

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Ypsilanti, Michigan</u>	County Washtenaw
Audit Date June 30, 2005	Opinion Date October 7, 2005	Date Accountant Report Submitted To State: December 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 1000 Oakbrook Drive, Suite 400	City Ann Arbor	State MI	ZIP 48104
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Ypsilanti, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# City of Ypsilanti, Michigan

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## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of Fund Balances to the Statement of Net Assets	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Proprietary Funds - Internal Service Funds:	
Combined Statement of Net Assets	15
Combined Statement of Revenue, Expenses, and Changes in Net Assets	16
Combined Statement of Cash Flows	17
Fiduciary Funds:	
Statement of Net Assets	18
Statement of Changes in Net Assets - Police and Fire Retirement System	19
Component Units:	
Statement of Net Assets	20
Statement of Activities	21-22
Notes to Financial Statements	23-45
<b>Required Supplemental Information</b>	46
Budgetary Comparison Schedule - General Fund	47-49
Note to Required Supplemental Information	50
Schedule of Funding Progress - Police and Fire Retirement System	51

# City of Ypsilanti, Michigan

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## Contents (Continued)

<b>Other Supplemental Information</b>	52
Nonmajor Governmental Funds:	
Combining Balance Sheet	53-56
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)	57-60
Proprietary Funds - Internal Service Funds:	
Combining Statement of Net Assets	61
Combining Statement of Revenue, Expenses, and Changes in Net Assets	62
Combining Statement of Cash Flows	63



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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ypsilanti as of and for the year ended June 30, 2005, 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 Ypsilanti's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ypsilanti as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules 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.

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A worldwide association of independent accounting firms



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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ypsilanti'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 October 7, 2005 on our consideration of the City of Ypsilanti's 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 considered in assessing the results of our audit.

*Plante & Moran, PLLC*

October 7, 2005

# City of Ypsilanti, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Ypsilanti's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, the second largest revenue source in the General Fund, was reduced over the last few years by the State of Michigan. The City reacted by eliminating a full-time position in the clerk's office and a part-time position in the treasurer's office. The City also eliminated minimum staffing levels in the fire department, reduced contributions to the motor pool, eliminated the remainder of the recreation budget, leaving only utilities and telephone, and eliminated the contribution to the DDA for non-DDA services. The general training budget was also eliminated, all of which resulted in maintaining the fund balance near the prior year's level.
- The City continued its long-term investment of road infrastructure by issuing water and sewer bonds through the Drinking Water Revolving Fund and general obligation taxable capital improvement refunding bonds for the Water Street project.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

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

# City of Ypsilanti, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Current assets	\$ 19,567	\$ 17,954
Noncurrent assets	<u>107,480</u>	<u>90,334</u>
Total assets	127,047	108,288
<b>Liabilities</b>		
Current liabilities	6,507	9,448
Long-term liabilities	<u>68,595</u>	<u>62,191</u>
Total liabilities	<u>75,102</u>	<u>71,639</u>
<b>Net Assets</b>		
Invested in capital assets and joint venture - Net of related debt	1,126	1,901
Restricted	6,452	6,247
Unrestricted	<u>44,367</u>	<u>28,501</u>
<b>Net Assets</b>	<u><u>\$ 51,945</u></u>	<u><u>\$ 36,649</u></u>

The City's combined net assets increased approximately 42 percent from a year ago. There were large increases in total assets, mostly due to the increase in the City's investment in a joint venture.



# City of Ypsilanti, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and compared to the prior year (in thousands of dollars):

	Governmental Activities	
	2005	2004
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 1,700	\$ 1,683
Operating grants and contributions	2,794	2,504
Capital grants and contributions	3,728	4,421
General revenue:		
Property taxes	9,736	9,630
State-shared revenue	3,199	3,316
Unrestricted investment earnings	907	452
Increase (decrease) in fair value of investments	215	(290)
Increase in fair value of joint venture	10,727	6,472
Franchise fees	176	174
Loss on land held for resale	-	(7,788)
Gain (loss) on sale of capital assets and land	(69)	34
Total revenue	<u>33,113</u>	<u>20,608</u>
<b>Program Expenses</b>		
General government	1,464	1,419
Public safety	7,251	7,430
Community maintenance	2,092	7,795
Highways, streets, and bridges	1,922	2,102
Culture and recreation	1,250	1,208
Health and welfare	879	826
Interest on long-term debt	2,959	2,584
Total program expenses	<u>17,817</u>	<u>23,364</u>
<b>Change in Net Assets</b>	<u>\$ 15,296</u>	<u>\$ (2,756)</u>

# City of Ypsilanti, Michigan

## Management's Discussion and Analysis (Continued)

The City's net assets increased during the current year as a result of various factors. Total governmental revenues increased, despite decreases in capital grants and contributions. State-shared revenue decreased due to the State's structural budget problems; it has adopted a series of reductions in unrestricted state revenue sharing to local units. The increase in the property tax revenues was due primarily to the continuing increase in property taxes as a result of growth in the City's taxable values. Expenses decreased during the year. The paving and water main projects are close to completion, hence the decrease of project costs. Debt service increased due to the principal and interest charges of additional bonds issued this year. Health care costs continue to increase, and property insurance rates decrease due to proactive risk reduction measures taken by all departments, and the City's claim experience has been low. The City closely monitored its spending in all other areas throughout the year. Purchases of police cars were postponed, office supply spending was limited, professional development and other spending was cut by all departments, including leaving positions vacant due to attrition. Contributions to the motorpool and workers' compensation funds continued to be reduced.

### **The City's Funds**

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account various events occurring during the year. However, City administration, and building and ordinance exceeded the amended budget due to the accrual of wages at year end, and change and addition of personnel in the clerk's and human resource departments resulted in an increase in salaries and fringes. Other departments overall stayed below budget, resulting in total expenditures being below the amended budget. Recreation expenditures for Parkridge and the Senior Center increased thanks to funding provided by grants from Eastern Michigan University and Washtenaw County and private donations from many supporters.

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

At the end of 2005, the City had \$25,992,139 invested in a broad range of capital assets including land, land improvements, sidewalks, police and fire equipment, various other vehicles and equipment, and roads. In addition, the City had \$38,796,873 invested in the YCUA joint venture as explained in Note 11.

Based on the last bond issuance, the City continued to receive an excellent rating from Moody's investor services and Standard and Poor's. The stated rating reflects the City's stable economic base, continued planned debt issuance, and the trend of a stable, well-managed financial operation.

# City of Ypsilanti, Michigan

## Management's Discussion and Analysis (Continued)

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

The City's spending budget for next year is \$436,344 higher than fiscal year 2004-2005. The primary reason is the 3 percent increase in salaries and wages which were frozen in fiscal year 2003-2004 and increased cost of fringe benefits. Wages for the city manager, clerk, police field services, and human resources increased due to change of personnel and reorganization. The Recreation Department will continue to operate through donations and grants. However, the City will continue to provide for utilities and janitorial services. Property tax revenues are projected to increase approximately 2 percent. This will be accomplished because of the strong growth in our tax base. However, because of the impact of Proposal A, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions. During fiscal year 2004/2005, the Blue Ribbon Committee completed their study of the finances of the City and presented their findings and recommendations to the City Council. The committee was appointed to examine the fiscal condition of the City by reviewing the long- and short-term fiscal challenges that threaten the delivery of necessary city services. The committee determined that there is a "serious structural fiscal problem facing the City." They recommended three options:

1. Severely reducing City services and, in turn, reducing our quality of life;
2. Fiscal receivership (bankruptcy) of the City;
3. A new source of revenue to close the gap on projected annual shortfall of approximately \$2.5 million

In response to their recommendations, the City commissioned an income tax feasibility study by Plante & Moran and has been holding town hall meetings to educate the public and get input from the community.

The City will continue to collect personal property tax from Visteon in the next fiscal year. It is anticipated that for fiscal year 2006/2007, Visteon will remain on the City's tax roll, but the tax revenue for fiscal year 2007/2008 is uncertain.

### Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 734.483.1100.

# City of Ypsilanti, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government - Governmental Activities	Component Units
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 6,424,253	\$ 807,815
Investments (Note 3)	7,859,260	561,332
Land held for resale (Note 13)	7,259,536	-
Receivables:		
Special assessments	86,140	-
Accrued interest and other	258,437	3,812
Due from other governmental units	1,764,686	35,966
Prepaid expenses and other assets	32,941	-
Inventory	118,266	-
Restricted assets (Note 1)	3,023,352	-
Lease receivable (Note 11)	35,431,489	-
Investment in joint venture (Note 11)	38,796,873	-
Capital assets - Net (Note 5):		
Nondepreciable	12,120,805	206,479
Depreciable	13,871,334	1,100,552
Total assets	127,047,372	2,715,956
<b>Liabilities</b>		
Accounts payable	756,244	109,750
Accrued and other liabilities	2,643,098	3,426
Due to other governmental units	230,288	123,029
Deferred revenue (Note 4)	285,799	-
Noncurrent liabilities (Note 8):		
Due within one year	2,591,618	66,248
Due in more than one year	68,594,946	1,606,439
Total liabilities	75,101,993	1,908,892
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	1,125,536	190,298
Restricted:		
Retiree benefits	856,128	-
Streets and highways	2,455,873	-
Garbage and refuse collection	30,571	-
Debt service	3,110,019	-
Unrestricted	44,367,252	616,766
Total net assets	<b>\$ 51,945,379</b>	<b>\$ 807,064</b>

# City of Ypsilanti, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government - Governmental activities:				
General government	\$ 1,463,821	\$ 450,699	\$ 67,484	\$ 40,016
Public safety	7,251,128	420,034	309,400	62,965
Community maintenance	2,092,229	714,187	334,559	180,749
Highways, streets, and bridges	1,921,935	-	1,397,910	1,324,388
Culture and recreation	1,250,186	115,362	90,022	550
Health and welfare	878,517	-	595,000	-
Interest on long-term debt	2,958,920	-	-	2,118,984
Total primary government - Governmental activities	<b><u>\$ 17,816,736</u></b>	<b><u>\$ 1,700,282</u></b>	<b><u>\$ 2,794,375</u></b>	<b><u>\$ 3,727,652</u></b>
Component units:				
Downtown Development Authority	\$ 375,751	\$ -	\$ 120,738	\$ -
Depot Town Downtown Development Authority	65,685	-	-	-
Economic Development Corporation	4,926	-	-	-
Brownfield Redevelopment Authority	675	-	-	-
Total component units	<b><u>\$ 447,037</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 120,738</u></b>	<b><u>\$ -</u></b>
General revenues:				
Property taxes (Note 1)				
State-shared revenues				
Unrestricted investment earnings				
Increase (decrease) in fair value of investments				
Increase in equity in joint venture				
Franchise fees				
Special item - Loss on sale of capital assets				
Total general revenues and special item				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense)	
Revenue and	
Changes in Net	
Assets	
Primary	
Government	
Governmental	Component
Activities	Units
\$ (905,622)	\$ -
(6,458,729)	-
(862,734)	-
800,363	-
(1,044,252)	-
(283,517)	-
(839,936)	-
(9,594,427)	-
-	(255,013)
-	(65,685)
-	(4,926)
-	(675)
-	(326,299)
9,735,731	361,700
3,199,317	-
906,857	32,934
214,584	(8,102)
10,726,729	-
175,717	-
(68,624)	-
24,890,311	386,532
15,295,884	60,233
36,649,495	746,831
<b>\$ 51,945,379</b>	<b>\$ 807,064</b>

