

Auditing Procedures Report

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

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

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

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

City of Ypsilanti, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Ypsilanti, Michigan

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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 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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ypsilanti's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ypsilanti as of June 30, 2006 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.

A member of



A worldwide association of independent accounting firms

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2006 on our consideration of the City of Ypsilanti's control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 3, 2006

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, 2006. 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, 2006:

- State-shared revenue, the second largest revenue source in the General Fund, was reduced over the last few years by the State of Michigan. The City reacted by selling City-owned properties and delaying capital improvements such as new roofs for the fire department, the department of public works, and the police department. Additionally, the City froze vacant positions, eliminated funding for conferences, reduced contributions to the motorpool, and eliminated the remainder of the recreation budget. This left only utility and telephone costs unadjusted. These modifications resulted in maintaining the fund balance near the prior year's level.
- The City continued its long-term investment of road infrastructure by seeking federal and state funding through the Michigan Department of Transportation and Washtenaw Area Transportation Study. The City also refunded four bonds for the Water Street project by combining them into one General Obligation Refunding Bond. This was done in order to give the City flexibility in negotiation with developers and to avoid the possibility of default on the original bonds as the project is progressing slower than anticipated. Furthermore, to counteract the expiration of the City's information technology contract, which reduced the computer budget by one-half, the City collaborated with Washtenaw County to provide information technology support.

Using this Annual Report

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

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

City of Ypsilanti, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

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

	Governmental Activities		Change from Prior Year	
	2005	2006	in Dollars	Percent
Assets				
Current assets	\$ 19,567	\$ 20,500	\$ 933	5
Noncurrent assets	<u>107,480</u>	<u>115,024</u>	<u>7,544</u>	7
Total assets	127,047	135,524	8,477	7
Liabilities				
Current liabilities	6,507	7,941	1,434	22
Long-term liabilities	<u>68,595</u>	<u>69,983</u>	<u>1,388</u>	2
Total liabilities	<u>75,102</u>	<u>77,924</u>	<u>2,822</u>	4
Net Assets				
Invested in capital assets and joint venture - Net of related debt	12,336	12,857	521	4
Restricted	7,028	9,093	2,065	29
Unrestricted	<u>32,581</u>	<u>35,650</u>	<u>3,069</u>	9
Net Assets	<u>\$ 51,945</u>	<u>\$ 57,600</u>	<u>\$ 5,655</u>	11

The City's combined net assets increased approximately 11 percent from a year ago. There were large increases in total assets, mostly due to the increase in the City's investment in a joint venture.

City of Ypsilanti, Michigan

Management's Discussion and Analysis (Continued)

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

	Governmental Activities		Changes from Prior Year	
	2005	2006	in Dollars	Percent
Revenue				
Program revenue:				
Charges for services	\$ 1,700	\$ 1,710	\$ 10	1
Operating grants and contributions	2,794	2,434	(360)	(13)
Capital grants and contributions	3,728	3,087	(641)	(17)
General revenue:				
Property taxes	9,736	10,560	824	8
State-shared revenue	3,199	3,167	(32)	(1)
Unrestricted investment earnings	907	834	(73)	(8)
Increase (decrease) in fair value of investments	215	(1,118)	(1,333)	(620)
Increase in fair value of joint venture	10,727	7,149	(3,578)	(33)
Franchise fees	176	172	(4)	(2)
Gain (loss) on sale of capital assets and land	(69)	5	74	(107)
Total revenue	33,113	28,000	(5,113)	(15)
Program Expenses				
General government	1,464	1,679	215	15
Public safety	7,251	8,186	935	13
Community maintenance	2,092	6,424	4,332	207
Highways, streets, and bridges	1,922	1,736	(186)	(10)
Culture and recreation	1,250	1,014	(236)	(19)
Health and welfare	879	440	(439)	(50)
Interest on long-term debt	2,959	2,866	(93)	(3)
Total program expenses	17,817	22,345	4,528	25
Change in Net Assets	\$ 15,296	\$ 5,655	\$ (9,641)	(63)

The City's net assets increased during the current year as a result of various factors. Total governmental revenues decreased from prior year due to a smaller increase in fair value of the joint venture and the decrease in both capital and operating grants and contributions. State-shared revenue decreased due to the State's structural budget problems; it has adopted a series of reductions in unrestricted state revenue sharing to local units. The increase in the property tax revenues was due primarily to the continuing increase in property taxes as a result of growth in the City's taxable values. Expenses increased during the year. The paving and water main projects are close to completion, hence the decrease of project costs. Debt service increased due to the principal and interest charges of refunding bond issues this year. Health care costs continue to increase, and property insurance rates decreased due to proactive risk reduction measures taken by all departments, and the City's claim experience has been low. The City closely monitored its spending in all other areas throughout the year. Purchases of police cars were spread over several years, office supply spending was limited, professional development and other spending was cut by all departments, including leaving positions vacant due to attrition. Contributions to the motorpool fund remained the same as last year.

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. However, personnel litigation and appellate litigation exceeded the amended budget primarily due to labor negotiations related to coordinating all labor contracts to expire on the same date. Other departments overall 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 grants from Eastern Michigan University and donations from the Ann Arbor Area Foundation, Pfizer, and many public and private organization supporters.

Capital Asset and Debt Administration

At the end of 2006, the City had \$26,438,337 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 \$45,945,827 invested in the YCUA joint venture as explained in Note 11.

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

Economic Factors and Next Year's Budgets and Rates

The City's spending budget for next year is \$660,149 higher than fiscal year 2005-2006. The primary reason is the 3 percent increase in salaries and wages and increased cost of fringe benefits. The Recreation Department will continue to operate through donations and grants. However, the City will continue to provide for utilities and janitorial services. Property tax revenues are projected to increase approximately 11 percent due to the expiration of Visteon's personal property tax abatement. Visteon will remain on the City's tax roll next fiscal year, but the tax revenue for fiscal year 2007/2008 is uncertain. The City's Blue Ribbon Finance Committee appointed in fiscal year 2004/2005 recommended City Council place before the voters consideration of a city income tax. City Council has the option to place this issue on the ballot at a future election. The City approved a preferred developer agreement with Joseph Freed and Associates for the water street project. This agreement provides milestones which the developer must meet in anticipation of the City approving Freed as the developer of the water street project.

City of Ypsilanti, Michigan

Management's Discussion and Analysis (Continued)

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, 2006

	Primary Government - Governmental Activities	Component Units
Assets		
Cash and cash equivalents (Note 3)	\$ 6,643,846	\$ 707,532
Investments (Note 3)	7,266,076	246,979
Land held for resale (Note 13)	7,984,536	-
Receivables:		
Special assessments	59,496	-
Accrued interest and other	197,813	-
Due from other governmental units	922,477	30,299
Prepaid expenses and other assets	1,797	-
Inventory	126,421	-
Restricted assets (Note 1)	5,282,474	-
Lease receivable (Note 11)	34,654,830	-
Investment in joint venture (Note 11)	45,945,827	-
Capital assets - Net (Note 5):		
Nondepreciable	7,988,557	957,804
Depreciable	18,449,780	1,056,583
Total assets	135,523,930	2,999,197
Liabilities		
Accounts payable	334,749	172,001
Accrued and other liabilities	4,280,989	1,628
Due to other governmental units	211,605	84,389
Deferred revenue (Note 4)	368,489	55,824
Noncurrent liabilities (Note 8):		
Due within one year	2,744,918	76,941
Due in more than one year	69,982,751	1,529,387
Total liabilities	77,923,501	1,920,170
Net Assets		
Invested in capital assets - Net of related debt	12,857,112	801,933
Restricted:		
Retiree benefits	876,818	-
Streets and highways	2,149,050	-
Garbage and refuse collection	30,571	-
Drug forfeitures	571,724	-
Debt service	5,464,903	-
Unrestricted	35,650,251	277,094
Total net assets	\$ 57,600,429	\$ 1,079,027

City of Ypsilanti, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government - Governmental activities:				
General government	\$ 1,679,364	\$ 462,082	\$ 75,953	\$ 119,959
Public safety	8,185,587	570,059	959,056	6,372
Community maintenance	6,423,905	538,989	17,035	16,575
Highways, streets, and bridges	1,736,108	-	1,342,474	402,647
Culture and recreation	1,013,582	138,705	39,075	1,100
Health and welfare	439,851	-	-	-
Interest on long-term debt	2,866,288	-	-	2,540,453
	<u>2,866,288</u>	<u>-</u>	<u>-</u>	<u>2,540,453</u>
Total primary government - Governmental activities	<u>\$ 22,344,685</u>	<u>\$ 1,709,835</u>	<u>\$ 2,433,593</u>	<u>\$ 3,087,106</u>
Component units:				
Downtown Development Authority	\$ 304,234	\$ -	\$ 132,135	\$ 89,242
Depot Town Downtown Development Authority	72,799	-	-	-
Economic Development Corporation	2,630	-	-	-
Brownfield Redevelopment Authority	38,999	-	-	-
	<u>38,999</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 418,662</u>	<u>\$ -</u>	<u>\$ 132,135</u>	<u>\$ 89,242</u>
General revenues:				
Property taxes (Note 1)				
State-shared revenues				
Unrestricted investment earnings				
Increase (decrease) in fair value of investments				
Increase in equity in joint venture				
Franchise fees				
Special item - 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, 2006

