in 2007. Employee benefit expenses accounted for another \$12 million.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. Overall, the General Fund's revenue budget was increased during the year by a net amount of approximately \$338,000. Overall actual revenues were greater than the budget by \$528,000, or 1 percent. The largest unfavorable variance was in other revenue with a negative variance of (\$373,000).

The City's expenditure budget was increased approximately \$1 million by amendments during the year, mainly as a result of the carryover of \$959,400 in unexpended items from the previous fiscal year. The City's departments overall stayed below budget, resulting in total expenditures of \$3.9 million (approximately 6 percent) below budget. Of that amount, approximately \$2.4 million was budgeted but not expensed as carryover of prior years' special levies. Unspent levies will be carried to 2008 to fund activities related to their specific purpose. The General Fund's unreserved and undesignated fund balance has decreased to approximately \$377,000 from approximately \$1,966,000 in 2006.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2007, the City, including its component units, had approximately \$395 million (net of depreciation) invested in a broad range of capital assets, including buildings, roads, water and sewer lines, parks, and machinery and equipment. The City finances most of its capital improvements through the issuance of long-term debt. In 2007, the City incurred new debt in the TIFA and DDA Funds in amount of approximately \$214,000, mainly to purchase nonconforming properties.

The City's investment in capital assets, net of related debt, decreased from approximately \$253 million to approximately \$251 million. In addition, the component unit's investment in capital assets, net of related debt, increased from approximately \$16.9 million to approximately \$18.2 million. The City's total debt was approximately \$198 million, including approximately \$89 million of component unit debt. Of the component unit debt, approximately \$8 million relates to TIFA debt issued on behalf of the Lakes of Taylor Golf Club, and approximately \$13 million relates to TIFA debt issued on behalf of the Sportsplex. The TIFA has recently also been responsible for covering debt service on debt issued by the Taylor Building Authority that the Sportsplex operations have not been able to support. Debt service payments on all debt are approximately \$20 million annually for the City and component units in total. The overall debt, while manageable and within legal limits, does limit the flexibility of the City to respond to the future needs of the community.

Economic Factors and Next Year's Budgets

Like most other communities in Michigan, particularly southeast Michigan, the City continues to struggle with providing necessary services with limited revenues. For the fiscal year ending June 30, 2008, the possibility of continuing reductions to the statutory portion of state revenue sharing continues to be a concern. State-shared gas and oil tax distributions that are used for roads maintenance and construction also continue to trend downward.

The City and its residents are suffering from the effects of a slowdown in the housing market, which currently leaves many projects incomplete and as eyesores on the landscape of the community. There are record numbers of foreclosures in the community. In November 2007, the City initiated its "Taylor Cares" program by purchasing 11 vacant homes for \$1 each under a federal Department of Housing and Urban Development's (HUD) program. The houses will be rehabilitated, and then sold to low- to moderate-income persons or families. The City's goal is to take possession of all of the estimated 70 empty HUD homes scattered throughout the City to assist low- to moderate-income persons to become homeowners, reduce blight, and revitalize neighborhoods. The City plans to generate enough revenue from the resale of the homes to cover all of its costs. Any eventual surplus can be used for other community needs in the future.

City of Taylor, Michigan

Management's Discussion and Analysis (Continued)

Because of the income-limiting impact of Proposal A, the Headlee Amendment, and the Bolt vs. Lansing decision, the City needs to continue to watch its expenditure budgets very closely. The state-wide Tax Reform Act limited growth in taxable value on any individual property to the inflation factor of 3.7 percent for the 2007 tax year, and the limit will be reduced to approximately 2.3 percent for the 2008 tax year. However, because of the tax reduction factors, not even the full benefit of inflation is realized in property tax revenue. With municipal revenue opportunities systematically limited by state law, the General Fund budget continues to depend on uncertain revenue such as state-shared revenue, cable franchise fees, court fines, and charges for services to remain balanced. Given these strains on the budget, the City understands the need to reduce the workforce and save on personal services and employee benefits, as these are the largest portions of the budget. Approximately 70 percent of the City's General Fund costs are employee-related. While recent contractual wage increases for general employees are less than inflation at 1 percent, the previous administration negotiated public safety contractual wage increases over 6 percent. Healthcare costs continue to rise, and so the City has negotiated co-pay arrangements and changes in service providers with the City's employees to help offset cost increases. To reduce the effects of rising pension costs, defined contribution pension plans are being offered to new employees rather than defined benefit plans. Unfortunately, pensions were enhanced by the prior administration a few years ago. The effect is now being seen in the pensions of new retirees and in the actuarial valuation. The annual contribution to the General Employees' Retirement System has increased from \$0 to \$1,508,514 between 2002 and 2007. The annual contribution to the Police and Fire Retirement System has increased from \$579,042 in 2002 to \$4,023,065 in 2007, a 594.8 percent increase.

The new administration has acted decisively to reduce costs at the golf courses to increase profitability, and negotiated a new lease agreement for the Sportsplex. Both actions reduce the potential for future negative effects on the General Fund. The City will soon be calculating an estimate of its liability for other postemployment benefits including the possible funding options. The annual expected funding requirement for this obligation will be significant for future periods.

As the costs of providing services to the citizens continue to rise in excess of normal inflation despite the systematic limitations on revenue growth, it is clear that the municipal finance system in the state of Michigan needs some changes in addition to changes that can be made at the local level. Such changes are not on the horizon.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances, and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the city clerk's office, 23555 Goddard Road, Taylor, MI 48180.

City of Taylor, Michigan

Statement of Net Assets (Deficit) June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 7,490,191	\$ 5,458,394	\$ 12,948,585	\$ 16,797,896
Receivables - Net:				
Taxes	2,595,887	-	2,595,887	-
Special assessments	6,806,769	-	6,806,769	-
Customers	-	4,648,615	4,648,615	-
Other	1,418,020	129,390	1,547,410	1,072,115
Internal balances (Note 6)	657,116	(657,116)	-	-
Due from primary government	-	-	-	2,953
Due from other governmental units	3,565,114	-	3,565,114	350,518
Due from component units	43,725	-	43,725	-
Deferred charges	-	-	-	4,785,994
Prepaid costs and other assets	664,910	-	664,910	610,066
Long-term advances to (from) other funds (Note 6)	931,628	(931,628)	-	-
Inventories	-	354,915	354,915	-
Restricted assets (Note 8)	910,120	11,384,538	12,294,658	3,206,979
Nondepreciable capital assets - Net (Note 5)	24,380,501	10,403,124	34,783,625	16,644,074
Depreciable capital assets - Net (Note 5)	167,547,763	150,490,424	318,038,187	25,760,629
Total assets	217,011,744	181,280,656	398,292,400	69,231,224
Liabilities				
Accounts payable	1,990,627	1,682,523	3,673,150	5,901,298
Accrued and other liabilities	3,034,038	754,946	3,788,984	1,424,448
Due to primary government	-	-	-	43,725
Due to component units	2,953	-	2,953	-
Due to other governmental units	370,124	199,091	569,215	739,926
Deferred revenue (Note 4)	6,760,527	-	6,760,527	859,120
Noncurrent liabilities:	-	-	-	-
Debt due within one year (Note 7)	7,041,379	4,436,722	11,478,101	4,271,763
Debt due in more than one year (Note 7)	40,921,913	56,595,490	97,517,403	84,755,619
Total liabilities	60,121,561	63,668,772	123,790,333	97,995,899
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	151,569,039	99,222,482	250,791,521	18,170,407
Restricted:				
Construction and other expenditures	4,972,363	-	4,972,363	-
Major and local streets projects	1,149,152	-	1,149,152	-
Police forfeiture	573,671	-	573,671	-
Debt service	1,376,023	11,384,538	12,760,561	-
Sewer	-	925,536	925,536	-
Component units	-	-	-	3,226,399
Unrestricted	(2,750,065)	6,079,328	3,329,263	(50,161,481)
Total net assets (deficit)	\$ 156,890,183	\$ 117,611,884	\$ 274,502,067	\$ (28,764,675)

City of Taylor, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 10,565,270	\$ 8,510,433	\$ 2,225,077	\$ 524,130
Public safety	30,580,066	4,064,302	1,440,271	-
Public works	13,896,417	379,998	3,994,990	1,502,688
Community and economic development	1,495,559	79,240	491,471	-
Recreation and culture	4,669,113	1,298,375	234,845	5,124
Interest on long-term debt	1,948,849	-	-	-
Total governmental activities	63,155,274	14,332,348	8,386,654	2,031,942
Business-type activities:				
Water	6,678,307	6,960,688	-	-
Sewer	7,949,329	6,635,764	-	-
Taylor Sportsplex	1,464,836	627,517	-	807,754
Golf courses	5,703,739	4,827,018	-	88,586
Ecorse Creek	801,400	487,818	-	-
Total business-type activities	22,597,611	19,538,805	-	896,340
Total primary government	\$ 85,752,885	\$ 33,871,153	\$ 8,386,654	\$ 2,928,282
Component units:				
Local Development Financing Authority	\$ 500	\$ -	\$ -	\$ -
Tax Increment Financing Authority	7,109,682	-	-	-
Brownfield Redevelopment Authority	4,296,283	-	-	-
Downtown Development Authority	517,488	-	-	-
Housing Commission	16,357,242	6,522,943	11,068,069	-
Total component units	\$ 28,281,195	\$ 6,522,943	\$ 11,068,069	\$ -

General revenues:
Property taxes
State-shared revenues
Unrestricted investment earnings
Rental income and fees
Gain (loss) on disposal of assets
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets (Deficit) - Beginning of year, as restated (Note 1)

Net Assets (Deficit) - End of year

Statement of Activities Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ 694,370	\$ -	\$ 694,370	\$ -
(25,075,493)	-	(25,075,493)	-
(8,018,741)	-	(8,018,741)	-
(924,848)	-	(924,848)	-
(3,130,769)	-	(3,130,769)	-
(1,948,849)	-	(1,948,849)	-
(38,404,330)	-	(38,404,330)	-
-	282,381	282,381	-
-	(1,313,565)	(1,313,565)	-
-	(29,565)	(29,565)	-
-	(788,135)	(788,135)	-
-	(313,582)	(313,582)	-
-	(2,162,466)	(2,162,466)	-
(38,404,330)	(2,162,466)	(40,566,796)	-
-	-	-	(500)
-	-	-	(7,109,682)
-	-	-	(4,296,283)
-	-	-	(517,488)
-	-	-	1,233,770
-	-	-	(10,690,183)
31,009,816	5,134,240	36,144,056	12,962,748
7,805,159	-	7,805,159	-
626,366	690,976	1,317,342	1,029,608
553,380	7,764	561,144	-
(110,933)	(10,866)	(121,799)	28,000
954,278	21,255	975,533	464,209
40,838,066	5,843,369	46,681,435	14,484,565
2,433,736	3,680,903	6,114,639	3,794,382
154,456,447	113,930,981	268,387,428	(32,559,057)
\$ 156,890,183	\$ 117,611,884	\$ 274,502,067	\$ (28,764,675)

City of Taylor, Michigan

Governmental Funds Balance Sheet June 30, 2007

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 3,177,836	\$ 4,312,355	\$ 7,490,191
Receivables:			
Taxes	2,489,092	106,795	2,595,887
Special assessments	6,806,376	393	6,806,769
Other	1,418,020	-	1,418,020
Due from other governmental units	2,748,774	816,340	3,565,114
Due from component units	43,725	-	43,725
Due from other funds (Note 6)	1,394,145	240,663	1,634,808
Prepaid costs and other assets	664,910	-	664,910
Long-term advance to other funds (Note 6)	1,150,000	-	1,150,000
Restricted assets (Note 8)	-	910,120	910,120
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 19,892,878</u>	<u>\$ 6,386,666</u>	<u>\$ 26,279,544</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,714,303	\$ 276,324	\$ 1,990,627
Due to other governmental units	263,206	106,918	370,124
Due to other funds (Note 6)	257,425	720,267	977,692
Due to component units	-	2,953	2,953
Accrued and other liabilities	2,385,456	183,699	2,569,155
Long-term advances from other funds (Note 6)	-	218,372	218,372
Deferred revenue (Note 4)	7,637,224	393	7,637,617
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	12,257,614	1,508,926	13,766,540
Fund Balances			
Reserved for:			
Construction and other expenditures	3,193,469	14,010	3,207,479
Long-term assets	1,150,000	-	1,150,000
Unreserved:			
Designated for equipment replacement/capital outlay	2,341,065	-	2,341,065
Designated for subsequent year's expenditures -			
Reported in:			
General Fund	573,881	-	573,881
Special Revenue Funds	-	259,100	259,100
Unreserved - Reported in:			
General Fund	376,849	-	376,849
Special Revenue Funds	-	3,228,607	3,228,607
Debt Service Funds	-	1,376,023	1,376,023
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	7,635,264	4,877,740	12,513,004
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 19,892,878</u>	<u>\$ 6,386,666</u>	<u>\$ 26,279,544</u>

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

City of Taylor, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets (Deficit) June 30, 2007

Fund Balance - Total Governmental Funds \$ 12,513,004

Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds 191,928,264

Special assessment and other receivables are expected to be collected over several years and are not available to pay for current year expenditures 877,090

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Long-term debt (40,359,225)

Compensated absences (5,831,053)

Accrued longevity (264,621)

Bond premium (968,723)

Workers' compensation claims (539,670)

Accrued interest is not recorded in the funds (464,883)

Net Assets - Governmental Activities \$ 156,890,183

City of Taylor, Michigan

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

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 31,548,012	\$ 1,613,833	\$ 33,161,845
Licenses and permits	967,546	1,660,223	2,627,769
Federal sources	453,335	925,495	1,378,830
State sources	8,185,234	4,093,954	12,279,188
Charges for services	3,058,063	-	3,058,063
Fines and forfeitures	5,542,089	-	5,542,089
Interest and rent	962,344	2,807,217	3,769,561
DMA/911 revenue	-	1,032,489	1,032,489
Other	8,662,647	192,079	8,854,726
Total revenues	<u>59,379,270</u>	<u>12,325,290</u>	<u>71,704,560</u>
Expenditures			
General government	7,191,481	-	7,191,481
Public safety	20,541,427	-	20,541,427
Public works and capital projects	13,648,630	4,312,284	17,960,914
Community development	-	550,808	550,808
Recreation and cultural	2,691,217	-	2,691,217
General administration	177,935	-	177,935
Construction and development	-	1,166,264	1,166,264
Employee benefits	12,006,330	-	12,006,330
Capital outlay and other	-	379,002	379,002
Debt service	522,680	5,495,663	6,018,343
Total expenditures	<u>56,779,700</u>	<u>11,904,021</u>	<u>68,683,721</u>
Excess of Revenues Over Expenditures	2,599,570	421,269	3,020,839
Other Financing Sources (Uses)			
Transfers in (Note 6)	-	1,151,294	1,151,294
Transfers out (Note 6)	-	(1,151,294)	(1,151,294)
Proceeds from installment loans	10,714	-	10,714
Total other financing sources	<u>10,714</u>	<u>-</u>	<u>10,714</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>2,610,284</u>	<u>421,269</u>	<u>3,031,553</u>
Net Change in Fund Balances	2,610,284	421,269	3,031,553
Fund Balances - Beginning of year	<u>5,024,980</u>	<u>4,456,471</u>	<u>9,481,451</u>
Fund Balances - End of year	<u>\$ 7,635,264</u>	<u>\$ 4,877,740</u>	<u>\$ 12,513,004</u>