# City of Ypsilanti, Michigan

## Governmental Funds Balance Sheet June 30, 2005

	General	Land Revolving	2003-B Capital Improvement Bonds	2003 General Obligation Construction	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents (Note 3)	\$ 1,166,522	\$ 444,003	\$ -	\$ 410,180	\$ 3,435,129	\$ 5,455,834
Investments (Note 3)	2,218,785	-	-	-	2,775,095	4,993,880
Land held for resale (Note 13)	-	2,584,200	2,732,379	-	1,942,957	7,259,536
Receivables:						
Special assessments	73,489	-	-	-	12,651	86,140
Accrued interest and other	91,882	-	-	-	166,555	258,437
Due from other funds (Note 6)	476,793	-	-	362,061	-	838,854
Due from other governmental units	601,335	-	-	-	538,783	1,140,118
Prepaid expenses and other assets	12,517	-	-	-	-	12,517
Inventory	99,780	-	-	-	-	99,780
Restricted assets (Note 1)	-	-	-	-	3,023,352	3,023,352
<b>Total assets</b>	<b>\$ 4,741,103</b>	<b>\$ 3,028,203</b>	<b>\$ 2,732,379</b>	<b>772,241</b>	<b>11,894,522</b>	<b>23,168,448</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 152,369	\$ -	\$ -	\$ 222,083	\$ 381,792	\$ 756,244
Accrued and other liabilities	566,830	586,097	446,292	-	313,243	1,912,462
Due to other funds (Note 6)	-	-	-	-	838,854	838,854
Due to other governmental units	211,605	-	-	-	18,683	230,288
Deferred revenue (Note 4)	133,489	79,349	-	-	159,101	371,939
<b>Total liabilities</b>	<b>1,064,293</b>	<b>665,446</b>	<b>446,292</b>	<b>222,083</b>	<b>1,711,673</b>	<b>4,109,787</b>
<b>Fund Balances</b>						
Reserved, reported in:						
General Fund - Inventory	99,780	-	-	-	-	99,780
Capital Projects Funds:						
Unspent bond proceeds	-	-	-	-	1,048,489	1,048,489
Debt service	-	-	-	-	1,253,264	1,253,264
Capital projects (Note 5)	-	-	-	550,158	-	550,158
Land held for resale	-	2,584,200	2,732,379	-	1,942,957	7,259,536
Debt Service Funds - Debt service	-	-	-	-	1,856,755	1,856,755
Unreserved, reported in:						
General Fund:						
Designated (Note 15)	1,990,157	-	-	-	-	1,990,157
Undesignated	1,586,873	-	-	-	-	1,586,873
Special Revenue Funds:						
Designated (Note 15)	-	-	-	-	1,697,125	1,697,125
Undesignated	-	-	-	-	2,486,107	2,486,107
Capital Projects Funds	-	(221,443)	(446,292)	-	(101,848)	(769,583)
<b>Total fund balances</b>	<b>3,676,810</b>	<b>2,362,757</b>	<b>2,286,087</b>	<b>550,158</b>	<b>10,182,849</b>	<b>19,058,661</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,741,103</b>	<b>\$ 3,028,203</b>	<b>\$ 2,732,379</b>	<b>\$ 772,241</b>	<b>\$ 11,894,522</b>	<b>\$ 23,168,448</b>

# City of Ypsilanti, Michigan

## Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2005

<b>Total Fund Balances for Governmental Funds</b>	\$ 19,058,661
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	24,785,579
Lease receivable from joint venture is not a financial resource and is not reported in the funds	35,431,489
Revenue-sharing due from State not received within 60 days of year end is not available currently and is not reported in the funds	624,568
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	86,140
Compensated absences are not due and payable in the current period and are not reported in the funds	(899,211)
Interest amounts on long-term liabilities are not payable until due in the funds	(709,609)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(69,764,337)
Investment in joint venture is not a financial resource and is not reported in the funds	38,796,873
Internal Service Fund - Workers' compensation is included as part of governmental activities	532,045
Internal Service Fund - Motor Pool is included as part of governmental activities	<u>4,003,181</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 51,945,379</u></b>



# City of Ypsilanti, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Land Revolving Fund	2003-B Capital Improvement Bonds	2003 General Obligation Construction	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>						
Property taxes	\$ 7,550,779	\$ -	\$ -	\$ -	\$ 2,228,705	\$ 9,779,484
State-shared revenue	3,230,063	-	-	-	1,328,173	4,558,236
Federal grants	246,023	-	-	-	369,936	615,959
State grants	8,469	24,806	-	-	173,527	206,802
Licenses and permits	750,293	-	-	-	-	750,293
Charges for services	923,470	-	-	-	-	923,470
Other revenue	711,796	16,190	-	24,063	997,915	1,749,964
Increase in fair value of investments	153,078	-	-	-	-	153,078
<b>Total revenue</b>	<b>13,573,971</b>	<b>40,996</b>	<b>-</b>	<b>24,063</b>	<b>5,098,256</b>	<b>18,737,286</b>
<b>Expenditures</b>						
General administration	2,051,046	-	-	-	837,416	2,888,462
Public safety	7,107,725	-	-	-	13,466	7,121,191
Community maintenance	1,368,854	147,328	-	4,286,393	2,130,475	7,933,050
Culture and recreation	302,147	-	-	-	-	302,147
Highways, streets, and bridges	-	-	-	-	1,232,042	1,232,042
Other	215,156	-	-	-	-	215,156
Fringe benefits	739,790	-	-	-	-	739,790
Debt administration	247,002	1,845,789	225,723	-	3,868,118	6,186,632
<b>Total expenditures</b>	<b>12,031,720</b>	<b>1,993,117</b>	<b>225,723</b>	<b>4,286,393</b>	<b>8,081,517</b>	<b>26,618,470</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>1,542,251</b>	<b>(1,952,121)</b>	<b>(225,723)</b>	<b>(4,262,330)</b>	<b>(2,983,261)</b>	<b>(7,881,184)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in (Note 6)	4,337	560,406	225,723	284,902	1,279,973	2,355,341
Transfers out (Note 6)	(581,072)	(447,795)	-	-	(1,344,277)	(2,373,144)
Contributions from YCUA	-	-	-	-	2,118,984	2,118,984
Contributions to YCUA	-	-	-	-	(6,660,712)	(6,660,712)
Payment to escrow agent (Note 8)	-	-	-	-	(4,120,988)	(4,120,988)
Issuance of debt	-	-	-	-	14,262,866	14,262,866
<b>Total other financing sources (uses)</b>	<b>(576,735)</b>	<b>112,611</b>	<b>225,723</b>	<b>284,902</b>	<b>5,535,846</b>	<b>5,582,347</b>
<b>Net Change in Fund Balances</b>	<b>965,516</b>	<b>(1,839,510)</b>	<b>-</b>	<b>(3,977,428)</b>	<b>2,552,585</b>	<b>(2,298,837)</b>
<b>Fund Balances - Beginning of year</b>	<b>2,711,294</b>	<b>4,202,267</b>	<b>2,286,087</b>	<b>4,527,586</b>	<b>7,630,264</b>	<b>21,357,498</b>
<b>Fund Balances - End of year</b>	<b>\$ 3,676,810</b>	<b>\$ 2,362,757</b>	<b>\$ 2,286,087</b>	<b>\$ 550,158</b>	<b>\$ 10,182,849</b>	<b>\$ 19,058,661</b>

# City of Ypsilanti, Michigan

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (2,298,837)</b>
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	3,485,422
Revenue-sharing is recorded in the statement of activities when the revenue is earned; it is not reported in the funds until collected or collectible within 60 days of year end	(14,288)
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	(17,273)
Grant revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(57,714)
Grant revenues associated with assets contributed by Michigan Department of Transportation are recorded in the statement of activities; they are not reported in the funds	1,312,102
Receipt of amount from joint venture for payment of bonds is reported as revenue when received in the governmental funds and as the reduction of a receivable in the statement of activities	(600,000)
Payment to joint venture from the issuance of bonds is reported as expense when paid in the governmental funds and as an addition of a receivable in the statement of activities	9,202,660
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	7,478,637
Accrued interest payable is recorded when due in governmental funds	(17,954)
Bond proceeds are not reported as financing sources on the statement of activities	(14,262,866)
Change in accumulated compensated absences is recorded when earned in the statement of activities	41,324
Equity interest in joint venture is not reported in the governmental funds	10,726,729
Internal Service Fund - Workers' compensation is also included as governmental activities	(32,643)
Internal Service Fund - Motor Pool is also included as governmental activities	350,585
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 15,295,884</u></b>

# City of Ypsilanti, Michigan

## Proprietary Funds - Internal Service Funds Combined Statement of Net Assets June 30, 2005

### Assets

#### Current assets:

Cash and cash equivalents (Note 3)	\$ 968,419
Investments (Note 3)	2,865,380
Prepaid expenses and other assets	20,424
Inventory	<u>18,486</u>

Total current assets 3,872,709

Noncurrent assets - Capital assets (Net) 1,206,560

Total assets 5,079,269

### Liabilities

#### Current liabilities:

Accrued and other liabilities	21,027
Current portion of long-term debt	<u>148,016</u>

Total current liabilities 169,043

Noncurrent liabilities - Long-term debt - Net of current portion 375,000

Total liabilities 544,043

### Net Assets

Investment in capital assets - Net of related debt	1,181,544
Unrestricted	<u>3,353,682</u>

Total net assets \$ 4,535,226

# City of Ypsilanti, Michigan

## Proprietary Funds - Internal Service Funds Combined Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

<b>Operating Revenue</b>	
Equipment rental	\$ 1,014,056
Other	<u>125,695</u>
Total operating revenue	1,139,751
<b>Operating Expenses</b>	
Salaries and fringes	162,288
Gas, oil, and fuel	93,088
Depreciation	355,856
Operation and maintenance	126,443
Contractual services and fees	188,095
Insurance, claims, and other	<u>287,120</u>
Total operating expenses	<u>1,212,890</u>
<b>Operating Loss</b>	(73,139)
<b>Nonoperating Revenue (Expense)</b>	
Interest income	314,290
Increase in fair value of investments	61,506
Interest expense	(2,618)
Gain on disposal of assets	<u>100</u>
Total nonoperating revenue	<u>373,278</u>
<b>Income - Before transfers</b>	300,139
<b>Transfers from Other Funds</b> (Note 6)	<u>17,803</u>
<b>Change in Net Assets</b>	317,942
<b>Net Assets - Beginning of year</b>	<u>4,217,284</u>
<b>Net Assets - End of year</b>	<u><u>\$ 4,535,226</u></u>

# City of Ypsilanti, Michigan

## Proprietary Funds - Internal Service Funds Combined Statement of Cash Flows Year Ended June 30, 2005

<b>Cash Flows from Operating Activities</b>	
Payments to suppliers and vendors	\$ (524,353)
Payments to employees	(162,143)
Internal activity - Receipts from other funds	1,031,859
Claims paid	(123,078)
Other receipts	<u>125,695</u>
Net cash provided by operating activities	347,980
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of capital assets	(88,546)
Principal and interest paid on capital debt	<u>(26,358)</u>
Net cash used in capital and related financing activities	(114,904)
<b>Cash Flows from Investing Activities</b>	
Interest received	314,290
Purchases and sales of investments - Net	<u>(36,682)</u>
Net cash provided by investing activities	<u>277,608</u>
<b>Net Increase in Cash and Cash Equivalents</b>	510,684
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>457,735</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 968,419</u></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (73,139)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	355,856
Changes in assets and liabilities:	
Prepaid and other assets	2,427
Inventory	(3,309)
Accrued and other liabilities	<u>66,145</u>
Net cash provided by operating activities	<u><u>\$ 347,980</u></u>

# City of Ypsilanti, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2005

	Police and Fire Retirement System	Trust and Agency Fund
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 178,852	\$ 45
Accrued interest receivable	3,736	-
Investments (Note 3):		
U.S. government obligations	2,231,650	-
Bank investment pool	121,186	-
Corporate bonds	5,365,825	-
Corporate stocks	9,001,199	-
Real estate investment trusts	360,324	-
Commercial paper	600,000	-
Mutual funds	10,778,220	-
Total investments	28,458,404	-
Total assets	28,640,992	\$ 45
<b>Liabilities</b>		
Accounts payable	181	\$ 45
Accrued and other liabilities	408	-
Total liabilities	589	\$ 45
<b>Net Assets - Held in trust for pension and other employee benefits</b>	<b>\$ 28,640,403</b>	

# City of Ypsilanti, Michigan

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## Fiduciary Funds

### Statement of Changes in Net Assets - Police and Fire Retirement System Year Ended June 30, 2005

#### Additions

Investment income (expense):	
Net realized gains and increase in fair value of investments	\$ 1,233,648
Interest and dividends	633,313
Investment expenses	<u>(78,787)</u>
Net investment income	1,788,174
Contributions - Employee	<u>415,914</u>
Total additions	2,204,088

#### Deductions

Benefit payments	1,618,084
Refunds of contributions	162,840
Administrative expenses	<u>32,592</u>
Total deductions	<u>1,813,516</u>

**Net Increase in Net Assets Held in Trust for Retirement Benefits** 390,572

#### Net Assets Held in Trust for Retirement Benefits

Beginning of year	<u>28,249,831</u>
End of year	<u><u>\$ 28,640,403</u></u>

# City of Ypsilanti, Michigan

## Component Units Statement of Net Assets June 30, 2005

	Downtown Development Authority	Depot Town Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 555,954	\$ 72,644	\$ 179,215	\$ 2	\$ 807,815
Investments (Note 3)	561,332	-	-	-	561,332
Accounts receivable and other assets	3,812	-	-	-	3,812
Due from other governmental units	35,311	655	-	-	35,966
Capital assets - Net (Note 5):					
Nondepreciable	153,279	-	53,200	-	206,479
Depreciable	<u>953,552</u>	<u>147,000</u>	<u>-</u>	<u>-</u>	<u>1,100,552</u>
Total assets	2,263,240	220,299	232,415	2	2,715,956
<b>Liabilities</b>					
Accounts payable	101,310	8,440	-	-	109,750
Accrued liabilities and other	3,426	-	-	-	3,426
Due to other governmental units	39,005	11,860	72,164	-	123,029
Noncurrent liabilities (Note 8):					
Due within one year	55,000	11,248	-	-	66,248
Due in more than one year	<u>1,460,000</u>	<u>146,439</u>	<u>-</u>	<u>-</u>	<u>1,606,439</u>
Total liabilities	<u>1,658,741</u>	<u>177,987</u>	<u>72,164</u>	<u>-</u>	<u>1,908,892</u>
<b>Net Assets</b>					
Investment in capital assets - Net of related debt	147,785	(10,687)	53,200	-	190,298
Unrestricted (Note 14)	<u>456,714</u>	<u>52,999</u>	<u>107,051</u>	<u>2</u>	<u>616,766</u>
Total net assets	<u>\$ 604,499</u>	<u>\$ 42,312</u>	<u>\$ 160,251</u>	<u>\$ 2</u>	<u>\$ 807,064</u>