Net (Expense)	
Revenue and	
Changes in Net	
Assets	
Primary	
Government	
Governmental	Component
Activities	Units
\$ (1,021,370)	\$ -
(6,650,100)	-
(5,851,306)	-
9,013	-
(834,702)	-
(439,851)	-
(325,835)	-
 (15,114,151)	 -
-	(82,857)
-	(72,799)
-	(2,630)
-	(38,999)
-	(197,285)
 10,560,479	 433,983
3,167,267	-
833,721	31,957
(1,117,928)	3,308
7,148,954	-
171,525	-
5,183	-
20,769,201	469,248
 5,655,050	 271,963
51,945,379	807,064
\$ 57,600,429	\$ 1,079,027

City of Ypsilanti, Michigan

Governmental Funds Balance Sheet June 30, 2006

	General	Land Revolving	2003-B Capital Improvement Bonds	2004-B General Obligation Bonds	2006 General Obligation Capital Improvement Refunding Bonds	Nonmajor Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents (Note 3)	\$ 1,114,983	\$ 210,286	\$ -	\$ -	\$ 403	\$ 3,795,581	\$ 5,121,253
Investments (Note 3)	3,537,248	-	-	-	-	1,552,357	5,089,605
Land held for resale (Note 13)	-	3,309,200	2,732,379	1,456,116	-	486,841	7,984,536
Receivables:							
Special assessments	56,072	-	-	-	-	3,424	59,496
Accrued interest and other	197,813	-	-	-	-	-	197,813
Due from other funds (Note 6)	-	-	-	-	-	225	225
Due from other governmental units	30,595	-	-	-	-	262,100	292,695
Prepaid expenses and other assets	1,797	-	-	-	-	-	1,797
Inventory	99,518	-	-	-	-	-	99,518
Restricted assets (Note 1)	-	-	-	-	2,855,633	2,426,841	5,282,474
Total assets	\$ 5,038,026	\$ 3,519,486	\$ 2,732,379	\$ 1,456,116	\$ 2,856,036	8,527,369	24,129,412
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 193,351	\$ -	\$ -	\$ -	\$ -	\$ 141,398	\$ 334,749
Accrued and other liabilities	293,525	1,265,698	1,172,263	525,005	-	293,224	3,549,715
Due to other funds (Note 6)	225	-	-	-	-	-	225
Due to other governmental units	211,605	-	-	-	-	-	211,605
Deferred revenue (Note 4)	111,396	168,408	-	-	-	173,181	452,985
Total liabilities	810,102	1,434,106	1,172,263	525,005	-	607,803	4,549,279
Fund Balances							
Reserved, reported in:							
General Fund - Inventory	99,518	-	-	-	-	-	99,518
Special Revenue Funds - Drug Forfeiture	-	-	-	-	-	571,724	571,724
Capital Projects Funds:							
Unspent bond proceeds	-	-	-	-	-	517,124	517,124
Debt service	-	-	-	-	2,856,036	656,843	3,512,879
Capital projects (Note 5)	-	-	-	-	-	75,048	75,048
Land held for resale	-	2,055,128	1,560,116	931,111	-	209,381	4,755,736
Debt Service Funds - Debt service	-	-	-	-	-	1,952,024	1,952,024
Unreserved, reported in:							
General Fund:							
Designated (Note 15)	2,457,812	-	-	-	-	-	2,457,812
Undesignated	1,670,594	-	-	-	-	-	1,670,594
Special Revenue Funds:							
Designated (Note 15)	-	-	-	-	-	1,185,933	1,185,933
Undesignated	-	-	-	-	-	2,184,341	2,184,341
Capital Projects Funds							
	-	30,252	-	-	-	567,148	597,400
Total fund balances	4,227,924	2,085,380	1,560,116	931,111	2,856,036	7,919,566	19,580,133
Total liabilities and fund balances	\$ 5,038,026	\$ 3,519,486	\$ 2,732,379	\$ 1,456,116	\$ 2,856,036	\$ 8,527,369	\$ 24,129,412

City of Ypsilanti, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2006

Total Fund Balances for Governmental Funds	\$ 19,580,133
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	25,223,798
Lease receivable from joint venture is not a financial resource and is not reported in the funds	34,654,830
Revenue-sharing due from State not received within 60 days of year end is not available currently and is not reported in the funds	629,782
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	59,496
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	25,000
Compensated absences are not due and payable in the current period and are not reported in the funds	(943,616)
Interest amounts on long-term liabilities are not payable until due in the funds	(720,323)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(71,217,053)
Investment in joint venture is not a financial resource and is not reported in the funds	45,945,827
Internal Service Fund - Workers' compensation is included as part of governmental activities	350,533
Internal Service Fund - Motor Pool is included as part of governmental activities	<u>4,012,022</u>
Net Assets of Governmental Activities	<u>\$ 57,600,429</u>

City of Ypsilanti, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Land Revolving Fund	2003-B Capital Improvement Bonds	2004-B General Obligation Bonds	2006 General Obligation Capital Refunding Bonds	Nonmajor Governmental Funds	Total Governmental Funds
Revenue							
Property taxes	\$ 8,199,114	\$ -	\$ -	\$ -	\$ -	\$ 2,360,147	\$ 10,559,261
State-shared revenue	3,180,785	-	-	-	-	1,271,634	4,452,419
Federal grants	155,605	-	-	-	-	14,818	170,423
State grants	8,898	-	-	-	-	73,504	82,402
Licenses and permits	617,089	-	-	-	-	-	617,089
Charges for services	1,293,957	-	-	-	-	-	1,293,957
Decrease in fair value of investments	(440,934)	-	-	-	-	(194,418)	(635,352)
Other revenue	745,222	9,947	-	7,499	402	985,868	1,748,938
Total revenue	13,759,736	9,947	-	7,499	402	4,511,553	18,289,137
Expenditures							
General administration	1,991,639	-	-	-	-	308,417	2,300,056
Public safety	7,640,202	-	-	-	-	474,400	8,114,602
Community maintenance	1,440,260	-	-	-	-	2,235,789	3,676,049
Culture and recreation	206,698	-	-	-	-	-	206,698
Highways, streets, and bridges	-	-	-	-	-	1,180,647	1,180,647
Other	214,575	686,601	725,971	386,878	-	129,350	2,143,375
Fringe benefits	847,947	-	-	-	-	-	847,947
Debt administration	241,432	175,000	225,723	93,507	556,824	4,153,327	5,445,813
Total expenditures	12,582,753	861,601	951,694	480,385	556,824	8,481,930	23,915,187
Excess of Revenue Over (Under) Expenditures	1,176,983	(851,654)	(951,694)	(472,886)	(556,422)	(3,970,377)	(5,626,050)
Other Financing Sources (Uses)							
Transfers in (Note 6)	-	75,000	225,723	-	455,806	1,168,329	1,924,858
Transfers out (Note 6)	(625,869)	(225,723)	-	(150,535)	-	(922,731)	(1,924,858)
Contributions from YCUA	-	-	-	-	-	2,549,649	2,549,649
Contributions to YCUA	-	-	-	-	-	(446,427)	(446,427)
Payment to escrow agent (Note 8)	-	-	-	-	(12,783,348)	-	(12,783,348)
Issuance of debt	-	725,000	-	-	15,740,000	362,648	16,827,648
Total other financing sources (uses)	(625,869)	574,277	225,723	(150,535)	3,412,458	2,711,468	6,147,522
Net Change in Fund Balances	551,114	(277,377)	(725,971)	(623,421)	2,856,036	(1,258,909)	521,472
Fund Balances - Beginning of year	3,676,810	2,362,757	2,286,087	1,554,532	-	9,178,475	19,058,661
Fund Balances - End of year	\$ 4,227,924	\$ 2,085,380	\$ 1,560,116	\$ 931,111	\$ 2,856,036	\$ 7,919,566	\$ 19,580,133

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, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	521,472
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		86,832
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		5,214
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		(26,644)
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		25,000
Grant revenues associated with assets contributed by Michigan Department of Transportation are recorded in the statement of activities; they are not reported in the funds		351,390
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		(960,000)
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		183,341
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		15,374,933
Accrued interest payable is recorded when due in governmental funds		(10,718)
Bond proceeds are not reported as financing sources on the statement of activities		(16,827,648)
Change in accumulated compensated absences is recorded when earned in the statement of activities		(44,405)
Equity interest in joint venture is not reported in the governmental funds		7,148,954
Internal Service Fund - Workers' compensation is also included as governmental activities		(181,512)
Internal Service Fund - Motor Pool is also included as governmental activities		8,841
Change in Net Assets of Governmental Activities	\$	<u>5,655,050</u>