City of Taylor, Michigan

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

Net Change in Fund Balances - Total Governmental Funds	\$ 3,031,553
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(4,459,517)
Capital contribution from TIFA, DDA, and Ecorse Creek is not a current financial resource	699,718
Proceeds from asset sales are recorded in the governmental funds; on the statement of activities, a gain is recorded	(263,554)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	90,020
Revenue is reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	45,462
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	4,070,994
Amortization of bond premium liabilities and deferred cost of financing are reported as expense on the governmental funds when issued	42,263
Change in accrued interest on long-term debt is not recorded in the governmental funds	8,301
The change in liabilities for longevity, compensated absences, and general claims is recorded when incurred in the statement of activities:	
Compensated absences	(311,516)
Longevity	(264,621)
General liability claims	(244,653)
Bond proceeds are not reported as other financing sources on the statement of activities	(10,714)
Change in Net Assets of Governmental Activities	\$ 2,433,736

City of Taylor, Michigan

Proprietary Funds Statement of Net Assets June 30, 2007

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Current Assets						
Cash and investments (Note 3)	\$ 3,285,834	\$ 2,028,876	\$ 4,668	\$ 129,526	\$ 9,490	\$ 5,458,394
Receivables:						
Customers	2,278,404	2,225,414	-	-	144,797	4,648,615
Other	125,909	-	-	3,481	-	129,390
Due from other funds (Note 6)	385,965	1,655,495	-	-	85,054	2,126,514
Inventories	<u>133,435</u>	<u>1,923</u>	<u>57,121</u>	<u>162,436</u>	<u>-</u>	<u>354,915</u>
Total current assets	6,209,547	5,911,708	61,789	295,443	239,341	12,717,828
Noncurrent Assets						
Long-term advances to other funds (Note 6)	218,372	-	-	-	-	218,372
Restricted assets (Note 8)	-	11,384,538	-	-	-	11,384,538
Capital assets (Note 5)	<u>22,051,806</u>	<u>91,108,293</u>	<u>26,802,453</u>	<u>20,930,996</u>	<u>-</u>	<u>160,893,548</u>
Total noncurrent assets	<u>22,270,178</u>	<u>102,492,831</u>	<u>26,802,453</u>	<u>20,930,996</u>	<u>-</u>	<u>172,496,458</u>
Total assets	28,479,725	108,404,539	26,864,242	21,226,439	239,341	185,214,286
Current Liabilities						
Accounts payable	932,860	428,087	94,053	227,523	-	1,682,523
Due to other funds (Note 6)	1,575,769	133,343	-	918,804	155,714	2,783,630
Due to other governmental units	6,491	192,600	-	-	-	199,091
Accrued and other liabilities	474,953	278,681	49,509	462,949	-	1,266,092
Current portion of long-term debt (Note 7)	<u>90,000</u>	<u>3,830,607</u>	<u>325,000</u>	<u>140,000</u>	<u>-</u>	<u>4,385,607</u>
Total current liabilities	3,080,073	4,863,318	468,562	1,749,276	155,714	10,316,943
Noncurrent Liabilities						
Long-term advances from other funds (Note 6)	-	-	-	1,150,000	-	1,150,000
Long-term debt - Net of current portion (Note 7)	<u>1,230,000</u>	<u>50,787,059</u>	<u>3,823,400</u>	<u>295,000</u>	<u>-</u>	<u>56,135,459</u>
Total liabilities	<u>4,310,073</u>	<u>55,650,377</u>	<u>4,291,962</u>	<u>3,194,276</u>	<u>155,714</u>	<u>67,602,402</u>
Net Assets						
Invested in capital assets - Net of related debt	20,731,806	36,490,627	22,654,053	19,345,996	-	99,222,482
Restricted for debt service	-	11,384,538	-	-	-	11,384,538
Restricted for sewer grant expenditures	-	925,536	-	-	-	925,536
Unrestricted	<u>3,437,846</u>	<u>3,953,461</u>	<u>(81,773)</u>	<u>(1,313,833)</u>	<u>83,627</u>	<u>6,079,328</u>
Total net assets	<u>\$ 24,169,652</u>	<u>\$ 52,754,162</u>	<u>\$ 22,572,280</u>	<u>\$ 18,032,163</u>	<u>\$ 83,627</u>	<u>\$ 117,611,884</u>

City of Taylor, Michigan

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

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Operating Revenues						
Water sales	\$ 5,678,078	\$ -	\$ -	\$ -	\$ -	\$ 5,678,078
Sewage disposal services	-	5,496,280	-	-	-	5,496,280
System maintenance charge	-	948,303	-	-	-	948,303
Charges for services	1,290,376	191,181	47,288	2,728,263	487,818	4,744,926
Sales of merchandise	-	-	141,450	2,058,755	-	2,200,205
Rental income	-	-	382,676	-	-	382,676
Other	1,421	20,037	56,103	40,000	-	117,561
Total operating revenues	6,969,875	6,655,801	627,517	4,827,018	487,818	19,568,029
Operating Expenses						
Cost of water operations	5,469,110	-	-	-	-	5,469,110
Cost of sewage disposal operations	-	5,251,870	-	-	-	5,251,870
Ecorse Creek user charge system	-	-	-	-	425,728	425,728
Cost of sales	-	-	67,902	862,021	-	929,923
Operation and maintenance	-	-	286,848	1,328,427	-	1,615,275
General and administrative	-	-	293,458	2,108,165	-	2,401,623
Other expenses	-	2,165	43,400	8,176	-	53,741
Depreciation and amortization	1,149,304	1,562,752	572,313	1,370,379	-	4,654,748
Total operating expenses	6,618,414	6,816,787	1,263,921	5,677,168	425,728	20,802,018
Operating Income (Loss)	351,461	(160,986)	(636,404)	(850,150)	62,090	(1,233,989)
Nonoperating Revenue (Expenses)						
Property taxes	-	5,134,240	-	-	-	5,134,240
Gain (loss) on disposal of assets	631	-	-	(11,497)	-	(10,866)
Loss on assets donated to general government	-	-	-	-	(375,672)	(375,672)
Interest income	203,373	481,322	-	-	6,281	690,976
Interest expense	(60,098)	(1,132,542)	(200,915)	(26,571)	-	(1,420,126)
Total nonoperating revenue (expenses)	143,906	4,483,020	(200,915)	(38,068)	(369,391)	4,018,552
Net Income (Loss) - Before donated assets	495,367	4,322,034	(837,319)	(888,218)	(307,301)	2,784,563
Donated Assets	-	-	807,754	88,586	-	896,340
Change in Net Assets	495,367	4,322,034	(29,565)	(799,632)	(307,301)	3,680,903
Net Assets - Beginning of year	23,674,285	48,432,128	22,601,845	18,831,795	390,928	113,930,981
Net Assets - End of year	\$ 24,169,652	\$ 52,754,162	\$ 22,572,280	\$ 18,032,163	\$ 83,627	\$ 117,611,884

City of Taylor, Michigan

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

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
Cash Flows from Operating Activities						
Receipts from customers	\$ 6,170,740	\$ 5,972,722	\$ 578,520	\$ 4,785,702	\$ 432,924	\$ 17,940,608
Payments to suppliers	(3,049,730)	(5,064,292)	(593,517)	(2,251,506)	(425,728)	(11,384,773)
Payments to employees	(2,022,390)	(536,955)	(293,458)	(2,083,251)	-	(4,936,054)
Internal activity - Payments to other funds	(1,383,430)	383,991	(21,692)	513,180	(75,992)	(583,943)
Other receipts	1,421	22,870	321,198	40,000	-	385,489
Net cash provided by (used in) operating activities	(283,389)	778,336	(8,949)	1,004,125	(68,796)	1,421,327
Cash Flows from Noncapital Financing Activities - Payments to component units						
	-	-	-	(245,813)	-	(245,813)
Cash Flows from Capital and Related Financing Activities						
Purchase of capital assets	(96,860)	(85,330)	-	(14,863)	(8,000)	(205,053)
Proceeds from sales of capital assets	631	-	-	-	-	631
Principal and interest paid on capital debt	(140,098)	(24,413)	-	(155,091)	-	(319,602)
Issuance of long-term advances to other funds	(218,372)	-	-	-	-	(218,372)
Payments on long-term advances from other funds	-	-	-	(600,000)	-	(600,000)
Payments to the County	-	(5,134,240)	-	-	-	(5,134,240)
Property taxes	-	5,134,240	-	-	-	5,134,240
Net cash used in capital and related financing activities	(454,699)	(109,743)	-	(769,954)	(8,000)	(1,342,396)
Cash Flows from Investing Activities - Interest received on investments						
	203,373	146,915	-	-	6,281	356,569
Net Increase (Decrease) in Cash and Cash Equivalents						
	(534,715)	815,508	(8,949)	(11,642)	(70,515)	189,687
Cash and Cash Equivalents - Beginning of year						
	3,820,549	1,213,368	13,617	141,168	80,005	5,268,707
Cash and Cash Equivalents - End of year						
	<u>\$ 3,285,834</u>	<u>\$ 2,028,876</u>	<u>\$ 4,668</u>	<u>\$ 129,526</u>	<u>\$ 9,490</u>	<u>\$ 5,458,394</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities						
Operating income (loss)	\$ 351,461	\$ (160,986)	\$ (636,404)	\$ (850,150)	\$ 62,090	\$ (1,233,989)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	1,149,304	1,562,752	572,313	1,370,379	-	4,654,748
Changes in assets and liabilities:						
Receivables	(690,211)	(663,042)	7,106	(1,316)	(54,894)	(1,402,357)
Due from other funds	(93,758)	748,466	-	-	(76,565)	578,143
Other assets	(34,249)	(1,301)	(22,806)	8,261	-	(50,095)
Accounts payable	390,621	(103,329)	49,134	(61,143)	-	275,283
Accrued and other liabilities	(66,885)	(242,582)	43,400	24,914	-	(241,153)
Due to other governmental units	-	2,833	-	-	-	2,833
Due to other funds	(1,289,672)	(364,475)	(21,692)	513,180	573	(1,162,086)
Net cash provided by (used in) operating activities	<u>\$ (283,389)</u>	<u>\$ 778,336</u>	<u>\$ (8,949)</u>	<u>\$ 1,004,125</u>	<u>\$ (68,796)</u>	<u>\$ 1,421,327</u>

City of Taylor, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2007

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2007, \$88,586 of assets purchased by the TIFA was contributed to the golf courses, \$68,394 worth of water department inventory was transferred to capital assets, \$375,672 recorded as construction-in-progress in the Ecorse Creek Fund was transferred to general government, and the Sportsplex received operating contributions in the amount of \$265,095. In addition, \$310,000 of debt principal payments and \$232,659 of interest payments were contributed to the Taylor Sportsplex by the TIFA. The City also had several noncash transactions with the assets held at Wayne County, including interest earnings of \$334,407, debt payments of \$3,647,578, interest payments of \$1,123,129, and a system maintenance charge of \$553,893.

City of Taylor, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Pension and Other Employee Benefit Plans*	Agency Funds
Assets		
Cash and equivalents	\$ 6,677,277	\$ 1,436,574
Investments:		
Corporate bonds	13,330,158	-
U.S. government securities	30,083,602	-
Common and preferred stock	77,726,242	-
Money market	3,602,056	802,000
Mutual funds	26,838,998	-
Due from other governmental units	-	724,858
Other assets	44,286	-
Accrued interest	631,547	-
	158,934,166	<u>\$ 2,963,432</u>
Liabilities		
Due to other governmental units	-	\$ 2,714,637
Tax collections distributable	-	248,795
	-	<u>\$ 2,963,432</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 158,934,166</u>	

* Balances are as of December 31, 2006 for the General Employees' Pension Plan and as of June 30, 2007 for the Police and Fire Retirement System.

City of Taylor, Michigan

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

	Pension and Other Employee Benefit Plans*
Additions	
Investment income:	
Interest and dividends	\$ 4,104,476
Net increase in fair value of investments	14,034,157
Less investment expenses	<u>(437,057)</u>
Net investment income	17,701,576
Contributions:	
Employer	5,531,579
Employee	<u>1,309,889</u>
Total contributions	<u>6,841,468</u>
Total additions - Net of investment expenses	24,543,044
Deductions	
General and administrative	72,263
Benefit payments	<u>12,905,029</u>
Total deductions	<u>12,977,292</u>
Net Increase in Net Assets	11,565,752
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>147,368,414</u>
End of year	<u>\$ 158,934,166</u>

* Balances are as of December 31, 2006 for the General Employees' Pension Plan and as of June 30, 2007 for the Police and Fire Retirement System.