# City of Ypsilanti, Michigan

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	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>
Downtown Development Authority	\$ 375,751	\$ -	\$ 120,738
Depot Town Downtown Development Authority	65,685	-	-
Economic Development Corporation	4,926	-	-
Brownfield Redevelopment Authority	<u>675</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u><u>\$ 447,037</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 120,738</u></u>

General revenues (expenses):

Property taxes

Interest and other

Decrease in fair value of investments

Total general revenues

**Change in Net Assets**

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Component Units  
Statement of Activities  
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets				
Downtown Development Authority	Depot Town Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (255,013)	\$ -	\$ -	\$ -	\$ (255,013)
-	(65,685)	-	-	(65,685)
-	-	(4,926)	-	(4,926)
-	-	-	(675)	(675)
(255,013)	(65,685)	(4,926)	(675)	(326,299)
272,158	89,542	-	-	361,700
28,506	1,128	3,298	2	32,934
(8,102)	-	-	-	(8,102)
<u>292,562</u>	<u>90,670</u>	<u>3,298</u>	<u>2</u>	<u>386,532</u>
37,549	24,985	(1,628)	(673)	60,233
<u>566,950</u>	<u>17,327</u>	<u>161,879</u>	<u>675</u>	<u>746,831</u>
<u>\$ 604,499</u>	<u>\$ 42,312</u>	<u>\$ 160,251</u>	<u>\$ 2</u>	<u>\$ 807,064</u>

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

The accounting policies of the City of Ypsilanti (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 Ypsilanti:

### **Reporting Entity**

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

### **Blended Component Units**

The Police and Fire Employees' Retirement System has been blended into the City's financial statements. The system is governed by a five-member pension board that includes three individuals chosen by the City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

### **Discretely Presented Component Units**

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

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. A complete financial report for the Downtown Development Authority is not available.

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

- b. The Depot Town Downtown Development Authority was created to correct and prevent deterioration in the Depot Town downtown district, encourage historical preservation, and to promote economic growth within the Depot Town downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. A complete financial report for the Depot Town Downtown Development Authority is not available.
- c. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is selected by the City Council. A complete financial report for the Economic Development Corporation is not available.
- d. The Brownfield Redevelopment Authority was established pursuant to Public Act 381 of 1996. The Authority was created to promote revitalization of environmentally distressed areas within the boundaries of the City. The Authority is funded primarily by rental revenues. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. A complete financial report for the Brownfield Redevelopment Authority is not available.

### **Government-wide and Fund Financial Statements**

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

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

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 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 and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

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

**Land Revolving Fund** - The Land Revolving Fund accounts for activity related to the purchase and development of various properties located within the City. Revenues come from various grants and proceeds from sale of land.

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

**2003-B Capital Improvement Bonds and 2003 General Obligation Construction Funds** - These funds account for construction and maintenance activity of specific roads and water projects within the City funded by the various bond issues.

Additionally, the City reports the following fund types:

**Internal Service Funds** - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

**Police and Fire Retirement System Fund** - The Police and Fire Retirement System Fund accounts for the activities of the police and fire employees' retirement system. This fund accumulates resources for pension benefit payments to qualified police and fire employees through the collection of property tax revenues.

**Trust and Agency Fund** - The Trust and Agency Fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, and other governments. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

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 other funds of the City for various services. Operating expenses for proprietary funds include the cost of these services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

#### 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, based on quoted market price.

**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." All trade receivables are shown net of allowance for uncollectible amounts.

**Property Taxes** - The 2004 taxable valuation of the City totaled approximately \$345.2 million, a portion of which is captured by the Downtown Development Authority. Property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 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 they are added to the county tax rolls.

	<u>Millage Rate</u>	<u>Levy</u>
Operating	19.0937	\$ 6,590,779
Police and Fire Pension Fund	1.7197	593,607
YCUA Debt	<u>0.7139</u>	<u>246,425</u>
Total General Fund	21.5273	7,430,811
Sanitation - Nonmajor Special Revenue Funds	2.7921	963,779
Street Debt - Nonmajor Debt Service Funds	<u>3.5967</u>	<u>1,241,512</u>
Total nonmajor funds	<u>6.3888</u>	<u>2,205,291</u>
Total primary government	<u><u>27.9161</u></u>	<u><u>\$ 9,636,102</u></u>

Revenue shown on the financial statements for property taxes are net of related revenues, including administrative fees.

**Inventories and Prepaid Items** - Inventories in the General and Internal Service Funds are valued at cost, on a first-in, first-out basis, which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

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

**Restricted Assets** - The City's outstanding bond issuances require amounts to be set aside for various upcoming debt service payments. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. 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.

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

Infrastructure	15 years
Buildings and improvements	5 to 70 years
Vehicles and equipment	3 to 20 years

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements (see Note 8). 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, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.



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

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

**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 reporting period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Fund Deficits** - The City has accumulated fund deficit in the Community Development Block Grant fund due to expenditures incurred in excess of those reimbursed. The City has earned interest after year end to cover the shortfall in this fund. In addition, the City has an accumulated fund deficit in the 2003-D Water Supply and Sewage Bonds Fund due to the timing of expenditures incurred versus bond issuances. The City intends to issue bonds to cover the shortfall in this fund.

**Construction Code Fees** - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction costs, including an allocation of estimated overhead costs. A summary of current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative shortfall - Beginning of year		\$ (185,778)
Current year building permit revenue		525,054
Related expenses:		
Direct costs	\$ 387,582	
Estimated indirect costs	<u>173,951</u>	
Total construction code expenses		<u>561,533</u>
Cumulative shortfall - End of year		<u>\$ (222,257)</u>

## **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 five 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 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 \$9,843,466 of bank deposits (certificates of deposit, checking and savings accounts) 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. The component units' deposits had a bank balance of \$949,349. The federal depository insurance coverage pertains to all of the deposits of the City; hence, the specific coverage pertaining to the component units, if any, is not determinable.

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

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments for the City and the pension system are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government or agency bond or note	\$ 4,575,026	1.08 years
Commercial paper	1,893,457	25 days
Corporate bonds (pension)	5,365,825	7.67 years
U.S. government or agency bond or note (pension)	2,352,840	2.26 years
Commercial paper (pension)	600,000	25 days

At year end, the average maturity of the investment for the City's component units is as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government or agency bond or note	\$ 368,856	11.9 months

# City of Ypsilanti, Michigan

## Notes to Financial Statements June 30, 2005

### 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. As of year end, the credit quality ratings of debt securities (other than the U.S. government) for the City and the pension system are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 2,165,818	Aaa	Moody's
Bank investment pool	481,395	AI	S&P
Commercial paper	1,893,457	AI +	S&P
U.S. gov. or agency bond or note	4,323,828	Not rated	N/A
Bank investment pool (pension)	121,186	AI	S&P
Mutual fund (pension)	4,686,008	Not rated	N/A
Mutual fund (pension)	30,678	AAA	Moody's
U.S. government or agency bond or note (pension)	393,288	Not rated	N/A
Commercial paper (pension)	600,000	AI +	S&P
Real estate investment trusts (pension)	360,324	Not rated	N/A
Foreign mutual funds (pension)	5,940,348	Not rated	N/A
Corporate bonds (pension)	218,121	AAA	Moody's
Corporate bonds (pension)	519,151	AA1	Moody's
Corporate bonds (pension)	478,184	AA3	Moody's
Corporate bonds (pension)	1,178,355	A3	Moody's
Corporate bonds (pension)	758,892	A2	Moody's
Corporate bonds (pension)	570,033	AI	Moody's
Corporate bonds (pension)	1,177,411	BAA2	Moody's
Corporate bonds (pension)	465,675	BAA3	Moody's

As of year end, the credit quality rating of debt securities (other than the U.S. government) for the City's component units is as follows:

**Concentration of Credit Risk** - The City places no limit on the amount it may invest in any one issuer. More than 5 percent of the City's investments are in GE commercial paper; these investments are 20.77 percent of the City's total investments.

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

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency-denominated investments to 20 percent of total pension system investments. The following securities are subject to foreign currency risk:

<u>Security</u>	<u>Foreign Currency</u>	<u>Fair Value</u>
Foreign mutual funds	Various	\$ 5,940,348

### Note 4 - Receivables/Deferred Revenue

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Special assessments	\$ 86,140	\$ -	\$ 86,140
Grant received prior to meeting all eligibility requirements	<u>-</u>	<u>285,799</u>	<u>285,799</u>
Total	<u>\$ 86,140</u>	<u>\$ 285,799</u>	<u>\$ 371,939</u>

# City of Ypsilanti, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Capital Assets

Capital asset activity of the City's governmental activities was as follows:

	Balance July 1, 2004	Additions and Reclassifications	Disposals and Adjustments	Balance June 30, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 755,585	\$ -	\$ -	\$ 755,585
Construction in progress	7,501,281	5,455,852	1,591,913	11,365,220
Subtotal	8,256,866	5,455,852	1,591,913	12,120,805
Capital assets being depreciated:				
Infrastructure	18,768,019	1,782,453	-	20,550,472
Buildings and improvements	5,732,901	212,532	67,200	5,878,233
Vehicles and equipment	5,660,313	102,186	93,356	5,669,143
Subtotal	30,161,233	2,097,171	160,556	32,097,848
Accumulated depreciation:				
Infrastructure	11,165,765	704,243	-	11,870,008
Buildings and improvements	1,957,825	147,075	5,120	2,099,780
Vehicles and equipment	3,832,683	510,755	86,712	4,256,726
Subtotal	16,956,273	1,362,073	91,832	18,226,514
Net capital assets being depreciated	13,204,960	735,098	68,724	13,871,334
Net capital assets	\$ 21,461,826	\$ 6,190,950	\$ 1,660,637	\$ 25,992,139

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

Governmental activities:	
General government	\$ 82,650
Public safety	225,435
Community maintenance	403,881
Highways, streets, and bridges	547,513
Culture and recreation	102,594
Total governmental activities	<u>\$ 1,362,073</u>

# City of Ypsilanti, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The City has various active construction projects at year end. The City's construction projects include the 2003 Unlimited Tax Bond issuance, which is being used for a variety of major and local road improvements. At year end, the City's commitments with contractors are as follows:

	<u>Total</u>		<u>Remaining</u>
	<u>Commitment</u>	<u>Spent to Date</u>	<u>Commitment</u>
Major and local road improvements (2003 Unlimited Tax Bonds)	\$ 8,634,362	\$ 8,084,204	\$ 550,158

In addition, the City issued approximately \$7,100,000 of debt in the current year for various improvements to the YCUA plant (see Note 11). The proceeds of the debt were directly forwarded to YCUA, which is responsible for administering the improvements and for paying the debt service requirements.