City of Ypsilanti, Michigan

Proprietary Funds - Internal Service Funds Combined Statement of Net Assets June 30, 2006

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 1,522,593
Investments (Note 3)	2,176,471
Inventory	<u>26,903</u>

Total current assets 3,725,967

Noncurrent assets - Capital assets - Net 1,214,536

Total assets 4,940,503

Liabilities

Current liabilities:

Accrued and other liabilities	10,948
Current portion of long-term debt	<u>47,000</u>

Total current liabilities 57,948

Noncurrent liabilities - Long-term debt - Net of current portion 520,000

Total liabilities 577,948

Net Assets

Investment in capital assets - Net of related debt	1,214,536
Unrestricted	<u>3,148,019</u>

Total net assets \$ 4,362,555

City of Ypsilanti, Michigan

Proprietary Funds - Internal Service Funds Combined Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

Operating Revenue	
Equipment rental	\$ 1,117,314
Other	<u>197,314</u>
Total operating revenue	1,314,628
Operating Expenses	
Salaries and fringes	135,718
Gas, oil, and fuel	139,046
Depreciation	322,924
Operation and maintenance	162,705
Contractual services and fees	216,992
Insurance, claims, and other	<u>184,961</u>
Total operating expenses	<u>1,162,346</u>
Operating Income	152,282
Nonoperating Revenue (Expense)	
Interest income	149,337
Decrease in fair value of investments	(482,576)
Interest expense	(1,342)
Gain on disposal of assets	<u>9,628</u>
Total nonoperating expense	<u>(324,953)</u>
Change in Net Assets	(172,671)
Net Assets - Beginning of year	<u>4,535,226</u>
Net Assets - End of year	<u><u>\$ 4,362,555</u></u>

City of Ypsilanti, Michigan

Proprietary Funds - Internal Service Funds Combined Statement of Cash Flows Year Ended June 30, 2006

Cash Flows from Operating Activities

Payments to suppliers and vendors	\$ (576,227)
Payments to employees	(145,797)
Internal activity - Receipts from other funds	1,117,314
Claims paid	(46,470)
Other receipts	<u>197,314</u>

Net cash provided by operating activities 546,134

Cash Flows from Capital and Related Financing Activities

Proceeds from sale of capital assets	10,910
Purchase of capital assets	(332,182)
Principal and interest paid on capital debt	<u>(26,358)</u>

Net cash used in capital and related financing activities (347,630)

Cash Flows from Investing Activities

Interest received	149,337
Purchases and sales of investments - Net	<u>206,333</u>

Net cash provided by investing activities 355,670

Net Increase in Cash and Cash Equivalents 554,174

Cash and Cash Equivalents - Beginning of year 968,419

Cash and Cash Equivalents - End of year \$ 1,522,593

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 152,282
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	322,924
Changes in assets and liabilities:	
Prepaid and other assets	20,424
Inventory	(8,417)
Accrued and other liabilities	<u>58,921</u>

Net cash provided by operating activities \$ 546,134

City of Ypsilanti, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	Police and Fire Retirement System	Trust and Agency Fund
Assets		
Cash and cash equivalents (Note 3)	\$ 1,198,870	\$ 538
Investments (Note 3):		
U.S. government obligations	2,609,104	-
Bank investment pool	125,932	-
Corporate bonds	4,525,985	-
Corporate stocks	12,988,457	-
Real estate investment trusts	716,886	-
Mutual funds	8,075,649	-
Total investments	29,042,013	-
Total assets	30,240,883	<u>\$ 538</u>
Liabilities - Accounts payable	4,206	<u>\$ 538</u>
Net Assets - Held in trust for pension and other employee benefits		<u>\$ 30,236,677</u>

City of Ypsilanti, Michigan

Fiduciary Funds

Statement of Changes in Net Assets - Police and Fire Retirement System Year Ended June 30, 2006

Additions

Investment income (expense):

Net realized gains and appreciation in fair value of investments	\$ 1,851,078
Interest and dividends	1,026,307
Investment expenses	<u>(91,641)</u>

Net investment income 2,785,744

Contributions:

Employee	406,521
Employer	<u>500,602</u>

Total contributions 907,123

Total additions 3,692,867

Deductions

Benefit payments	1,739,439
Refunds of contributions	318,065
Administrative expenses	<u>39,089</u>

Total deductions 2,096,593

Net Increase in Net Assets Held in Trust for Retirement Benefits 1,596,274

Net Assets Held in Trust for Retirement Benefits

Beginning of year 28,640,403

End of year \$ 30,236,677

City of Ypsilanti, Michigan

Component Units Statement of Net Assets June 30, 2006

	Downtown Development Authority	Depot Town Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 393,874	\$ 106,896	\$ 182,623	\$ 24,139	\$ 707,532
Investments (Note 3)	246,979	-	-	-	246,979
Due from other governmental units	30,299	-	-	-	30,299
Capital assets - Net (Note 5):					
Nondepreciable	904,604	-	53,200	-	957,804
Depreciable	<u>920,083</u>	<u>136,500</u>	<u>-</u>	<u>-</u>	<u>1,056,583</u>
Total assets	<u>2,495,839</u>	<u>243,396</u>	<u>235,823</u>	<u>24,139</u>	<u>2,999,197</u>
Liabilities					
Accounts payable	146,316	1,996	-	23,689	172,001
Accrued liabilities and other	1,628	-	-	-	1,628
Due to other governmental units	365	11,860	72,164	-	84,389
Deferred revenue	55,824	-	-	-	55,824
Noncurrent liabilities (Note 8):					
Due within one year	65,000	11,941	-	-	76,941
Due in more than one year	<u>1,395,000</u>	<u>134,387</u>	<u>-</u>	<u>-</u>	<u>1,529,387</u>
Total liabilities	<u>1,664,133</u>	<u>160,184</u>	<u>72,164</u>	<u>23,689</u>	<u>1,920,170</u>
Net Assets					
Investment in capital assets - Net of related debt	758,561	(9,828)	53,200	-	801,933
Unrestricted (Note 14)	<u>73,145</u>	<u>93,040</u>	<u>110,459</u>	<u>450</u>	<u>277,094</u>
Total net assets	<u>\$ 831,706</u>	<u>\$ 83,212</u>	<u>\$ 163,659</u>	<u>\$ 450</u>	<u>\$ 1,079,027</u>

City of Ypsilanti, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants and Contributions
Downtown Development Authority	\$ 304,234	\$ -	\$ 132,135	\$ 89,242
Depot Town Downtown Development Authority	72,799	-	-	-
Economic Development Corporation	2,630	-	-	-
Brownfield Redevelopment Authority	38,999	-	-	-
Total governmental activities	\$ 418,662	\$ -	\$ 132,135	\$ 89,242

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, 2006**

Net (Expense) Revenue and Changes in Net Assets				
Downtown Development Authority	Depot Town Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (82,857)	\$ -	\$ -	\$ -	\$ (82,857)
-	(72,799)	-	-	(72,799)
-	-	(2,630)	-	(2,630)
-	-	-	(38,999)	(38,999)
(82,857)	(72,799)	(2,630)	(38,999)	(197,285)
288,933	106,050	-	39,000	433,983
17,823	7,649	6,038	447	31,957
3,308	-	-	-	3,308
310,064	113,699	6,038	39,447	469,248
227,207	40,900	3,408	448	271,963
604,499	42,312	160,251	2	807,064
<u>\$ 831,706</u>	<u>\$ 83,212</u>	<u>\$ 163,659</u>	<u>\$ 450</u>	<u>\$ 1,079,027</u>

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

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

Blended Component Units

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

Discretely Presented Component Units

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

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

Note I - Summary of Significant Accounting Policies (Continued)

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

Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Note I - Summary of Significant Accounting Policies (Continued)

Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The City reports the following major governmental funds:

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

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

Note I - Summary of Significant Accounting Policies (Continued)

2003-B Capital Improvement Bonds, 2004-B General Obligation Bonds, and 2006 General Obligation Capital Improvement Bond Funds - These funds account for construction and maintenance activity of specific roads and water projects within the City funded by the various bond issues.

Additionally, the City reports the following fund types:

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

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.

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 2005 taxable valuation of the City totaled approximately \$358.9 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 December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time they are added to the county tax rolls.

