

Auditing Procedures Report

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

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

We affirm that:

We are certified public accountants licensed to practice in Michigan.


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

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

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

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

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

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

City of Ypsilanti, Michigan

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

City of Ypsilanti, Michigan

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City of Ypsilanti, Michigan

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Plante & Moran, PLLC

Suite 40C

1000 Oakbrook Drive

Ann Arbor, MI 48104

Tel: 734.665.9494

Fax: 734.665.0664

plantemoran.com

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, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, 2007 and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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.

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 November 14, 2007 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

November 14, 2007

City of Ypsilanti, Michigan

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, 2007. 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, 2007:

- State-shared revenue was down somewhat from the previous year, continuing the trend of reductions which began in 2001. The one-time revenues generated during the fiscal year by the sale of City-owned properties has been reserved for bond payments on the Water Street project. During the year, the City established a Retiree Benefits Trust Fund in order to fund benefit costs for current and future retirees as provided for in the labor union contracts. Major building upkeep, such as the much needed new roof on the police department building, was again postponed, but cannot be avoided indefinitely. Additionally, the City conserved funds by leaving several vacated positions unfilled, reorganizing some departments, and trimming some services.
- The City continued investment in road infrastructure by seeking federal and state funding through the Michigan Department of Transportation and Washtenaw Area Transportation Study. The City refunded three bonds previously used to fund water and sewer system improvements, combining them into one bond which will continue to be paid out of the surcharge on water and sewer bills.

Using this Annual Report

This annual report consists in 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		Change from Prior Year	
	2006	2007	in Dollars	Percent
Assets				
Current assets	\$ 20,500	\$ 20,014	\$ (486)	(2)
Noncurrent assets	115,024	120,255	5,231	5
Total assets	135,524	140,269	4,745	4
Liabilities				
Current liabilities	7,941	8,137	196	2
Long-term liabilities	69,983	67,395	(2,588)	(4)
Total liabilities	77,924	75,532	(2,392)	(3)
Net Assets				
Invested in capital assets and joint venture - Net of related debt	12,857	15,049	2,192	17
Restricted	9,093	7,108	(1,985)	(22)
Unrestricted	35,650	42,580	6,930	19
Total net assets	<u>\$ 57,600</u>	<u>\$ 64,737</u>	<u>\$ 7,137</u>	12

The City's combined net assets increased approximately 12 percent from a year ago. The increase in total assets was primarily due to the increase in the City's investment in a joint venture (YCUA).

City of Ypsilanti, Michigan

Management's Discussion and Analysis (Continued)

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

	Governmental Activities		Changes from Prior Year	
	2006	2007	in Dollars	Percent
Revenue				
Program revenue:				
Charges for services	\$ 1,710	\$ 1,647	\$ (63)	(4)
Operating grants and contributions	2,434	2,878	444	18
Capital grants and contributions	3,087	4,891	1,804	58
General revenue:				
Property taxes	10,560	11,311	751	7
State-shared revenue	3,167	3,083	(84)	(3)
Unrestricted investment earnings	834	1,078	244	29
Increase (decrease) in fair value of investments	(1,118)	40	1,158	(104)
Increase in fair value of joint venture	7,149	3,680	(3,469)	(49)
Franchise fees	172	194	22	13
Gain on sale of capital assets and land	5	164	159	3,180
Total revenue	28,000	28,966	966	3
Program Expenses				
General government	1,679	2,021	342	20
Public safety	8,186	9,602	1,416	17
Community maintenance	6,424	4,470	(1,954)	(30)
Highways, streets, and bridges	1,736	2,022	286	16
Culture and recreation	1,014	784	(230)	(23)
Health and welfare	440	415	(25)	(6)
Interest on long-term debt	2,866	2,515	(351)	(12)
Total program expenses	22,345	21,829	(516)	(2)
Change in Net Assets	\$ 5,655	\$ 7,137	\$ 1,482	26

The City's net assets increased during the current year as a result of various factors. Total governmental revenues increased from the prior year due to a smaller increase in fair value of the joint venture, a small increase in capital grants and contributions, and an increase in capital grants - primarily MDOT funding. State-shared revenue again decreased due to the State's structural budget problems; the State 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 as the paving and water main projects were largely completed. Debt service decreased due to the final payment on one bond and the issuance of refunding bonds which helped consolidate debt. Healthcare costs for the year increased and additional funds were placed in trust to help fund future benefits for retirees. The City closely monitored its spending in all other areas throughout the year. Some vacant positions were left unfilled and some departments were reorganized and service levels changed; most notably closing Treasury, Building, and the Department of Public Works to the public at 4 p.m.

City of Ypsilanti, Michigan

Management's Discussion and Analysis (Continued)

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. Nearly all departments stayed below budget, resulting in total expenditures being below the amended budget. Recreation expenditures for Parkridge and the senior center continued to be funded by donations from the Ann Arbor Area Foundation and many public and private organization supporters.

Capital Asset and Debt Administration

At the end of 2007, the City had \$27,483,821 invested in a broad range of net capital assets including land, land improvements, sidewalks, police and fire equipment, various other vehicles and equipment, and roads. In addition, the City had \$49,625,558 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 Standard and Poor's. The stated rating reflects stable service area economy with participation in the Ann Arbor economic base, sound debt service coverage, due predominantly to revenues generated from a customer surcharge, and consistently healthy liquidity levels.

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 \$344,904 higher than the amended budget for fiscal year 2006-2007. The primary reason is the 3 percent increase in salaries and wages and the anticipated increased cost of fringe benefits. The recreation department will continue to operate through donations and grants. However, the City will continue to provide 50 percent for utilities and janitorial services. Property tax revenues are projected to increase approximately 4.5 percent due to a 4.69 percent increase in the City's tax base. The City's Blue Ribbon Finance Committee, appointed in fiscal year 2004/2005, recommended that City Council place before the voters consideration of a city income tax. City Council placed this issue on the ballot on November 6, 2007 and it did not pass. The City administration assembled a three-year solvency plan which was presented to City Council. Over the next three years, the solvency plan proposes to cut 19 positions to balance the budget. After the developer selected by the City for the Water Street redevelopment project withdrew from negotiations in December 2006, City Council adopted a strategy for moving forward, which began to be implemented at the beginning of the fiscal year. The key strategy is to seek real estate services of a large, national firm which can position the property in a broader market. Other strategies include reducing barriers to redevelopment in the meantime and targeting funds for initial bond payments.

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, 2007

	Primary Government - Governmental Activities	Component Units
Assets		
Cash and cash equivalents (Note 3)	\$ 5,568,382	\$ 413,773
Investments (Note 3)	8,443,463	300,000
Land held for resale (Note 13)	7,984,536	-
Receivables:		
Special assessments	51,281	-
Accrued interest and other	229,574	-
Due from other governmental units	823,576	16,699
Prepaid expenses and other assets	164,116	2,021
Inventory	168,230	-
Restricted cash	-	95,323
Restricted assets (Note 1)	4,565,826	-
Lease receivable (Note 11)	34,376,902	-
Investment in joint venture (Note 11)	49,625,558	-
Unamortized net bond issuance costs	783,528	-
Capital assets - Net (Note 5):		
Nondepreciable	3,131,981	1,039,346
Depreciable	24,351,840	1,078,038
Total assets	140,268,793	2,945,200
Liabilities		
Accounts payable	325,295	8,280
Accrued and other liabilities	4,262,847	1,007
Due to other governmental units	294,105	84,389
Deferred revenue (Note 4)	207,156	31,999
Noncurrent liabilities (Note 8):		
Due within one year	3,047,228	92,678
Due in more than one year	67,395,098	1,436,591
Total liabilities	75,531,729	1,654,944
Net Assets		
Invested in capital assets - Net of related debt	15,049,123	683,438
Restricted:		
Retiree benefits	113,172	-
Streets and highways	1,791,650	-
Garbage and refuse collection	33,838	-
Drug forfeitures	591,491	-
Debt service	4,578,004	-
Unrestricted	42,579,786	606,818
Total net assets	<u>\$ 64,737,064</u>	<u>\$ 1,290,256</u>

City of Ypsilanti, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Primary government - Governmental activities:				
General government	\$ 2,021,481	\$ 544,717	\$ 59,905	\$ 147,885
Public safety	9,601,958	499,197	1,247,557	40,607
Community maintenance	4,470,462	516,539	148,016	70,248
Highways, streets, and bridges	2,022,071	-	1,387,281	1,621,615
Culture and recreation	784,039	87,033	35,724	33,900
Health and welfare	415,116	-	-	-
Interest on long-term debt	2,514,514	-	-	2,976,990
	<u>2,514,514</u>	<u>-</u>	<u>-</u>	<u>2,976,990</u>
Total primary government - Governmental activities	<u>\$ 21,829,641</u>	<u>\$ 1,647,486</u>	<u>\$ 2,878,483</u>	<u>\$ 4,891,245</u>
Component units:				
Downtown Development Authority	\$ 304,765	\$ -	\$ 89,216	\$ -
Depot Town Downtown Development Authority	56,316	-	-	-
Economic Development Corporation	2,133	-	-	-
Brownfield Redevelopment Authority	592,515	-	-	-
	<u>592,515</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 955,729</u>	<u>\$ -</u>	<u>\$ 89,216</u>	<u>\$ -</u>
General revenues:				
Property taxes (Note 1)				
State-shared revenues				
Unrestricted investment earnings				
Increase in fair value of investments				
Increase in equity in joint venture				
Franchise fees				
Special item - Gain on sale of capital assets				
Total general revenues and special item				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expense)	
Revenue and	
Changes in Net	
Assets	
Primary	
Government	
Governmental	Component
Activities	Units
\$ (1,268,974)	\$ -
(7,814,597)	-
(3,735,659)	-
986,825	-
(627,382)	-
(415,116)	-
462,476	-
 (12,412,427)	 -
-	(215,549)
-	(56,316)
-	(2,133)
-	(592,515)
-	(866,513)
 11,310,693	 1,037,544
3,082,547	-
1,078,711	38,377
39,583	1,821
3,679,731	-
193,883	-
163,914	-
19,549,062	1,077,742
 7,136,635	 211,229
57,600,429	1,079,027
\$ 64,737,064	\$ 1,290,256