City of Taylor, Michigan

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

	Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Total
Assets						
Cash and investments (Note 3)	\$ 233,732	\$ 9,070,534	\$ 3,597,123	\$ 215,284	\$ 3,681,223	\$ 16,797,896
Accounts receivable	-	-	863,919	-	208,196	1,072,115
Deferred charges	-	-	-	-	4,785,994	4,785,994
Due from primary government	-	2,953	-	-	-	2,953
Due from other governmental units	-	-	-	-	350,518	350,518
Prepaid expenses and other assets	-	-	-	-	610,066	610,066
Restricted assets (Note 8)	-	-	-	15,030	3,191,949	3,206,979
Capital assets (Note 5)	<u>17,745</u>	<u>12,939,649</u>	<u>77,187</u>	<u>1,094,042</u>	<u>28,276,080</u>	<u>42,404,703</u>
Total assets	251,477	22,013,136	4,538,229	1,324,356	41,104,026	69,231,224
Liabilities						
Accounts payable	-	4,843,749	433,218	7,145	617,186	5,901,298
Deferred revenue (Note 4)	-	-	859,120	-	-	859,120
Due to other governmental units	-	739,926	-	-	-	739,926
Due to primary government	-	43,725	-	-	-	43,725
Tenant security deposits	-	-	-	-	386,030	386,030
Accrued and other liabilities	-	384,922	327,929	61,964	263,603	1,038,418
Long-term debt (Note 7)	-	<u>40,565,000</u>	<u>17,165,000</u>	<u>2,239,426</u>	<u>29,057,956</u>	<u>89,027,382</u>
Total liabilities	-	46,577,322	18,785,267	2,308,535	30,324,775	97,995,899
Net Assets (Deficit)						
Investment in capital assets - Net of related debt	17,745	12,939,649	77,187	1,094,042	4,041,784	18,170,407
Restricted	-	-	-	-	3,226,399	3,226,399
Unrestricted	<u>233,732</u>	<u>(37,503,835)</u>	<u>(14,324,225)</u>	<u>(2,078,221)</u>	<u>3,511,068</u>	<u>(50,161,481)</u>
Total net assets (deficit)	<u>\$ 251,477</u>	<u>\$ (24,564,186)</u>	<u>\$ (14,247,038)</u>	<u>\$ (984,179)</u>	<u>\$ 10,779,251</u>	<u>\$ (28,764,675)</u>

* Balances are as of March 31, 2007 for Housing Commission and as of June 30, 2007 for the Taylor Community Development Corp., its component unit.

City of Taylor, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions
Local Development Financing Authority - Public works	\$ 500	\$ -	\$ -	\$ -
Tax Increment Financing Authority - Public works	7,109,682	-	-	-
Brownfield Redevelopment Authority - Public works	4,296,283	-	-	-
Downtown Development Authority - Public works	517,488	-	-	-
Housing Commission	<u>16,357,242</u>	<u>6,522,943</u>	<u>11,068,069</u>	<u>-</u>
Total component unit activities	<u>\$ 28,281,195</u>	<u>\$ 6,522,943</u>	<u>\$ 11,068,069</u>	<u>\$ -</u>

General revenues:

Capture taxes
Interest
Gain on sale of assets
Transfers
Other

Total general revenues

Change in Net Assets (Deficit)

Net Assets (Deficit) - Beginning of year, as restated (Note 1)

Net Assets (Deficit) - End of year

* Balances are as of March 31, 2007 for the Housing Commission and as of June 30, 2007 for the Taylor Community Development Corp., its component unit.

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

Net (Expense) Revenue and Changes in Net Assets

Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Total
\$ (500)	\$ -	\$ -	\$ -	\$ -	\$ (500)
-	(7,109,682)	-	-	-	(7,109,682)
-	-	(4,296,283)	-	-	(4,296,283)
-	-	-	(517,488)	-	(517,488)
-	-	-	-	1,233,770	1,233,770
(500)	(7,109,682)	(4,296,283)	(517,488)	1,233,770	(10,690,183)
74,440	11,517,893	659,284	711,131	-	12,962,748
5,309	589,885	274,531	17,335	142,548	1,029,608
-	28,000	-	-	-	28,000
-	-	136,715	(136,715)	-	-
-	-	62,000	114,426	287,783	464,209
79,749	12,135,778	1,132,530	706,177	430,331	14,484,565
79,249	5,026,096	(3,163,753)	188,689	1,664,101	3,794,382
172,228	(29,590,282)	(11,083,285)	(1,172,868)	9,115,150	(32,559,057)
\$ 251,477	\$ (24,564,186)	\$ (14,247,038)	\$ (984,179)	\$ 10,779,251	\$ (28,764,675)

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Taylor, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Taylor, Michigan:

Reporting Entity

The City of Taylor, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

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

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

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

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within that district. The DDA's governing body, which consists of 13 members, is appointed by the mayor and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council.

Note I - Summary of Significant Accounting Policies (Continued)

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

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

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

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

The Project is operated and regulated by a use agreement with the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project's major program is its Section 8 housing assistance payment agreements with HUD. During the year ended June 30, 2007, rental revenue from HUD totaled \$4,474,820, representing 43 percent of net rental revenue.

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

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Note I - Summary of Significant Accounting Policies (Continued)

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

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

The City’s only major fund for June 30, 2007 is the General Fund.

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

The City reports the following major proprietary funds:

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

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

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

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

Note I - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

Pension Trust Fund - The Pension Trust Fund accounts for the activities of the City's two defined benefit pension plans, including the Police and Fire Retirement System and the General Employees' Pension Plan. The General Employees' Pension Plan is audited as of December 31, 2006. Therefore, the General Employees' Pension Plan is included in this report as of December 31, 2006. The plans accumulate resources for pension benefit payments to qualified employees.

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

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Note I - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales, rentals, and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative and operating expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

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

The City's 2006 tax is levied and collectible on July 1, 2006, and is recognized as revenue in the year ended June 30, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the City totaled \$1,344,077,763, on which taxes levied consisted of 8.4211 mills for operating purposes, 0.8862 mills for library services, 5.1913 mills for public safety pension, 1.3409 mills for disposal authority, 2.6591 mills for garbage and rubbish services, 0.0373 mills for publicity services, 2.700 mills for the building authority, 3.8807 for EPA debt, and .9601 mills for the Southend Project. This resulted in approximately \$11,300,000 for operating purposes, \$1,200,000 for library services, \$7,000,000 for public safety pension, \$1,800,000 for disposal authority, \$3,600,000 for garbage and rubbish services, \$50,000 for publicity services, \$3,600,000 for the building authority, \$5,200,000 for EPA debt, and \$1,600,000 for the Southend Project. These amounts are recognized in the respective General, Debt Service, and Enterprise Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

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

Note I - Summary of Significant Accounting Policies (Continued)

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

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

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

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

Restricted deposits in the Taylor Housing Commission represents assets held under various bond agreements in a separate account for replacement of property and other project expenditures as approved by the mortgagor. Restricted deposits are held in a separate account and generally are not available for operating purposes. During the year ended June 30, 2007, withdrawals of \$465,835 were taken from the replacement reserve.

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

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Roads and sidewalks	10-65 years
Buildings	15-50 years
Sanitary sewer system	15-50 years
Water mains and meters	15-67 years
Improvements other than buildings	20 years
Machinery and equipment	2-20 years
Vehicles	4-10 years
Furniture and fixtures	10-20 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted sources.

Net Assets - The Housing Commission's beginning net assets were restated from \$3,123,278 to \$3,138,278 to correct an error. The Brownfield Redevelopment Authority's beginning net assets were restated from \$(10,359,423) to \$(11,083,285) to correctly state the deferred revenue balance.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

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

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

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

The amount of encumbrances outstanding at June 30, 2007 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

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

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, there were no expenditures that were in excess of the amounts budgeted.

Fund Deficits - There are no fund deficits on the modified accrual basis at June 30, 2007, except for the DARE/GREAT Fund, a nonmajor SRF. The component units are presented on the full accrual basis in the basic financial statements, resulting in deficits on that basis in the Tax Increment Financing Authority, Brownfield Redevelopment Authority, and Downtown Development Authority.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

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

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

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$14,668,762 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had \$13,412,179 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

Investment Type	Fair Value	Less than One year	1 to 5 Years	6 to 10 Years	More than 10 Years
General Employees' Pension Plan					
Corporate bonds	\$ 5,981,878	\$ 1,938,221	\$ 3,718,864	\$ 324,793	\$ -
U.S. government securities	10,458,960	3,468,643	2,651,712	4,108,401	230,204
Police and Fire Retirement System					
Corporate bonds	7,348,281	-	3,080,196	3,566,176	701,909
U.S. government securities	19,624,642	65,000	12,903,290	2,860,232	3,796,120

Note 3 - Deposits and Investments (Continued)

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

Investment Type	Fair Value				Rating	Rating Organization
	Primary Government	Component Units	Police and Fire Retirement System	General Employees' Pension Plan		
Corporate bonds	\$ -	\$ -	\$ -	\$ 529,975	AAA	S&P
Corporate bonds	-	-	-	150,860	AA	S&P
Corporate bonds	-	-	-	923,031	AA-	S&P
Corporate bonds	-	-	-	273,102	A+	S&P
Corporate bonds	-	-	-	1,527,487	A	S&P
Corporate bonds	-	-	-	399,727	A-	S&P
Corporate bonds	-	-	-	999,279	BBB+	S&P
Corporate bonds	-	-	-	39,783	BBB	S&P
Corporate bonds	-	-	-	74,190	BBB-	S&P
Corporate bonds	-	-	-	1,064,443	BB+	S&P
U.S. government securities	-	-	-	1,521,054	NR	N/A
Corporate bonds	-	-	2,589,256	-	Aaa	Moody's
Corporate bonds	-	-	1,264,454	-	A1	Moody's
Corporate bonds	-	-	334,639	-	A2	Moody's
Corporate bonds	-	-	318,671	-	A3	Moody's
Corporate bonds	-	-	326,281	-	Aa2	Moody's
Corporate bonds	-	-	886,554	-	Aa3	Moody's
Corporate bonds	-	-	165,229	-	Ba1	Moody's
Corporate bonds	-	-	740,466	-	Baa1	Moody's
Corporate bonds	-	-	207,472	-	Baa2	Moody's
Corporate bonds	-	-	192,930	-	Baa3	Moody's
Corporate bonds	-	-	322,329	-	Not rated	N/A
U.S. government securities	-	-	4,186,158	-	Not rated	N/A
Bank investment pools	309,189	838,814	-	-	AAA	S&P
Bank investment pools	11,625,000	5,295,625	-	-	Not rated	N/A
Bank investment pools	270,576	-	-	-	AAA	S&P
Bank investment pools	-	309,603	-	-	A1	Moody's
Bank investment pools	1,409	-	-	-	A1	Moody's

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and the governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue recorded is as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Special assessments	\$ 121,920	\$ 6,760,527	\$ 6,882,447
Grant receivables	63,487	-	63,487
ALS receivables	296,455	-	296,455
Other	<u>395,228</u>	<u>-</u>	<u>395,228</u>
Total	<u>\$ 877,090</u>	<u>\$ 6,760,527</u>	<u>\$ 7,637,617</u>

In addition, the component units have recorded \$859,120 of deferred revenue which relates to unearned grant revenue.

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2006	Additions	Disposals and Adjustments	Reclassifications	Balance June 30, 2007
Capital assets not being depreciated:					
Land	\$ 21,976,394	\$ 82,095	\$ (104,372)	\$ -	\$ 21,954,117
Construction in progress	10,255,311	721,777	(62,150)	(8,488,554)	2,426,384
Subtotal	32,231,705	803,872	(166,522)	(8,488,554)	24,380,501
Capital assets being depreciated:					
Roads and sidewalks	223,785,108	3,010,356	-	6,961,531	233,756,995
Buildings and improvements	61,949,235	213,922	-	1,457,431	63,620,588
Other improvements	6,069,107	182,874	(30,978)	30,909	6,251,912
Machinery and equipment	32,258,327	1,199,406	(1,131,198)	38,683	32,365,218
Subtotal	324,061,777	4,606,558	(1,162,176)	8,488,554	335,994,713
Accumulated depreciation:					
Roads and sidewalks	124,110,118	4,600,161	-	-	128,710,279
Buildings and improvements	14,956,603	1,544,817	-	-	16,501,420
Other improvements	2,628,980	310,356	(30,978)	-	2,908,358
Machinery and equipment	18,646,161	2,652,748	(972,016)	-	20,326,893
Subtotal	160,341,862	9,108,082	(1,002,994)	-	168,446,950
Net capital assets being depreciated	163,719,915	(4,501,524)	(159,182)	8,488,554	167,547,763
Net capital assets	<u>\$ 195,951,620</u>	<u>\$ (3,697,652)</u>	<u>\$ (325,704)</u>	<u>\$ -</u>	<u>\$ 191,928,264</u>

City of Taylor, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance				Balance June 30, 2007
	July 1, 2006	Additions	Disposals	Reclassifications	
Capital assets not being depreciated:					
Land	\$ 10,403,124	\$ -	\$ -	\$ -	\$ 10,403,124
Construction in progress	702,982	112,133	(448,261)	(366,854)	-
Subtotal	11,106,106	112,133	(448,261)	(366,854)	10,403,124
Capital assets being depreciated:					
Land improvements	18,941,364	53,005	-	-	18,994,369
Machinery and equipment	4,157,305	89,644	(108,845)	307,958	4,446,062
Buildings and building improvements	32,193,254	24,600	-	-	32,217,854
Vehicles	566,617	44,672	(26,029)	-	585,260
Sanitary sewer system	107,292,332	20,395	(5,130)	58,896	107,366,493
Water mains and meters	33,041,777	68,395	(4,913)	-	33,105,259
Furniture and fixtures	1,307,365	21,782	(20,932)	-	1,308,215
Subtotal	197,500,014	322,493	(165,849)	366,854	198,023,512
Accumulated depreciation:					
Land improvements	10,008,151	947,712	-	-	(10,955,863)
Machinery and equipment	1,730,505	412,097	(97,344)	-	(2,045,258)
Buildings and building improvements	4,136,699	668,575	-	-	(4,805,274)
Vehicles	425,849	44,921	(26,029)	-	(444,741)
Sanitary sewer system	15,483,006	1,438,324	(5,130)	-	(16,916,200)
Water mains and meters	10,458,458	1,044,309	(4,913)	-	(11,497,854)
Furniture and fixtures	790,020	98,810	(20,932)	-	(867,898)
Subtotal	43,032,688	4,654,748	(154,348)	-	(47,533,088)
Net capital assets being depreciated	154,467,326	(4,332,255)	(11,501)	366,854	150,490,424
Net capital assets	<u>\$ 165,573,432</u>	<u>\$ (4,220,122)</u>	<u>\$ (459,762)</u>	<u>\$ -</u>	<u>\$ 160,893,548</u>

City of Taylor, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

The component unit capital assets are composed of the following:

	L DFA	TIFA	BRDA	DDA	Housing Commission	Total
Capital assets not being depreciated:						
Land	\$ 17,745	\$ 12,723,473	\$ 77,187	\$ 968,547	\$ 2,842,122	\$ 16,629,074
Construction in progress	-	-	-	-	15,000	15,000
Subtotal	17,745	12,723,473	77,187	968,547	2,857,122	16,644,074
Capital assets being depreciated:						
Land improvements	-	265,813	-	88,000	4,507,432	4,861,245
Vehicles, machinery, and equipment	-	15,768	-	67,993	5,781,404	5,865,165
Building	-	-	-	-	31,700,814	31,700,814
Subtotal	-	281,581	-	155,993	41,989,650	42,427,224
Accumulated depreciation	-	(65,405)	-	(30,498)	(16,570,692)	(16,666,595)
Net capital assets being depreciated	-	216,176	-	125,495	25,418,958	25,760,629
Net capital assets	<u>\$ 17,745</u>	<u>\$ 12,939,649</u>	<u>\$ 77,187</u>	<u>\$ 1,094,042</u>	<u>\$ 28,276,080</u>	<u>\$ 42,404,703</u>