Capital asset activity of the City's component unit activities was as follows:

	<u>Balance</u>		<u>Disposals and</u>	<u>Balance</u>
	<u>July 1, 2004</u>	<u>Additions</u>	<u>Adjustments</u>	<u>June 30, 2005</u>
Component units:				
Capital assets not being depreciated:				
Land	\$ 53,200	\$ -	\$ -	\$ 53,200
Construction in progress	-	153,279	-	153,279
Subtotal	53,200	153,279	-	206,479
Capital assets being depreciated -				
Buildings and improvements	1,723,872	46,432	-	1,770,304
Accumulated depreciation -				
Buildings and improvements	599,960	69,792	-	669,752
Net capital assets being depreciated	1,123,912	(23,360)	-	1,100,552
Net capital assets	<u>\$ 1,177,112</u>	<u>\$ 129,919</u>	<u>\$ -</u>	<u>\$ 1,307,031</u>

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Community Development Block Grant Fund	\$ 129,660
	2001 General Obligations Bonds - Roads Fund	142,307
	2003-D Water Supply and Sewage Bonds Fund	67,785
	2003 General Obligation Water Capital Improvement Bonds Fund	3,946
	2003 Unlimited Tax Bonds Fund	36,624
	2003-C Water Supply and Sewer Fund	10,040
	2004-B Water & Sewer Fund	<u>86,431</u>
Total General Fund		476,793
2003 General Obligation Construction Bonds Fund	2004-A Revenue Bonds - Water Fund	35,391
	2003-D Water Supply and Sewage Bonds Fund	<u>326,670</u>
Total 2003 General Obligation Construction Bonds Fund		<u>362,061</u>
Total		<u><u>\$ 838,854</u></u>

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



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

#### Interfund Transfers

	Transfers Out			Total
	General Fund	Land Revolving Fund	Other	
			Nonmajor Governmental Funds	
Transfers in:				
General Fund (1)	\$ -	\$ -	\$ 4,337	\$ 4,337
Land Revolving Fund (1)	-	-	560,406	560,406
2003-B Capital Improvement Bonds Fund (2)	-	225,723	-	225,723
2003 General Obligation Construction Fund (1)	-	-	284,902	284,902
Other nonmajor governmental funds (1) (2)	<u>581,072</u>	<u>222,072</u>	<u>476,829</u>	<u>1,279,973</u>
Total governmental funds	581,072	447,795	1,326,474	2,355,341
Proprietary Fund - Internal Service Fund - Motor Pool (1)	-	-	17,803	17,803
Total	<u>\$ 581,072</u>	<u>\$ 447,795</u>	<u>\$ 1,344,277</u>	<u>\$ 2,373,144</u>

The following describes the nature of the transfers:

- (1) Transfers for capital improvements and expenditures
- (2) Transfers for debt service

### Note 7 - Contingency

The City is a defendant in several property tax appeal lawsuits. The amount of the liability to the City is undeterminable as of year end; however, an unfavorable outcome could have a material impact on the City's financial position. No provision has been made in the accompanying financial statements for potential liabilities, if any, which may arise from these remaining suits and asserted claims.

The City has undertaken a large-scale urban redevelopment project known as the Water Street Redevelopment Project. In an effort to transform a blighted, contaminated area into a vibrant urban neighborhood, the City has incurred and is likely to continue to incur costs associated with environmental remediation of the areas included in the project. The City has obtained cost estimates for the remediation from environmental consultants, which indicate that the remaining costs could range from \$800,000 to \$1,300,000. Environmental remediation costs of \$1,300,000 have been accrued by the City.

### Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital projects. 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. The Water and Sewer revenue bonds involve a pledge of specific income from YCUA (see Note 11) derived from the acquired or constructed assets to pay the debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
General obligation bonds:							
2001 Paving Unlimited Tax Bonds: Amount of Issue - \$8,465,000 Maturing through 2017	4.00% - 4.75%	\$400,000 - \$710,000	\$ 6,875,000	\$ -	\$ (380,000)	\$ 6,495,000	\$ 400,000
2002 Taxable Capital Improvement Bonds: Amount of Issue - \$4,000,000 Maturing through 2017	-%	\$-	4,000,000	-	(4,000,000)	-	-
2002 Limited Tax Capital Improvement Bonds: Amount of Issue - \$400,000 Maturing through 2017	3.00% - 4.60%	\$20,000 - \$35,000	380,000	-	(20,000)	360,000	20,000
2003 Unlimited Tax Bonds: Amount of Issue - \$8,465,000 Maturing through 2018	2.375% - 4.375%	\$410,000 - \$815,000	8,155,000	-	(395,000)	7,760,000	410,000
2003 Taxable Capital Improvement Bonds: Amount of Issue - \$2,000,000 Maturing through 2023	3.50% - 5.00%	\$35,000 - \$210,000	2,000,000	-	-	2,000,000	-
2003 CDBG Loan: Amount of Issue - \$2,750,350 Amount of total draw available - \$2,750,350 Maturing through 2025	4.00%	\$119,440 - \$199,655	2,308,324	442,026	-	2,750,350	-
2003-B Taxable Capital Improvement Bonds: Amount of Issue - \$4,400,000 Maturing through 2024	2.85% - 5.75%	\$110,000 - \$385,000	4,400,000	-	-	4,400,000	-
2004-A General Obligation Refunding Bonds: Amount of Issue - \$4,680,000 Maturing through 2017	3.00% - 4.00%	\$475,000 - \$620,000	-	4,680,000	-	4,680,000	-
2004-B General Obligation Refunding Bonds: Amount of Issue - \$2,020,000 Maturing through 2017	4.00% - 5.125%	\$85,000 - \$370,000	-	2,020,000	-	2,020,000	-
Revenue bonds:							
2001 Water & Sewer System: Amount of Issue - \$4,000,000 Maturing through 2027	4.00% - 6.00%	\$30,000 - \$345,000	3,980,000	-	(25,000)	3,955,000	30,000
2002-A Water & Sewer System: Amount of Issue - \$5,000,000 Maturing through 2027	4.00% - 5.00%	\$40,000 - \$415,000	4,970,000	-	(35,000)	4,935,000	40,000
2002-B Water & Sewer System: Amount of Issue - \$485,000 Maturing through 2021	2.50%	\$20,000 - \$30,000	460,000	-	(20,000)	440,000	20,000
2002-C Water & Sewer System: Amount of Issue - \$8,660,000 Maturing through 2027	4.00% - 5.00%	\$200,000 - \$585,000	8,470,000	-	(190,000)	8,280,000	200,000
2003-A Water & Sewer System: Amount of Issue - \$4,800,000 Maturing through 2014	1.20% - 4.10%	\$95,000 - \$525,000	4,800,000	-	(95,000)	4,705,000	95,000
2003-B Water & Sewer System: Amount of Issue - \$1,500,000 Maturing through 2023	3.50% - 4.25%	\$25,000 - \$145,000	1,500,000	-	-	1,500,000	25,000
2003-C Water & Sewer System: Amount of Issue - \$785,000 Maturing through 2023	2.50%	\$30,000 - \$50,000	645,349	120,968	(30,000)	736,317	30,000

### Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities (Continued):							
2003-D Water & Sewer System: Amount of Issue - \$5,300,000 Maturing through 2023	2.50%	\$210,000 - \$330,000	\$ 4,286,163	\$ 669,872	\$ (205,000)	\$ 4,751,035	\$ 210,000
2004-B Water & Sewer System: Amount of Issue - \$6,330,000 Maturing through 2025	2.13%	\$255,000 - \$385,000	-	6,330,000	-	6,330,000	255,000
2004-A Water & Sewer System: Amount of Issue - \$2,700,000 Maturing through 2028	3.30% - 4.55%	\$55,000 - \$200,000	2,700,000	-	-	2,700,000	55,000
County contractual obligations:							
YCUA Washtenaw County Series I * Maturing through 2007	5.10%	\$187,824 - \$204,478	582,362	-	(190,060)	392,302	187,824
YCUA Washtenaw County Series II * Maturing through 2007	4.05% - 4.20%	\$34,658 - \$66,515	130,241	-	(29,068)	101,173	34,658
Installment purchase agreement - 2000 DPW Office and City Hall: Amount of Issue - \$835,000 Maturing through 2010							
	5.44%	\$84,760 - \$105,059	553,494	-	(80,334)	473,160	84,760
Land contracts:							
2002 34,36, 40 Water Street Contract: Amount of Issue - \$484,175 Maturing through 2012	-%	\$-	484,175	-	(484,175)	-	-
2004 200-214 E. Michigan Ave Contract: Amount of Issue - \$1,300,000 Maturing through 2011	-%	\$-	1,300,000	-	(1,300,000)	-	-
Capital lease - 1996 Fire Truck: Amount of Issue - \$199,924 Maturing through 2006							
	5.37%	\$25,016	48,756	-	(23,740)	25,016	25,016
Total bonds and other obligations			63,028,864	14,262,866	(7,502,377)	69,789,353	2,122,258
Other long-term obligations:							
Workers' compensation unpaid claims (Note 9)			432,000	189,133	(123,133)	498,000	123,000
Accumulated compensated absences			940,535	-	(41,324)	899,211	346,360
Total other long-term obligations			1,372,535	189,133	(164,457)	1,397,211	469,360
Total governmental activities			\$ 64,401,399	\$ 14,451,999	\$ (7,666,834)	\$ 71,186,564	\$ 2,591,618

\* Debt service requirements are determined annually based on contractual provisions. Therefore, amounts due within one year and the total amount due are estimates based on prior payments made.

Component unit long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component unit activities:							
General obligation bonds:							
1994 Downtown Development Limited Tax G.O. Bonds:							
Amount of Issue - \$825,000 Maturing through 2014	6.00% - 6.40%	\$40,000 - \$80,000	\$ 560,000	\$ -	\$ (40,000)	\$ 520,000	\$ 40,000
2004-A Downtown Development Limited Tax G.O. Bonds:							
Amount of Issue - \$995,000 Maturing through 2024	3.40% - 4.60%	\$15,000 - \$80,000	995,000	-	-	995,000	15,000
Revenue bonds:							
2000 Depot Town Downtown Development Authority Tax Increment Revenue Bond:							
Amount of Issue - \$210,000 Maturing through 2016	6.00%	\$11,248 - \$19,275	168,386	-	(10,699)	157,687	11,248
Total component unit activities			\$ 1,723,386	\$ -	\$ (50,699)	\$ 1,672,687	\$ 66,248

# City of Ypsilanti, Michigan

## Notes to Financial Statements June 30, 2005

### Note 8 - Long-term Debt (Continued)

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

	Governmental Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 2,122,258	\$ 2,613,128	\$ 4,735,386	\$ 66,248	\$ 82,709	\$ 148,957
2007	2,760,427	2,572,969	5,333,396	76,941	79,106	156,047
2008	2,619,365	2,498,502	5,117,867	92,678	74,944	167,622
2009	3,439,569	2,422,348	5,861,917	98,460	90,042	188,502
2010	3,667,099	2,360,440	6,027,539	109,290	64,837	174,127
2011-2015	20,558,685	10,090,452	30,649,137	605,813	226,503	832,316
2016-2020	17,574,639	6,298,752	23,873,391	318,257	110,710	428,967
2021-2025	12,906,961	3,024,643	15,931,604	305,000	35,775	340,775
2026-2028	4,140,350	299,658	4,440,008	-	-	-
Total	<u>\$ 69,789,353</u>	<u>\$ 32,180,892</u>	<u>\$ 101,970,245</u>	<u>\$ 1,672,687</u>	<u>\$ 764,626</u>	<u>\$ 2,437,313</u>

**Advance and Current Refundings** - During the year, the City issued \$6,700,000 in general obligation bonds with an average interest rate of 4.06 percent. A total of \$1,784,175 of the proceeds was used to retire outstanding installment purchase obligations with an average interest rate of 5.25 percent. The remaining proceeds of these bonds were used to advance refund \$4,000,000 of capital improvement bonds with an average interest rate of 4.875 percent. The net proceeds of approximately \$4,120,000 (after payment of approximately \$220,000 in underwriting fees, insurance, and other issuance costs and approximately \$579,000 for depositing funds into the City's Debt Service Funds to meet certain debt covenants (amounts included in restricted assets, see Note 1) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's long-term obligations. The advance refunding reduced total debt service payments by approximately \$573,000, which represents an economic gain of approximately \$776,000.

### 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 claims, and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property and general liability; the City is partially uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 9 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

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

	2005	2004
Unpaid claims - Beginning of year	\$ 432,000	\$ 284,383
Incurred claims (including claims incurred but not reported)	189,133	235,790
Claim payments	<u>(123,133)</u>	<u>(88,173)</u>
Unpaid claims - End of year	<u>\$ 498,000</u>	<u>\$ 432,000</u>

### Note 10 - Defined Benefit Pension Plans and Postretirement Benefits

**Plan Description** - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administered by the City of Ypsilanti Police and Fire Employees' Retirement System (the "System"); this plan covers all full-time police and fire employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information of the System. That report may be obtained by writing to the System at One South Huron Street, Ypsilanti, Michigan 48197.

**Funding Policy** - The obligation to contribute to and maintain the System for these employees was established by the City ordinances and State statute (P.A. 345) and requires a contribution from the employees of 10 percent of gross wages, with the exception of the fire chief, who must contribute 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 17 percent to 19 percent of covered payroll.

### Note 10 - Defined Benefit Pension Plans and Postretirement Benefits (Continued)

**Annual Pension Costs** - The City was not required to make a contribution for the year ended June 30, 2005. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004, using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return; (b) projected salary increases of 4.5 percent to 15.0 percent per year; and (c) 4.5 percent inflation. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a five-year period.

**Reserves** - As of June 30, 2005, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 4,570,933
Reserve for retirees' benefit payments	14,428,242

Trend information is as follows:

	Fiscal Year Ended June 30		
	2005	2004	2003
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

**Plan Description** - The City also participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City not eligible for other retirement systems. 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** - The obligation to contribute to and maintain the MERS for these employees was established by City ordinances and requires a contribution from the employees of 3 percent of the first \$4,200 of annual compensation and 5 percent of compensation over \$4,200.