City of Ypsilanti, Michigan

Governmental Funds Balance Sheet June 30, 2007

	General Fund	Land Revolving Fund	2003-B Capital Improvement Bonds	2004-B General Obligation Bonds	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents (Note 3)	\$ 2,629,035	\$ 117,058	\$ -	\$ -	\$ 1,786,877	\$ 4,532,970
Investments (Note 3)	3,273,394	100,000	-	-	1,857,035	5,230,429
Land held for resale (Note 13)	-	3,309,200	2,732,379	1,456,116	486,841	7,984,536
Receivables:						
Taxes	-	-	-	-	10,406	10,406
Special assessments	44,042	-	-	-	7,239	51,281
Accrued interest and other	229,574	-	-	-	-	229,574
Due from other funds (Note 6)	4,580	-	-	-	-	4,580
Due from other governmental units	12,713	-	-	-	223,604	236,317
Prepaid expenses and other assets	97,825	-	-	-	61,077	158,902
Inventory	146,018	-	-	-	-	146,018
Restricted assets (Note 1)	-	-	-	-	4,565,826	4,565,826
Total assets	\$ 6,437,181	\$ 3,526,258	\$ 2,732,379	\$ 1,456,116	\$ 8,998,905	\$ 23,150,839
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 141,976	\$ -	\$ -	\$ -	\$ 152,437	\$ 294,413
Accrued and other liabilities	278,030	1,265,698	1,172,263	525,005	313,865	3,554,861
Due to other funds (Note 6)	-	-	-	-	4,580	4,580
Due to other governmental units	211,605	-	-	-	82,500	294,105
Deferred revenue (Note 4)	217,532	168,408	-	-	45,987	431,927
Total liabilities	849,143	1,434,106	1,172,263	525,005	599,369	4,579,886
Fund Balances						
Reserved, reported in:						
General Fund:						
Inventory	146,018	-	-	-	-	146,018
Prepaid expenses	97,825	-	-	-	-	97,825
Police and fire pension	67,395	-	-	-	-	67,395
Special Revenue Funds:						
Drug forfeiture	-	-	-	-	591,491	591,491
Garbage and rubbish collection	-	-	-	-	4,634	4,634
Capital Projects Funds:						
Unspent bond proceeds	-	-	-	-	732	732
Debt service	-	-	-	-	2,821,496	2,821,496
Land held for resale	-	2,055,128	1,560,116	931,111	209,381	4,755,736
Debt Service Funds - Debt service	-	-	-	-	1,756,508	1,756,508
Unreserved, reported in:						
General Fund:						
Designated (Note 15)	2,198,717	-	-	-	-	2,198,717
Undesignated	3,078,083	-	-	-	-	3,078,083
Special Revenue Funds:						
Designated (Note 15)	-	-	-	-	429,428	429,428
Undesignated	-	-	-	-	1,826,258	1,826,258
Capital Projects Funds	-	37,024	-	-	759,608	796,632
Total fund balances	5,588,038	2,092,152	1,560,116	931,111	8,399,536	18,570,953
Total liabilities and fund balances	\$ 6,437,181	\$ 3,526,258	\$ 2,732,379	\$ 1,456,116	\$ 8,998,905	\$ 23,150,839

City of Ypsilanti, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets June 30, 2007

Total Fund Balances for Governmental Funds	\$ 18,570,953
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	26,332,760
Lease receivable from joint venture is not a financial resource and is not reported in the funds	34,376,902
Revenue-sharing due from the State not received within 60 days of year end is not available currently and is not reported in the funds	576,853
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	51,281
Other 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	48,490
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	125,000
Compensated absences are not due and payable in the current period and are not reported in the funds	(769,518)
Bond issuance costs are capitalized and amortized over the life of the bonds in the governmental activities	783,528
Interest amounts on long-term liabilities are not payable until due in the funds	(707,986)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(69,151,808)
Investment in joint venture is not a financial resource and is not reported in the funds	49,625,558
Internal Service Fund - Workers' Compensation is included as part of governmental activities	322,832
Internal Service Fund - Motor Pool is included as part of governmental activities	4,552,219
Net Assets of Governmental Activities	<u>\$ 64,737,064</u>

City of Ypsilanti, Michigan

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

	General Fund	Land Revolving Fund	2003-B Capital Improvement Bonds	2004-B General Obligation Bonds	Nonmajor Governmental Funds	Total Governmental Funds
Revenue						
Property taxes	\$ 8,903,013	\$ -	\$ -	\$ -	\$ 2,407,649	\$ 11,310,662
State-shared revenue	3,151,694	-	-	-	1,309,681	4,461,375
Federal grants	79,240	-	-	-	140,788	220,028
State grants	8,790	-	-	-	83,298	92,088
Licenses and permits	576,436	-	-	-	-	576,436
Charges for services	1,285,100	-	-	-	-	1,285,100
Increase in fair value of investments	15,148	-	-	-	9,087	24,235
Other revenue	1,125,658	9,340	-	-	1,478,306	2,613,304
Total revenue	15,145,079	9,340	-	-	5,428,809	20,583,228
Expenditures						
General administration	1,656,143	-	-	-	719,065	2,375,208
Public safety	8,270,401	-	-	-	1,541,039	9,811,440
Community maintenance	1,547,225	-	-	-	1,486,949	3,034,174
Culture and recreation	162,189	-	-	-	-	162,189
Highways, streets, and bridges	-	-	-	-	1,814,492	1,814,492
Other	177,347	2,568	-	-	-	179,915
Fringe benefits	925,577	-	-	-	-	925,577
Debt administration	110,892	52,500	-	-	5,268,012	5,431,404
Total expenditures	12,849,774	55,068	-	-	10,829,557	23,734,399
Excess of Revenue Over (Under)						
Expenditures	2,295,305	(45,728)	-	-	(5,400,748)	(3,151,171)
Other Financing Sources (Uses)						
Transfers in (Note 6)	-	52,500	-	-	1,087,051	1,139,551
Transfers out (Note 6)	(935,191)	-	-	-	(254,360)	(1,189,551)
Contributions from YCUA	-	-	-	-	2,976,991	2,976,991
Contributions to YCUA	-	-	-	-	(840,776)	(840,776)
Payment to escrow agent (Note 8)	-	-	-	-	(9,839,224)	(9,839,224)
Issuance of debt	-	-	-	-	9,895,000	9,895,000
Total other financing sources (uses)	(935,191)	52,500	-	-	3,024,682	2,141,991
Net Change in Fund Balances	1,360,114	6,772	-	-	(2,376,066)	(1,009,180)
Fund Balances - Beginning of year	4,227,924	2,085,380	1,560,116	931,111	10,775,602	19,580,133
Fund Balances - End of year	\$ 5,588,038	\$ 2,092,152	\$ 1,560,116	\$ 931,111	\$ 8,399,536	\$ 18,570,953

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, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (1,009,180)
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	(511,213)
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	(52,929)
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	(8,215)
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	100,000
Other 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	48,490
Grant revenues associated with assets contributed by the Michigan Department of Transportation are recorded in the statement of activities; they are not reported in the funds	1,620,175
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	(1,390,000)
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	1,112,072
Payment of bond issuance costs are capitalized and amortized over the life of the bonds in the statement of activities	783,528
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	11,960,245
Accrued interest payable is recorded when due in governmental funds	12,337
Bond proceeds are not reported as financing sources on the statement of activities	(9,895,000)
Change in accumulated compensated absences is recorded when earned in the statement of activities	174,098
Equity interest in joint venture is not reported in the governmental funds	3,679,731
Internal Service Fund - Workers' Compensation is also included as governmental activities	(27,701)
Internal Service Fund - Motor Pool is also included as governmental activities	540,197
Change in Net Assets of Governmental Activities	<u>\$ 7,136,635</u>

City of Ypsilanti, Michigan

Proprietary Funds - Internal Service Funds Combined Statement of Net Assets June 30, 2007

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 1,035,412
Investments (Note 3)	3,213,034
Inventory	22,212
Prepaid expenses and other assets	<u>5,214</u>

Total current assets 4,275,872

Noncurrent assets - Capital assets - Net 1,151,061

Total assets 5,426,933

Liabilities

Current liabilities:

Accounts payable	30,882
Current portion of long-term debt (Note 8)	<u>209,500</u>

Total current liabilities 240,382

Noncurrent liabilities - Long-term debt - Net of current portion (Note 8) 311,500

Total liabilities 551,882

Net Assets

Investment in capital assets - Net of related debt	1,151,061
Unrestricted	<u>3,723,990</u>