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

Governmental activities:

General government	\$ 921,402
Public safety	1,962,577
Public works	5,228,816
Economic development	93,113
Recreation and culture	902,174

Total governmental activities \$ 9,108,082

Business-type activities:

Water	\$ 1,149,304
Sewer	1,562,752
Golf	1,370,379
Sportsplex	572,313

Total business-type activities \$ 4,654,748

City of Taylor, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Component unit activities:		
TIFA		\$ 13,291
DDA		7,800
Housing Commission		<u>1,906,684</u>
Total component unit activities		<u>\$ 1,927,775</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Golf Courses Fund (major fund)	\$ 918,804
	Sewer Fund (major fund)	73,336
	Water Fund (major fund)	122,722
	Ecorse Creek Fund	3,855
	Other nonmajor governmental funds	<u>275,428</u>
	Total General Fund	1,394,145
Other nonmajor governmental funds	General Fund	299
	Other nonmajor governmental funds	<u>240,364</u>
	Total nonmajor governmental funds	240,663
Ecorse Creek	Water Fund (major fund)	29,402
	Other nonmajor governmental funds	<u>55,652</u>
	Total Ecorse Creek	<u>85,054</u>
Sewer Fund (major fund)	General Fund	199,595
	Water Fund (major fund)	1,423,645
	Ecorse Creek	411
		<u>31,844</u>
Total Sewer Fund	1,655,495	

City of Taylor, Michigan

Notes to Financial Statements June 30, 2007

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

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds (Continued)		
Water Fund (major fund)	General Fund	\$ 57,531
	Ecorse Creek	151,448
	Sewer Fund (major fund)	60,007
	Other nonmajor governmental funds	<u>116,979</u>
	Total Water Fund	<u>385,965</u>
	Total	<u><u>\$ 3,761,322</u></u>

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

Receivable Fund	Payable Fund	Amount
Advances to/from Other Funds		
General Fund	Golf Courses Fund	\$ 1,150,000
Water Fund (major fund)	Other nonmajor governmental funds	218,372

The advance from the General Fund will be repaid based on an established payment plan to be funded by anticipated revenue from the golf courses over the next three years. The advance from the Water Fund will be repaid over the next five years.

Interfund Transfers

	Transfer Out - Other Nonmajor Governmental Funds
Transfer in - Other nonmajor governmental funds	<u><u>\$ 1,151,294</u></u>

Transfers were mainly between the City's two street funds to redistribute Act 51 revenue from the Major Streets Fund to the Local Streets Fund where the funds were utilized for budgeted activities.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Beginning Balance	Additions	Reductions	Transfers	Ending Balance	Due Within One Year
Governmental Activities							
Bonds and contractual obligations:							
2001 Certificates of Participation - Honeywell Project - Amount of issue - \$4,125,000	4.0%-5.0%	\$ 2,260,000	\$ -	\$ 415,000	\$ -	\$ 1,845,000	\$ 430,000
2001 Installment Purchase Agreement - Downriver Mutual Aid E911 - Amount of issue - \$7,250,000	6.45%	3,877,731	-	757,131	-	3,120,600	807,382
2004 Michigan Transportation Refunding Bonds - Amount of issue - \$1,220,000	3.0%-3.5%	930,000	-	300,000	-	630,000	310,000
Building Authority Bonds - Series 2000 - Amount of issue - \$10,475,000	4.7%-6.0%	4,535,000	-	550,000	-	3,985,000	575,000
2003 Building Authority Refunding Bonds - Amount of issue - \$2,570,000	2.0%-3.0%	1,345,000	-	430,000	-	915,000	450,000
Building Authority Public Facilities Bonds - Series 2003 - Amount of issue - \$13,750,000	2.5%-5.0%	12,730,000	-	530,000	-	12,200,000	540,000
Road loan - State Infrastructure Bank (SIB) - Racho Road - Amount of issue - \$260,000	4.0%	89,404	-	28,414	-	60,990	29,571
2004 Building Authority Public Facilities Bonds - Amount of issue - \$1,250,000	2.0%-4.75%	1,205,000	-	50,000	-	1,155,000	50,000
General Obligation Bonds - Series 2004 - Storm - Amount of issue - \$945,000	3.0%-4.4%	700,000	-	45,000	-	655,000	45,000
2005 Building Authority Public Facilities Bonds - Amount of issue - \$14,795,000	3.0%-5.0%	13,620,000	-	870,000	-	12,750,000	920,000
2005 Building Authority Refunding Bonds - Amount of issue - \$3,445,000	5.0%	3,445,000	-	-	(43,400)	3,401,600	-
Ecorse Creek Pollution Abatement Drain Note, 2004 - Amount of issue - \$249,642	3.59%	149,040	-	50,301	-	98,739	50,301
2007 Pitney Bowes Mailing Machine - Amount of issue - \$10,714	9.50%	-	10,714	1,748	-	8,966	1,931
Deferred costs of financing		(513,337)	-	(46,667)	-	(466,670)	(46,667)
Other long-term obligation:							
Accrued longevity		10,584	254,037	-	-	264,621	264,621
Workers' compensation claims		295,017	244,653	-	-	539,670	341,610
Bond premium		1,057,653	-	88,930	-	968,723	88,930
Compensated absences		5,519,537	2,111,516	1,800,000	-	5,831,053	2,183,700
Total governmental activities		\$ 51,255,629	\$ 2,620,920	\$ 5,869,857	\$ (43,400)	\$ 47,963,292	\$ 7,041,379
Business-type Activities							
General obligation bonds:							
Building Authority Bonds - Series 2000 - Amount of issue - \$5,525,000	4.7%-6.0%	\$ 2,545,000	\$ -	\$ 310,000	\$ -	\$ 2,235,000	\$ 325,000
2005 Building Authority Refunding Bonds - Amount of issue - \$1,870,000	5.0%	1,870,000	-	-	43,400	1,913,400	-
General Obligation Bonds - Series 2004 - Water and Sewer - Amount of issue - \$1,655,000	3.375%-4.4%	1,620,000	-	95,000	-	1,525,000	105,000
1994 Downriver Sewage Disposal System Bonds - Amount of issue - \$81,842,781	Various	58,060,244	-	3,647,578	-	54,412,666	3,815,607
Municipal Purchase Agreement - Amount of issue - \$563,520	3.58%	563,520	-	128,520	-	435,000	140,000
Other long-term obligation - Compensated absences		453,383	103,101	45,338	-	511,146	51,115
Total business-type activities		\$ 65,112,147	\$ 103,101	\$ 4,226,436	\$ 43,400	\$ 61,032,212	\$ 4,436,722

Note 7 - Long-term Debt (Continued)

Component Units	Interest Rate Range	Beginning Balance	Additions	Reductions	Transfers	Ending Balance	Due Within One Year
TIFA Bonds - 2000-A HUD Section 108 Loan - Senior Activities Center - Amount of issue - \$1,500,000	Various	\$ 900,000	\$ -	\$ 120,000	\$ -	\$ 780,000	\$ 120,000
Tax Increment Bonds - Series 1998 Refunding Amount of issue - \$19,570,000	4.6%-4.85%	9,960,000	-	1,815,000	-	8,145,000	1,895,000
Land contract - Alert Kennel	6.0%	775,000	-	100,000	-	675,000	100,000
Tax Increment Bonds - Series 2001 - Amount of issue - \$36,000,000	4.25%-5.5%	32,015,000	-	1,150,000	-	30,865,000	1,250,000
JPM Investment LLC land contract	7.0%	-	100,000	-	-	100,000	50,000
Total TIFA		43,650,000	100,000	3,185,000	-	40,565,000	3,415,000
Brownfield Redevelopment Tax Increment Bonds, tax exempt - Series 2006 - Amount of issue - \$3,100,000	5.35%-6.0%	3,100,000	-	95,000	-	3,005,000	75,000
Brownfield Redevelopment Tax Increment Bonds, tax exempt - Series 2005 - Amount of issue - \$11,080,000	3.625%-5.00%	11,080,000	-	-	-	11,080,000	-
Brownfield Redevelopment Tax Increment Bonds, taxable Series 2005 - Amount of issue - \$3,080,000	4.40%-5.30%	3,080,000	-	-	-	3,080,000	-
Total Brownfield		17,260,000	-	95,000	-	17,165,000	75,000
DDA Bonds - Downtown Development Bond - Series 2002 - Amount of issue - \$2,500,000	3.5%-4.7%	2,210,000	-	85,000	-	2,125,000	175,000
Condor Lofts land contract	8%	-	114,426	-	-	114,426	38,142
Total DDA		2,210,000	114,426	85,000	-	2,239,426	213,142
Housing Commission - Bonds and mortgage payable	Various	29,272,205	43,477	257,726	-	29,057,956	568,621
Total component units		\$ 92,392,205	\$ 257,903	\$ 3,622,726	\$ -	\$ 89,027,382	\$ 4,271,763
Total City debt		\$ 208,759,981	\$ 2,981,924	\$ 13,719,019	\$ -	\$ 198,022,886	\$ 15,749,864

Component Unit Debt

The Housing Commission's debt represents the debt owed by its component unit, the TCDC. The debt represents \$24,765,000 of MSHDA bonds, a mortgage loan, and commercial loans payable. The debt is comprised mainly of Michigan State Housing Development Authority (MSHDA) Limited Obligation Multifamily Housing Revenue Bonds, Series 2003A (the "Bonds"). In 2002, the TCDC formed three single-member limited liability companies, of which the TCDC is the sole member. The Ponds of Taylor Limited Dividend Housing Association LLC (the "Ponds"), The Parks of Taylor Limited Dividend Housing Association LLC (the "Parks"), and the Courtyards of Taylor Limited Dividend Housing Association LLC (the "Courtyards") were formed with their sole assets to be those of each corresponding apartment complex. On this same date, the Parks, Ponds, and Courtyards entered into agreements to issue the MSHDA bonds and to obtain taxable supplemental real estate loans.

Note 7 - Long-term Debt (Continued)

The Bonds have a tax-exempt variable interest rate that is determined weekly based on the remarketing agent's submitting the bonds to the market for bidding. During the audit period, the weekly interest rate fluctuated and averaged approximately 2.80 percent (APR). The interest on the bonds is due monthly, and they also have principal reserve (sinking fund) requirements that begin on the dates noted above. The interest rate on the taxable loans is fixed throughout the term. Their principal and interest payment is also paid monthly. The respective loans are secured by all of the assets of each respective LLC.

The fair value of the bonds and commercial loans payable is estimated based on the current rates offered to the TCDC for debt of the same remaining maturities. At June 30, 2007, the fair value of the bonds approximates the amounts recorded in the financial statements.

In September 2004, the TCDC obtained a commercial mortgage with a bank for \$2,500,000 in order to finance the demolition of the Springs Apartment buildings. The mortgage requires monthly payments of \$14,603 including interest of 5.68 percent per annum until October 1, 2013, when the remaining unpaid principal balance is due. The balance outstanding on this mortgage at June 30, 2007 was \$2,409,976.

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

	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 4,209,185	\$ 1,809,896	\$ 6,019,081	\$ 4,385,607	\$ 1,622,580	\$ 6,008,187	\$ 4,271,763	\$ 4,094,574	\$ 8,366,337
2009	4,413,681	1,635,037	6,048,718	4,473,183	1,506,357	5,979,540	4,236,589	3,903,127	8,139,716
2010	3,742,044	1,453,094	5,195,138	4,589,243	1,385,662	5,974,905	4,775,442	3,685,909	8,461,351
2011	3,549,385	1,273,202	4,822,587	4,582,361	1,162,216	5,744,577	5,344,626	3,446,890	8,791,516
2012	2,620,000	1,119,982	3,739,982	4,688,496	1,132,951	5,821,447	3,009,284	3,202,409	6,211,693
2013-2017	15,596,600	3,471,673	19,068,273	24,682,104	3,593,949	28,276,053	20,827,084	13,042,585	33,869,669
2018-2022	4,590,000	1,069,955	5,659,955	12,889,578	702,689	13,592,267	19,614,148	7,887,663	27,501,811
2023-2027	2,105,000	106,156	2,211,156	230,494	10,419	240,913	10,358,325	4,493,509	14,851,834
2028-2032	-	-	-	-	-	-	13,114,441	2,046,598	15,161,039
2033-2036	-	-	-	-	-	-	3,475,680	153,332	3,629,012
Total	\$ 40,825,895	\$ 11,938,995	\$ 52,764,892	\$ 60,521,066	\$ 11,116,823	\$ 71,637,889	\$ 89,027,382	\$ 45,956,596	\$ 134,983,978

Note 7 - Long-term Debt (Continued)

In conjunction with the issuances of \$19,570,000 and \$36,000,000 of Tax Increment Financing Authority (TIFA) bonds Series 1998 and 2001, respectively, the component unit is required to maintain debt service reserves in the amounts of \$814,500 and \$3,448,681, respectively. In order to cover the reserve requirement, the TIFA component unit has obtained insurance coverage totaling \$5,310,681 for this purpose. In addition to the reserves and in conjunction with the above debt issues, the City has agreed to certain covenants, including, but not limited to, restriction on amendments to the TIFA plan districts and continued compliance with the State of Michigan regulations and statutes affecting the TIFA bond indenture.

Defeased Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2007, the City's portion of bonds outstanding that is considered defeased approximates \$17,530,000 for governmental activities and \$8,110,000 for component units.

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

City of Taylor, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities	Component Units
Unspent bond proceeds and related interest	\$ 270,577	\$ -	\$ 15,030
Assets held at Wayne County for future debt payments	-	10,031,404	-
Assets held at Wayne County for sewer operations	-	1,353,134	-
Restricted deposits - Cash	639,543	-	-
Restricted deposits held by lender	-	-	3,191,949
	<u> </u>	<u> </u>	<u> </u>
Total restricted assets	<u>\$ 910,120</u>	<u>\$ 11,384,538</u>	<u>\$ 3,206,979</u>

Note 9 - Risk Management

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

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2007	2006
Unpaid claims - Beginning of year	\$ 295,017	\$ 103,856
Incurred claims - Including claims incurred but not reported	(96,957)	(252,281)
Claim payments	<u>341,610</u>	<u>443,442</u>
Unpaid claims - End of year	<u>\$ 539,670</u>	<u>\$ 295,017</u>

Note 10 - Defined Benefit Pension Plan

Plan Description

Police and Fire Retirement System - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administered by the City of Taylor, Michigan; this plan covers almost all police and fire employees of the City. The system provides retirement disability and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 190 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 159 current active employees. The plan does not issue a separate financial report.