	<u>Millage Rate</u>	<u>Levy</u>
Operating	19.0211	\$ 6,664,777
Police and Fire Pension Fund	2.7660	969,175
YCUA debt	0.7131	255,999
Total General Fund	<u>22.5002</u>	<u>7,889,951</u>
Sanitation - Nonmajor Special Revenue Funds	2.7814	974,571
Street Debt - Nonmajor Debt Service Funds	3.7485	1,345,690
Total nonmajor funds	<u>6.5299</u>	<u>2,320,261</u>
Total primary government	<u><u>29.0301</u></u>	<u><u>\$ 10,210,212</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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements (see Note 8). A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Note 2 - Stewardship, Compliance, and Accountability

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

Cumulative shortfall - Beginning of year		\$ (222,257)
Current year building permit revenue		384,583
Related expenses:		
Direct costs	\$ 412,387	
Estimated indirect costs	<u>101,534</u>	
Total construction code expenses		<u>513,921</u>
Cumulative shortfall - End of year		<u>\$ (351,595)</u>

Note 3 - Deposits and Investments

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

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

The City has designated 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 \$13,919,002 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 \$713,143. 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, 2006

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	\$ 3,327,760	1.89 years
Corporate bonds (pension)	4,525,987	6.86 years
U.S. government or agency bond or note (pension)	2,609,104	25.51 years

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

Investment	Fair Value	Weighted Average Maturity
U.S. government or agency bond or note	\$ 241,368	9.18 months

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) for the City and the pension system are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 2,408,594	Aaa	Moody's
Bank investment pool	500,248	AI	S&P
U.S. government or agency bond or note	3,251,349	Not rated	N/A
Bank investment pool (pension)	125,932	AI	S&P
Mutual fund (pension)	2,971,790	Not rated	N/A
U.S. government or agency bond or note (pension)	2,297,528	Not rated	N/A
Real estate investment trusts (pension)	716,886	Not rated	N/A
Foreign mutual funds (pension)	5,103,857	Not rated	N/A
Corporate bonds (pension)	202,298	Aaa	Moody's
Corporate bonds (pension)	471,116	AA1	Moody's
Corporate bonds (pension)	695,124	AA3	Moody's
Corporate bonds (pension)	596,098	A3	Moody's
Corporate bonds (pension)	592,545	A2	Moody's
Corporate bonds (pension)	702,640	AI	Moody's
Corporate bonds (pension)	857,408	Baa2	Moody's
Corporate bonds (pension)	203,572	Aa2	Moody's
Corporate bonds (pension)	205,186	Baa3	Moody's

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

Investment	Fair Value	Rating	Rating Organization
U.S. government or agency bond or note	\$ 241,368	AAA	S&P

Note 3 - Deposits and Investments (Continued)

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

<u>Security</u>	<u>Foreign Currency</u>	<u>Fair Value</u>
Foreign mutual funds	Various	\$ 5,103,857
Foreign stocks	Various	<u>191,084</u>
Total		<u>\$ 5,294,941</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	\$ 59,496	\$ -	\$ 59,496
Grant and other funding received prior to meeting all eligibility requirements	<u>25,000</u>	<u>368,489</u>	<u>393,489</u>
Total	<u>\$ 84,496</u>	<u>\$ 368,489</u>	<u>\$ 452,985</u>

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

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

	Balance July 1, 2005	Additions and Reclassifications	Disposals and Adjustments	Balance June 30, 2006
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 755,585	\$ -	\$ -	\$ 755,585
Construction in progress	11,365,220	1,277,450	5,409,698	7,232,972
Subtotal	12,120,805	1,277,450	5,409,698	7,988,557
Capital assets being depreciated:				
Infrastructure	20,550,472	5,409,698	-	25,960,170
Buildings and improvements	5,878,233	131,239	-	6,009,472
Vehicles and equipment	5,669,143	336,488	104,392	5,901,239
Subtotal	32,097,848	5,877,425	104,392	37,870,881
Accumulated depreciation:				
Infrastructure	11,870,008	684,772	-	12,554,780
Buildings and improvements	2,099,780	149,055	-	2,248,835
Vehicles and equipment	4,256,726	442,160	81,400	4,617,486
Subtotal	18,226,514	1,275,987	81,400	19,421,101
Net capital assets being depreciated	13,871,334	4,601,438	22,992	18,449,780
Net capital assets	\$ 25,992,139	\$ 5,878,888	\$ 5,432,690	\$ 26,438,337

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

Governmental activities:	
General government	\$ 62,986
Public safety	184,652
Community maintenance	400,713
Highways, streets, and bridges	524,454
Culture and recreation	103,182
Total governmental activities	<u>\$ 1,275,987</u>

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has various active construction projects at year end. The City's construction projects include the 2003 Unlimited Tax Bond issuance, which is being used for a variety of major and local road improvements. Additionally, the City has Water Supply and Sewage Disposal System Revenue Bonds, which are being used for YCUA watermain improvements and sewer leads. At year end, the City's commitments with contractors are as follows:

	Total Commitment	Spent to Date	Remaining Commitment
Major and local road improvements (2003 Unlimited Tax Bonds)	\$ 8,642,156	\$ 8,567,108	\$ 75,048
Water and sewer improvements (2003B & 2004A Revenue Bonds)	4,292,062	3,532,864	759,198

In addition, the City issued approximately \$363,000 of debt in the current year for various other improvements to the YCUA plant (see Note 11). The proceeds of the debt were directly forwarded to YCUA, which is responsible for administering the improvements and for paying the debt service requirements.

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

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Component units:				
Capital assets not being depreciated:				
Land	\$ 53,200	\$ -	\$ -	\$ 53,200
Construction in progress	153,279	751,325	-	904,604
Subtotal	206,479	751,325	-	957,804
Capital assets being depreciated -				
Buildings and improvements	1,770,304	25,268	-	1,795,572
Accumulated depreciation - Buildings and improvements	669,752	69,237	-	738,989
Net capital assets being depreciated	1,100,552	(43,969)	-	1,056,583
Net capital assets	\$ 1,307,031	\$ 707,356	\$ -	\$ 2,014,387

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds -		
Other nonmajor governmental funds	General Fund	<u>\$ 225</u>

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

Interfund Transfers

	Transfers Out				Total
	Land Revolving Fund	2004-B General Obligation Bonds	Other Nonmajor Governmental Funds		
Transfers in:					
Land Revolving Fund (1)	\$ 75,000	\$ -	\$ -	\$ -	\$ 75,000
2003-B Capital Improvement Bonds Fund (2)	-	225,723	-	-	225,723
2006 General Obligation Capital Improvement Refunding Bond (2)	-	-	-	455,806	455,806
Other nonmajor governmental funds (1) (2)	<u>550,869</u>	<u>-</u>	<u>150,535</u>	<u>466,925</u>	<u>1,168,329</u>
Total	<u>\$ 625,869</u>	<u>\$ 225,723</u>	<u>\$ 150,535</u>	<u>\$ 922,731</u>	<u>\$ 1,924,858</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 YCUA (see Note 11) derived from the acquired or constructed assets to pay the debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
General obligation bonds:							
2001 Paving Unlimited Tax Bonds:							
Amount of issue - \$8,465,000		\$400,000 -					
Maturing through 2017	4.00% - 4.75%	\$710,000	\$ 6,495,000	\$ -	\$ (400,000)	\$ 6,095,000	\$ 420,000
2002 Limited Tax Capital Improvement Bonds:							
Amount of issue - \$400,000		\$20,000 -					
Maturing through 2017	3.00% - 4.60%	\$35,000	360,000	-	(20,000)	340,000	20,000
2003 Unlimited Tax Bonds:							
Amount of issue - \$8,465,000		\$410,000 -					
Maturing through 2018	2.375% - 4.375%	\$815,000	7,760,000	-	(410,000)	7,350,000	425,000
2003 Taxable Capital Improvement Bonds:							
Amount of issue - \$2,000,000 **		\$35,000 -					
Maturing through 2023	3.50% - 5.00%	\$210,000	2,000,000	-	(2,000,000)	-	-
2003 CDBG Loan:							
Amount of issue - \$2,750,350							
Amount of total draw available - \$2,750,350		\$119,440 -					
Maturing through 2025	4.00%	\$199,655	2,750,350	-	-	2,750,350	-
2003-B Taxable Capital Improvement Bonds:							
Amount of issue - \$4,400,000 **		\$110,000 -					
Maturing through 2024	2.85% - 5.75%	\$385,000	4,400,000	-	(4,400,000)	-	-
2004-A General Obligation Refunding Bonds:							
Amount of issue - \$4,680,000 **		\$475,000 -					
Maturing through 2017	3.00% - 4.00%	\$620,000	4,680,000	-	(4,680,000)	-	-
2004-B General Obligation Refunding Bonds:							
Amount of issue - \$2,020,000 **		\$85,000 -					
Maturing through 2017	4.00% - 5.125%	\$370,000	2,020,000	-	(2,020,000)	-	-
2006 General Obligation Refunding Bonds:							
Amount of issue - \$15,740,000		\$285,000 -					
Maturing through 2032	5.55% - 6.20%	\$1,295,000	-	15,740,000	-	15,740,000	-
Revenue bonds:							
2001 Water & Sewer System:							
Amount of issue - \$4,000,000		\$30,000 -					
Maturing through 2027	4.00% - 6.00%	\$345,000	3,955,000	-	(30,000)	3,925,000	30,000
2002-A Water & Sewer System:							
Amount of issue - \$5,000,000		\$40,000 -					
Maturing through 2027	4.00% - 5.00%	\$415,000	4,935,000	-	(40,000)	4,895,000	40,000
2002-B Water & Sewer System:							
Amount of issue - \$485,000		\$20,000 -					
Maturing through 2021	2.50%	\$30,000	440,000	-	(20,000)	420,000	20,000
2002-C Water & Sewer System:							
Amount of issue - \$8,660,000		\$200,000 -					
Maturing through 2027	4.00% - 5.00%	\$585,000	8,280,000	-	(200,000)	8,080,000	210,000
2003-A Water & Sewer System:							
Amount of issue - \$4,800,000		\$95,000 -					
Maturing through 2014	1.20% - 4.10%	\$525,000	4,705,000	-	(95,000)	4,610,000	495,000
2003-B Water & Sewer System:							
Amount of issue - \$1,500,000		\$25,000 -					
Maturing through 2023	3.50% - 4.25%	\$145,000	1,500,000	-	(25,000)	1,475,000	25,000
2003-C Water & Sewer System:							
Amount of issue - \$785,000		\$30,000 -					
Maturing through 2023	2.50%	\$50,000	736,317	18,683	(30,000)	725,000	30,000