Total net assets \$ 4,875,051

City of Ypsilanti, Michigan

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

Operating Revenue	
Equipment rental	\$ 1,365,378
Other	<u>193,783</u>
Total operating revenue	1,559,161
Operating Expenses	
Salaries and fringe benefits	130,500
Gas, oil, and fuel	123,878
Depreciation	369,807
Operation and maintenance	162,443
Contractual services and fees	235,146
Insurance, claims, and other	<u>235,568</u>
Total operating expenses	<u>1,257,342</u>
Operating Income	301,819
Nonoperating Revenue	
Interest income	133,404
Increase in fair value of investments	15,348
Gain on disposal of assets	<u>11,925</u>
Total nonoperating revenue	<u>160,677</u>
Income Before Transfers	462,496
Transfers from Other Funds (Note 6)	<u>50,000</u>
Change in Net Assets	512,496
Net Assets - Beginning of year	<u>4,362,555</u>
Net Assets - End of year	<u><u>\$ 4,875,051</u></u>

City of Ypsilanti, Michigan

Proprietary Funds - Internal Service Funds Combined Statement of Cash Flows Year Ended June 30, 2007

Cash Flows from Operating Activities	
Payments to suppliers and vendors	\$ (568,682)
Payments to employees	(130,985)
Internal activity - Receipts from other funds	1,415,378
Claims paid	(214,457)
Other receipts	<u>193,783</u>
Net cash provided by operating activities	695,037
Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of capital assets	11,925
Purchase of capital assets	<u>(306,332)</u>
Net cash used in capital and related financing activities	(294,407)
Cash Flows from Investing Activities	
Interest received	133,404
Purchases and sales of investments - Net	<u>(1,021,215)</u>
Net cash used in investing activities	<u>(887,811)</u>
Net Decrease in Cash and Cash Equivalents	(487,181)
Cash and Cash Equivalents - Beginning of year	<u>1,522,593</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 1,035,412</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 301,819
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	369,807
Changes in assets and liabilities:	
Prepaid and other assets	44,786
Inventory	4,691
Accounts payable	20,419
Accrued and other liabilities	<u>(46,485)</u>
Net cash provided by operating activities	<u><u>\$ 695,037</u></u>

City of Ypsilanti, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Police and Fire Retirement System	Trust and Agency Fund
Assets		
Cash and cash equivalents (Note 3)	\$ 390,457	\$ 78,457
Receivables	-	214
Investments (Note 3):		
U.S. government obligations	2,900,231	-
Bank investment pool	1,464,650	-
Corporate bonds	4,580,004	-
Corporate stocks	14,494,399	-
Real estate investment trusts	751,011	-
Mutual funds	9,024,248	-
Total investments	33,214,543	-
Total assets	33,605,000	<u><u>\$ 78,671</u></u>
Liabilities - Accounts payable	-	<u><u>\$ 78,671</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 33,605,000</u></u>	

City of Ypsilanti, Michigan

Fiduciary Funds

Statement of Changes in Net Assets - Police and Fire Retirement System

Year Ended June 30, 2007

Additions

Investment income (expense):

Net realized gains and appreciation in fair value of investments	\$ 3,156,587
Interest and dividends	1,402,735
Investment expenses	<u>(93,872)</u>

Net investment income 4,465,450

Contributions:

Employee	404,508
Employer	<u>730,106</u>

Total contributions 1,134,614

Total additions 5,600,064

Deductions

Benefit payments	1,816,191
Refunds of contributions	374,423
Administrative expenses	<u>41,127</u>

Total deductions 2,231,741

Net Increase in Net Assets Held in Trust for Retirement Benefits **3,368,323**

Net Assets Held in Trust for Retirement Benefits

Beginning of year 30,236,677

End of year **\$ 33,605,000**

City of Ypsilanti, Michigan

Component Units Statement of Net Assets June 30, 2007

	Downtown Development Authority	Depot Town Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 125,503	\$ 74,731	\$ 188,772	\$ 24,767	\$ 413,773
Investments (Note 3)	200,000	100,000	-	-	300,000
Due from other governmental units	16,699	-	-	-	16,699
Prepaid expenses	1,290	-	-	731	2,021
Restricted cash	95,323	-	-	-	95,323
Capital assets - Net (Note 5):					
Nondepreciable	986,146	-	53,200	-	1,039,346
Depreciable	952,038	126,000	-	-	1,078,038
Total assets	2,376,999	300,731	241,972	25,498	2,945,200
Liabilities					
Accounts payable	6,339	1,941	-	-	8,280
Accrued liabilities and other	1,007	-	-	-	1,007
Due to other governmental units	365	11,860	72,164	-	84,389
Deferred revenue	16,699	-	-	15,300	31,999
Noncurrent liabilities (Note 8):					
Due within one year	80,000	12,678	-	-	92,678
Due in more than one year	1,315,000	121,591	-	-	1,436,591
Total liabilities	1,419,410	148,070	72,164	15,300	1,654,944
Net Assets					
Investment in capital assets - Net of related debt	638,507	(8,269)	53,200	-	683,438
Unrestricted (Note 14)	319,082	160,930	116,608	10,198	606,818
Total net assets	<u>\$ 957,589</u>	<u>\$ 152,661</u>	<u>\$ 169,808</u>	<u>\$ 10,198</u>	<u>\$ 1,290,256</u>

City of Ypsilanti, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants and Contributions
Downtown Development Authority	\$ 304,765	\$ -	\$ 89,216	\$ -
Depot Town Downtown Development Authority	56,316	-	-	-
Economic Development Corporation	2,133	-	-	-
Brownfield Redevelopment Authority	592,515	-	-	-
Total governmental activities	<u>\$ 955,729</u>	<u>\$ -</u>	<u>\$ 89,216</u>	<u>\$ -</u>

General revenues:
 Property taxes
 Interest and other
 Increase 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, 2007**

Net (Expense) Revenue and Changes in Net Assets				
Downtown Development Authority	Depot Town Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (215,549)	\$ -	\$ -	\$ -	\$ (215,549)
-	(56,316)	-	-	(56,316)
-	-	(2,133)	-	(2,133)
-	-	-	(592,515)	(592,515)
(215,549)	(56,316)	(2,133)	(592,515)	(866,513)
324,227	120,072	-	593,245	1,037,544
15,384	5,693	8,282	9,018	38,377
1,821	-	-	-	1,821
341,432	125,765	8,282	602,263	1,077,742
125,883	69,449	6,149	9,748	211,229
831,706	83,212	163,659	450	1,079,027
<u>\$ 957,589</u>	<u>\$ 152,661</u>	<u>\$ 169,808</u>	<u>\$ 10,198</u>	<u>\$ 1,290,256</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 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. This authority’s governing body, which consists of nine individuals, is selected by the City Council. In addition, the Downtown Development 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. This authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Depot Town Downtown Development 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 Economic Development 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. This authority was created to promote revitalization of environmentally distressed areas within the boundaries of the City. The Brownfield Redevelopment Authority is funded primarily by property tax captures. The Brownfield Redevelopment Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Brownfield Redevelopment 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 2004-B General Obligation Bonds - 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.

Pension and Other Employee Benefit 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.

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.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

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 2006 taxable valuation of the City totaled approximately \$396.2 million, a portion of which is captured by the Downtown Development Authority and the Brownfield Redevelopment Authority. Property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time they are added to the county tax rolls.

	<u>Millage Rate</u>	<u>Levy</u>
Operating	19.0211	\$ 7,201,877
Police and Fire Pension Fund	3.9850	1,506,728
YCUA debt	<u>0.2783</u>	<u>110,263</u>
Total General Fund	23.2844	8,818,868
Sanitation - Nonmajor Special Revenue Funds	2.7814	1,051,648
Street Debt - Nonmajor Debt Service Funds	<u>3.4641</u>	<u>1,372,484</u>
Total nonmajor funds	<u>6.2455</u>	<u>2,424,132</u>
Total primary government	<u><u>29.5299</u></u>	<u><u>\$ 11,243,000</u></u>

Revenue shown on the financial statements for property taxes is net of related revenues captured by the Downtown Development Authority and the Brownfield Redevelopment Authority.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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 an accumulated fund deficit in the 2003 Unlimited Tax Bonds due to the timing of expenditures incurred, for which the revenue will be received in the following year. In addition, the City has an accumulated fund deficit in the 2007 Water and Sewer Revenue DWRF Fund due to the timing of expenditures versus bond issuances, for which the proceeds of the bond issuance will be received in the following year.

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 shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - Beginning of year		\$ (351,595)
Current year building permit revenue		154,626
Related expenses:		
Direct costs	\$ 139,118	
Estimated indirect costs	<u>28,592</u>	
Total construction code expenses		<u>167,710</u>
Cumulative shortfall - End of year		<u>\$ (364,679)</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. A 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 six 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 \$17,767,650 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 \$809,828. 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.