General Employees' Pension Plan - The General Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City of Taylor, Michigan; this plan covers all employees other than court and police and fire employees. The system provides retirement disability and death benefits to plan members and their beneficiaries. At December 31, 2006, the date of the most recent actuarial valuation, membership consisted of 187 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 156 current active employees. The plan does not issue a separate financial report.

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

Funding Policy

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

Note 10 - Defined Benefit Pension Plan (Continued)

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

Annual Pension Cost

Police and Fire Retirement System - For the year ended June 30, 2007, the City's contribution of approximately \$4,023,000 equaled the annual pension cost. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.6 percent per year compounded annually, of which 5.0 percent is attributable to inflation, (b) projected salary increases of 5.0 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.1 percent to 3.0 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 to 23 years.

General Employees' Pension Plan - For the year ended December 31, 2006, the City's annual pension cost of approximately \$1,509,000 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an addendum to the actuarial valuation at December 31, 2005 using the aggregate cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, of which 2.5 percent is attributable to inflation, (b) projected salary increases of 2.5 percent per year compounded annually, attributable to inflation, and (c) no postretirement benefit increases. The actuarial value of assets was determined based on market value. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period.

Note 10 - Defined Benefit Pension Plan (Continued)

Municipal Employees' Retirement System of Michigan - For the year ended June 30, 2007, the City's actual pension cost of \$35,199 was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006 using the entry age normal cost method. Significant actuarial assumptions used include, (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, 4.5 percent attributable to inflation, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Reserves

As of June 30, 2007, the plans' legally required reserves have been fully funded as follows:

Police and Fire Retirement System:

Reserve for employees' contributions	\$ 7,735,049
Reserve for retired benefit payments	91,564,235

General Employees' Pension Plan - Reserve for employees' contributions

6,052,293

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

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension cost (APC)	\$ 4,023,000	\$ 2,943,000	\$ 2,497,000
Percentage of APC contributed	100.0%	100.0%	100.0%

City of Taylor, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Defined Benefit Pension Plan (Continued)

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

	Year Ended December 31		
	2006	2005	2004
Annual pension cost (APC)	\$ 1,508,514	\$ 1,123,000	\$ 1,133,000
Percentage of APC contributed	100.0%	100.0%	100.0%

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

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension cost (APC)	\$ 35,199	\$ 39,895	\$ 39,415
Percentage of APC contributed	100.0%	100.0%	100.0%

	Calendar Year Ended December 31		
	2006	2005	2004
Actuarial value of assets	\$ 2,067,013	\$ 1,883,048	\$ 1,731,501
Actuarial accrued liability (AAL)			
(entry age)	\$ 2,153,277	\$ 1,993,216	\$ 1,832,652
Unfunded AAL (UAAL)	\$ 86,264	\$ 110,168	\$ 101,151
Funded ratio	96.0%	94.5%	94.5%
Covered payroll	\$ 707,263	\$ 690,327	\$ 675,551
UAAL as a percentage of covered payroll	12.20%	15.96%	15.00%

City of Taylor, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Defined Benefit Pension Plan (Continued)

Financial Statement Information

As of June 30, 2007, the statement of net assets for the pension plan is as follows:

	Trust Funds		
	Pension and Other Employee Benefit Plans		
	Police and Fire Retirement System	General Employees' Pension Plan*	Total
Assets			
Cash and equivalents	\$ 4,072,374	\$ 2,604,903	\$ 6,677,277
Investments:			
Corporate bonds	7,348,281	5,981,877	13,330,158
U.S. government securities	19,624,642	10,458,960	30,083,602
Common and preferred stock	47,330,377	30,395,865	77,726,242
Money market	3,602,056	-	3,602,056
Mutual funds	26,838,998	-	26,838,998
Other assets	-	44,286	44,286
Accrued interest	399,600	231,947	631,547
	<u>\$ 109,216,328</u>	<u>\$ 49,717,838</u>	<u>\$ 158,934,166</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 109,216,328</u>	<u>\$ 49,717,838</u>	<u>\$ 158,934,166</u>

* Balances are as of December 31, 2006

City of Taylor, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2007, the statement of changes in net assets for the pension plan is as follows:

	Police and Fire Retirement System	General Employees' Pension Plan*	Total
Additions			
Investment income:			
Interest and dividends	\$ 2,579,608	\$ 1,524,868	\$ 4,104,476
Net increase in fair value of investments	11,397,522	2,636,635	14,034,157
Less investment expenses	<u>(183,032)</u>	<u>(254,025)</u>	<u>(437,057)</u>
Net investment income	13,794,098	3,907,478	17,701,576
Contributions:			
Employer	4,023,065	1,508,514	5,531,579
Employee	<u>820,772</u>	<u>489,117</u>	<u>1,309,889</u>
Total contributions	<u>4,843,837</u>	<u>1,997,631</u>	<u>6,841,468</u>
Total additions - Net of investment expenses	18,637,935	5,905,109	24,543,044
Deductions			
General and administrative	20,955	51,308	72,263
Benefit payments	<u>8,424,402</u>	<u>4,480,627</u>	<u>12,905,029</u>
Total deductions	<u>8,445,357</u>	<u>4,531,935</u>	<u>12,977,292</u>
Net Increase in Net Assets	10,192,578	1,373,174	11,565,752
Net Assets Held in Trust for Pension and Other Employee Benefits			
Beginning of year	<u>99,023,750</u>	<u>48,344,664</u>	<u>147,368,414</u>
End of year	<u>\$ 109,216,328</u>	<u>\$ 49,717,838</u>	<u>\$ 158,934,166</u>

* Balances are as of December 31, 2006

Note 11 - Defined Contribution Plan

The City provides benefits to recently hired employees that are not eligible for the defined benefit plans through a defined contribution plan established July 1, 2003. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of hire. As established by various collective bargaining agreements, the employees are permitted to contribute up to 4 percent of their pretax earnings, and up to 25 percent of their after-tax earnings. The City contributes between 25 percent and 200 percent of no greater than 4 percent of the employee contributions as an employer match. The amounts in the employee's account, including earnings and employer match, are fully vested after five years of service.

The City's total payroll during the current year was \$28,222,482. The current year contribution was calculated based on covered payroll of \$1,519,650, resulting in an employer contribution of \$70,471 and employee contributions of \$60,786.

Note 12 - Contingent Liabilities

The City has been named as a defendant in numerous claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. The various proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability at June 30, 2007.

The City has also been named as a defendant in a lawsuit involving the reimbursements of costs involving the relocation of utility structures as a part of the reconstruction of Telegraph Road. The potential loss to the City is expected to range from approximately \$2.4 million to \$4.0 million.

The City receives numerous federal grants. Each grant has compliance requirements which are subject to review by the granting agency before the grant is closed. The City has been contacted by the Environmental Protection Agency that there may be questioned costs in the amount of approximately \$190,000 related to the Brownfield Cleanup Revolving Loan Pilot CFDA #66.811.

The City is part of the Downriver Sewage Disposal System (DSDS). In fiscal year 2008, the DSDS expects to issue completion bonds and capital improvement bonds for which the City's portion will be approximately \$5,500,000.

Note 12 - Contingent Liabilities (Continued)

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

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Street projects:		
Component units	\$ 2,338,997	\$ 1,176,272
Primary government	1,093,952	145,668
Enterprise units	1,479,724	-
Component unit - Land improvements	<u>11,225,749</u>	<u>1,128,851</u>
Total	<u>\$ 16,138,422</u>	<u>\$ 2,450,791</u>

Note 13 - Other Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 367 retirees are eligible, including 29 Water and Sewer Commission employees. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$3,850,000 paid out of the General Fund, including approximately \$340,000 for Water and Sewer Commission retirees, which was reimbursed to the General Fund out of that Enterprise Fund.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 14 - Use Agreement

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

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

- Repayment of the National City Bank mortgage loan
- Repayment of the City's equity investment of \$17,633,330 plus 6 percent interest compounded annually, which accumulated to \$29,669,352 at June 30, 2007
- Repayment of HUD's equity investment of \$16,276,340 plus interest at 6 percent compounded annually. At June 30, 2007, this amount totaled \$27,368,822.
- Any remaining distribution to the City to fund programs that benefit low- and moderate-income residents

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

Required Supplemental Information

City of Taylor, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 5,024,980	\$ 5,024,980	\$ 5,024,980	\$ -
Revenue				
Property taxes	30,876,000	31,209,100	31,548,012	338,912
Federal sources	169,900	512,200	453,335	(58,865)
State sources	325,000	387,000	380,075	(6,925)
State-shared revenue	8,081,670	7,824,100	7,805,159	(18,941)
Fees and permits	820,000	909,800	967,546	57,746
Fines and forfeitures	5,933,000	5,233,000	5,542,089	309,089
Charges for services	2,782,550	2,842,290	3,058,063	215,773
Charges to other funds	6,989,650	6,532,400	6,642,462	110,062
Interest income and rents	830,000	1,008,500	962,344	(46,156)
Other	1,716,027	2,392,900	2,020,185	(372,715)
Proceeds from installment loans	-	10,714	10,714	-
Total revenue	<u>58,523,797</u>	<u>58,862,004</u>	<u>59,389,984</u>	<u>527,980</u>
Expenditures				
General government	7,277,600	7,460,338	7,191,481	268,857
Public safety	20,396,400	20,614,500	20,541,427	73,073
Public works*	15,215,790	15,368,442	14,171,310	1,197,132
Recreation and culture	3,172,196	3,477,873	2,691,217	786,656
General administration	420,140	376,600	177,935	198,665
Employee benefits	<u>13,141,000</u>	<u>13,343,808</u>	<u>12,006,330</u>	<u>1,337,478</u>
Total expenditures	<u>59,623,126</u>	<u>60,641,561</u>	<u>56,779,700</u>	<u>3,861,861</u>
Fund Balance - End of year	<u>\$ 3,925,651</u>	<u>\$ 3,245,423</u>	<u>\$ 7,635,264</u>	<u>\$ 4,389,841</u>

* Public works includes debt service payments, which are included in debt service in the governmental fund statement of revenue, expenditures, and changes in fund balances for the year ended June 30, 2007.

City of Taylor, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2007 (dollar amounts in millions)

The schedule of funding progress is as follows:

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

Police and Fire Retirement System

06/30/01	\$ 109.9	\$ 106.8	\$ (3.1)	102.9	\$ 9.6	-
06/30/02	108.0	110.5	2.5	97.7	10.6	23.6
06/30/03	104.0	113.0	9.0	92.0	10.6	85.0
06/30/04	100.4	117.1	16.7	85.7	11.2	149.1
06/30/05	99.0	123.4	24.4	80.2	12.6	193.6
06/30/06	100.0	132.7	32.7	75.3	13.4	242.9

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

General Employees' Retirement System

12/31/01	\$ 60.6	\$ 60.6	\$ -	100.0	\$ 10.0	-
12/31/02	57.3	57.3	-	100.0	10.3	-
12/31/03	55.5	55.5	-	100.0	10.1	-
12/31/04	54.1	54.1	-	100.0	10.3	-
12/31/05	52.8	52.8	-	100.0	10.1	-
12/31/06	49.4	49.4	-	100.0	8.4	-

City of Taylor, Michigan

Required Supplemental Information Schedule of Employer Contributions June 30, 2007

Police and Fire Retirement System

Year Ended June 30	Valuation Date June 30	Annual Required Contribution	Percentage Contributed
2002	2001	\$ 579,042	100
2003	2002	1,258,709	100
2004	2003	2,000,194	100
2005	2004	2,497,495	100
2006	2005	2,943,025	100
2007	2006	4,023,065	100

General Employees' Retirement System

Year Ended December 31	Valuation Date December 31	Annual Required Contribution	Percentage Contributed
2002	2000	\$ -	100
2003	2001	-	100
2004	2002	641,358	100
2005	2003	1,133,342	100
2006	2004	1,122,958	100
2007	2005	1,508,514	100

City of Taylor, Michigan

Required Supplemental Information Schedule of Employer Contributions (Continued) June 30, 2007

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006 (Police and Fire Retirement System) and December 31, 2006 (General Employees' Pension Plan), the latest actuarial valuation dates, follows:

	Police and Fire Retirement System	General Employees' Pension Plan
Actuarial cost method	Individual entry age	Aggregate
Amortization method	Level percent, closed 10 years for pre 7/1/02 credit	Level dollar, closed
Remaining amortization period	15-22 years	11 years
Asset valuation method	4-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.6%	8.0%
Projected salary increases*	5.1%-8.0%	2.5%
*Includes inflation at	5.0%	2.5%
Cost of living adjustments	None	None

City of Taylor, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General Fund are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in funds balance):

	General Fund - Total Revenue
Amounts per operating statement	\$ 59,379,270
Other financing sources budgeted as revenues	<u>10,714</u>
Amounts per budget statement	<u>\$ 59,389,984</u>

Other Supplemental Information

City of Taylor, Michigan

Special Revenue Funds

	Major Streets	Local Streets	Police Forfeiture	Treasury Forfeiture	Justice Forfeiture	Community Development Block Grant	Building Department	1996 Voted Levy	DARE/ GREAT
Assets									
Cash and investments	\$ 278,267	\$ 697,440	\$ 458,231	\$ 7,019	\$ 249,517	\$ -	\$ 14,715	\$ 1,741,595	\$ 59,712
Accounts receivable:									
Taxes	-	-	-	-	-	-	-	106,795	-
Special assessments	-	393	-	-	-	-	-	-	-
Due from other governmental units	474,443	167,342	-	-	-	88,053	-	86,502	-
Due from other funds	121,753	118,611	1	-	-	-	-	15	-
Restricted assets	-	-	-	-	-	-	-	-	-
Total assets	\$ 874,463	\$ 983,786	\$ 458,232	\$ 7,019	\$ 249,517	\$ 88,053	\$ 14,715	\$ 1,934,907	\$ 59,712
Liabilities and Fund Balances									
Liabilities									
Accounts payable	\$ 96,256	\$ 27,600	\$ 22,723	\$ -	\$ 53,694	\$ 73,960	\$ 1,487	\$ 373	\$ 231
Deferred revenue	-	393	-	-	-	-	-	-	-
Due to other funds	232,467	131,056	-	-	-	14,093	13,228	3,194	-
Accrued and other liabilities	-	-	64,680	-	-	-	-	59,538	59,481
Due to component units	2,953	-	-	-	-	-	-	-	-
Due to other governmental units	-	-	-	-	-	-	-	106,918	-
Long-term advances from other funds	218,372	-	-	-	-	-	-	-	-
Total liabilities	550,048	159,049	87,403	-	53,694	88,053	14,715	170,023	59,712
Fund Balances									
Reserved for construction and other expenditures	-	-	-	-	-	-	-	-	-
Unreserved - Designated for subsequent year's expenditures	-	259,100	-	-	-	-	-	-	-
Unreserved - Undesignated	324,415	565,637	370,829	7,019	195,823	-	-	1,764,884	-
Total fund balances	324,415	824,737	370,829	7,019	195,823	-	-	1,764,884	-
Total liabilities and fund balances	\$ 874,463	\$ 983,786	\$ 458,232	\$ 7,019	\$ 249,517	\$ 88,053	\$ 14,715	\$ 1,934,907	\$ 59,712