** Bonds were refunded during the year.

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities (Continued):							
2003-D Water & Sewer System:							
Amount of issue - \$5,300,000		\$210,000 -					
Maturing through 2023	2.50%	\$330,000	\$ 4,751,035	\$ 343,965	\$ (210,000)	\$ 4,885,000	\$ 220,000
2004-B Water & Sewer System:							
Amount of issue - \$6,330,000		\$255,000 -					
Maturing through 2025	2.13%	\$385,000	6,330,000	-	(255,000)	6,075,000	260,000
2004-A Water & Sewer System:							
Amount of issue - \$2,700,000		\$55,000 -					
Maturing through 2028	3.30% - 4.55%	\$200,000	2,700,000	-	(55,000)	2,645,000	60,000
County contractual obligations:							
YCUA Washtenaw County Series I *							
Maturing through 2007	5.10%	\$187,824 -	392,302	-	(190,092)	202,210	202,210
YCUA Washtenaw County Series II *							
Maturing through 2007	4.05% - 4.20%	\$34,658 -	101,173	-	(35,077)	66,096	66,097
Installment purchase agreement -							
2000 DPW Office and City Hall:							
Amount of issue - \$835,000		\$84,760-					
Maturing through 2010	5.44%	\$105,059	473,161	-	(84,764)	388,397	89,434
Biltmore Agreement							
Amount of issue - \$725,000		-					
Maturing through 2009	-%	-	-	725,000	(175,000)	550,000	52,500
Capital lease - 1996 Fire Truck:							
Amount of issue - \$199,924		\$25,016	25,016	-	(25,016)	-	-
Maturing through 2006	5.37%						
Total bonds and other obligations			69,789,354	16,827,648	(15,399,949)	71,217,053	2,665,241
Other long-term obligations:							
Workers' compensation unpaid claims (Note 9)			498,000	22,530	46,470	567,000	47,000
Accumulated compensated absences			899,211	-	44,405	943,616	32,677
Total other long-term obligations			1,397,211	22,530	90,875	1,510,616	79,677
Total governmental activities			\$ 71,186,565	\$ 16,850,178	\$ (15,309,074)	\$ 72,727,669	\$ 2,744,918

* 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		\$40,000 -					
Maturing through 2014	6.00% - 6.40%	\$80,000	\$ 520,000	\$ -	\$ (40,000)	\$ 480,000	\$ 45,000
2004-A Downtown Development Limited							
Tax G.O. Bonds:							
Amount of issue - \$995,000		\$15,000 -					
Maturing through 2024	3.40% - 4.60%	\$80,000	995,000	-	(15,000)	980,000	20,000
Revenue bonds:							
2000 Depot Town Downtown Development							
Authority Tax Increment Revenue Bond:							
Amount of issue - \$210,000		\$11,248 -					
Maturing through 2016	6.00%	\$19,275	157,687	-	(11,359)	146,328	11,941
Total component unit activities			\$ 1,672,687	\$ -	\$ (66,359)	\$ 1,606,328	\$ 76,941

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
2007	\$ 2,665,241	\$ 2,810,872	\$ 5,476,113	\$ 76,941	\$ 79,106	\$ 156,047
2008	2,496,865	2,828,493	5,325,358	92,678	74,944	167,622
2009	2,592,069	2,748,269	5,340,338	98,460	70,042	168,502
2010	2,687,532	2,661,979	5,349,511	109,290	64,837	174,127
2011	3,250,000	2,570,486	5,820,486	115,173	59,051	174,224
2012-2016	16,991,077	11,155,634	28,146,711	553,786	194,487	748,273
2017-2021	16,359,387	7,919,383	24,278,770	325,000	97,600	422,600
2022-2026	14,912,101	4,539,114	19,451,215	235,000	21,850	256,850
2027-2031	9,262,781	1,304,981	10,567,762	-	-	-
Total	<u>\$ 71,217,053</u>	<u>\$ 38,539,211</u>	<u>\$ 109,756,264</u>	<u>\$ 1,606,328</u>	<u>\$ 661,917</u>	<u>\$ 2,268,245</u>

Advance Refundings - During the year, the City issued \$15,740,000 in general obligation bonds with an average interest rate of 6.109 percent. The proceeds of these bonds were used to advance refund \$13,100,000 of capital improvement bonds with interest rates that ranged from 2.85 percent to 6.20 percent. The net proceeds of approximately \$12,800,000 (after payment of approximately \$557,000 in underwriting fees, insurance, and other issuance costs and approximately \$2,400,000 for depositing funds into the City's Debt Service Funds to meet certain debt covenants (amounts included in restricted assets) (see Note 1) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's long-term obligations. The 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 increased total debt service payments by approximately \$11,000,000 and resulted in an economic loss of approximately \$1,259,000.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property and general liability; the City is partially uninsured for workers' compensation claims.

Note 9 - Risk Management (Continued)

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:

	2006	2005
Unpaid claims - Beginning of year	\$ 498,000	\$ 432,000
Incurred claims (including claims incurred but not reported)	22,530	189,133
Claim payments	<u>46,470</u>	<u>(123,133)</u>
Unpaid claims - End of year	<u>\$ 567,000</u>	<u>\$ 498,000</u>

Note 10 - Defined Benefit Pension Plans and Postretirement Benefits

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

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

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

Annual Pension Costs - The City's required contribution for the year ended June 30, 2006 was \$500,602. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004, using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return; (b) projected salary increases of 4.5 percent to 15.0 percent per year; and (c) 4.5 percent inflation. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a five-year period.

Reserves - As of June 30, 2006, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 4,689,749
Reserve for retirees' benefit payments	17,331,255

Trend information is as follows:

	Fiscal Year Ended June 30		
	2006	2005	2004
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 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.

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by City ordinances and requires a contribution from the employees of 3 percent of the first \$4,200 of annual compensation and 5 percent of compensation over \$4,200.

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

Annual Pension Costs - The City was required to make a contribution to the plan for the year ended June 30, 2006 of \$33,106. This was determined as part of an actuarial valuation at December 31, 2004, 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		
	2005	2004	2003
Municipal Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 16,030,936	\$ 15,678,721	\$ 15,107,484
Actuarial accrued liability (AAL)	\$ 10,301,827	\$ 10,303,544	\$ 9,888,040
Overfunded AAL	\$ 5,729,109	\$ 5,375,177	\$ 5,219,444
Funded ratio	156%	152%	153%
Covered payroll	\$ 2,761,341	\$ 2,891,747	\$ 2,910,805

Note 11 - Joint Venture

The City is a member of the Ypsilanti Community Utilities Authority (YCUA), which provides water and sewer services to the residents of the City of Ypsilanti and Ypsilanti Township. The participating communities provide annual funding debt service payments based on contractual provisions. Therefore, the total amount due recorded in the government-wide statement of net assets is an estimate, based on historical payments made. During the current year, the City contributed approximately \$241,000 for its debt service. The City appoints members to the joint venture's governing board, who then approve the annual budget.

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

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Joint Venture (Continued)

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

Note 12 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Currently, 121 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2006, the City made payments for postemployment health benefit premiums of approximately \$715,000. The government obtains health care coverage through private insurers.

Note 13 - Land Held for Resale

The City is currently involved in a redevelopment project referred to as the Water Street Project. As a part of this project, the City has acquired various parcels of land in the Water Street area, and is in the process of preparing them for resale and redevelopment. As of June 30, 2006, the City has acquired numerous parcels, which are recorded as land held for resale. Acquisition costs are capitalized as well as other costs (legal, consulting, etc.) that are attributable and necessary for the project. The investment is stated at fair value, based on assessed property value (see also Note 7).