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2007

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	\$ 2,647,931	26.8 years
Corporate bonds (pension)	4,580,004	5.46 years
U.S. government or agency bond or note (pension)	2,900,231	24.77 years

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
U.S. government or agency bond or note	\$ 2,647,931	Not rated	N/A
Bank investment pool (pension)	1,464,650	A1	S&P
Mutual fund (pension)	2,896,438	Not rated	N/A
U.S. government or agency bond or note (pension)	2,900,231	Not rated	N/A
Real estate investment trusts (pension)	751,011	Not rated	N/A
Foreign mutual funds (pension)	6,127,810	Not rated	N/A
Corporate bonds (pension)	203,566	Aaa	Moody's
Corporate bonds (pension)	803,818	AA1	Moody's
Corporate bonds (pension)	456,963	AA3	Moody's
Corporate bonds (pension)	202,080	A3	Moody's
Corporate bonds (pension)	1,267,414	A2	Moody's
Corporate bonds (pension)	459,922	A1	Moody's
Corporate bonds (pension)	616,686	Baaa1	Moody's
Corporate bonds (pension)	248,053	Baa2	Moody's
Corporate bonds (pension)	113,040	Aa2	Moody's
Corporate bonds (pension)	208,462	Baa3	Moody's

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	\$ 6,127,810
Foreign stocks	Various	<u>587,094</u>
Total		<u>\$ 6,714,904</u>

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	\$ 51,281	\$ -	\$ 51,281
Grant and other funding received prior to meeting all eligibility requirements	<u>173,490</u>	<u>207,156</u>	<u>380,646</u>
Total	<u>\$ 224,771</u>	<u>\$ 207,156</u>	<u>\$ 431,927</u>

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

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

	Balance July 1, 2006	Additions and Transfers	Disposals, Adjustments, and Transfers	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 755,585	\$ -	\$ -	\$ 755,585
Construction in progress	<u>7,232,972</u>	<u>2,363,690</u>	<u>7,220,266</u>	<u>2,376,396</u>
Subtotal	7,988,557	2,363,690	7,220,266	3,131,981
Capital assets being depreciated:				
Infrastructure	25,960,170	7,220,266	-	33,180,436
Buildings and improvements	6,009,472	16,586	164,692	5,861,366
Vehicles and equipment	<u>5,901,239</u>	<u>466,611</u>	<u>395,789</u>	<u>5,972,061</u>
Subtotal	37,870,881	7,703,463	560,481	45,013,863
Accumulated depreciation:				
Infrastructure	12,554,780	1,040,384	-	13,595,164
Buildings and improvements	2,248,835	172,164	47,355	2,373,644
Vehicles and equipment	<u>4,617,486</u>	<u>463,500</u>	<u>387,771</u>	<u>4,693,215</u>
Subtotal	<u>19,421,101</u>	<u>1,676,048</u>	<u>435,126</u>	<u>20,662,023</u>
Net capital assets being depreciated	<u>18,449,780</u>	<u>6,027,415</u>	<u>125,355</u>	<u>24,351,840</u>
Net capital assets	<u>\$ 26,438,337</u>	<u>\$ 8,391,105</u>	<u>\$ 7,345,621</u>	<u>\$ 27,483,821</u>

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

Governmental activities:	
General government	\$ 48,304
Public safety	219,656
Community maintenance	403,561
Highways, streets, and bridges	880,066
Culture and recreation	<u>124,461</u>
Total governmental activities	<u>\$ 1,676,048</u>

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

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

	Balance July 1, 2006	Additions and Transfers	Disposals, Adjustments, and Transfers	Balance June 30, 2007
Component units:				
Capital assets not being depreciated:				
Land	\$ 53,200	\$ -	\$ -	\$ 53,200
Construction in progress	<u>904,604</u>	<u>81,542</u>	<u>-</u>	<u>986,146</u>
Subtotal	957,804	81,542	-	1,039,346
Capital assets being depreciated -				
Buildings and improvements	1,795,572	100,000	-	1,895,572
Accumulated depreciation -				
Buildings and improvements	<u>738,989</u>	<u>78,545</u>	<u>-</u>	<u>817,534</u>
Net capital assets being depreciated	<u>1,056,583</u>	<u>21,455</u>	<u>-</u>	<u>1,078,038</u>
Net capital assets	<u>\$ 2,014,387</u>	<u>\$ 102,997</u>	<u>\$ -</u>	<u>\$ 2,117,384</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The interfund balances consist of payables from the nonmajor governmental funds (the 2006 Water Supply and Sewer Refunding Capital Project Fund and the 2003 Unlimited Tax Bonds Debt Service Fund) to the General Fund. 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.

Interfund Transfers

	Transfers Out		
	General Fund	Other Nonmajor Governmental Funds	Total
Transfers in:			
Land Revolving Fund (1)	\$ 52,500	\$ -	\$ 52,500
Other nonmajor governmental funds (1) (2)	832,691	254,360	1,087,051
Total governmental funds	885,191	254,360	1,139,551
Proprietary Fund - Internal Service Fund - Motor Pool (1)	50,000	-	50,000
Total	<u>\$ 935,191</u>	<u>\$ 254,360</u>	<u>\$ 1,189,551</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 are approximately \$3,200,000. Environmental remediation costs of \$3,228,800 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 the Ypsilanti Community Utilities Authority (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%	\$445,000 - \$710,000	\$ 6,095,000	\$ -	\$ (420,000)	\$ 5,675,000	\$ 445,000
2002 Limited Tax Capital Improvement Bonds: Amount of issue - \$400,000 Maturing through 2017	3.25% - 4.60%	\$20,000 - \$35,000	340,000	-	(20,000)	320,000	25,000
2003 Unlimited Tax Bonds: Amount of issue - \$8,465,000 Maturing through 2018	2.375% - 4.375%	\$440,000 - \$815,000	7,350,000	-	(425,000)	6,925,000	440,000
2003 CDBG Loan: Amount of issue - \$2,750,350 Amount of total draw available - \$2,750,350 Maturing through 2025	4.00%	\$77,077 - \$233,200	2,750,350	-	-	2,750,350	-
2006 General Obligation Refunding Bonds: Amount of issue - \$15,740,000 Maturing through 2032	5.55% - 6.20%	\$285,000 - \$1,295,000	15,740,000	-	-	15,740,000	-
Revenue bonds:							
2001 Water and Sewer System: Amount of issue - \$4,000,000 ** Maturing through 2027	4.00% - 4.85%	\$30,000 - \$345,000	3,925,000	-	(2,750,000)	1,175,000	30,000
2002-A Water and Sewer System: Amount of issue - \$5,000,000 ** Maturing through 2027	4.00% - 5.00%	\$40,000 - \$415,000	4,895,000	-	(3,500,000)	1,395,000	40,000
2002-B Water and Sewer System: Amount of issue - \$485,000 Maturing through 2021	2.50%	\$20,000 - \$30,000	420,000	-	(20,000)	400,000	20,000
2002-C Water and Sewer System: Amount of issue - \$8,660,000 ** Maturing through 2027	4.00% - 4.75%	\$220,000 - \$585,000	8,080,000	-	(3,325,000)	4,755,000	220,000
2003-A Water and Sewer System: Amount of issue - \$4,800,000 Maturing through 2014	1.20% - 4.10%	\$505,000 - \$525,000	4,610,000	-	(495,000)	4,115,000	510,000
2003-B Water and Sewer System: Amount of issue - \$1,500,000 Maturing through 2023	3.50% - 4.25%	\$30,000 - \$145,000	1,475,000	-	(25,000)	1,450,000	30,000
2003-C Water and Sewer System: Amount of issue - \$785,000 Maturing through 2023	2.50%	\$35,000 - \$50,000	725,000	-	(30,000)	695,000	35,000
2003-D Water and Sewer System: Amount of issue - \$5,300,000 Maturing through 2023	2.50%	\$225,000 - \$330,000	4,885,000	-	(220,000)	4,665,000	225,000
2004-B Water and Sewer System: Amount of issue - \$6,330,000 Maturing through 2025	2.13%	\$270,000 - \$385,000	6,075,000	-	(260,000)	5,815,000	270,000
2004-A Water and Sewer System: Amount of issue - \$2,700,000 Maturing through 2028	3.30% - 4.55%	\$60,000 - \$200,000	2,645,000	-	(60,000)	2,585,000	60,000
2006 Water and Sewer Refunding Bonds Amount of issue - \$9,895,000 Maturing through 2027	3.75% - 4.125%	\$25,000 - \$1,300,000	-	9,895,000	-	9,895,000	25,000

** Bonds were refunded during the year.

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2007

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):							
County contractual obligations:							
YCUA Washtenaw County Series I *							
Maturing through 2007	5.10%	-	\$ 202,210	\$ -	\$ (202,210)	\$ -	\$ -
YCUA Washtenaw County Series II *							
Maturing through 2007	4.20%	-	66,096	-	(66,096)	-	-
Installment purchase agreement - 2000 DPW Office and City Hall:							
Amount of issue - \$835,000		\$94,365-					
Maturing through 2010	5.44%	\$105,059	388,397	-	(89,439)	298,958	94,365
Biltmore agreement:							
Amount of issue - \$725,000							
Maturing through 2009	-%	-	550,000	-	(52,500)	497,500	52,500
Total bonds and other obligations			71,217,053	9,895,000	(11,960,245)	69,151,808	2,521,865
Other long-term obligations:							
Workers' compensation unpaid claims (Note 9)			567,000	117,497	(163,497)	521,000	209,500
Accumulated compensated absences			943,616	-	(174,098)	769,518	315,863
Total other long-term obligations			1,510,616	117,497	(337,595)	1,290,518	525,363
Total governmental activities			\$ 72,727,669	\$ 10,012,497	\$ (12,297,840)	\$ 70,442,326	\$ 3,047,228

* 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		\$50,000 -					
Maturing through 2014	6.10% - 6.40%	\$80,000	\$ 480,000	\$ -	\$ (45,000)	\$ 435,000	\$ 50,000
2004-A Downtown Development Limited							
Tax G.O. Bonds:							
Amount of issue - \$995,000		\$30,000 -					
Maturing through 2024	3.40% - 4.60%	\$80,000	980,000	-	(20,000)	960,000	30,000
Revenue bonds - 2000 Depot Town Downtown Development Authority Tax Increment Revenue Bond:							
Amount of issue - \$210,000		\$8,146 -					
Maturing through 2016	6.00%	\$19,275	146,328	-	(12,059)	134,269	12,678
Total component unit activities			\$ 1,606,328	\$ -	\$ (77,059)	\$ 1,529,269	\$ 92,678