### Note 10 - Defined Benefit Pension Plans and Postretirement Benefits (Continued)

**Annual Pension Costs** - The City was required to make a contribution to the plan for the year ended June 30, 2005 of \$14,448. This was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include: (a) an 8.0 percent investment rate of return; and (b) projected salary increases of 4.5 percent to 12.9 percent per year including 4.5 percent inflation. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a five-year period.

Three-year trend information is as follows:

	Fiscal Year Ended December 31		
	2004	2003	2002
Municipal Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 15,678,721	\$ 15,107,484	\$ 14,404,059
Actuarial accrued liability (AAL)	\$ 10,303,544	\$ 9,888,040	\$ 9,556,377
Overfunded AAL	\$ 5,375,177	\$ 5,219,444	\$ 4,847,682
Funded ratio	152%	153%	151%
Covered payroll	\$ 2,891,747	\$ 2,910,805	\$ 2,973,876

### Note 11 - Joint Venture

The City is a member of the Ypsilanti Community Utilities Authority (YCUA), which provides water and sewer services to the residents of the City of Ypsilanti and Ypsilanti Township. The participating communities provide annual funding debt service payments based on contractual provisions. Therefore, the total amount due recorded in the government-wide statement of net assets is an estimate, based on historical payments made. During the current year, the City contributed approximately \$247,000 for its debt service. The City appoints members to the joint venture's governing board, who then approve the annual budget.

Complete financial statements for the YCUA can be obtained from the administrative offices at 2777 State Street, Ypsilanti, Michigan.

# City of Ypsilanti, Michigan

## Notes to Financial Statements June 30, 2005

### Note 11 - Joint Venture (Continued)

The City has issued various revenue bonds on behalf of YCUA. Proceeds from the issues are contributed to YCUA for various water and sewer improvements and construction. YCUA reimburses the City annually for debt service payments, with income derived from water and sewer use rates. The City has recorded a lease receivable for the principal balance of the bonds drawn to date by YCUA on its government-wide statement of net assets.

### Note 12 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Currently, 118 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2005, the City made payments for postemployment health benefit premiums of approximately \$690,000. The government obtains health care coverage through private insurers.

### Note 13 - Land Held for Resale

The City is currently involved in a redevelopment project referred to as the Water Street Project. As a part of this project, the City has acquired various parcels of land in the Water Street area, and is in the process of preparing them for resale and redevelopment. As of June 30, 2005, the City has acquired numerous parcels, which are recorded as land held for resale. Acquisition costs are capitalized as well as other costs (legal, consulting, etc.) that are attributable and necessary for the project. The investment is stated at fair value, based on assessed property value (see also Note 7).

### Note 14 - Component Units Unrestricted Net Assets

The component units estimate various amounts will be needed for various projects during the upcoming years for the following purposes:

	Downtown Development Authority	Depot Town Downtown Development Authority
Depot Town Development Area	\$ -	\$ 10,879
TIF	172,115	-
Streetscape - II	258,505	-
West Cross	-	26,215
Operations	26,094	15,905
Total unrestricted net assets	<u>\$ 456,714</u>	<u>\$ 52,999</u>



# City of Ypsilanti, Michigan

## Notes to Financial Statements June 30, 2005

### Note 15 - Designated Fund Balance

The City estimates various amounts will be needed for various projects and needs during the upcoming year from the designated fund balance for the following purposes:

	Nonmajor Funds		
	Major Fund	Retiree	Police Special
	General Fund	Benefits Fund	Revenue Fund
Capital projects	\$ 531,827	\$ -	\$ -
Legal defense	75,000	-	-
Bookstore settlement	94,162	-	-
Vested employee benefits - Vacation and sick	374,533	-	-
Nonvested employee benefits - Vacation and sick	914,635	-	-
Fire and police retiree benefits	-	807,091	-
General City retiree benefits	-	49,037	-
Special operation	-	-	6,867
PSAP 911	-	-	258,774
Drug forfeiture	-	-	575,356
<b>Total</b>	<b>\$ 1,990,157</b>	<b>\$ 856,128</b>	<b>\$ 840,997</b>

### Note 16 - 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 health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### Note 17 - Subsequent Event

Subsequent to year end, the City entered into an agreement with a developer to purchase property data related to the Water Street project. The agreement entails payment of \$725,000 being made over a period of several years, with \$340,000 of the total being contingent upon various factors.

## **Required Supplemental Information**

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# City of Ypsilanti, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues and Transfers</b>				
Property taxes:				
Current taxes	\$ 8,291,980	\$ 7,389,403	\$ 7,422,113	\$ 32,710
Payment in lieu of taxes	45,029	48,949	42,737	(6,212)
Penalties and interest	79,506	72,665	85,929	13,264
Total property taxes	8,416,515	7,511,017	7,550,779	39,762
State-shared revenue	3,274,159	3,116,000	3,230,063	114,063
Federal grants	230,815	253,614	246,023	(7,591)
State grants	8,750	8,000	8,469	469
Licenses and permits	539,534	707,776	750,293	42,517
Charges for services:				
State fire protection	150,624	132,346	132,346	-
Fines and costs	443,033	427,743	451,753	24,010
Recreation program fees	17,598	93,059	113,987	20,928
Parking fines	139,545	165,000	225,384	60,384
Total charges for services	750,800	818,148	923,470	105,322
Other revenue:				
Increase in fair value of investments	-	-	153,078	153,078
Interest	65,000	210,000	284,731	74,731
Other	297,326	381,796	427,065	45,269
Total other revenue	362,326	591,796	864,874	273,078
Transfers	-	-	4,337	4,337
Total revenue and transfers	13,582,899	13,006,351	13,578,308	571,957
<b>Expenditures and Transfers</b>				
Administration:				
City Council	109,309	114,051	114,728	(677)
City Manager	220,074	230,962	227,595	3,367
Community services	600	600	400	200
Elections	73,104	105,045	89,669	15,376
Finance - Accounting	213,698	234,613	231,236	3,377
Finance - Assessing	118,871	118,881	121,779	(2,898)
City Clerk	162,029	116,196	130,256	(14,060)
Human resources	138,762	143,865	164,489	(20,624)
Finance - Treasurer	170,486	313,854	312,316	1,538
Museum archives	-	6,810	7,820	(1,010)
Planning and development	299,075	298,108	297,768	340
Total administration	1,506,008	1,682,985	1,698,056	(15,071)

# City of Ypsilanti, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Expenditures and Transfers (Continued)</b>				
Fire:				
Administration	\$ 235,261	\$ 234,831	\$ 236,043	\$ (1,212)
Suppression	<u>2,006,472</u>	<u>2,124,695</u>	<u>2,112,357</u>	<u>12,338</u>
Total fire	2,241,733	2,359,526	2,348,400	11,126
Building/Ordinance:				
Ordinance enforcement	129,316	134,346	136,760	(2,414)
Building inspection	<u>368,469</u>	<u>388,469</u>	<u>387,582</u>	<u>887</u>
Total building/ordinance	497,785	522,815	524,342	(1,527)
Legal:				
General	49,670	49,670	49,670	-
Ordinance prosecution	105,060	105,060	105,060	-
Litigation and appeals	190,000	185,000	148,056	36,944
Personnel legal	<u>62,500</u>	<u>62,500</u>	<u>50,204</u>	<u>12,296</u>
Total legal	407,230	402,230	352,990	49,240
Other:				
Bonds, insurance, and workers' compensation	713,248	784,635	739,790	44,845
Debt administration	247,005	247,002	247,002	-
Transit and other	186,970	213,632	213,656	(24)
Transfers and contributions	<u>572,622</u>	<u>608,072</u>	<u>595,072</u>	<u>13,000</u>
Total other	1,719,845	1,853,341	1,795,520	57,821
Police:				
Administration	331,800	329,577	320,178	9,399
Field services	3,747,588	3,740,090	3,535,443	204,647
Forrest Knoll/Arbor Manor	22,341	22,509	13,947	8,562
Local Law Enforcement Block Grant	-	63,351	74,298	(10,947)
Parking enforcement	103,778	103,778	98,382	5,396
LAWNET Grant	87,247	88,303	87,251	1,052
Homeland Security Grant - YPD	-	32,000	16,120	15,880
Vacant/Abandoned Building Training Grant	-	6,000	-	6,000
School Liaison Great Grant	83,784	88,032	67,968	20,064
Domestic Violence Grant	<u>-</u>	<u>21,025</u>	<u>21,396</u>	<u>(371)</u>
Total police	4,376,538	4,494,665	4,234,983	259,682
Public works:				
Public building maintenance	422,525	353,314	284,612	68,702
Administration	374,208	395,246	367,673	27,573
Street lighting	405,000	395,000	421,973	(26,973)
Parks	<u>290,487</u>	<u>302,649</u>	<u>282,096</u>	<u>20,553</u>
Total public works	1,492,220	1,446,209	1,356,354	89,855

# City of Ypsilanti, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Expenditures and Transfers (Continued)</b>				
Recreation:				
Administration	\$ 15,993	\$ 12,738	\$ 11,134	\$ 1,604
Swimming pool	-	60,463	78,684	(18,221)
Parkridge	-	51,825	55,065	(3,240)
Community fellowship	-	26,400	32,363	(5,963)
Washtenaw County Parkridge Grant	-	50,004	47,247	2,757
Roots-N-Shoots	10,000	13,406	13,406	-
Senior center	-	42,458	42,049	409
Rose Foundation	-	4,320	2,623	1,697
Freight House	-	13,257	13,257	-
Freight House Café	-	7,704	6,319	1,385
Total recreation	<u>25,993</u>	<u>282,575</u>	<u>302,147</u>	<u>(19,572)</u>
Total expenditures and transfers	<u>12,267,352</u>	<u>13,044,346</u>	<u>12,612,792</u>	<u>431,554</u>
<b>Excess of Revenues and Transfers</b>				
<b>Over (Under) Expenditures and Transfers</b>	1,315,547	(37,995)	965,516	<b><u>\$ 1,003,511</u></b>
<b>Fund Balance - Beginning of year</b>	<u>2,711,294</u>	<u>2,711,294</u>	<u>2,711,294</u>	
<b>Fund Balance - End of year</b>	<b><u>\$ 4,026,841</u></b>	<b><u>\$ 2,673,299</u></b>	<b><u>\$ 3,676,810</u></b>	

The budget statement (budgetary comparison schedule - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

# City of Ypsilanti, Michigan

## Note to Required Supplemental Information Year Ended June 30, 2005

### Note - 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. 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. During the current year, the budget was amended in a legally permissible manner.

The budget has been adopted on a fund total basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budgets as adopted by the City Council for the General Fund is included in the required supplemental information. This comparison is presented in more detail than the adopted budget for management analysis only. A comparison of the actual results of operations to the Special Revenue Funds budgets as adopted by the City Council is available at the city hall for inspection.

During the year, the City did not have significant expenditure budget variances.