Note 14 - Component Units Unrestricted Net Assets

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

	Downtown Development Authority	Depot Town Downtown Development Authority
Depot Town Development Area	\$ -	\$ 7,432
West Cross	-	60,318
Operations	23,145	25,290
Cool Cities	50,000	-
Total unrestricted net assets	<u>\$ 73,145</u>	<u>\$ 93,040</u>

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2006

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	\$ 60,000	\$ -	\$ -
Debt service	144,904	-	-
Capital projects	599,292	-	-
Legal defense	75,000	-	-
Professional fees - Water street redevelopment project	100,000	-	-
Nonvested employee benefits - Vacation only	520,522	-	-
Vested employee benefits - Vacation and sick	423,094	-	-
General retiree health care	535,000	-	-
Fire and police retiree benefits	-	798,546	-
General City retiree benefits	-	78,272	-
Special operation	-	-	12,502
PSAP 911	-	-	296,613
Total	<u>\$ 2,457,812</u>	<u>\$ 876,818</u>	<u>\$ 309,115</u>

Note 16 - Upcoming Reporting Change

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

Required Supplemental Information

City of Ypsilanti, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues and Transfers				
Property taxes:				
Current taxes	\$ 8,007,858	\$ 8,004,064	\$ 8,033,783	\$ 29,719
Payment in lieu of taxes	48,409	48,409	42,193	(6,216)
Penalties and interest	74,500	74,500	123,138	48,638
Total property taxes	8,130,767	8,126,973	8,199,114	72,141
State-shared revenue	3,116,000	3,118,000	3,180,785	62,785
Federal grants	21,750	92,615	155,605	62,990
State grants	8,000	8,000	8,898	898
Licenses and permits	537,740	526,340	617,089	90,749
Charges for services:				
State fire protection	132,346	264,436	264,436	-
Fines and costs	424,418	484,576	528,384	43,808
Recreation program fees	219,801	157,199	138,705	(18,494)
Parking fines	352,500	260,000	362,432	102,432
Total charges for services	1,129,065	1,166,211	1,293,957	127,746
Other revenue:				
Interest	150,000	255,000	338,260	83,260
Decrease in fair value of investments	-	-	(440,934)	(440,934)
Other	482,593	446,235	406,962	(39,273)
Total other revenue	632,593	701,235	304,288	(396,947)
Transfers	12,000	-	-	-
Total revenue and transfers	13,587,915	13,739,374	13,759,736	20,362

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Expenditures and Transfers				
Administration:				
City Council	\$ 110,775	\$ 110,775	\$ 103,697	\$ 7,078
City Manager	238,544	253,044	255,888	(2,844)
Community services	700	600	400	200
Elections	85,430	55,507	51,429	4,078
Finance - Accounting	222,184	230,563	232,681	(2,118)
Finance - Assessing	124,038	124,865	122,011	2,854
City Clerk	153,364	169,798	177,442	(7,644)
Human resources	157,067	177,964	176,734	1,230
Finance - Treasurer	251,202	253,432	169,915	83,517
Museum archives	7,000	9,850	11,497	(1,647)
Planning and development	<u>305,139</u>	<u>295,633</u>	<u>256,782</u>	<u>38,851</u>
Total administration	1,655,443	1,682,031	1,558,476	123,555
Fire:				
Administration	257,423	263,408	253,099	10,309
Suppression	<u>2,266,065</u>	<u>2,296,359</u>	<u>2,243,864</u>	<u>52,495</u>
Total fire	2,523,488	2,559,767	2,496,963	62,804
Building/Ordinance:				
Ordinance enforcement	129,869	127,238	129,391	(2,153)
Building inspection	<u>436,720</u>	<u>383,705</u>	<u>372,628</u>	<u>11,077</u>
Total building/ordinance	566,589	510,943	502,019	8,924
Legal:				
General	49,670	49,670	49,670	-
Ordinance prosecution	105,060	105,060	105,060	-
Litigation and appeals	185,000	188,000	190,738	(2,738)
Personnel legal	<u>62,500</u>	<u>62,500</u>	<u>87,695</u>	<u>(25,195)</u>
Total legal	402,230	405,230	433,163	(27,933)

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Expenditures and Transfers (Continued)				
Other:				
Bonds, insurance, and workers' compensation	\$ 762,963	\$ 804,936	\$ 847,947	\$ (43,011)
Debt administration	256,155	241,436	241,432	4
Transit and other	216,271	252,271	214,575	37,696
Transfers and contributions	531,396	641,869	641,869	-
Total other	1,766,785	1,940,512	1,945,823	(5,311)
Police:				
Administration	362,183	367,370	351,579	15,791
Field services	4,256,696	4,204,077	3,999,533	204,544
Parking enforcement	104,737	112,204	97,527	14,677
LAWNET Grant	88,922	90,295	91,159	(864)
Homeland Security Grant - YPD	-	15,779	16,011	(232)
Vacant/Abandoned Building Training Grant	6,000	6,000	-	6,000
School Liaison Grant	69,065	103,735	83,403	20,332
Live Scan - Byrne Grant	-	-	2,008	(2,008)
Domestic Violence Grant	3,000	3,000	-	3,000
Total police	4,890,603	4,902,460	4,641,220	261,240
Public works:				
Public building maintenance	342,532	408,469	292,646	115,823
Administration	373,934	401,207	401,117	90
Street lighting	405,000	445,000	453,463	(8,463)
Parks	294,831	324,831	277,034	47,797
Total public works	1,416,297	1,579,507	1,424,260	155,247

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Expenditures and Transfers (Continued)				
Recreation:				
Administration	\$ 11,095	\$ 3,595	\$ 444	\$ 3,151
Swimming pool	64,837	71,876	58,123	13,753
Parkridge	172,480	92,702	82,702	10,000
Community fellowship	-	11,584	13,756	(2,172)
Senior center	41,181	52,408	50,559	1,849
Ice Skating Rink	-	1,800	1,003	797
Freight House Café	-	111	111	-
Total recreation	289,593	234,076	206,698	27,378
Total expenditures and transfers	13,511,028	13,814,526	13,208,622	605,904
Excess of Revenues and Transfers				
Over (Under) Expenditures and Transfers	76,887	(75,152)	551,114	\$ 626,266
Fund Balance - Beginning of year	3,676,810	3,676,810	3,676,810	
Fund Balance - End of year	\$ 3,753,697	\$ 3,601,658	\$ 4,227,924	

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, 2006

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end. The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. During the current year, the budget was amended in a legally permissible manner.

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

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	\$ 12,582,753
Operating transfers budgeted as expenditures	<u>625,869</u>
Amounts per budget statement as adopted	<u>\$ 13,208,622</u>

City of Ypsilanti, Michigan

Required Supplemental Information Schedule of Funding Progress Police and Fire Retirement System Year Ended June 30, 2006

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
06/30/00	\$ 32,440,367	\$ 26,204,216	\$ (6,236,151)	123.8	\$ 3,728,601	(167.3)
06/30/01	34,479,264	26,933,083	(7,546,181)	128.0	3,813,904	(197.9)
06/30/02	34,970,658	27,899,273	(7,071,385)	125.3	3,858,409	(183.3)
06/30/03	33,916,996	29,020,485	(4,896,511)	116.9	4,003,846	(122.3)
06/30/04	32,569,762	31,251,133	(1,318,629)	104.2	3,891,478	(33.9)
06/30/05	31,180,708	32,774,898	1,594,190	95.1	4,042,199	39.4

The schedule of employer contributions is as follows:

Fiscal Years Ended June 30	Actuarial Valuation Date June 30	Annual Required Contribution	Percentage Contributed
2001	1999	\$ 477,827	100.0
2002	2000	-	100.0
2003	2001	-	100.0
2004	2002	-	100.0
2005	2003	-	100.0
2006	2004	500,602	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, 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	\$ 618,029	\$ 282,501	\$ 77,168	\$ 617,023	\$ 156,564	\$ 751,007
Investments	790,621	250,664	-	261,488	-	128,502
Land held for resale	-	-	-	-	-	-
Receivables - Special assessments	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Due from other governmental units	169,083	49,359	-	-	-	6,372
Restricted assets	-	-	-	-	-	-
Total assets	\$ 1,577,733	\$ 582,524	\$ 77,168	\$ 878,511	\$ 156,564	\$ 885,881
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 5,778	\$ 43	\$ 41,261	\$ 1,693	\$ 7,087	\$ -
Accrued and other liabilities	2,107	3,279	5,336	-	-	5,042
Deferred revenue	-	-	-	-	144,757	-
Total liabilities	7,885	3,322	46,597	1,693	151,844	5,042
Fund Balances						
Reserved, reported in:						
Special Revenue Funds - Drug forfeitures	-	-	-	-	-	571,724
Capital Projects Funds:						
Unspent bond proceeds	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Land held for resale	-	-	-	-	-	-
Debt Service Funds - Debt service	-	-	-	-	-	-
Unreserved, reported in:						
Special Revenue Funds:						
Designated	-	-	-	876,818	-	309,115
Undesignated	1,569,848	579,202	30,571	-	4,720	-
Capital Projects Funds	-	-	-	-	-	-
Total fund balances	1,569,848	579,202	30,571	876,818	4,720	880,839
Total liabilities and fund balances	\$ 1,577,733	\$ 582,524	\$ 77,168	\$ 878,511	\$ 156,564	\$ 885,881