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
2008	\$ 2,521,865	\$ 2,758,476	\$ 5,280,341	\$ 92,678	\$ 74,944	\$ 167,622
2009	2,617,069	2,702,785	5,319,854	98,460	70,042	168,502
2010	2,712,524	2,615,557	5,328,081	109,290	64,837	174,127
2011	3,275,000	2,523,128	5,798,128	115,172	59,051	174,223
2012	3,080,000	2,412,508	5,492,508	126,107	52,865	178,972
2013-2017	17,965,722	10,353,275	28,318,997	487,562	166,307	653,869
2018-2022	16,881,237	10,329,879	27,211,116	340,000	83,725	423,725
2023-2027	14,565,964	9,358,622	23,924,586	160,000	11,010	171,010
2028-2031	5,532,427	795,662	6,328,089	-	-	-
Total	<u>\$ 69,151,808</u>	<u>\$ 43,849,892</u>	<u>\$ 113,001,700</u>	<u>\$ 1,529,269</u>	<u>\$ 582,781</u>	<u>\$ 2,112,050</u>

Advance Refundings - During the year, the City issued \$9,895,000 in revenue bonds with an average interest rate of 4.05261 percent. The proceeds of these bonds were used to advance refund \$9,295,000 of revenue bonds with interest rates that ranged from 4.0 percent to 6.0 percent. The net proceeds of approximately \$9,840,000 (after payment of approximately \$280,000 in underwriting fees, insurance, and other issuance costs and a receipt from the City of approximately \$225,000) 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 refundings were undertaken to restructure the debt service payments associated with obligations related to the Water Street redevelopment project in an attempt to match future anticipated revenues with the debt payments. The advance refunding decreased total debt service payments by approximately \$672,000 and resulted in an economic gain of approximately \$461,000.

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2007, \$12,955,000 of bonds outstanding are considered to be defeased.

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2007

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.

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:

	2007	2006
Unpaid claims - Beginning of year	\$ 567,000	\$ 498,000
Incurred claims (including claims incurred but not reported)	117,497	22,530
Claim payments	(163,497)	46,470
Unpaid claims - End of year	<u>\$ 521,000</u>	<u>\$ 567,000</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.

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

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by 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 15 percent to 17 percent of covered payroll.

Annual Pension Costs - The City's required contribution for the year ended June 30, 2007 was \$730,106. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005, 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, 2007, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 4,808,648
Reserve for retirees' benefit payments	18,209,602

Trend information is as follows:

	Fiscal Year Ended June 30		
	2007	2006	2005
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 730,106	\$ 500,602	\$ -
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.

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

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.

Annual Pension Costs - The City was required to make a contribution to the plan for the year ended June 30, 2007 of \$35,247. This was determined as part of an actuarial valuation at December 31, 2005, 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		
	2006	2005	2004
Municipal Employees' Retirement System:			
Annual pension costs (APC)	\$ 35,247	\$ 33,106	\$ 14,448
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 16,815,491	\$ 16,030,936	\$ 15,678,721
Actuarial accrued liability (AAL)	\$ 11,271,094	\$ 10,301,827	\$ 10,303,544
Overfunded AAL	\$ 5,544,397	\$ 5,729,109	\$ 5,375,177
Funded ratio	149%	156%	152%
Covered payroll	\$ 2,250,084	\$ 2,761,341	\$ 2,891,747

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. During the current year, the City contributed approximately \$111,000 for its debt service. The City appoints members to the joint venture's governing board, who then approve the annual budget. The City records an equity interest in the YCUA on its government-wide statements.

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

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2007

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 City pays the full cost of coverage for these benefits. Currently, 128 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2007, the City made payments for postemployment health benefit premiums of approximately \$746,000. The City obtains healthcare 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 Redevelopment 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, 2007, 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 valued at the lower of cost or market (see also Note 7).

Note 14 - Component Units Unrestricted Net Assets

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

	Downtown Development Authority	Depot Town Downtown Development Authority
Depot Town development area	\$ -	\$ 103,149
TIF	296,715	-
West Cross	-	24,694
Operations	22,367	33,087
Total unrestricted net assets	<u>\$ 319,082</u>	<u>\$ 160,930</u>

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2007

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:

	Major Fund	Nonmajor Funds	
	General Fund	Retiree Benefits Fund	Police Special Revenue Fund
Building inspector future cost	\$ 30,000	\$ -	\$ -
Debt service	146,863	-	-
Capital projects	271,410	-	-
Legal defense	75,000	-	-
Professional fees - Water Street redevelopment projects	61,904	-	-
Proceeds of 10 S. Prospect for Water Street bond payment	134,000	-	-
Proceeds of 220 N. Huron for Water Street bond payment	125,000	-	-
Proceeds of 972 Watling for Water Street bond payment	17,840	-	-
Nonvested employee benefits - Vacation, comp time, and administrative leave	484,956	-	-
Vested employee benefits - Vacation and sick	288,144	-	-
General retiree health care	563,600	-	-
Fire and police retiree benefits	-	103,274	-
General City retiree benefits	-	9,898	-
Special operation	-	-	10,498
PSAP 911	-	-	305,758
Total	\$ 2,198,717	\$ 113,172	\$ 316,256

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 healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

In connection with the upcoming reporting change, the City has established a trust to which annual contributions are made in order to fund future postemployment benefits. The trust was established through the Municipal Employees' Retirement System of Michigan (MERS) retirement health funding vehicle. The City contributed an amount of \$1,380,000 during the year ended June 30, 2007.

Required Supplemental Information

City of Ypsilanti, Michigan

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues and Transfers				
Property taxes:				
Current taxes	\$ 8,822,159	\$ 8,814,659	\$ 8,735,534	\$ (79,125)
Payment in lieu of taxes	23,959	22,377	22,954	577
Penalties and interest	74,500	106,130	144,525	38,395
Total property taxes	8,920,618	8,943,166	8,903,013	(40,153)
State-shared revenue	3,116,000	3,116,000	3,151,694	35,694
Federal grants	41,625	82,691	79,240	(3,451)
State grants	8,000	8,000	8,790	790
Licenses and permits	491,790	498,905	576,436	77,531
Charges for services:				
State fire protection	265,000	355,044	355,044	-
Fines and costs	481,494	520,550	545,356	24,806
Recreation program fees	217,381	87,075	87,033	(42)
Parking fines	280,000	250,000	297,667	47,667
Total charges for services	1,243,875	1,212,669	1,285,100	72,431
Other revenue:				
Interest	250,000	400,000	457,604	57,604
Increase in fair value of investments	-	-	15,148	15,148
Other	477,658	668,704	668,054	(650)
Total other revenue	727,658	1,068,704	1,140,806	72,102
Total revenue and transfers	14,549,566	14,930,135	15,145,079	214,944

The City's budget was adopted on a fund basis. The budget comparison shown above for the General Fund is more detailed than the General Appropriations Act. Information in this schedule is presented for the purpose of additional analysis.

City of Ypsilanti, Michigan

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Expenditures and Transfers				
Administration:				
City Council	\$ 103,361	\$ 112,208	\$ 109,186	\$ 3,022
City manager	220,149	218,668	214,676	3,992
Community services	600	710	509	201
Elections	101,576	90,932	54,003	36,929
Finance - Accounting	226,586	246,160	236,727	9,433
Finance - Assessing	128,164	76,042	76,716	(674)
City clerk	171,834	184,137	155,047	29,090
Human resources	190,509	232,158	214,120	18,038
Finance - Treasurer	264,289	248,511	170,754	77,757
Museum archives	-	3,321	3,421	(100)
Planning and development	285,400	290,880	284,504	6,376
Total administration	1,692,468	1,703,727	1,519,663	184,064
Fire:				
Administration	251,555	272,308	227,906	44,402
Suppression	2,276,095	2,551,678	2,553,310	(1,632)
Total fire	2,527,650	2,823,986	2,781,216	42,770
Building/Ordinance:				
Ordinance enforcement	138,875	153,192	150,580	2,612
Building inspection	409,578	418,217	397,478	20,739
Total building/ordinance	548,453	571,409	548,058	23,351
Legal:				
General	49,670	49,670	49,670	-
Ordinance prosecution	100,000	100,000	100,000	-
Litigation and appeals	188,000	228,000	192,682	35,318
Personnel legal	75,000	135,000	78,632	56,368
Total legal	412,670	512,670	420,984	91,686
Other:				
Bonds, insurance, and workers' compensation	769,621	932,817	925,577	7,240
Debt administration	110,779	110,893	110,892	1
Transit and other	153,871	189,729	177,347	12,382
Transfers and contributions	1,816,681	1,073,929	935,191	138,738
Total other	2,850,952	2,307,368	2,149,007	158,361

The City's budget was adopted on a fund basis. The budget comparison shown above for the General Fund is more detailed than the General Appropriations Act. Information in this schedule is presented for the purpose of additional analysis.