The following is a reconciliation of the budget statement to the statement of revenue, expenditures, and changes in fund balances:

	General Fund	
	Total Revenue	Total Expenditures
Amounts per statement of revenue, expenditures, and changes in fund balances	\$ 13,573,971	\$ 12,031,720
Operating transfers budgeted as expenditures	-	581,072
Operating transfers budgeted as revenue	4,337	-
Amounts per budget statement as adopted	<u>\$ 13,578,308</u>	<u>\$ 12,612,792</u>

# City of Ypsilanti, Michigan

## Required Supplemental Information Schedule of Funding Progress Police and Fire Retirement System Year Ended June 30, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/99	\$ 30,351,193	\$ 27,010,112	\$ (3,341,081)	112.4	\$ 3,855,156	(86.7)
06/30/00	32,440,367	26,204,216	(6,236,151)	123.8	3,728,601	(167.3)
06/30/01	34,479,264	26,933,083	(7,546,181)	128.0	3,813,904	(197.9)
06/30/02	34,970,658	27,899,273	(7,071,385)	125.3	3,858,409	(183.3)
06/30/03	33,916,996	29,020,485	(4,896,511)	116.9	4,003,846	(122.3)
06/30/04	32,569,762	31,251,133	(1,318,629)	104.2	3,891,478	(33.9)

The schedule of employer contributions is as follows:

Fiscal Years Ended June 30	Actuarial Valuation Date June 30	Annual Required Contribution	Percentage Contributed
2000	1998	\$ 529,048	100.0
2001	1999	477,827	100.0
2002	2000	-	100.0
2003	2001	-	100.0
2004	2002	-	100.0
2005	2003	-	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age actuarial cost
Amortization method	Level percent
Remaining amortization period	10 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% to 15.0%
*Includes inflation at	4.5%
Cost of living adjustments	None

## **Other Supplemental Information**

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# City of Ypsilanti, Michigan

## Nonmajor Special Revenue Funds

	Major Streets	Local Streets	Garbage and Rubbish Collection	Retiree Benefits	Community Development Block Grant	Police Special Revenue
<b>Assets</b>						
Cash and cash equivalents	\$ 217,251	\$ 84,660	\$ 82,680	\$ 566,275	\$ 121,330	\$ 366,879
Investments	1,440,752	444,990	-	292,573	-	480,261
Land held for resale	-	-	-	-	-	-
Receivables:						
Special assessments	-	-	-	-	-	-
Accrued interest and other	1,260	-	-	1,152	-	-
Due from other governmental units	199,439	88,492	-	-	154,443	-
Restricted assets	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 1,858,702</b>	<b>\$ 618,142</b>	<b>\$ 82,680</b>	<b>\$ 860,000</b>	<b>\$ 275,773</b>	<b>\$ 847,140</b>
<b>Liabilities and Fund Balances (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable	\$ 8,389	\$ 56	\$ 43,772	\$ 3,872	\$ -	\$ -
Accrued and other liabilities	7,426	5,100	8,337	-	-	6,143
Due to other funds	-	-	-	-	129,660	-
Due to other governmental units	-	-	-	-	-	-
Deferred revenue	-	-	-	-	146,450	-
<b>Total liabilities</b>	<b>15,815</b>	<b>5,156</b>	<b>52,109</b>	<b>3,872</b>	<b>276,110</b>	<b>6,143</b>
<b>Fund Balances (Deficit)</b>						
Reserved, reported in:						
Capital Projects Funds:						
Unspent bond proceeds	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Land held for resale	-	-	-	-	-	-
Debt Service Funds - Debt service	-	-	-	-	-	-
Unreserved, reported in:						
Special Revenue Funds:						
Designated	-	-	-	856,128	-	840,997
Undesignated	1,842,887	612,986	30,571	-	(337)	-
Capital Projects Funds	-	-	-	-	-	-
<b>Total fund balances (deficit)</b>	<b>1,842,887</b>	<b>612,986</b>	<b>30,571</b>	<b>856,128</b>	<b>(337)</b>	<b>840,997</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 1,858,702</b>	<b>\$ 618,142</b>	<b>\$ 82,680</b>	<b>\$ 860,000</b>	<b>\$ 275,773</b>	<b>\$ 847,140</b>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005**

Nonmajor Capital Projects Funds

Capital Improvement Reserve	Sidewalk Improvement	2002 General Obligation Capital Improvement Bonds	2003-D Water Supply and Sewage Bonds	2004-A Revenue Bonds - Water	2004-B Water and Sewer	2003 General Obligation Water Capital Improvement Bonds	2003-B Water and Sewer Revenue Bonds
\$ 327,814	\$ 96,040	\$ -	\$ 3,505	\$ 1,079,819	\$ -	\$ 129,826	\$ 68,599
-	116,519	-	-	-	-	-	-
-	-	193,305	-	-	-	115,000	-
-	12,651	-	-	-	-	-	-
-	-	-	67,785	-	86,318	-	-
18,086	4,554	-	-	-	-	-	-
-	-	-	135,567	162,583	86,318	102,979	87,162
<b>\$ 345,900</b>	<b>\$ 229,764</b>	<b>\$ 193,305</b>	<b>\$ 206,857</b>	<b>\$ 1,242,402</b>	<b>\$ 172,636</b>	<b>\$ 347,805</b>	<b>\$ 155,761</b>
\$ 7,899	\$ -	\$ -	\$ 30,836	\$ 160,587	\$ -	\$ 9,347	\$ 28,203
-	-	97,426	-	-	-	-	-
-	-	-	394,455	35,391	86,431	3,946	-
-	-	-	-	-	-	-	-
-	12,651	-	-	-	-	-	-
7,899	12,651	97,426	425,291	195,978	86,431	13,293	28,203
-	-	-	-	883,841	-	116,533	40,396
-	-	-	135,567	162,583	86,318	102,979	87,162
-	-	193,305	-	-	-	115,000	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
338,001	217,113	(97,426)	(354,001)	-	(113)	-	-
338,001	217,113	95,879	(218,434)	1,046,424	86,205	334,512	127,558
<b>\$ 345,900</b>	<b>\$ 229,764</b>	<b>\$ 193,305</b>	<b>\$ 206,857</b>	<b>\$ 1,242,402</b>	<b>\$ 172,636</b>	<b>\$ 347,805</b>	<b>\$ 155,761</b>

# City of Ypsilanti, Michigan

	Nonmajor Capital Projects Funds				Nonmajor Debt Service Funds			
	2003-C Water Supply and Sewer	2002-A Revenue Bonds - Water	2004-A General Obligation Bonds	2004-B General Obligation Bonds	2001 General Obligations Bonds - Roads	2001 Revenue Bonds - Water	2002A Revenue Bonds - Water	2002 Capital Improve- ment Bonds
<b>Assets</b>								
Cash and cash equivalents	\$ 1,228	\$ 89,675	\$ 4,342	\$ 3,377	\$ 124,959	\$ 21,155	\$ 16,135	\$ -
Investments	-	-	-	-	-	-	-	-
Land held for resale	-	-	178,536	1,456,116	-	-	-	-
Receivables:								
Special assessments	-	-	-	-	-	-	-	-
Accrued interest and other	10,040	-	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	33,735	-	-	-
Restricted assets	20,083	-	425,406	233,166	-	388,640	444,174	-
<b>Total assets</b>	<b>\$ 31,351</b>	<b>\$ 89,675</b>	<b>\$ 608,284</b>	<b>\$ 1,692,659</b>	<b>\$ 158,694</b>	<b>\$ 409,795</b>	<b>\$ 460,309</b>	<b>\$ -</b>
<b>Liabilities and Fund Balances (Deficit)</b>								
<b>Liabilities</b>								
Accounts payable	\$ -	\$ 88,831	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	50,684	138,127	-	-	-	-
Due to other funds	10,040	-	-	-	142,307	-	-	-
Due to other governmental units	18,683	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>28,723</b>	<b>88,831</b>	<b>50,684</b>	<b>138,127</b>	<b>142,307</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances (Deficit)</b>								
Reserved:								
Capital Projects Funds:								
Unspent bond proceeds	-	-	4,342	3,377	-	-	-	-
Debt service	20,083	-	425,406	233,166	-	-	-	-
Land held for resale	-	-	178,536	1,456,116	-	-	-	-
Debt Service Funds - Debt service	-	-	-	-	16,387	409,795	460,309	-
Unreserved, reported in:								
Special Revenue Funds:								
Designated	-	-	-	-	-	-	-	-
Undesignated	-	-	-	-	-	-	-	-
Capital Projects Funds	(17,455)	844	(50,684)	(138,127)	-	-	-	-
<b>Total fund balances (deficit)</b>	<b>2,628</b>	<b>844</b>	<b>557,600</b>	<b>1,554,532</b>	<b>16,387</b>	<b>409,795</b>	<b>460,309</b>	<b>-</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 31,351</b>	<b>\$ 89,675</b>	<b>\$ 608,284</b>	<b>\$ 1,692,659</b>	<b>\$ 158,694</b>	<b>\$ 409,795</b>	<b>\$ 460,309</b>	<b>\$ -</b>

**Other Supplemental Information  
Combining Balance Sheet (Continued)  
Nonmajor Governmental Funds  
June 30, 2005**

Nonmajor Debt Service Funds					
2002 General Obligation Capital Improvement Bonds	2002-B Revenue Bonds - Water	2002-C Water and Sewer Construction	Water Supply and Sewage Refunding Bonds	2003 Unlimited Tax Bonds	Total Governmental Funds
\$ 3	\$ 1,443	\$ 19,669	\$ 8,465	\$ -	\$ 3,435,129
-	-	-	-	-	2,775,095
-	-	-	-	-	1,942,957
-	-	-	-	-	12,651
-	-	-	-	-	166,555
-	-	-	-	40,034	538,783
-	44,395	611,413	281,466	-	3,023,352
<b>\$ 3</b>	<b>\$ 45,838</b>	<b>\$ 631,082</b>	<b>\$ 289,931</b>	<b>\$ 40,034</b>	<b>\$ 11,894,522</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 381,792
-	-	-	-	-	313,243
-	-	-	-	36,624	838,854
-	-	-	-	-	18,683
-	-	-	-	-	159,101
-	-	-	-	36,624	1,711,673
-	-	-	-	-	1,048,489
-	-	-	-	-	1,253,264
-	-	-	-	-	1,942,957
3	45,838	631,082	289,931	3,410	1,856,755
-	-	-	-	-	1,697,125
-	-	-	-	-	2,486,107
-	-	-	-	-	(101,848)
3	45,838	631,082	289,931	3,410	10,182,849
<b>\$ 3</b>	<b>\$ 45,838</b>	<b>\$ 631,082</b>	<b>\$ 289,931</b>	<b>\$ 40,034</b>	<b>\$ 11,894,522</b>

# City of Ypsilanti, Michigan

## Nonmajor Special Revenue Funds

	Major Streets	Local Streets	Garbage and Rubbish Collection	Retiree Benefits	Community Development Block Grant	Police Special Revenue
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ 960,867	\$ -	\$ -	\$ -
State-shared revenue	1,025,665	302,508	-	-	-	-
Federal grants	-	-	19,250	-	300,000	-
State grants	-	-	-	-	-	71,777
Other revenue	<u>97,787</u>	<u>53,910</u>	<u>14,389</u>	<u>630,184</u>	<u>-</u>	<u>53,515</u>
Total revenue	1,123,452	356,418	994,506	630,184	300,000	125,292
<b>Expenditures</b>						
General administration	-	-	-	690,408	35,000	-
Public safety	-	-	-	-	-	13,466
Community maintenance	-	-	963,935	-	177,413	-
Highways, streets, and bridges	708,832	523,210	-	-	-	-
Debt administration	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>708,832</u>	<u>523,210</u>	<u>963,935</u>	<u>690,408</u>	<u>212,413</u>	<u>13,466</u>
<b>Excess of Revenue Over (Under)</b>						
Expenditures	414,620	(166,792)	30,571	(60,224)	87,587	111,826
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	100,000	-	268,000	-	-
Transfers out	(491,160)	-	-	-	-	(100,246)
Contributions from YCUA	-	-	-	-	-	-
Contributions to YCUA	-	-	-	-	-	-
Payment to escrow agent	-	-	-	-	-	-
Proceeds from the issuance of debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>442,026</u>	<u>-</u>
Total other financing sources (uses)	<u>(491,160)</u>	<u>100,000</u>	<u>-</u>	<u>268,000</u>	<u>442,026</u>	<u>(100,246)</u>
<b>Net Change in Fund Balances (Deficit)</b>	(76,540)	(66,792)	30,571	207,776	529,613	11,580
<b>Fund Balances (Deficit) - Beginning of year</b>	<u>1,919,427</u>	<u>679,778</u>	<u>-</u>	<u>648,352</u>	<u>(529,950)</u>	<u>829,417</u>
<b>Fund Balances (Deficit) - End of year</b>	<u>\$ 1,842,887</u>	<u>\$ 612,986</u>	<u>\$ 30,571</u>	<u>\$ 856,128</u>	<u>\$ (337)</u>	<u>\$ 840,997</u>

**Other Supplemental Information  
Combining Statement of Revenue, Expenditures,  
and Changes in Fund Balances (Deficit)  
Nonmajor Governmental Funds  
Year Ended June 30, 2005**

Nonmajor Capital Projects Funds

Capital Improvement Reserve	Sidewalk Improvement	2002 General Obligation Capital Improvement Bonds	2003-D Water Supply and Sewerage Bonds	2004-A Revenue Bonds - Water	2004-B Water and Sewer	2003 General Obligation Water Capital Improvement Bonds	2003-B Water and Sewer Revenue Bonds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
50,686	-	-	-	-	-	-	-
101,750	-	-	-	-	-	-	-
<u>16,319</u>	<u>48,609</u>	<u>-</u>	<u>114</u>	<u>28,765</u>	<u>-</u>	<u>6,541</u>	<u>2,996</u>
168,755	48,609	-	114	28,765	-	6,541	2,996
112,008	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
451,137	56,171	-	-	5,168	-	473,448	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>316,089</u>	<u>117,767</u>	<u>57,740</u>	<u>93,163</u>	<u>57,863</u>
<u>563,145</u>	<u>56,171</u>	<u>-</u>	<u>316,089</u>	<u>122,935</u>	<u>57,740</u>	<u>566,611</u>	<u>57,863</u>
(394,390)	(7,562)	-	(315,975)	(94,170)	(57,740)	(560,070)	(54,867)
459,503	-	-	57,745	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	383,875	117,767	143,945	-	57,863
-	-	-	(524,329)	(1,037,640)	(4,836,051)	-	(198,044)
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>669,872</u>	<u>-</u>	<u>6,330,000</u>	<u>-</u>	<u>-</u>
<u>459,503</u>	<u>-</u>	<u>-</u>	<u>587,163</u>	<u>(919,873)</u>	<u>1,637,894</u>	<u>-</u>	<u>(140,181)</u>
65,113	(7,562)	-	271,188	(1,014,043)	1,580,154	(560,070)	(195,048)
<u>272,888</u>	<u>224,675</u>	<u>95,879</u>	<u>(489,622)</u>	<u>2,060,467</u>	<u>(1,493,949)</u>	<u>894,582</u>	<u>322,606</u>
<b>\$ 338,001</b>	<b>\$ 217,113</b>	<b>\$ 95,879</b>	<b>\$ (218,434)</b>	<b>\$ 1,046,424</b>	<b>\$ 86,205</b>	<b>\$ 334,512</b>	<b>\$ 127,558</b>