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

Special Revenue Funds		Debt Service Funds				Capital Projects Fund		Total Nonmajor Governmental Funds
Tree Replacement Fund	2005 BRDA Debt	General Obligation Debt	Taylor Building Authority Debt	1996 Michigan Transportation Fund Bond	DMA/ 911 Debt	2004 LTGO Capital Improvement Bond Fund		
\$ 14,010	\$ 171,516	\$ 58,613	\$ 34,816	\$ 332,617	\$ 194,287	\$ -	\$ 4,312,355	
-	-	-	-	-	-	-	106,795	
-	-	-	-	-	-	-	393	
-	-	-	-	-	-	-	816,340	
-	-	283	-	-	-	-	240,663	
-	-	-	-	-	639,543	270,577	910,120	
\$ 14,010	\$ 171,516	\$ 58,896	\$ 34,816	\$ 332,617	\$ 833,830	\$ 270,577	\$ 6,386,666	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	276,324	
-	-	-	-	-	-	-	393	
-	-	55,652	-	-	-	270,577	720,267	
-	-	-	-	-	-	-	183,699	
-	-	-	-	-	-	-	2,953	
-	-	-	-	-	-	-	106,918	
-	-	-	-	-	-	-	218,372	
-	-	55,652	-	-	-	270,577	1,508,926	
14,010	-	-	-	-	-	-	14,010	
-	-	-	-	-	-	-	259,100	
-	171,516	3,244	34,816	332,617	833,830	-	4,604,630	
14,010	171,516	3,244	34,816	332,617	833,830	-	4,877,740	
\$ 14,010	\$ 171,516	\$ 58,896	\$ 34,816	\$ 332,617	\$ 833,830	\$ 270,577	\$ 6,386,666	

City of Taylor, Michigan

Special Revenue Funds

	Major Streets	Local Streets	Police Forfeiture	Treasury Forfeiture	Justice Forfeiture	Community Development Block Grant	Building Department	1996 Voted Levy
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,613,833
Licenses and permits	-	-	-	-	-	-	1,660,223	-
Federal sources	-	-	-	71,642	303,045	550,808	-	-
State sources	2,898,163	1,019,116	176,675	-	-	-	-	-
Interest and rent	47,428	30,283	28,127	2,514	8,646	-	11,637	79,833
DMA/911 revenue	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total revenues	2,945,591	1,049,399	204,802	74,156	311,691	550,808	1,671,860	1,693,666
Expenditures								
Current:								
Public works and capital projects	1,122,439	1,517,985	-	-	-	-	1,671,860	-
Community development	-	-	-	-	-	550,808	-	-
Construction and development	1,037,220	63,646	-	-	-	-	-	65,398
Capital outlay and other	6,540	4,428	122,633	67,298	153,176	-	-	-
Debt service	32,056	72,775	-	-	-	-	-	1,466,550
Total expenditures	2,198,255	1,658,834	122,633	67,298	153,176	550,808	1,671,860	1,531,948
Excess of Revenues Over (Under) Expenditures	747,336	(609,435)	82,169	6,858	158,515	-	-	161,718
Other Financing Sources (Uses)								
Transfers in	121,753	724,541	-	-	-	-	-	-
Transfers out	(1,029,541)	-	-	-	-	-	-	-
Total other financing sources (uses)	(907,788)	724,541	-	-	-	-	-	-
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(160,452)	115,106	82,169	6,858	158,515	-	-	161,718
Change in Fund Balance	(160,452)	115,106	82,169	6,858	158,515	-	-	161,718
Fund Balances - Beginning of year	484,867	709,631	288,660	161	37,308	-	-	1,603,166
Fund Balances - End of year	\$ 324,415	\$ 824,737	\$ 370,829	\$ 7,019	\$ 195,823	\$ -	\$ -	\$ 1,764,884

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

Special Revenue Funds			Debt Service Funds				Capital Projects Fund		Total Nonmajor Governmental Funds
DARE/ GREAT	Tree Replacement Fund	2005 BRDA Debt	General Obligation Debt	Taylor Building Authority Debt	1996 Michigan Transportation Fund Bond	DMA/ 911 Debt	2004 LTGO Capital Improvement Bond Fund		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,613,833	
-	-	-	-	-	-	-	-	1,660,223	
-	-	-	-	-	-	-	-	925,495	
-	-	-	-	-	-	-	-	4,093,954	
3,248	452	-	2,330	2,543,378	6,830	35,973	6,538	2,807,217	
-	-	-	-	-	-	1,032,489	-	1,032,489	
15,559	-	172,816	3,704	-	-	-	-	192,079	
18,807	452	172,816	6,034	2,543,378	6,830	1,068,462	6,538	12,325,290	
-	-	-	-	-	-	-	-	4,312,284	
-	-	-	-	-	-	-	-	550,808	
-	-	-	-	-	-	-	-	1,166,264	
24,927	-	-	-	-	-	-	-	379,002	
-	-	1,300	70,849	2,536,137	326,275	989,721	-	5,495,663	
24,927	-	1,300	70,849	2,536,137	326,275	989,721	-	11,904,021	
(6,120)	452	171,516	(64,815)	7,241	(319,445)	78,741	6,538	421,269	
-	-	-	-	-	305,000	-	-	1,151,294	
-	-	-	-	-	-	-	(121,753)	(1,151,294)	
-	-	-	-	-	305,000	-	(121,753)	-	
(6,120)	452	171,516	(64,815)	7,241	(14,445)	78,741	(115,215)	421,269	
(6,120)	452	171,516	(64,815)	7,241	(14,445)	78,741	(115,215)	421,269	
6,120	13,558	-	68,059	27,575	347,062	755,089	115,215	4,456,471	
\$ -	\$ 14,010	\$ 171,516	\$ 3,244	\$ 34,816	\$ 332,617	\$ 833,830	\$ -	\$ 4,877,740	

City of Taylor, Michigan

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

	Trust Funds			Agency Funds		
	Pension and Other Employee Benefit Plans			Agency Funds		
	Police and Fire Retirement System	General Employees' Pension Plan*	Total	Tax Receiving	23rd District Court	Total
Assets						
Cash and equivalents	\$ 4,072,374	\$ 2,604,903	\$ 6,677,277	\$ 1,385,333	\$ 51,241	\$ 1,436,574
Investments:						
Corporate bonds	7,348,281	5,981,877	13,330,158	-	-	-
U.S. government securities	19,624,642	10,458,960	30,083,602	-	-	-
Common and preferred stock	47,330,377	30,395,865	77,726,242	-	-	-
Money market	3,602,056	-	3,602,056	-	802,000	802,000
Mutual funds	26,838,998	-	26,838,998	-	-	-
Other assets	-	44,286	44,286	-	-	-
Due from other governmental units	-	-	-	724,858	-	724,858
Accrued interest	399,600	231,947	631,547	-	-	-
	<u>109,216,328</u>	<u>49,717,838</u>	<u>158,934,166</u>	<u>\$ 2,110,191</u>	<u>\$ 853,241</u>	<u>\$ 2,963,432</u>
Liabilities						
Due to other governmental units	-	-	-	\$ 1,861,396	\$ 853,241	\$ 2,714,637
Tax collections distributable	-	-	-	248,795	-	248,795
	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 2,110,191</u>	<u>\$ 853,241</u>	<u>\$ 2,963,432</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 109,216,328</u>	<u>\$ 49,717,838</u>	<u>\$ 158,934,166</u>			

* Balances are as of December 31, 2006

City of Taylor, Michigan

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

	Police and Fire Retirement System	General Employees' Pension Plan*	Total
Additions			
Investment income:			
Interest and dividends	\$ 2,579,608	\$ 1,524,868	\$ 4,104,476
Net increase in fair value of investments	11,397,522	2,636,635	14,034,157
Less investment expenses	<u>(183,032)</u>	<u>(254,025)</u>	<u>(437,057)</u>
Net investment income	13,794,098	3,907,478	17,701,576
Contributions:			
Employer	4,023,065	1,508,514	5,531,579
Employee	<u>820,772</u>	<u>489,117</u>	<u>1,309,889</u>
Total contributions	<u>4,843,837</u>	<u>1,997,631</u>	<u>6,841,468</u>
Total additions - Net of investment expenses	18,637,935	5,905,109	24,543,044
Deductions			
General and administrative	20,955	51,308	72,263
Benefit payments	<u>8,424,402</u>	<u>4,480,627</u>	<u>12,905,029</u>
Total deductions	<u>8,445,357</u>	<u>4,531,935</u>	<u>12,977,292</u>
Net Increase in Net Assets	10,192,578	1,373,174	11,565,752
Net Assets Held in Trust for Pension and Other Employee Benefits			
Beginning of year	<u>99,023,750</u>	<u>48,344,664</u>	<u>147,368,414</u>
End of year	<u>\$ 109,216,328</u>	<u>\$ 49,717,838</u>	<u>\$ 158,934,166</u>

* Balances are as of December 31, 2006

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Net Assets Component Unit - Housing Commission Year Ended June 30, 2007

	Housing Commission*	Taylor Community Development Corporation*	Total
Assets			
Cash and investments	\$ 3,455,489	\$ 225,734	\$ 3,681,223
Due from other governmental units	-	350,518	350,518
Accounts receivable	3,307	204,889	208,196
Deferred charges	-	4,785,994	4,785,994
Prepaid expenses and other assets	34,714	575,352	610,066
Restricted assets	-	3,191,949	3,191,949
Capital assets	<u>2,263,677</u>	<u>26,012,403</u>	<u>28,276,080</u>
Total assets	5,757,187	35,346,839	41,104,026
Liabilities			
Accounts payable	18,661	598,525	617,186
Tenant security deposits	33,996	352,034	386,030
Accrued liabilities and other	22,380	241,223	263,603
Long-term debt	<u>-</u>	<u>29,057,956</u>	<u>29,057,956</u>
Total liabilities	<u>75,037</u>	<u>30,249,738</u>	<u>30,324,775</u>
Net Assets			
Invested in capital assets - Net of related debt	2,263,677	1,778,107	4,041,784
Restricted	-	3,226,399	3,226,399
Unrestricted	<u>3,418,473</u>	<u>92,595</u>	<u>3,511,068</u>
Total net assets	<u>\$ 5,682,150</u>	<u>\$ 5,097,101</u>	<u>\$ 10,779,251</u>

* Balances are as of March 31, 2007 for the Housing Commission and as of June 30, 2007 for the Taylor Community Development Corp., its component unit.

City of Taylor, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Component Unit - Housing Commission Year Ended June 30, 2007

	Housing Commission*	Taylor Community Development Corporation*	Total
Revenue			
Rental income	\$ 279,638	\$ 6,243,305	\$ 6,522,943
Other income	<u>6,543,536</u>	<u>4,524,533</u>	<u>11,068,069</u>
Total revenue	6,823,174	10,767,838	17,591,012
Expenditures			
General administration	424,309	2,159,733	2,584,042
Housing assistance payments	3,357,887	-	3,357,887
Utilities	146,038	2,020,395	2,166,433
Operation and maintenance	206,854	3,532,730	3,739,584
Depreciation and amortization	153,688	1,776,260	1,929,948
Other	<u>45,497</u>	<u>1,107,235</u>	<u>1,152,732</u>
Total expenditures	<u>4,334,273</u>	<u>10,596,353</u>	<u>14,930,626</u>
Operating Income	2,488,901	171,485	2,660,386
Nonoperating Revenue (Expenses)			
Other nonoperating income	29,720	201,960	231,680
Loss on sale of property	-	56,103	56,103
Interest income	25,251	117,297	142,548
Interest expense	<u>-</u>	<u>(1,426,616)</u>	<u>(1,426,616)</u>
Total nonoperating revenue (expenses)	<u>54,971</u>	<u>(1,051,256)</u>	<u>(996,285)</u>
Net Income (Loss) - Before capital contribution	2,543,872	(879,771)	1,664,101
Capital Contribution	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	2,543,872	(879,771)	1,664,101
Net Assets - Beginning of year, as restated	<u>3,138,278</u>	<u>5,976,872</u>	<u>9,115,150</u>
Net Assets - End of year	<u><u>\$ 5,682,150</u></u>	<u><u>\$ 5,097,101</u></u>	<u><u>\$ 10,779,251</u></u>

* Balances are as of March 31, 2007 for the Housing Commission and as of June 30, 2007 for the Taylor Community Development Corp., its component unit.

December 10, 2007

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

Dear Mayor and City Council Members:

We recently completed our audit of the financial statements of the City of Taylor (the "City") for the year ended June 30, 2007. As a result of our audit, we offer the following comments and observations for your review and consideration:

Overview of the City's Financial Condition

General Fund

The General Fund's unreserved and undesignated fund balance totaled approximately \$377,000 at June 30, 2007. This represents less than 1 percent of 2008 budgeted expenditures. Going forward, the City will continue to face revenue restrictions/reductions for Headlee and Proposal A caps on property taxes and revenue-sharing payments received from the State of Michigan. In addition, similar to previous communications about prior years' finances, the 2007/2008 General Fund budget has a structural shortfall of approximately \$600,000 as of the date of this letter. This use of existing resources to balance the 2007/2008 budget will further reduce the overall cumulative fund balance of the City. Furthermore, along with the structural financial challenges for 2007/2008, healthcare costs and actuarial required pension contributions continue to significantly outpace the rate of inflation. As a result, there continues to be a critical need for city management and Council to work together and objectively assess the level of community services currently provided including the associated cost of those services. In particular, because labor-related expenses, including fringes, comprise such a significant portion of the overall recurring operating expenses, they must continually be evaluated to assess the City's current and future ability to pay for these costs. Lastly, because the larger recurring revenue sources are generally limited to inflationary increases and certain less controllable expenses such as utilities, pension (for benefits previously awarded by past contracts), health care, etc. have recurring annual increases which outpace inflation, increases to other more controllable expenses need to be minimized to keep the City's operations viable.