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

Nonmajor Capital Projects Funds

Capital Improvement Reserve	Sidewalk Improvement	2003 GO 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
\$ 355,691	\$ 81,003	\$ 135,729	\$ -	\$ 90	\$ 489,059	\$ 3,408	\$ 24,927	\$ 37,481
-	121,082	-	-	-	-	-	-	-
-	-	-	193,305	-	-	-	115,000	-
-	3,424	-	-	-	-	-	-	-
-	-	-	-	-	225	-	-	-
37,286	-	-	-	-	-	-	-	-
-	-	-	-	203,352	162,584	172,636	-	87,162
\$ 392,977	\$ 205,509	\$ 135,729	\$ 193,305	\$ 203,442	\$ 651,868	\$ 176,044	\$ 139,927	\$ 124,643
\$ 2,914	\$ -	\$ 60,681	\$ -	\$ -	\$ 10,891	\$ -	\$ 3,490	\$ 6,422
-	-	-	148,785	-	-	-	30,555	-
25,000	3,424	-	-	-	-	-	-	-
27,914	3,424	60,681	148,785	-	10,891	-	34,045	6,422
-	-	-	-	-	-	-	-	-
-	-	-	-	-	478,393	3,408	-	31,059
-	-	-	-	203,442	162,584	172,636	-	87,162
-	-	75,048	-	-	-	-	-	-
-	-	-	44,520	-	-	-	84,445	-
-	-	-	-	-	-	-	21,437	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
365,063	202,085	-	-	-	-	-	-	-
365,063	202,085	75,048	44,520	203,442	640,977	176,044	105,882	118,221
\$ 392,977	\$ 205,509	\$ 135,729	\$ 193,305	\$ 203,442	\$ 651,868	\$ 176,044	\$ 139,927	\$ 124,643

City of Ypsilanti, Michigan

	Nonmajor Capital Projects Funds			Nonmajor Debt Service Funds		
	2003-C Water Supply and Sewer	2002-A Revenue Bonds - Water	2004-A General Obligation Bonds	2001		2002A Revenue Bonds - Water
				General Obligations Bonds - Roads	2001 Revenue Bonds - Water	
Assets						
Cash and cash equivalents	\$ 2,282	\$ 2,982	\$ -	\$ 18,357	\$ 36,800	\$ 33,708
Investments	-	-	-	-	-	-
Land held for resale	-	-	178,536	-	-	-
Receivables: Special Assessments	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-
Restricted assets	30,123	-	896	-	388,640	444,174
Total assets	\$ 32,405	\$ 2,982	\$ 179,432	\$ 18,357	\$ 425,440	\$ 477,882
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ 1,000	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	98,120	-	-	-
Deferred revenue	-	-	-	-	-	-
Total liabilities	-	1,000	98,120	-	-	-
Fund Balances						
Reserved:						
Special Revenue Funds - Drug forfeitures	-	-	-	-	-	-
Capital Projects Funds:						
Unspent bond proceeds	2,282	1,982	-	-	-	-
Debt service	30,123	-	896	-	-	-
Capital projects	-	-	-	-	-	-
Land held for resale	-	-	80,416	-	-	-
Debt Service Funds - Debt service	-	-	-	18,357	425,440	477,882
Unreserved, reported in:						
Special Revenue Funds:						
Designated	-	-	-	-	-	-
Undesignated	-	-	-	-	-	-
Capital Projects Funds	-	-	-	-	-	-
Total fund balances	32,405	1,982	81,312	18,357	425,440	477,882
Total liabilities and fund balances	\$ 32,405	\$ 2,982	\$ 179,432	\$ 18,357	\$ 425,440	\$ 477,882

**Other Supplemental Information
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2006**

Nonmajor Debt Service Funds					
2002 General Obligation Capital Improvement Bonds	2002-B Revenue Bonds - Water	2002-C Water and Sewer Construction	Water Supply and Sewage Refunding Bonds	2003 Unlimited Tax Bonds	Total Governmental Funds
\$ 141	\$ 3,205	\$ 43,763	\$ 19,535	\$ 5,128	\$ 3,795,581
-	-	-	-	-	1,552,357
-	-	-	-	-	486,841
-	-	-	-	-	3,424
-	-	-	-	-	225
-	-	-	-	-	262,100
-	44,395	611,413	281,466	-	2,426,841
\$ 141	\$ 47,600	\$ 655,176	\$ 301,001	\$ 5,128	\$ 8,527,369
\$ 138	\$ -	\$ -	\$ -	\$ -	\$ 141,398
-	-	-	-	-	293,224
-	-	-	-	-	173,181
138	-	-	-	-	607,803
-	-	-	-	-	571,724
-	-	-	-	-	517,124
-	-	-	-	-	656,843
-	-	-	-	-	75,048
-	-	-	-	-	209,381
3	47,600	655,176	301,001	5,128	1,952,024
-	-	-	-	-	1,185,933
-	-	-	-	-	2,184,341
-	-	-	-	-	567,148
3	47,600	655,176	301,001	5,128	7,919,566
\$ 141	\$ 47,600	\$ 655,176	\$ 301,001	\$ 5,128	\$ 8,527,369

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	\$ -	\$ -	\$ 989,325	\$ -	\$ -	\$ -
State-shared revenue	972,709	298,925	-	-	-	-
Federal grants	-	-	-	-	8,446	6,372
State grants	-	-	3,000	-	-	63,604
Decrease in fair value of investments	(124,520)	-	-	(69,898)	-	-
Other revenue	99,015	58,108	24,180	516,680	5,057	57,906
Total revenue	947,204	357,033	1,016,505	446,782	13,503	127,882
Expenditures						
General administration	-	-	-	255,318	-	-
Public safety	-	-	-	464,774	-	9,626
Community maintenance	-	-	1,016,505	-	9,731	-
Highways, streets, and bridges	677,087	490,817	-	-	-	12,743
Other	-	-	-	-	-	-
Debt administration	-	-	-	-	-	-
Total expenditures	677,087	490,817	1,016,505	720,092	9,731	22,369
Excess of Revenue Over (Under)						
Expenditures	270,117	(133,784)	-	(273,310)	3,772	105,513
Other Financing Sources (Uses)						
Transfers in	-	100,000	-	294,000	1,285	-
Transfers out	(543,156)	-	-	-	-	(65,671)
Contributions from YCUA	-	-	-	-	-	-
Contributions to YCUA	-	-	-	-	-	-
Proceeds from the issuance of debt	-	-	-	-	-	-
Total other financing sources (uses)	(543,156)	100,000	-	294,000	1,285	(65,671)
Net Change in Fund Balances (Deficit)	(273,039)	(33,784)	-	20,690	5,057	39,842
Fund Balances (Deficit) - Beginning of year	1,842,887	612,986	30,571	856,128	(337)	840,997
Fund Balances - End of year	\$ 1,569,848	\$ 579,202	\$ 30,571	\$ 876,818	\$ 4,720	\$ 880,839

**Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended June 30, 2006**

Nonmajor Capital Projects Funds

Capital Improvement Reserve	Sidewalk Improvement	2003 GO 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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
6,900	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>67,980</u>	<u>18,218</u>	<u>7,794</u>	<u>-</u>	<u>930</u>	<u>23,280</u>	<u>3,521</u>	<u>3,584</u>	<u>9,652</u>
74,880	18,218	7,794	-	930	23,280	3,521	3,584	9,652
53,099	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
199,047	33,246	899,492	-	-	1,289	-	73,738	-
-	-	-	-	-	-	-	-	-
-	-	-	51,359	-	-	-	30,555	-
<u>109,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,600</u>	<u>162,818</u>	<u>386,516</u>	<u>93,162</u>	<u>82,425</u>
<u>361,511</u>	<u>33,246</u>	<u>899,492</u>	<u>51,359</u>	<u>332,600</u>	<u>164,107</u>	<u>386,516</u>	<u>197,455</u>	<u>82,425</u>
(286,631)	(15,028)	(891,698)	(51,359)	(331,670)	(140,827)	(382,995)	(193,871)	(72,773)
313,693	-	416,588	-	-	-	-	8,633	-
-	-	-	-	-	-	-	(43,392)	-
-	-	-	-	409,581	162,818	472,834	-	82,425
-	-	-	-	-	(427,438)	-	-	(18,989)
-	-	-	-	<u>343,965</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>313,693</u>	<u>-</u>	<u>416,588</u>	<u>-</u>	<u>753,546</u>	<u>(264,620)</u>	<u>472,834</u>	<u>(34,759)</u>	<u>63,436</u>
27,062	(15,028)	(475,110)	(51,359)	421,876	(405,447)	89,839	(228,630)	(9,337)
<u>338,001</u>	<u>217,113</u>	<u>550,158</u>	<u>95,879</u>	<u>(218,434)</u>	<u>1,046,424</u>	<u>86,205</u>	<u>334,512</u>	<u>127,558</u>
<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>