# City of Ypsilanti, Michigan

	Nonmajor Capital Projects Funds				Nonmajor Debt Service Funds			
	2003-C Water Supply and Sewer	2002-A Revenue Bonds - Water	2004-A General Obligation Bonds	2004-B General Obligation Bonds	2001 General Obligations Bonds - Roads	2001 Revenue Bonds - Water	2002A Revenue Bonds - Water	2002 Capital Improve- ment Bonds
<b>Revenue</b>								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 580,539	\$ -	\$ -	\$ -
State-shared revenue	-	-	-	-	-	-	-	-
Federal grants	-	-	-	-	-	-	-	-
State grants	-	-	-	-	-	-	-	-
Other revenue	<u>1,209</u>	<u>1,780</u>	<u>5,322</u>	<u>2,648</u>	<u>-</u>	<u>7,183</u>	<u>8,069</u>	<u>1,013</u>
Total revenue	1,209	1,780	5,322	2,648	580,539	7,183	8,069	1,013
<b>Expenditures</b>								
General administration	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Community maintenance	-	-	3,203	-	-	-	-	-
Highways, streets, and bridges	-	-	-	-	-	-	-	-
Debt administration	<u>49,190</u>	<u>-</u>	<u>207,685</u>	<u>114,235</u>	<u>672,225</u>	<u>223,936</u>	<u>277,113</u>	<u>103,236</u>
Total expenditures	<u>49,190</u>	<u>-</u>	<u>210,888</u>	<u>114,235</u>	<u>672,225</u>	<u>223,936</u>	<u>277,113</u>	<u>103,236</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	(47,981)	1,780	(205,566)	(111,587)	(91,686)	(216,753)	(269,044)	(102,223)
<b>Other Financing Sources (Uses)</b>								
Transfers in	-	-	110,807	249,188	-	-	-	-
Transfers out	(57,745)	-	(509,722)	-	-	-	-	(185,404)
Contributions from YCUA	59,230	-	-	-	-	223,936	277,113	-
Contributions to YCUA	(63,506)	(1,142)	-	-	-	-	-	-
Payment to escrow agent	-	-	(3,517,919)	(603,069)	-	-	-	-
Proceeds from the issuance of debt	<u>120,968</u>	<u>-</u>	<u>4,680,000</u>	<u>2,020,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>58,947</u>	<u>(1,142)</u>	<u>763,166</u>	<u>1,666,119</u>	<u>-</u>	<u>223,936</u>	<u>277,113</u>	<u>(185,404)</u>
<b>Net Change in Fund Balances (Deficit)</b>	10,966	638	557,600	1,554,532	(91,686)	7,183	8,069	(287,627)
<b>Fund Balances (Deficit) - Beginning of year</b>	<u>(8,338)</u>	<u>206</u>	<u>-</u>	<u>-</u>	<u>108,073</u>	<u>402,612</u>	<u>452,240</u>	<u>287,627</u>
<b>Fund Balances (Deficit) - End of year</b>	<u>\$ 2,628</u>	<u>\$ 844</u>	<u>\$ 557,600</u>	<u>\$ 1,554,532</u>	<u>\$ 16,387</u>	<u>\$ 409,795</u>	<u>\$ 460,309</u>	<u>\$ -</u>

**Other Supplemental Information  
Combining Statement of Revenue, Expenditures,  
and Changes in Fund Balances (Deficit) (Continued)  
Nonmajor Governmental Funds  
Year Ended June 30, 2005**

Nonmajor Debt Service Funds					
2002 General Obligation Capital Improvement Bonds	2002-B Revenue Bonds - Water	2002-C Water and Sewer Construction	Water Supply and Sewage Refunding Bonds	2003 Unlimited Tax Bonds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 687,299	\$ 2,228,705
-	-	-	-	-	1,328,173
-	-	-	-	-	369,936
-	-	-	-	-	173,527
<u>3</u>	<u>804</u>	<u>11,063</u>	<u>5,692</u>	<u>-</u>	<u>997,915</u>
3	804	11,063	5,692	687,299	5,098,256
-	-	-	-	-	837,416
-	-	-	-	-	13,466
-	-	-	-	-	2,130,475
-	-	-	-	-	1,232,042
<u>34,730</u>	<u>31,250</u>	<u>570,050</u>	<u>253,955</u>	<u>687,891</u>	<u>3,868,118</u>
<u>34,730</u>	<u>31,250</u>	<u>570,050</u>	<u>253,955</u>	<u>687,891</u>	<u>8,081,517</u>
(34,727)	(30,446)	(558,987)	(248,263)	(592)	(2,983,261)
34,730	-	-	-	-	1,279,973
-	-	-	-	-	(1,344,277)
-	31,250	570,050	253,955	-	2,118,984
-	-	-	-	-	(6,660,712)
-	-	-	-	-	(4,120,988)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,262,866</u>
<u>34,730</u>	<u>31,250</u>	<u>570,050</u>	<u>253,955</u>	<u>-</u>	<u>5,535,846</u>
3	804	11,063	5,692	(592)	2,552,585
<u>-</u>	<u>45,034</u>	<u>620,019</u>	<u>284,239</u>	<u>4,002</u>	<u>7,630,264</u>
<b><u>\$ 3</u></b>	<b><u>\$ 45,838</u></b>	<b><u>\$ 631,082</u></b>	<b><u>\$ 289,931</u></b>	<b><u>\$ 3,410</u></b>	<b><u>\$ 10,182,849</u></b>



# City of Ypsilanti, Michigan

## Other Supplemental Information Combining Statement of Net Assets Proprietary Funds - Internal Service Funds June 30, 2005

	Motor Pool	Self-insurance Workers' Compensation	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 839,092	\$ 129,327	\$ 968,419
Investments	1,964,513	900,867	2,865,380
Prepaid expenses and other assets	16,766	3,658	20,424
Inventory	18,486	-	18,486
Total current assets	2,838,857	1,033,852	3,872,709
Noncurrent assets - Capital assets (Net)	1,206,560	-	1,206,560
Total assets	4,045,417	1,033,852	5,079,269
<b>Liabilities</b>			
Current liabilities:			
Accrued and other liabilities	17,220	3,807	21,027
Current portion of long-term debt	25,016	123,000	148,016
Total current liabilities	42,236	126,807	169,043
Noncurrent liabilities - Long-term debt - Net of current portion	-	375,000	375,000
Total liabilities	42,236	501,807	544,043
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	1,181,544	-	1,181,544
Unrestricted	2,821,637	532,045	3,353,682
Total net assets	<b>\$ 4,003,181</b>	<b>\$ 532,045</b>	<b>\$ 4,535,226</b>

# City of Ypsilanti, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Proprietary Funds - Internal Service Funds Year Ended June 30, 2005

	Motor Pool	Self-insurance Workers' Compensation	Total
<b>Operating Revenue</b>			
Equipment rental	\$ 1,014,056	\$ -	\$ 1,014,056
Other	-	125,695	125,695
	<u>1,014,056</u>	<u>125,695</u>	<u>1,139,751</u>
Total operating revenue	1,014,056	125,695	1,139,751
<b>Operating Expenses</b>			
Salaries and fringes	132,640	29,648	162,288
Gas, oil, and fuel	93,088	-	93,088
Depreciation	355,856	-	355,856
Operation and maintenance	119,473	6,970	126,443
Contractual services and fees	105,751	82,344	188,095
Insurance, claims, and other	98,042	189,078	287,120
	<u>904,850</u>	<u>308,040</u>	<u>1,212,890</u>
Total operating expenses	904,850	308,040	1,212,890
<b>Operating Income (Loss)</b>	109,206	(182,345)	(73,139)
<b>Nonoperating Revenue (Expense)</b>			
Interest income	226,094	88,196	314,290
Increase in fair value of investments	-	61,506	61,506
Interest expense	(2,618)	-	(2,618)
Gain on disposal of assets	100	-	100
	<u>223,576</u>	<u>149,702</u>	<u>373,278</u>
Total nonoperating revenue	223,576	149,702	373,278
<b>Income (Loss) - Before transfers</b>	332,782	(32,643)	300,139
<b>Transfers from Other Funds</b>	17,803	-	17,803
	<u>350,585</u>	<u>(32,643)</u>	<u>317,942</u>
<b>Change in Net Assets</b>	350,585	(32,643)	317,942
<b>Net Assets - Beginning of year</b>	3,652,596	564,688	4,217,284
<b>Net Assets - End of year</b>	<u>\$ 4,003,181</u>	<u>\$ 532,045</u>	<u>\$ 4,535,226</u>

# City of Ypsilanti, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Proprietary Funds - Internal Service Funds Year Ended June 30, 2005

	Motor Pool	Self-insurance Workers' Compensation	Total
<b>Cash Flows from Operating Activities</b>			
Payments to suppliers and vendors	\$ (431,381)	\$ (92,972)	\$ (524,353)
Payments to employees	(131,805)	(30,338)	(162,143)
Internal activity - Payments from other funds	1,031,859	-	1,031,859
Claims paid	-	(123,078)	(123,078)
Other receipts	-	125,695	125,695
Net cash provided by (used in) operating activities	468,673	(120,693)	347,980
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of capital assets	(88,546)	-	(88,546)
Principal and interest paid on capital debt	(26,358)	-	(26,358)
Net cash used in capital and related financing activities	(114,904)	-	(114,904)
<b>Cash Flows from Investing Activities</b>			
Interest received	226,094	88,196	314,290
Purchases and sales of investments - Net	(74,096)	37,414	(36,682)
Net cash used in investing activities	151,998	125,610	277,608
<b>Net Increase in Cash and Cash Equivalents</b>	505,767	4,917	510,684
<b>Cash and Cash Equivalents - Beginning of year</b>	333,325	124,410	457,735
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 839,092</b>	<b>\$ 129,327</b>	<b>\$ 968,419</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
Operating income (loss)	\$ 109,206	\$ (182,345)	\$ (73,139)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	355,856	-	355,856
Changes in assets and liabilities:			
Prepaid and other assets	6,085	(3,658)	2,427
Inventory	(3,309)	-	(3,309)
Accrued and other liabilities	835	65,310	66,145
Net cash provided by (used in) operating activities	<b>\$ 468,673</b>	<b>\$ (120,693)</b>	<b>\$ 347,980</b>

# **City of Ypsilanti, Michigan**

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**Federal Awards  
Supplemental Information  
June 30, 2005**

# City of Ypsilanti, Michigan

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## Contents

Independent Auditor's Report	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4-5
Schedule of Expenditures of Federal Awards	6-7
Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards	8
Notes to Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs	10-13



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## Independent Auditor's Report

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

We have audited the basic financial statements of the City of Ypsilanti, Michigan for the year ended June 30, 2005 and have issued our report thereon dated October 7, 2005. Those basic financial statements are the responsibility of the management of the City of Ypsilanti, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Ypsilanti, Michigan taken as a whole. 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*

October 7, 2005

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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  
Members of the City Council  
City of Ypsilanti, Michigan

We have audited the financial statements of the City of Ypsilanti, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated October 7, 2005. 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 Ypsilanti, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Ypsilanti, Michigan in a separate letter dated October 7, 2005.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Ypsilanti, 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*. However, we noted certain matters that we reported to the management of the City of Ypsilanti, Michigan in a separate letter dated October 7, 2005.

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

This report is intended solely for the information and use of the City Council, 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*

October 7, 2005



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  
Members of the City Council  
City of Ypsilanti, Michigan

**Compliance**

We have audited the compliance of the City of Ypsilanti, 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, 2005. The major federal programs of the City of Ypsilanti, 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 Ypsilanti, Michigan's management. Our responsibility is to express an opinion on the City of Ypsilanti, 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 Ypsilanti, 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 Ypsilanti, Michigan's compliance with those requirements.

In our opinion, the City of Ypsilanti 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, 2005.