City of Ypsilanti, Michigan

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Expenditures and Transfers (Continued)				
Police:				
Administration	\$ 358,653	\$ 264,006	\$ 252,574	\$ 11,432
Field services	4,132,096	4,548,583	4,369,106	179,477
Parking enforcement	114,149	111,115	103,625	7,490
LAWNET grant	96,715	95,179	90,271	4,908
Justice assistance grant	-	40,000	40,000	-
School Liaison Great grant	98,218	86,880	85,551	1,329
Domestic Violence grant	3,000	-	-	-
Total police	4,802,831	5,145,763	4,941,127	204,636
Public works:				
Public building maintenance	300,536	339,749	203,495	136,254
Administration	383,372	425,800	417,244	8,556
Street lighting	455,000	402,500	433,979	(31,479)
Parks	247,962	231,602	208,003	23,599
Total public works	1,386,870	1,399,651	1,262,721	136,930
Recreation:				
Swimming pool	75,978	65,407	72,260	(6,853)
Parkridge	138,765	48,287	46,069	2,218
Senior center	35,538	53,251	43,249	10,002
Ice skating rink	2,500	611	611	-
Freight House Café	-	108	-	108
Total recreation	252,781	167,664	162,189	5,475
Total expenditures and transfers	14,474,675	14,632,238	13,784,965	847,273
Excess of Revenues and Transfers Over Expenditures and Transfers	74,891	297,897	1,360,114	\$ 1,062,217
Fund Balance - Beginning of year	4,227,924	4,227,924	4,227,924	
Fund Balance - End of year	\$ 4,302,815	\$ 4,525,821	\$ 5,588,038	

The City's budget was adopted on a fund basis. The budget comparison shown above for the General Fund is more detailed than the General Appropriations Act. Information in this schedule is presented for the purpose of additional analysis.

City of Ypsilanti, Michigan

Note to Required Supplemental Information Year Ended June 30, 2007

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's 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 budget 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.

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

During the year, the City did not have significant expenditure budget variances at the fund total level.

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

	General Fund - Total Expenditures
Amounts per statement of revenue, expenditures, and changes in fund balances	\$ 12,849,774
Operating transfers budgeted as expenditures	935,191
Amounts per budget statement as adopted	<u>\$ 13,784,965</u>

City of Ypsilanti, Michigan

Required Supplemental Information Schedule of Funding Progress Police and Fire Retirement System Year Ended June 30, 2007

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
06/30/01	\$ 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)
06/30/05	31,180,708	32,774,898	1,594,190	95.1	4,042,199	39.4
06/30/06	30,843,790	34,980,132	4,136,342	88.2	3,996,679	103.5

The schedule of employer contributions is as follows:

Fiscal Years Ended June 30	Actuarial Valuation Date June 30	Annual Required Contribution	Percentage Contributed
2002	2000	\$ -	100.0
2003	2001	-	100.0
2004	2002	-	100.0
2005	2003	-	100.0
2006	2004	500,602	100.0
2007	2005	730,106	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age actuarial cost
Amortization method	Level percent open
Remaining amortization period	30 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

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
Assets						
Cash and cash equivalents	\$ 511,769	\$ 245,593	\$ 70,804	\$ 58,568	\$ 48,054	\$ 142,924
Investments	707,035	200,000	-	-	-	800,000
Land held for resale	-	-	-	-	-	-
Receivables - Taxes	-	-	4,634	-	-	-
Receivables - Special assessments	-	-	-	-	-	-
Due from other governmental units	163,839	48,263	7,685	-	-	-
Prepaid expenses and other	-	-	-	61,077	-	-
Restricted assets	-	-	-	-	-	-
Total assets	\$ 1,382,643	\$ 493,856	\$ 83,123	\$ 119,645	\$ 48,054	\$ 942,924
Liabilities and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ 72,427	\$ 7,299	\$ 45,458	\$ 6,473	\$ 3,902	\$ 7,722
Accrued and other liabilities	3,742	1,381	3,827	-	-	27,455
Due to other funds	-	-	-	-	-	-
Due to other governmental units	-	-	-	-	-	-
Deferred revenue	-	-	-	-	38,748	-
Total liabilities	76,169	8,680	49,285	6,473	42,650	35,177
Fund Balances (Deficit)						
Reserved, reported in:						
Special Revenue Funds:						
Drug forfeitures	-	-	-	-	-	591,491
Garbage and rubbish collection	-	-	4,634	-	-	-
Capital Projects Funds:						
Unspent bond proceeds	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Land held for resale	-	-	-	-	-	-
Debt Service Funds - Debt service	-	-	-	-	-	-
Unreserved, reported in:						
Special Revenue Funds:						
Designated	-	-	-	113,172	-	316,256
Undesignated	1,306,474	485,176	29,204	-	5,404	-
Capital Projects Funds	-	-	-	-	-	-
Total fund balances (deficit)	1,306,474	485,176	33,838	113,172	5,404	907,747
Total liabilities and fund balances (deficit)	\$ 1,382,643	\$ 493,856	\$ 83,123	\$ 119,645	\$ 48,054	\$ 942,924

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

Nonmajor Capital Projects Funds

Capital Improvement Reserve	Sidewalk Improvement	2003 General Obligation Bonds Construction Fund	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
\$ 462,154	\$ 96,425	\$ -	\$ -	\$ -	\$ -	\$ 732	\$ -	\$ -
-	150,000	-	-	-	-	-	-	-
-	-	-	193,305	-	-	-	115,000	-
-	-	-	-	-	-	-	-	-
-	7,239	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	271,141	162,583	258,954	-	87,162
\$ 462,154	\$ 253,664	\$ -	\$ 193,305	\$ 271,141	\$ 162,583	\$ 259,686	\$ 115,000	\$ 87,162
\$ 315	\$ 8,841	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	148,785	-	-	-	30,555	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	7,239	-	-	-	-	-	-	-
315	16,080	-	148,785	-	-	-	30,555	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	732	-	-
-	-	-	-	271,141	162,583	258,954	-	87,162
-	-	-	44,520	-	-	-	84,445	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
461,839	237,584	-	-	-	-	-	-	-
461,839	237,584	-	44,520	271,141	162,583	259,686	84,445	87,162
\$ 462,154	\$ 253,664	\$ -	\$ 193,305	\$ 271,141	\$ 162,583	\$ 259,686	\$ 115,000	\$ 87,162

City of Ypsilanti, Michigan

	2003-C Water Supply and Sewer	2002-A Revenue Bonds - Water	2004-A General Obligation Bonds	2006 General Obligation Capital Improvement Refunding Bonds	2006 Water Supply and Sewer Refunding	2007 Water and Sewer Revenue DWRP
Assets						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 139,648	\$ -	\$ -
Investments	-	-	-	-	-	-
Land held for resale	-	-	178,536	-	-	-
Receivables - Taxes	-	-	-	-	-	-
Receivables - Special assessments	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	3,817	-
Prepaid expenses and other	-	-	-	-	-	-
Restricted assets	40,159	-	-	2,001,497	-	-
Total assets	\$ 40,159	\$ -	\$ 178,536	\$ 2,141,145	\$ 3,817	\$ -
Liabilities and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	98,120	-	-	-
Due to other funds	-	-	-	-	780	-
Due to other governmental units	-	-	-	-	-	82,500
Deferred revenue	-	-	-	-	-	-
Total liabilities	-	-	98,120	-	780	82,500
Fund Balances (Deficit)						
Reserved:						
Special Revenue Funds:						
Drug forfeitures	-	-	-	-	-	-
Garbage and rubbish collection	-	-	-	-	-	-
Capital Projects Funds:						
Unspent bond proceeds	-	-	-	-	-	-
Debt service	40,159	-	-	2,001,497	-	-
Land held for resale	-	-	80,416	-	-	-
Debt Service Funds - Debt service	-	-	-	-	-	-
Unreserved, reported in:						
Special Revenue Funds:						
Designated	-	-	-	-	-	-
Undesignated	-	-	-	-	-	-
Capital Projects Funds	-	-	-	139,648	3,037	(82,500)
Total fund balances (deficit)	40,159	-	80,416	2,141,145	3,037	(82,500)
Total liabilities and fund balances (deficit)	\$ 40,159	\$ -	\$ 178,536	\$ 2,141,145	\$ 3,817	\$ -

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

2001 General Obligations Bonds - Roads	2001 Revenue Bonds - Water	2002A Revenue Bonds - Water	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 Nonmajor Governmental Funds
\$ 10,132	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74	\$ 1,786,877
-	-	-	-	-	-	-	-	1,857,035
-	-	-	-	-	-	-	-	486,841
2,848	-	-	-	-	-	-	2,924	10,406
-	-	-	-	-	-	-	-	7,239
-	-	-	-	-	-	-	-	223,604
-	-	-	-	-	-	-	-	61,077
-	381,117	434,594	-	44,395	602,758	281,466	-	4,565,826
\$ 12,980	\$ 381,117	\$ 434,594	\$ -	\$ 44,395	\$ 602,758	\$ 281,466	\$ 2,998	\$ 8,998,905
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 152,437
-	-	-	-	-	-	-	-	313,865
-	-	-	-	-	-	-	3,800	4,580
-	-	-	-	-	-	-	-	82,500
-	-	-	-	-	-	-	-	45,987
-	-	-	-	-	-	-	3,800	599,369
-	-	-	-	-	-	-	-	591,491
-	-	-	-	-	-	-	-	4,634
-	-	-	-	-	-	-	-	732
-	-	-	-	-	-	-	-	2,821,496
-	-	-	-	-	-	-	-	209,381
12,980	381,117	434,594	-	44,395	602,758	281,466	(802)	1,756,508
-	-	-	-	-	-	-	-	429,428
-	-	-	-	-	-	-	-	1,826,258
-	-	-	-	-	-	-	-	759,608
12,980	381,117	434,594	-	44,395	602,758	281,466	(802)	8,399,536
\$ 12,980	\$ 381,117	\$ 434,594	\$ -	\$ 44,395	\$ 602,758	\$ 281,466	\$ 2,998	\$ 8,998,905