As city management and Council are aware, it continues to be imperative that an adequate level of available fund balance be maintained to enable management to adjust to both expected and unanticipated financial challenges, such as the City of Taylor and other Michigan communities are currently experiencing. An adequate level of fund balance positions the City to address negative financial changes without significantly disrupting the level of services provided to citizens or the City's ability to fund future obligations. We encourage the mayor and Council to continue to actively monitor the financial position of the City to achieve budgeted results and plan for improving General Fund fund balance levels over a reasonable future timeframe.

Recreational Proprietary Funds

The Golf Courses Fund continues to operate at a deficit on an annual fiscal year basis. Even after adjusting for noncash outlays such as depreciation, this fund does not independently generate sufficient cash flows to fund operations, debt service requirements, and future capital improvement needs. During the year ended June 30, 2007, the TIFA contributed approximately \$90,000 of capital assets to the golf courses. In addition, during 2006/2007, the TIFA made the first payment totaling \$600,000 under a longer-term agreement to reimburse the Golf Courses Fund for previous capital asset purchases. The funds received from this payment were used to repay a portion of a long-term advance from the General Fund, which has a remaining balance owed to it totaling \$1,150,000 at June 30, 2007. We also encourage the City to consider charging a reasonable interest rate to the Golf Course Fund for the loan payable balance owed to the General Fund.

Financial Forecasts

As mentioned in previous council meetings and in consideration of the City's financial position and the current negative economic business climate, we strongly recommend the City create/update its three- to five-year operating plan and financial forecast that would include alternative scenarios the City could expect to encounter. The following are examples of different situations that will arise:

- Expected changes in employee workforce (contract expirations, renegotiations, attrition, etc.), including the projected costs of any employee labor contract adjustments
- The declining level of state-shared revenue received including the vulnerability of the statutory portion of state-shared revenue
- The expected levels of targeted capital and infrastructure expenditures including future debt service requirements
- The restricted growth of future property tax revenues
- Evaluating the City's ability to provide future services consistent with today's level

In light of your inadequate General Fund fund balance level, recent municipal capital investments within the City, including future debt service commitments related to the road and infrastructure reconstruction programs and the construction and operations of new municipal facilities, the development of an operating plan and cash flow forecast is imperative. The City must critically assess all future costs on an ability-to-pay basis. Strong consideration should be given to identifying the recurring dedicated revenue sources that will support all budgeted cost increases. By preparing plans under different scenarios, the City would be better equipped to respond to expected and unexpected short-term and long-term financial constraints.

Statement on Auditing Standards No. 112

Modifications to existing auditing standards which are effective for the June 30, 2007 fiscal year mandate specific changes in the communications that we are required to provide following the completion of our independent audit. These rules require independent auditors to more formally communicate matters associated with your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our annual audit, we are now, in general, required to communicate in writing about an additional number of control deficiencies that are identified and present them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is intentionally set low - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that potentially are immaterial to the financial statements may still be classified by the new auditing standard as a significant deficiency.

We are also required to communicate these matters to more people. In the past, we have sometimes provided comments of this nature as part of a draft meeting with management. Generally, only reportable conditions and material internal control issues were included in our written letter of recommendations. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including City Council, in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our observations and comments regarding the City's internal controls, including any significant deficiencies and/or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. This report is included in the federal awards supplemental information (the single audit report), and we recommend that the matters we have noted there receive your careful consideration. These matters are also summarized below:

- Adjusting journal entries were necessary to properly state balances for capital assets and related depreciation, deferred revenue, and long-term debt as of June 30, 2007 in the full accrual (GASB No. 34) statements.
- Adjusting journal entries was necessary to adjust various account balances in the fund level statements in order to properly present them as of June 30, 2007.
- The City did not perform the job site interviews with laborers performing the contract work as required under Davis-Bacon regulations related to the Community Development Block Grant funding.
- The City did not spend the federal dollars related to the Environmental Protection Agency Brownfield Cleanup Revolving Loan Pilot Grant in what would be considered a reasonable time frame beginning with the time in which the advance funds were requested.
- The City did not submit timely quarterly reports for the periods ended December 31, 2006, March 31, 2007, and June 30, 2007 for the Environmental Protection Agency Brownfield Cleanup Revolving Loan Pilot Grant. In addition, the financial status report for the year ended June 30, 2007 was also not submitted.

We consider the following to be control deficiencies:

- **Long-term Debt** - While auditing long-term debt, the detail schedule was missing three new debt obligations consisting of land contracts and capital leases. As a result, changes needed to be made to the schedule and also to the general ledger. We recommend that the City implement control procedures that ensure that all schedules are properly updated for all debt activity from throughout the year.
- **Arbitrage** - As commented on in the prior year, it is our understanding that the City does not have a process to formally evaluate and address arbitrage rules associated with debt issuance. The City needs to formally evaluate arbitrage in calendar years where the collective debt issues are greater than \$5,000,000 in aggregate. Arbitrage represents the excess of interest earned over the interest expensed on the applicable debt(s) which could be required to be repaid if certain conditions are not met as it relates to the timely spending of debt proceeds.
- **Bank Reconciliations** - The City has been given a reportable condition in each of the past two fiscal years with regard to untimely bank reconciliation processes. During the current fiscal year, our testing showed that this process has been much improved; however, there were a few minor delays of greater than 60 days related to the Lakes of Taylor Golf Club bank reconciliations. We encourage the City to ensure that all bank reconciliations are completed within 60 days after the month end.
- **Community Development Block Grant** - During our testing of federal awards, we noted the following items related to the administration of the CDBG programs. In accordance with OMB Circular A-133, the City is required to provide a letter to all subrecipients to whom the City has awarded funds; however, the letter sent failed to include the CFDA number for the grant. The City should update future letters to include this necessary information. We also noted that the grant requires the City to obtain and review A-133 reports for all subrecipients and maintain them as evidence that the compliance requirement has been satisfied. This was not consistently done for all subrecipients in the current year. The City did send out letters requesting their subrecipients to furnish the reports; however, the City did not have procedures in place to follow up and ensure that all reports were received.

It came to our attention during the audit that the City does not maintain a running log of all open liens. We advise the City to do so in the future as this would allow for easier tracking of open liens as well as provide data to support general ledger adjustments for liens that are relieved.

Lastly, we noted that the City was not able to provide evidence that it reviewed the EPLS website to ensure that possible vendors are not suspended or debarred. We recommend that when this is done, the City print its search results to maintain as evidence.

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

- **Ticket Control - Police Department and District Court** - We have included this year's comments and recommendations with respect to ticket control procedures in a separate letter dated December 10, 2007 to the District Court administrator, Ms. Vicki Bowman.
- **Property Taxes** - During our review of the L-4029, we noted that expiration dates of the millages were not reported. In addition, the "source" column does not state what allows the City to legally levy the millage (voted, court order, state statute, etc.). We recommend that the City make the appropriate corrections to future L-4029s.
- **Heritage Festival Parking Revenue** - It was noted that during the annual Heritage Festival, pre-numbered tickets are not used for parking revenue. Therefore, the susceptibility of these funds to theft is a higher risk. These are cash transactions of a modest volume over several days. We recommend that the City consider issuing pre-numbered tickets in order to enforce accountability and create the ability to reconcile cash collected to tickets sold. The cost/benefit of establishing such a new procedure should also be evaluated.
- **Taylor Sportsplex** - During the year, the City entered into a lease agreement with a third-party management company, Rink Management. We recommend that the City implement procedures to ensure that financial information is regularly received from Rink Management and reviewed. The lease stipulates various clauses regarding what revenue the City is able to receive. It is important that the City ensure that the revenue it receives from the lease does not jeopardize the tax-exempt status of the bond which funded the building of the facility. Therefore, we encourage the City to update the tax-exempt calculation provided by the attorney, at least annually.
- **Construction Contracts** - During our testing, it became apparent that the City does not have adequate procedures in place for tracking open construction contracts at any point in time. We recommend that procedures be implemented so that information is easily accessible by the budget and finance department and that a summary of open contracts be maintained and updated regularly by each appropriate department.
- **Investment Policy** - The City has adopted an investment policy as required by Public Act 196 of 1997. In addition to the adoption of the investment policy, the Public Act requires that an annual investment report be submitted to the City Council. During the current year, the investment report for fiscal year ended June 30, 2007 was presented to the Council during November 2007. We encourage management to present the investment report to the Council in a timely manner in the future to allow for potential changes in investments if warranted.

Public Safety and General Employee Benefit Plans

Funding - During our review of the police and fire retirement system, we noted that the overall funded ratio has continued to significantly decrease, going from 97.7 percent to 75.3 percent during the period from June 30, 2002 through June 30, 2007. While the system's funding ratio has decreased, the City's contribution has grown at a high rate, increasing from \$579,042 for fiscal year ended 2002 to an expected contribution of \$4,977,000 for the fiscal year ending 2008. This represents an increase of 760 percent over the past six years. In addition, the cost of health care for public safety employees has more than doubled since 2001.

For general employees, the required pension contribution has increased from \$0 in 2003 to approximately \$1,509,000 for the year ended June 30, 2007.

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

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

Police and Fire Retirement System Reserves - We noted that within the public safety department, there is an established system whereby each employee has an individual card which details the cumulative balance of their contributions and interest credited (this information is also maintained electronically). However, there is no consolidated total calculated for all employees. In addition, the cumulative totals are not reconciled to the recorded reserves tracked by the budget and finance department. We recommend that the retirement system compile this information to ensure that the employee reserve in total is appropriately reported. Use of spreadsheet technology tools to track employee information may also add efficiency to the compilation process.

We also noted that the actuary was not receiving the correct beginning reserve balance for the benefit payments reserve. This resulted in the June 30, 2006 actuary report indicating an amount for transfers between reserves that was incorrect. We recommend that the City send the actuary an updated reserve calculation each year.

Other Matters - In addition, for the police and fire retirement system, we noted that there is not an independent review performed of the information that is submitted to the actuary. We recommend that the budget and finance department perform this review to ensure that the information submitted is accurate.

Legislative Items

Revenue Sharing

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. The State's budget shortfalls and structural budget deficit condition continue to be a challenge. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than \$750 million) and to enact a new 6 percent tax on certain services (raising approximately \$700 million per year), which was subsequently repealed. As part of the continuation budget that was also passed on October 1, there are still approximately \$400 million of "to-be-determined" cuts that remain to be agreed upon and announced for the fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters described below will also impact revenue sharing:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Further changes to Michigan's tax structure were made on October 1 as described above to partially close the structural budget deficit that exists.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not yet been announced, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is more likely that revenue sharing for fiscal year 2007/2008 will be consistent with 2006/2007 funding levels. It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Local governments may need to react with budget amendments when these final decisions are made by the State.

The table below details state-shared revenue for the City since 2000 broken out by statutory and constitutional portions.

State Fiscal Year	Statutory	Constitutional	Total	Cumulative Decrease from 2000
2000	\$5,389,735	\$4,800,080	\$10,189,815	\$ -
2001	5,941,001	4,274,319	10,215,320	25,505
2002	5,407,278	4,317,858	9,725,136	(439,174)
2003	4,758,632	4,390,958	9,149,590	(1,479,399)
2004	3,879,957	4,343,263	8,223,220	(3,445,994)
2005	3,686,673	4,446,914	8,133,587	(5,502,222)
2006	3,520,464	4,522,623	8,043,087	(7,648,950)
2007	3,374,916	4,428,648	7,803,564	(10,035,201)
2008 (est.)	3,321,877	4,481,687	7,803,564	(12,421,452)

If the State were to eliminate the statutory portion of revenue sharing, the City would lose approximately \$3,322,000 (as the constitutional portion cannot be modified without a change to the State's constitution). We will continue to update the City as developments occur.

New Michigan Business Tax

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

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

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

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

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

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

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

Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

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

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended 2007, the City's Headlee maximum property tax rate for its operating levy was 8.4211 mills even though City Charter would allow the City to levy 9.5 mills for operations (a reduction of over 11 percent). Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated in several published studies and reports, due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop-up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation) will continue downward pressure on millage rates, particularly given the present gap that now exists between taxable value and state equalized value.

Property Tax Legislation

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent - until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop-up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

New Cable Franchise Legislation

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

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

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.

- A credit, based on annual maintenance fees paid for use of public rights-of-way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills' franchise fee.
- Audits of the video service providers' calculation of gross revenue are limited to once every two years.
- In general, most local governments received their first payment under the new Act beginning in May 2007 or shortly thereafter. We strongly encourage you to review this payment compared to payments previously received and follow up with your provider as required.
- Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

Postemployment Benefits

As discussed last year, there were two new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB). GASB Nos. 43 and 45 address the accounting and disclosures related to postemployment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. Starting in fiscal year 2007-2008, the City will be required to measure its retiree healthcare liability through actuarial valuations that are to be performed biannually. These valuations will compute an "annual required contribution." The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less.

Bonding to Fund Liability for Other Postemployment Benefits

To provide local governments with additional funding options for other postemployment benefits, legislation was introduced in 2006 which would allow for bonding as a funding tool. The legislation was passed by the Michigan legislature and vetoed by the governor. It is expected that the legislation may be reconsidered in the future.

New Auditing Standards

Major and comprehensive changes were recently made to auditing rules that will impact the City's independent audits beginning next year. These new auditing standards require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules for governmental units into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

These new rules, which are known collectively as the Risk Assessment Standards, require auditors to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, independent auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and city staff will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing, more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and retain.

Plante & Moran, PLLC began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes and will continue to do so over the next several months. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating more specifically about how these matters will affect the City's next financial statement audit. In addition, we plan to begin to work with the City's staff during the upcoming year in a number of areas, including review and documentation of internal accounting procedures and controls, to ensure a smooth transition to these new standards.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about the City's internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications the city management and Council will receive from us about the results of our audit work, will enhance the value received from the financial statement audit.

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

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December 10, 2007

We would like to thank Mayor Priebe, Ms. Trueblood, Ms. Duha, and the entire budget and finance and treasury department staff again for their cooperation and assistance provided during the audit engagement. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "D. Bohrer".

Douglas G. Bohrer

A handwritten signature in black ink, appearing to read "Pamela J. Hill".