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

However, the results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 05-1 and 05-2. We also noted certain additional matters that we have reported to the management of the City of Ypsilanti in a separate letter dated October 7, 2005.

### **Internal Control Over Compliance**

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, 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*

November 4, 2005

# City of Ypsilanti, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Justice:				
Local Law Enforcement Block Grant	16.592	N/A	\$ 62,965	\$ 62,965
Bullet Proof Vest Grant Partnership Program	16.607	N/A	2,005	1,003
Gang Resistance Education and Training	16.737	N/A	4,250	4,248
Passed through Eastern Michigan University - Prevention of Juvenile Crime and Violence in the Community Grant	16.609	2003-DD-BX-1017	66,500	40,000
Passed through the Michigan Department of Community Health:				
Lawnet Conspiracy Continuation Project	16.579	70771-603B	37,559	10,681
Lawnet Conspiracy Continuation Project	16.579	70771-704B	38,642	<u>32,394</u>
Total passed through Michigan Department of Community Health				<u>43,075</u>
Total U.S. Department of Justice				151,291
U.S. Department of Homeland Security:				
Homeland Security Assistance to Firefighters Grant Program - Fire Prevention and Safety Program	97.044	N/A	31,487	18,626
Passed through Washtenaw County Emergency Management Division - State Domestic Preparedness Equipment Supply Program - Part II Training Grant	97.004	SHSGP II	7,086	7,086
Passed through Washtenaw County Emergency Management Division - 2003 State Domestic Preparedness Equipment Supply Program	97.004	2003 SHSGP	19,020	<u>19,020</u>
Total passed through Washtenaw County Emergency Management Division				<u>26,106</u>
Total U.S. Department of Homeland Security				44,732
U.S. Department of Agriculture - Emerald Ash Borer Tree Removal Grant	10.025	N/A	4,021	4,021
U.S. Department of Natural Resources - Emerald Ash Borer Tree Planting Grant	10.664	N/A	59,628	15,229
U.S. Department of Health and Human Services - Passed through Washtenaw County - Community Services Block Grant	17.259	CR 36701	50,000	50,000

# City of Ypsilanti, Michigan

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2005

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 -				
Community Development Block Grant (CDBG):				
Passed through Michigan Economic Development Corporation -				
Value of CDBG loans outstanding - Prior years' expenditures	14.228	MSC 201017- EDIG	\$ 2,750,350	\$ 2,750,350
Passed through Michigan Economic Development Corporation	14.228	MSC 201017- EDIG	300,000	<u>212,313</u>
Total U.S. Department of Housing and Urban Development				2,962,663
U.S. Department of the Interior, National Park Service - Passed through Michigan Department of History, Arts & Libraries, State Historic Preservation Office - Historic Preservation Fund Grant				
	15.904	CG03-375	30,000	30,000
U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality - Clean Water				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	7112-01	785,000	28,628
	66.468	7122-01	5,300,000	230,962
	66.468	7123-01	6,330,000	<u>1,688,055</u>
Total passed through Michigan Development of Environmental Quality				<u>1,947,645</u>
Total federal awards				<u><b>\$ 5,205,581</b></u>

# City of Ypsilanti, Michigan

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## Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Revenue from federal sources - As reported on financial statements - Includes all funds	\$ 615,959
Federal revenue not reported as such in the financial statements:	
Capitalization Grant Proceeds for Drinking Water Revolving Fund *	1,947,645
Community Development Block Grant/Loans Outstanding*	2,750,350
Community Development Block Grant money spent and earned in prior year not received within 60 days	(87,687)
Environmental Protection Agency funding recorded as deferred revenue in prior years	<u>(20,686)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><b>\$ 5,205,581</b></u>

\* Amount is included as long-term debt in the basic financial statements.

# City of Ypsilanti, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

### Note 1 - Significant Accounting Policies

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

### Note 2 - Loans Outstanding

The institution had the following loan balances outstanding at June 30, 2005. Where required by OMB Circular A-133, these loan balances outstanding are also included in the federal expenditures presented in the schedule of expenditures of federal awards.

Federal Program	CFDA Number	Amount Outstanding
Community Development Block Grant	14.228	\$ 2,750,350

### Note 3 - 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
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 673,679

# City of Ypsilanti, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2005

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds
14.228	Community Development Block Grant

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

Auditee qualified as low-risk auditee?  Yes  No

# City of Ypsilanti, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

### Section II - Financial Statement Audit Findings

None

### Section III - Federal Program Audit Findings

Reference Number	Findings
05-1	<p><b>Program Name</b> - Capitalization Grants for Drinking Water State Revolving Funds; CFDA Number 66.468</p> <p><b>Pass-through Entity</b> - Capitalization Grants for Drinking Water State Revolving Funds passed through Michigan Department of Environmental Quality (MI DEQ)</p> <p><b>Finding Type</b> - Material noncompliance</p> <p><b>Criteria</b> - Grant requirements state that budget amendments should be submitted to the granting agency for review and approval prior to costs being requested for reimbursement.</p> <p><b>Condition</b> - The City incurred costs in excess of budget for various line items and did not submit change orders to the granting agency prior to requesting reimbursement for the excess costs. The granting agency approved the reimbursement requests and indicated that overruns in one category could be covered by underspending in another category as long as the costs were eligible. The granting agency asked that change orders be submitted prior to requesting reimbursement (repeat finding 04-7).</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - The City's adherence to the budget was tested and costs incurred in excess of budget without prior approval were noted. The City also failed to submit change orders to the granting agency prior to requesting reimbursement.</p>



# City of Ypsilanti, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
05-1 (Continued)	<p><b>Cause/Effect</b> - The City did not fully understand the requirements, thus the City requested reimbursement in excess of amounts originally budgeted without approval and neglected to submit change orders prior to requesting reimbursement.</p> <p><b>Recommendation</b> - We recommend the City review its procedures for submitting change orders and budget amendments to the granting agency as necessary prior to requesting reimbursement for costs.</p>
05-2	<p><b>Program Name</b> - Community Development Block Grant; CFDA Number 14.228</p> <p><b>Pass-through Entity</b> - Community Development Block Grant passed through Michigan Economic Development Corporation (MI EDC)</p> <p><b>Finding Type</b> - Material noncompliance</p> <p><b>Criteria</b> - Federal laws require the City to submit and adhere to a budget for each approved activity under the grant. The City is able to request budget amendments prior to costs being incurred in excess of budget as long as the additional costs are allowable-type costs.</p> <p><b>Condition</b> - The City incurred costs in excess of budget for one category of the project without requesting a budget amendment prior to incurring the costs. The client requested budget amendments along with the submission of the final reimbursement request for the excess costs and approval was subsequently received (repeat finding 04-2).</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - The City's adherence to the budget was tested and costs incurred in excess of budget without prior approval were noted.</p> <p><b>Cause/Effect</b> - The grant administrator risked the City being required to fund the excess expenditures by failing to obtain prior amendments for anticipated cost overruns.</p>

# City of Ypsilanti, Michigan

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## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

### Section III – Federal Program Audit Findings (Continued)

Reference Number	Findings
05-2 (Continued)	<b>Recommendation</b> - We recommend that the City be cognizant of the spending to date on each category of the project and request budget amendments from the granting agency prior to incurring expenditures in excess of amounts budgeted.

October 7, 2005

Honorable Mayor and Members of the City Council  
City of Ypsilanti  
One South Huron Street  
Ypsilanti, Michigan, 48197

Dear Council Members:

We have recently completed our audit of the City's financial statements for the year ended June 30, 2005. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration. For your information, we have also provided several legislative issues that could affect the City.

## **ACCOUNTING AND RECORD KEEPING**

### **Interfund Receivables, Payables, and Transfers**

Once again this year, we noted significant interfund balances, as well as single accounts used for numerous interfund balances and transfers. Although some items have been adjusted from last year, we suggest the City further consider the following as part of its monthly accounting procedures in order to minimize the amount of interfund borrowing at each month's end and to simplify the process currently in place.

- Procedures should ensure that a balance and transfer in one fund corresponds to a balance and transfer in another fund, identified in a separate account in each of the funds.
- Common interfund balances within a fund (i.e., a fund has both a due from and a due to the same fund) should be combined through a journal entry.
- If a fund has cash available, pay off or reduce the interfund balance on a regular basis.
- If a fund does not have common interfunds or cash available or the possibility of future cash flows is questionable, the interfunds should be analyzed for potential uncollectability and, if appropriate, adjustments should be made. In effect, the interfund may actually represent a transfer rather than a loan.

Monitoring and liquidating interfund balances will help to make interim and year-end financial reports simpler and easier to understand, ensure that each fund is able to invest and be credited with its share of investment earnings on an equitable basis and avoid cash flow surprises resulting from unexpected demands or needs to liquidate interfund balances.

## **Retirement System**

At June 30, 2005 the investments in foreign securities (mutual funds) are approximately 21% of the police and fire retirement funds total assets. The City's investment policy currently limits investments in foreign securities to 20% of plan assets. The City should consider divesting the securities at a time that will not result in a loss in initial investment or adjust the investment policy to allow a larger percentage of foreign investments.

## **Grants and Other Revenue Sources**

As discussed in the prior year, the City does not have a formal written agreement with YCUA related to the DWRF loans documenting the responsibility for performing the federal programs audit. Since the loans are in the City's name, it is the City's obligation to perform a federal program audit. City management has discussed this issue with YCUA's auditors who again suggest that it would be most efficient to have the Federal Program Audit responsibility fall on the party that is administering, hiring and supervising the projects. In order to do this, the City needs to obtain written documentation from YCUA that confirms this agreement. Finally, although the audit responsibility is moved to YCUA, the City is responsible for ensuring that all Federal Program Audit requirements are met, and therefore should be monitored by the City on a regular basis.

## **Other items**

During our testing of vacation accruals and time taken by employees, we noticed one instance where an employee's request for vacation time was not signed by the department supervisor. We remind the City to maintain the control structure within City's departments; all vacations time request should be signed and agreed to by the applicable department head

## **LEGISLATIVE ISSUES**

### **REVENUE SHARING**

The Governor's budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. In essence, no further reductions to revenue sharing below the current FY 04/05 funding level were being proposed. Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state shared revenue payments revenue sharing and for fiscal years 2004/2005 and 2005/2006 the appropriation in the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. There appears to be no long term solution to the State's structural deficit in its General Fund and as long as this condition exists revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of a changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of

the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

State shared revenue accounts for approximately 23% of the City's total General Fund revenue. The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2001.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	2,519,229	1,451,119	3,970,348	-
2002	2,336,695	1,465,900	3,802,595	(167,753)
2003	2,114,488	1,489,331	3,603,819	(366,529)
2004	1,772,659	1,466,283	3,238,942	(731,406)
2005	1,702,362	1,501,276	3,203,638	(766,710)

We will continue to update the City as future developments occur.

### **TRANSPORTATION MATTERS**

The State is now expecting lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ends September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were 4% behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Funds. The lower than anticipated collections could impact the City's fiscal year 2005/2006 budget.

### **TAX MATTERS**

The centerpiece of the Governor's FY 2005/2006 State of Michigan budget is significant business tax reform of the Michigan Single Business Tax. The Governor's business tax reform proposal appeared to spare local governments from any negative impact of the changes and actually contained a provision to address a loophole in property tax assessments related to commercial property (known as WPW). As of this date, there is no consensus in Lansing on the Governor's tax proposal and alternative proposals are being discussed in the Legislature. Therefore, the impact on local government from these potential changes cannot be determined. A key component to most of the tax restructuring proposals is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals such as who determines the property that qualifies for credit, how will local governments be reimbursed by the State for the lost tax revenue as is the stated intention, etc. Debate on these tax restructuring proposals will continue over the next several months into the fall.

The loophole involving the inconsistent treatment of the assessment of commercial property is commonly referred to as the "WPW Case" involving the City of Troy. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This method of assessing commercial property (known as the "occupancy method") has been used by assessors to give commercial property owners a break when occupancy of their property has decreased and then to restore the taxable value of the property consistent with previous levels when occupancy increases. There are two bills in the House currently (House Bills 5096 and 5097) that have received hearings and consideration which would address this matter.

### **PROPERTY ASSESSMENT CAP**

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:

2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2004 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2005. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

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.

Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), 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), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

### **MUNICIPAL FINANCE ACT REVISIONS - REMINDER**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (due December 31, 2005) and is good for one year thereafter. In addition, the City should consider the need to file a qualifying statement for each of its component units.

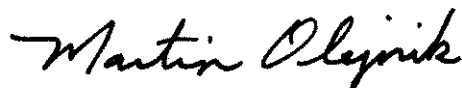
We would like to thank the City and all those involved with the audit process for their assistance. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the opportunity to be of service

Very truly yours,

**PLANTE & MORAN, PLLC**



David H. Helisek



Martin J. Olejnik