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
Revenue						
Property taxes	\$ -	\$ -	\$ 1,044,298	\$ -	\$ -	\$ -
State-shared revenue	1,015,763	293,918	-	-	-	-
Federal grants	-	-	7,685	-	106,056	607
State grants	23,819	-	-	-	-	59,479
Increase in fair value of investments	9,087	-	-	-	-	-
Other revenue	87,963	41,980	30,535	838,740	2,698	69,497
Total revenue	1,136,632	335,898	1,082,518	838,740	108,754	129,583
Expenditures						
General administration	-	-	-	616,156	38,096	-
Public safety	-	-	-	1,521,230	-	19,809
Community maintenance	-	-	1,079,251	-	98,352	-
Highways, streets, and bridges	1,248,164	566,328	-	-	-	-
Debt administration	-	-	-	-	-	-
Total expenditures	1,248,164	566,328	1,079,251	2,137,386	136,448	19,809
Excess of Revenue Over (Under)						
Expenditures	(111,532)	(230,430)	3,267	(1,298,646)	(27,694)	109,774
Other Financing Sources (Uses)						
Transfers in	1,750	136,404	-	535,000	43,351	-
Transfers out	(153,592)	-	-	-	(14,973)	(82,866)
Contributions from YCUA	-	-	-	-	-	-
Contributions to YCUA	-	-	-	-	-	-
Payment to escrow agent	-	-	-	-	-	-
Proceeds from the issuance of debt	-	-	-	-	-	-
Total other financing sources (uses)	(151,842)	136,404	-	535,000	28,378	(82,866)
Net Change in Fund Balances (Deficit)	(263,374)	(94,026)	3,267	(763,646)	684	26,908
Fund Balances - Beginning of year	1,569,848	579,202	30,571	876,818	4,720	880,839
Fund Balances (Deficit) - End of year	\$ 1,306,474	\$ 485,176	\$ 33,838	\$ 113,172	\$ 5,404	\$ 907,747

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

Nonmajor Capital Projects Funds

Capital Improvement Reserve	Sidewalk Improvement	2003 General Obligation Bonds Construction Fund	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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
26,440	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>61,948</u>	<u>62,451</u>	<u>1,176</u>	<u>-</u>	<u>7,267</u>	<u>14,705</u>	<u>9,332</u>	<u>269</u>	<u>7,964</u>
88,388	62,451	1,176	-	7,267	14,705	9,332	269	7,964
64,813	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
151,551	26,952	76,224	-	-	32,017	-	22,602	-
-	-	-	-	-	-	-	-	-
<u>109,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>339,375</u>	<u>165,920</u>	<u>386,331</u>	<u>-</u>	<u>81,551</u>
<u>325,728</u>	<u>26,952</u>	<u>76,224</u>	<u>-</u>	<u>339,375</u>	<u>197,937</u>	<u>386,331</u>	<u>22,602</u>	<u>81,551</u>
(237,340)	35,499	(75,048)	-	(332,108)	(183,232)	(376,999)	(22,333)	(73,587)
334,116	-	-	-	-	-	-	896	-
-	-	-	-	-	-	-	-	-
-	-	-	-	407,160	165,808	472,649	-	81,918
-	-	-	-	(7,353)	(460,970)	(12,008)	-	(39,390)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>334,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>399,807</u>	<u>(295,162)</u>	<u>460,641</u>	<u>896</u>	<u>42,528</u>
96,776	35,499	(75,048)	-	67,699	(478,394)	83,642	(21,437)	(31,059)
<u>365,063</u>	<u>202,085</u>	<u>75,048</u>	<u>44,520</u>	<u>203,442</u>	<u>640,977</u>	<u>176,044</u>	<u>105,882</u>	<u>118,221</u>
\$ 461,839	\$ 237,584	\$ -	\$ 44,520	\$ 271,141	\$ 162,583	\$ 259,686	\$ 84,445	\$ 87,162

City of Ypsilanti, Michigan

Nonmajor Capital Projects Funds

	2003-C Water Supply and Sewer	2002-A Revenue Bonds - Water	2004-A General Obligation Bonds	2006 General Obligation Capital Improvement Refunding Bonds	2006 Water Supply and Sewer Refunding	2007 Water and Sewer Revenue DWRP
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State-shared revenue	-	-	-	-	-	-
Federal grants	-	-	-	-	-	-
State grants	-	-	-	-	-	-
Increase in fair value of investments	-	-	-	-	-	-
Other revenue	1,661	51	-	140,525	-	-
Total revenue	1,661	51	-	140,525	-	-
Expenditures						
General administration	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community maintenance	-	-	-	-	-	-
Highways, streets, and bridges	-	-	-	-	-	-
Debt administration	47,750	-	-	855,416	348,784	1,988
Total expenditures	47,750	-	-	855,416	348,784	1,988
Excess of Revenue Over (Under)						
Expenditures	(46,089)	51	-	(714,891)	(348,784)	(1,988)
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	-	-
Transfers out	-	(2,033)	(896)	-	-	-
Contributions from YCUA	57,790	-	-	-	70,290	1,988
Contributions to YCUA	(3,947)	-	-	-	-	(82,500)
Payment to escrow agent	-	-	-	-	(9,613,469)	-
Proceeds from the issuance of debt	-	-	-	-	9,895,000	-
Total other financing sources (uses)	53,843	(2,033)	(896)	-	351,821	(80,512)
Net Change in Fund Balances (Deficit)	7,754	(1,982)	(896)	(714,891)	3,037	(82,500)
Fund Balances - Beginning of year	32,405	1,982	81,312	2,856,036	-	-
Fund Balances - End of year	\$ 40,159	\$ -	\$ 80,416	\$ 2,141,145	\$ 3,037	\$ (82,500)

**Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances (Deficit) (Continued)
Nonmajor Governmental Funds
Year Ended June 30, 2007**

Nonmajor Debt Service Funds								
2001 General Obligations	2001 Revenue	2002A Revenue	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 Nonmajor Governmental Funds
\$ 672,702	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 690,649	\$ 2,407,649
-	-	-	-	-	-	-	-	1,309,681
-	-	-	-	-	-	-	-	140,788
-	-	-	-	-	-	-	-	83,298
-	-	-	-	-	-	-	-	9,087
<u>2,145</u>	<u>21,274</u>	<u>23,924</u>	<u>-</u>	<u>2,397</u>	<u>32,817</u>	<u>15,151</u>	<u>1,836</u>	<u>1,478,306</u>
674,847	21,274	23,924	-	2,397	32,817	15,151	692,485	5,428,809
-	-	-	-	-	-	-	-	719,065
-	-	-	-	-	-	-	-	1,541,039
-	-	-	-	-	-	-	-	1,486,949
-	-	-	-	-	-	-	-	1,814,492
<u>680,224</u>	<u>155,894</u>	<u>192,374</u>	<u>33,504</u>	<u>30,250</u>	<u>496,049</u>	<u>644,823</u>	<u>698,415</u>	<u>5,268,012</u>
<u>680,224</u>	<u>155,894</u>	<u>192,374</u>	<u>33,504</u>	<u>30,250</u>	<u>496,049</u>	<u>644,823</u>	<u>698,415</u>	<u>10,829,557</u>
(5,377)	(134,620)	(168,450)	(33,504)	(27,853)	(463,232)	(629,672)	(5,930)	(5,400,748)
-	-	2,033	33,501	-	-	-	-	1,087,051
-	-	-	-	-	-	-	-	(254,360)
-	218,537	265,057	-	30,250	560,721	644,823	-	2,976,991
-	(58,074)	(59,666)	-	(5,602)	(76,580)	(34,686)	-	(840,776)
-	(70,166)	(82,262)	-	-	(73,327)	-	-	(9,839,224)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,895,000</u>
-	90,297	125,162	33,501	24,648	410,814	610,137	-	3,024,682
(5,377)	(44,323)	(43,288)	(3)	(3,205)	(52,418)	(19,535)	(5,930)	(2,376,066)
<u>18,357</u>	<u>425,440</u>	<u>477,882</u>	<u>3</u>	<u>47,600</u>	<u>655,176</u>	<u>301,001</u>	<u>5,128</u>	<u>10,775,602</u>
\$ 12,980	\$ 381,117	\$ 434,594	\$ -	\$ 44,395	\$ 602,758	\$ 281,466	\$ (802)	\$ 8,399,536

City of Ypsilanti, Michigan

Other Supplemental Information Combining Statement of Net Assets Proprietary Funds - Internal Service Funds June 30, 2007

	Motor Pool Fund	Self-insurance Workers' Compensation Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 889,311	\$ 146,101	\$ 1,035,412
Investments	2,503,768	709,266	3,213,034
Inventory	22,212	-	22,212
Prepaid and other assets	5,214	-	5,214
Total current assets	3,420,505	855,367	4,275,872
Noncurrent assets - Capital assets - Net	1,151,061	-	1,151,061
Total assets	4,571,566	855,367	5,426,933
Liabilities			
Current liabilities:			
Accounts payable	19,347	11,535	30,882
Current portion of long-term debt	-	209,500	209,500
Total current liabilities	19,347	221,035	240,382
Noncurrent liabilities - Long-term debt - Net of current portion	-	311,500	311,500
Total liabilities	19,347	532,535	551,882
Net Assets			
Investment in capital assets - Net of related debt	1,151,061	-	1,151,061
Unrestricted	3,401,158	322,832	3,723,990
Total net assets	<u>\$ 4,552,219</u>	<u>\$ 322,832</u>	<u>\$ 4,875,051</u>