Pamela Hill

City of Taylor, Michigan

**Federal Awards
Supplemental Information
June 30, 2007**

City of Taylor, Michigan

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Independent Auditor's Report

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 10, 2007.

Those basic financial statements are the responsibility of the management of the City of Taylor, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Taylor, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 10, 2007

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Taylor, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Taylor, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe that the deficiencies described in the schedule of findings and questioned costs as items 07-01 and 07-02 constitute material weaknesses.

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

Compliance and Other Matters

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

The City of Taylor, Michigan's response to the significant deficiencies and findings relating to compliance and other matters identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Plante & Moran, PLLC

December 10, 2007

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Taylor, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The major federal programs of the City of Taylor, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Taylor, Michigan's management. Our responsibility is to express an opinion on the City of Taylor, Michigan's compliance based on our audit.

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

In our opinion, the City of Taylor, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 which are described in the accompanying schedule of findings and questioned costs as items 07-03 through 07-05.

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

Internal Control Over Compliance

The management of the City of Taylor, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Taylor, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance and its operations that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider the control deficiencies described in the accompanying schedule of findings and questioned costs as items 07-03 through 07-05 to be significant deficiencies in internal control over compliance as well as material weaknesses in internal control.

The City of Taylor, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Taylor, Michigan's response and, accordingly, we express no opinion on it.

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

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

Plante & Moran, PLLC

December 10, 2007

City of Taylor, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development -				
Direct program - Community Development Block Grant -				
Entitlement Grant:				
Program year 2006 - B06-MC-26-0015	14.218	N/A	\$ 523,893	\$ 263,535
Program year 2005 - B05-MC-26-0015	14.218	N/A	584,794	<u>287,272</u>
Total U.S. Department of Housing and Urban Development				550,807
U.S. Department of Justice:				
Michigan Department of Community Health -				
Passed through County of Wayne:				
23rd District Court/Taylor Drug Court Grant 10/1/05-9/30/06	16.738	72186-06-B	106,667	17,390
23rd District Court/Taylor Drug Court Grant 10/1/06-9/30/07	16.738	72186-3-7-B	106,668	<u>43,267</u>
Total Michigan Department of Community Health				60,657
Passed through the State of Michigan - Office of Criminal Justice -				
DRANO Enhancement Grant:				
State Police pass-through grant - 10/1/06-9/30/07	16.579	70978-6-07-z	37,978	14,238
State Police pass-through grant - 10/1/05-9/30/06	16.579	70978-5-06-B	32,862	<u>4,454</u>
Total Office of Criminal Justice				18,692
Bureau of Justice Assistance - Local Law Enforcement Block Grant:				
Passed through Downriver Community Conference - C.O.P.S.				
2006-F1213-MI-DJ (JAG)	16.710	N/A	21,167	-
Passed through Byrne Justice Assistance Grant/Wayne County:				
2006-F1213-MI-DJ (JAG)	16.592	N/A	16,989	-
2007-F2774-MI-DJ (JAG)	16.592	N/A	21,584	<u>-</u>
Total Bureau of Justice Assistance - Local Law Enforcement Block Grant				-
Bureau of Justice Assistance - Passed through Wayne County -				
STOP - Violence against women 10/01/06-9/30/07	16.585	DV97820031-1	38,400	38,400
Bureau of Justice Assistance - Bulletproof Vest Partners 2004				
	16.607	N/A	12,825	<u>7,875</u>
Total Bureau of Justice Assistance				46,275
Federal Equitable Sharing Program - Justice				
	16.000	N/A	-	<u>153,176</u>
Total U.S. Department of Justice				278,800

City of Taylor, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Treasury:				
Federal Equitable Sharing Program - Treasury Organized Crime Drug Enforcement (Chiefs Task Force) 1/01/07-9/30/07	21.unknown	N/A	\$ -	\$ 67,300
U.S. Custom Service Outbound Currency Task Force	21.unknown	N/A	-	19,327
	21.unknown	N/A	-	<u>18,413</u>
Total U.S. Department of Treasury				105,040
U.S. Department of Transportation - Federal Aid to Urban Systems (FAUS) - Passed through Michigan Department of Transportation:				
Eureka/Racho Road Beautification - Project #51024A	20.205	STP-9982 (080)	-	28,000
Michigan State Police - Office of Highway Safety Planning:				
OUIL & Seat Belt Grant 10/1/05-9/30/06	20.600	PT-06-15	22,500	18,107
OUIL & Seat Belt Grant 08/18/06-9/04/06	20.600	PT-06-15	19,590	11,960
OUIL & Seat Belt Grant 10/1/06-9/30/07	20.600	PT-07-24	33,643	17,347
Federal Highway Administration - Demonstration and Evaluation of Rational Speed Limits	20.205	DTFH61-03-H-00130	50,000	<u>17,479</u>
Total U.S. Department of Transportation				92,893
U.S. Department of Agriculture - Michigan Department of Natural Resources - Emerald Ash Borer Tree Planting Grant 2006				
	10.664	N/A	20,000	19,903
U.S. Environmental Protection Agency - Brownfield Cleanup Revolving Loan Fund Pilot				
	66.811	N/A	1,000,000	40,397
U.S. Department of Homeland Security - Wayne County Homeland Security & Emergency Management Program II Training Grant - Passed Through Wayne County to:				
Taylor Fire Department - NIMS	97.004	N/A	370	370
Taylor Police Department - NIMS	97.004	N/A	40,000	39,980
Taylor Police Department - CBERN	97.004	N/A	75,000	<u>106,998</u>
Total U.S. Department of Homeland Security				147,348
Election Assistance Commission - Qualified Voter File Infrastructure Upgrade				
	90.401	N/A	10,000	8,984
U.S. Department of Health and Human Services - Polling Place ADA Grant - Passed through Help America Vote Act				
	93.617	N/A	15,600	<u>12,804</u>
Total federal awards				<u>\$ 1,256,976</u>

City of Taylor, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Revenue from federal sources - As reported on financial statements within the governmental fund	\$ 1,378,830
Federal expenditures reported on the SEFA, but revenue not received within the current period:	
U.S. Custom Service Outbound Currency Task Force	1,654
OUIL & Seat Belt Grant	6,086
Homeland Security & Emergency Management	146,978
Demonstration and Evaluation of Rational Speed Limits	7,449
Brownfield Cleanup Revolving Loan Fund Pilot	40,397
Federal revenue classified as other revenue on the financial statements:	
Qualified Voter File Infrastructure Upgrade	8,984
Eureka/Racho Road Beautification	28,000
Federal revenue reported on financial statements, but not expended in the current period:	
Federal Forfeiture Justice Funds	(149,869)
Federal Forfeiture Treasury Funds	(4,342)
U.S. Custom Service Outbound Currency Task Force	(4,658)
OUIL & Seat Belt Grant	(10,533)
Homeland Security & Emergency Management	(23,883)
Federal revenue from prior period, reversed in current period	2,942
Federal expenditures recorded on the SEFA, but revenue received in prior period	12,804
Revenues reported on the financial statements, but not from federal sources	<u>(183,863)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 1,256,976</u>

City of Taylor, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Note 1 - Significant Accounting Policies

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

Note 2 - Subrecipient Awards

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

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 53,005

Note 3 - Contingent Liability

The City receives numerous federal grants. Each grant has compliance requirements which are subject to review by the granting agency before the grant is closed. The City has been contacted by the Environmental Protection Agency that there may be questioned costs in the amount of approximately \$190,000 related to the Brownfield Cleanup Revolving Loan Pilot CFDA #66.811.

City of Taylor, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

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

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

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant
16.unknown	Federal Equitable Sharing Program - Department of Justice

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

Auditee qualified as low-risk auditee? Yes No

City of Taylor, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings

Reference Number	Findings
07-01	<p>Adjustments related to full accrual (GASB 34) statements</p> <p>Finding Type - Material weakness</p> <p>Criteria - Management's goal was to accurately record adjustments for the full accrual (GASB 34) statements.</p> <p>Condition - Journal entries were necessary to properly state balances for capital assets and related depreciation, deferred revenue, and long-term debt as of June 30, 2007.</p> <p>Context - These amounts are related to year-end adjustments.</p> <p>Effect - As a result of these transactions not being properly recorded, the City's records were not correctly stated.</p> <p>Cause - The City had processes in place for the balances to be adjusted at year end based on supporting schedules; however, the entries posted did not properly reflect the activity.</p> <p>Recommendation - The City should develop controls to ensure that all appropriate journal entries are made to properly reflect the activity and to double check the balances to the schedules after journal entries are posted.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Taylor, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-02	<p>Adjustments related to the fund level statements</p> <p>Finding Type - Material weakness</p> <p>Criteria - Management's goal was to accurately record adjustments for the fund level statements.</p> <p>Condition - Journal entries were necessary to adjust various account balances in order to properly state them as of June 30, 2007.</p> <p>Context - These entries were made to various funds to properly reflect current year activity. The adjustments affected fund balance classification, Michigan tax tribunal liabilities, long-term debt, accrued interest, and revenue reclassifications.</p> <p>Effect - As a result of these transactions not being properly recorded, several accounts were misstated as of June 30, 2007.</p> <p>Cause - For certain financial statement accounts, the City did not have a system in place to ensure that year-end balances agree to detail and are properly stated.</p> <p>Recommendation - The City should develop controls to ensure that all appropriate journal entries are made so that ending balances are correct.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Taylor, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section III - Federal Program Audit Findings

Reference Number	Findings
07-03	<p>Job Site Interviews</p> <p>Program Name - Community Development Block Grant 14.218</p> <p>Finding Type - Material noncompliance; material weakness</p> <p>Criteria - Davis-Bacon regulations require contracting agencies to perform job site interviews with the laborers performing the contract work.</p> <p>Condition - During testing, it was noted that the City was not able to perform a job site interview for a park signage construction project due to a scheduling conflict. The job site interview forms were faxed to laborers performing the contract work; however, they were not completed and returned to the City.</p> <p>Questioned Costs - None</p> <p>Context - The City has an individual designated to perform job site interviews; however, a scheduling conflict prevented the interview for the park signage construction project from being performed during the year.</p> <p>Cause and Effect - Due to the fact that the job site interview was not performed for this project, the City was not able to verify the accuracy of the weekly payroll reports submitted by the contractor.</p> <p>Recommendation - It is recommended that the City ensure that all job site interviews are performed for future construction projects.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City has an individual designated to perform job site interviews and will ensure all future job site interviews are properly completed.</p>

City of Taylor, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section III - Federal Program Audit Finding (Continued)

Reference Number	Findings
07-04	<p>Program Name - Environmental Protection Agency Brownfield Cleanup Revolving Loan Pilot - 66.811</p> <p>Finding Type - Material noncompliance; material weakness</p> <p>Criteria - The City is required to spend federal dollars in a reasonable time frame from the time in which the advance funds are requested.</p> <p>Condition - As of December 10, 2007, the City has yet to spend all the money drawn down on June 3, 2005.</p> <p>Questioned Costs - None</p> <p>Context - The City did not recognize that, in order to comply with the grant, it needed to spend the advance funding in a reasonable time frame from the date of the draw.</p> <p>Recommendation - It is recommended that the City only draw down advanced funds based on immediate need (i.e., disbursements expected within 90 days).</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City understood that it had authorization from EPA officials to draw down the entire amount loaned out for this project under the revolving loan program; however, the project is taking longer than expected. The City expects to immediately return any funds that were not earmarked or used for the project, in accordance with the loan agreement.</p>

City of Taylor, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section III - Federal Program Audit Finding (Continued)

Reference Number	Findings
07-05	<p>Program Name - Environmental Protection Agency Brownfield Cleanup Revolving Loan Pilot - 66.811</p> <p>Finding Type - Material noncompliance; material weakness</p> <p>Criteria - The City is required to submit quarterly reports to the Environmental Protection Agency. In addition, the City is also required to submit an annual financial status report within 90 days after the fiscal year end.</p> <p>Condition - During testing, it was noted that the quarterly reports for the periods ended December 31, 2006, March 31, 2007, and June 30, 2007 were not submitted timely. In addition, the financial status report for the year ended June 30, 2007 was also not submitted within 90 days after the fiscal year end.</p> <p>Questioned Costs - None</p> <p>Context - The City has not specifically identified an individual whose responsibility is to ensure that the narrative and financial reports are prepared and submitted timely.</p> <p>Cause and Effect - The December 31, 2006, March 31, 2007, and June 30, 2007 quarterly reports were not submitted timely as a result of an individual not being designated and held accountable for timely completion. In addition, the financial status report for the year ended June 30, 2007 was also not submitted within 90 days after the fiscal year end.</p> <p>Recommendation - It is recommended that the City appoint an individual to be responsible for understanding the grant requirements, including the required reporting timelines to ensure they are timely submitted.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City is presently reviewing the quarterly and annual reporting process and is putting measures into place to ensure timely reporting.</p>

City of Taylor, Michigan

Summary of Prior Year Findings Year Ended June 30, 2007

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
2006	06-2	The City is required to submit quarterly reports to the Environmental Protection Agency. In addition, the City is also required to submit a financial status report within 90 days after fiscal year end. The 03/31/2006 and 06/30/2006 quarterly reports as well as the annual report were not submitted timely.	66.811	None	Quarterly reports for 12/31/06, 3/31/07, and 6/30/07 were not submitted timely in the current year. They were all submitted on 11/16/07.
2006	06-3	The Davis-Bacon Act requires grantees to ensure that prevailing wage rates are being paid to contractors receiving federal funds greater than \$2,000. The City failed to ensure that the contractor was monitoring and complying with Davis-Bacon requirements.	66.811	Unknown	The City did not enter into any new contracts during the year related to the Environmental Protection Agency Brownfield Cleanup Revolving Loan Pilot. They are aware of the requirement if a new contract occurs in the future.
2006	06-4	The grant requires the grantee to submit fair share objectives to the MBE/WBE Coordinator within 30 days of award and be approved by the EPA no more than 30 days thereafter. The City failed to submit the fair share objectives required by the grant agreement to the MBE/WBE Coordinator.	66.811	None	The City did not enter into any new contracts during the year related to the Environmental Protection Agency Brownfield Cleanup Revolving Loan Pilot. They are aware of the requirement if a new contract occurs in the future.
2006	06-5	The City is required to spend federal dollars in a reasonable time frame from the time in which the advance funds are requested. As of December 12, 2006, the City had yet to spend all the money drawn down on June 3, 2005.	66.811	None	As of the time of the completion of the June 30, 2007 audit, the monies had not all been spent.