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, 2007

	Motor Pool Fund	Self-insurance Workers' Compensation Fund	Total
Operating Revenue			
Equipment rental	\$ 1,365,378	\$ -	\$ 1,365,378
Other	8,780	185,003	193,783
Total operating revenue	1,374,158	185,003	1,559,161
Operating Expenses			
Salaries and fringe benefits	113,281	17,219	130,500
Gas, oil, and fuel	123,878	-	123,878
Depreciation	369,807	-	369,807
Operation and maintenance	158,040	4,403	162,443
Contractual services and fees	133,442	101,704	235,146
Insurance, claims, and other	67,111	168,457	235,568
Total operating expenses	965,559	291,783	1,257,342
Operating Income (Loss)	408,599	(106,780)	301,819
Nonoperating Revenue			
Interest income	107,936	25,468	133,404
Increase in fair value of investments	11,737	3,611	15,348
Gain on disposal of assets	11,925	-	11,925
Total nonoperating revenue	131,598	29,079	160,677
Income (Loss) - Before transfers	540,197	(77,701)	462,496
Transfers from Other Funds	-	50,000	50,000
Change in Net Assets	540,197	(27,701)	512,496
Net Assets - Beginning of year	4,012,022	350,533	4,362,555
Net Assets - End of year	<u>\$ 4,552,219</u>	<u>\$ 322,832</u>	<u>\$ 4,875,051</u>

City of Ypsilanti, Michigan

Other Supplemental Information Combining Statement of Cash Flows Proprietary Funds - Internal Service Funds Year Ended June 30, 2007

	Motor Pool Fund	Self-insurance Workers' Compensation Fund	Total
Cash Flows from Operating Activities			
Payments to suppliers and vendors	\$ (469,746)	\$ (98,936)	\$ (568,682)
Payments to employees	(113,281)	(17,704)	(130,985)
Internal activity - Payments from other funds	1,365,378	50,000	1,415,378
Claims paid	-	(214,457)	(214,457)
Other receipts	8,780	185,003	193,783
Net cash provided by (used in) operating activities	791,131	(96,094)	695,037
Cash Flows from Capital and Related Financing Activities			
Proceeds from sale of capital assets	11,925	-	11,925
Purchase of capital assets	(306,332)	-	(306,332)
Net cash used in capital and related financing activities	(294,407)	-	(294,407)
Cash Flows from Investing Activities			
Interest received	107,936	25,468	133,404
Purchases and sales of investments - Net	(980,980)	(40,235)	(1,021,215)
Net cash used in investing activities	(873,044)	(14,767)	(887,811)
Net Decrease in Cash and Cash Equivalents	(376,320)	(110,861)	(487,181)
Cash and Cash Equivalents - Beginning of year	1,265,631	256,962	1,522,593
Cash and Cash Equivalents - End of year	\$ 889,311	\$ 146,101	\$ 1,035,412
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 408,599	\$ (106,780)	\$ 301,819
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	369,807	-	369,807
Changes in assets and liabilities:			
Prepaid and other assets	(5,214)	50,000	44,786
Inventory	4,691	-	4,691
Accounts payable	13,248	7,171	20,419
Accrued and other liabilities	-	(46,485)	(46,485)
Net cash provided by (used in) operating activities	\$ 791,131	\$ (96,094)	\$ 695,037

City of Ypsilanti, Michigan

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

City of Ypsilanti, Michigan

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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 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, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City of Ypsilanti, Michigan's basic financial statements, and have issued our report thereon dated November 14, 2007. Those basic financial statements are the responsibility of the management of the City of Ypsilanti, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ypsilanti, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of 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

November 14, 2007

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

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

We have audited the 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, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City of Ypsilanti, Michigan's basic financial statements, and have issued our report thereon dated November 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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*.

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 14, 2007

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

To the Honorable Mayor and
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 its major federal program for the year ended June 30, 2007. The major federal program of the City of Ypsilanti, Michigan is 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 its major federal program 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, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

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

Internal Control Over Compliance

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 14, 2007

City of Ypsilanti, Michigan

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

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity	Award Amount	Federal Expenditures
		Project/Grant Number		
U.S. Department of Justice:				
Bulletproof Vest Partnership Program	16.607	N/A	\$ 608	\$ 608
Edward Byrne Memorial Justice Assistance Grant	16.738	2006-DJ-BX-0533	15,042	15,000
Edward Byrne Memorial Justice Assistance Grant	16.738	2005-DJ-BX-1206	25,148	25,000
Passed through the Michigan Department of Community Health:				
Lawnet Conspiracy Continuation Project	16.579	70771-8-06-B	38,642	5,441
Lawnet Conspiracy Continuation Project	16.579	70771-9-07-B	38,642	<u>33,799</u>
Total passed through Michigan Department of Community Health				<u>39,240</u>
Total U.S. Department of Justice				79,848
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
Revolving Loan Fund	14.228	GR-751	106,798	<u>98,352</u>
Total U.S. Department of Housing and Urban Development				2,848,702
U.S. Environmental Protection Agency:				
Passed through Michigan Department of Environmental Quality - Clean Water Capitalization Grants for Drinking Water State Revolving Funds				
	66.468	7215-01	375,000	47,850
Department of Natural Resources - Emerald Ash Borer Tree Planting				
	10.664	EAB 06-49	7,685	<u>7,685</u>
Total federal awards				<u>\$ 2,984,085</u>

City of Ypsilanti, Michigan

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

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 220,028
Federal revenue not reported as such in the financial statements:	
Capitalization Grant Proceeds for Drinking Water Revolving Fund*	47,850
Community Development Block Grant/Loans Outstanding*	2,750,350
Federal revenue received relating to prior years' expenditures	<u>(34,143)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 2,984,085</u></u>

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

City of Ypsilanti, Michigan

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

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of 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 City of Ypsilanti, Michigan had the following loan balances outstanding at June 30, 2007. These loan balances are also included in the federal expenditures presented in the schedule of expenditures of federal awards.

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

City of Ypsilanti, Michigan

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

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

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

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

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
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 X No

City of Ypsilanti, Michigan

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

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None



Plante & Moran, PLLC

Suite 40C
1000 Oakbrook Drive
Ann Arbor, MI 48104
Tel: 734.665.9494
Fax: 734.665.0664
plantemoran.com

November 14, 2007

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

We recently completed the audit of the financial statements of City of Ypsilanti (the "City") for the year ended June 30, 2007. We thank the finance department and all others involved for the effort put forth in preparing for the audit. In addition to the audit report, we offer the following comments and suggestions for your consideration.

Bank Reconciliations

During our testing of bank reconciliations, we noted that the reconciliations were not always signed and dated by the preparer. In addition, though the reviewer signature was present, the reviewer did not always document the date of review. The reconciliations should be signed and dated by both the preparer and the reviewer. This additional documentation can be used to help verify that the bank reconciliation process is being done both timely and according to City procedures.

Cash Collection Procedures

During our review of the City's accounting procedures, it was noted that due to the limited number of employees at the City, occasionally an employee from the finance department assists the Treasurer's office with cash collections. Individuals from the finance department also have the ability to prepare bank reconciliations and create journal entries. As mentioned in the prior year management letter, it is important to ensure that the City has proper segregation of accounting duties. We understand that the City did implement additional control procedures in an effort to establish increased review over journal entries; however, we suggest that the City have someone independent of the recordkeeping functions be responsible for collection of all cash.

Additionally, we offer the following comments and recommendations relating to legislative matters for your consideration:

Revenue Sharing

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent raising more than \$750 million) and to enact a new 6 percent tax on certain services (raising approximately \$700 million per year). As part of the continuation budget that was also passed on October 1, there are still approximately \$400 million of "to-be-determined" cuts that remain to be agreed upon and announced for the fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the revenue sharing-formula and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax, called the new Michigan business tax, was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Rumors about further changes to Michigan's tax structure continue to circulate around Lansing as the legislature continues its work on the State's fiscal year 2007/2008 budget and solving the estimated \$1.8 billion deficit that exists.

The table below details state-shared revenue for the City since 2001 broken out by statutory and constitutional portions.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2001</u>
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
2006	1,641,157	1,526,835	3,167,992	802,356
2007	1,578,540	1,495,109	3,073,649	896,699
2008*	1,560,634	1,513,015	3,073,649	896,699

* Estimated

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$1,561,000 at risk in its General Fund. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

New Cable Franchise Legislation

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

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

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

- A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bill's franchise fee.
- Audits of the video service providers' calculation of gross revenue are limited to once every two years.

Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

New Michigan Business Tax

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

More personal property tax relief is part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes; specifically from the State Education Tax (SET) and local school operating mills. Industrial personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). Commercial personal property will be exempt from 12 of the 18 school operating mills.

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

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

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

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction, but may be used for preservation.

These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

Retiree Healthcare Benefits and GASB No. 45

As discussed in the past, the Governmental Accounting Standards Board has released Statement No. 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.

The new pronouncement requires a valuation of the obligation to provide retiree healthcare benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets. This statement is effective for the City's fiscal year ending June 30, 2009.

In connection with the upcoming reporting change, the City has established a trust to which annual contributions are made in order to fund future postemployment benefits. The trust was established through the Municipal Employees' Retirement System of Michigan (MERS) retirement health funding vehicle. The City made a contribution of \$1,380,000 during the year ended June 30, 2007.

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 10-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, 2007) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

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

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November 14, 2007

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City's staff during the audit. We appreciate the opportunity to serve as your auditors. We would be happy to answer any questions you have regarding the annual financial report, or the above comments and recommendations at your convenience.

Very truly yours,

Plante & Moran, PLLC



David H. Helisek



Martin J. Olejnik