City of Ypsilanti, Michigan

	Nonmajor Capital Projects Funds			Nonmajor Debt Service Funds		
	2003-C Water Supply and Sewer	2002-A Revenue Bonds - Water	2004-A General Obligation Bonds	2001 General Obligations Bonds - Roads	2001 Revenue Bonds - Water	2002A Revenue Bonds - Water
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ 677,089	\$ -	\$ -
State-shared revenue	-	-	-	-	-	-
Federal grants	-	-	-	-	-	-
State grants	-	-	-	-	-	-
Decrease in fair value of investments	-	-	-	-	-	-
Other revenue	1,054	1,138	14,805	1,506	15,645	17,573
Total revenue	1,054	1,138	14,805	678,595	15,645	17,573
Expenditures						
General administration	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community maintenance	-	-	2,741	-	-	-
Highways, streets, and bridges	-	-	-	-	-	-
Other	-	-	47,436	-	-	-
Debt administration	48,304	-	170,404	676,625	227,836	280,613
Total expenditures	48,304	-	220,581	676,625	227,836	280,613
Excess of Revenue Over (Under)						
Expenditures	(47,250)	1,138	(205,776)	1,970	(212,191)	(263,040)
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	(270,512)	-	-	-
Contributions from YCUA	58,344	-	-	-	227,836	280,613
Contributions to YCUA	-	-	-	-	-	-
Proceeds from the issuance of debt	18,683	-	-	-	-	-
Total other financing sources (uses)	77,027	-	(270,512)	-	227,836	280,613
Net Change in Fund Balances (Deficit)	29,777	1,138	(476,288)	1,970	15,645	17,573
Fund Balances (Deficit) - Beginning of year	2,628	844	557,600	16,387	409,795	460,309
Fund Balances - End of year	\$ 32,405	\$ 1,982	\$ 81,312	\$ 18,357	\$ 425,440	\$ 477,882

**Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances (Deficit) (Continued)
Nonmajor Governmental Funds
Year Ended June 30, 2006**

Nonmajor Debt Service Funds					
2002 General Obligation Capital Improvement Bonds	2002-B Revenue Bonds - Water	2002-C Water and Sewer Construction	Water Supply and Sewage Refunding Bonds	2003 Unlimited Tax Bonds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 693,733	\$ 2,360,147
-	-	-	-	-	1,271,634
-	-	-	-	-	14,818
-	-	-	-	-	73,504
-	-	-	-	-	(194,418)
-	1,762	24,094	11,070	1,316	985,868
-	1,762	24,094	11,070	695,049	4,511,553
-	-	-	-	-	308,417
-	-	-	-	-	474,400
-	-	-	-	-	2,235,789
-	-	-	-	-	1,180,647
-	-	-	-	-	129,350
34,130	30,750	572,250	252,198	693,331	4,153,327
34,130	30,750	572,250	252,198	693,331	8,481,930
(34,130)	(28,988)	(548,156)	(241,128)	1,718	(3,970,377)
34,130	-	-	-	-	1,168,329
-	-	-	-	-	(922,731)
-	30,750	572,250	252,198	-	2,549,649
-	-	-	-	-	(446,427)
-	-	-	-	-	362,648
34,130	30,750	572,250	252,198	-	2,711,468
-	1,762	24,094	11,070	1,718	(1,258,909)
3	45,838	631,082	289,931	3,410	9,178,475
\$ 3	\$ 47,600	\$ 655,176	\$ 301,001	\$ 5,128	\$ 7,919,566

City of Ypsilanti, Michigan

Other Supplemental Information Combining Statement of Net Assets Proprietary Funds - Internal Service Funds June 30, 2006

	Motor Pool	Self-insurance Workers' Compensation	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,265,631	\$ 256,962	\$ 1,522,593
Investments	1,511,051	665,420	2,176,471
Inventory	26,903	-	26,903
Total current assets	2,803,585	922,382	3,725,967
Noncurrent assets - Capital assets (Net)	1,214,536	-	1,214,536
Total assets	4,018,121	922,382	4,940,503
Liabilities			
Current liabilities:			
Accrued and other liabilities	6,099	4,849	10,948
Current portion of long-term debt	-	47,000	47,000
Total current liabilities	6,099	51,849	57,948
Noncurrent liabilities - Long-term debt - Net of current portion	-	520,000	520,000
Total liabilities	6,099	571,849	577,948
Net Assets			
Investment in capital assets - Net of related debt	1,214,536	-	1,214,536
Unrestricted	2,797,486	350,533	3,148,019
Total net assets	\$ 4,012,022	\$ 350,533	\$ 4,362,555

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, 2006

	Motor Pool	Self-insurance Workers' Compensation	Total
Operating Revenue			
Equipment rental	\$ 1,117,314	\$ -	\$ 1,117,314
Other	11,647	185,667	197,314
Total operating revenue	1,128,961	185,667	1,314,628
Operating Expenses			
Salaries and fringes	117,110	18,608	135,718
Gas, oil, and fuel	139,046	-	139,046
Depreciation	322,924	-	322,924
Operation and maintenance	156,771	5,934	162,705
Contractual services and fees	152,203	64,789	216,992
Insurance, claims, and other	69,491	115,470	184,961
Total operating expenses	957,545	204,801	1,162,346
Operating Income (Loss)	171,416	(19,134)	152,282
Nonoperating Revenue (Expense)			
Interest income	105,496	43,841	149,337
Decrease in fair value of investments	(276,357)	(206,219)	(482,576)
Interest expense	(1,342)	-	(1,342)
Gain on disposal of assets	9,628	-	9,628
Total nonoperating expense	(162,575)	(162,378)	(324,953)
Change in Net Assets	8,841	(181,512)	(172,671)
Net Assets - Beginning of year	4,003,181	532,045	4,535,226
Net Assets - End of year	<u>\$ 4,012,022</u>	<u>\$ 350,533</u>	<u>\$ 4,362,555</u>

City of Ypsilanti, Michigan

Other Supplemental Information Combining Statement of Cash Flows Proprietary Funds - Internal Service Funds Year Ended June 30, 2006

	Motor Pool	Self-insurance Workers' Compensation	Total
Cash Flows from Operating Activities			
Payments to suppliers and vendors	\$ (509,162)	\$ (67,065)	\$ (576,227)
Payments to employees	(128,231)	(17,566)	(145,797)
Internal activity - Payments from other funds	1,117,314	-	1,117,314
Claims paid	-	(46,470)	(46,470)
Other receipts	11,647	185,667	197,314
Net cash provided by operating activities	491,568	54,566	546,134
Cash Flows from Capital and Related Financing Activities			
Proceeds from sale of capital assets	10,910	-	10,910
Purchase of capital assets	(332,182)	-	(332,182)
Principal and interest paid on capital debt	(26,358)	-	(26,358)
Net cash used in capital and related financing activities	(347,630)	-	(347,630)
Cash Flows from Investing Activities			
Interest received	105,496	43,841	149,337
Purchases and sales of investments - Net	177,105	29,228	206,333
Net cash provided by investing activities	282,601	73,069	355,670
Net Increase in Cash and Cash Equivalents	426,539	127,635	554,174
Cash and Cash Equivalents - Beginning of year	839,092	129,327	968,419
Cash and Cash Equivalents - End of year	<u>\$ 1,265,631</u>	<u>\$ 256,962</u>	<u>\$ 1,522,593</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 171,416	\$ (19,134)	\$ 152,282
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	322,924	-	322,924
Changes in assets and liabilities:			
Prepaid and other assets	16,766	3,658	20,424
Inventory	(8,417)	-	(8,417)
Accrued and other liabilities	(11,121)	70,042	58,921
Net cash provided by operating activities	<u>\$ 491,568</u>	<u>\$ 54,566</u>	<u>\$ 546,134</u>

City of Ypsilanti, Michigan

**Federal Awards
Supplemental Information
June 30, 2006**

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, which collectively comprise the City of Ypsilanti, Michigan's basic financial statements, for the year ended June 30, 2006 and have issued our report thereon dated October 3, 2006. 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 opinions.

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 basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 3, 2006



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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the City of Ypsilanti, Michigan, as of and for the year ended June 30, 2006 and have issued our report thereon dated October 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ypsilanti, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Ypsilanti, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We noted certain other matters involving internal control over financial reporting that we have reported to the management of the City of Ypsilanti, Michigan in a separate letter dated October 3, 2006.

To the Honorable Mayor and
Members of the City Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ypsilanti, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to the management of the City of Ypsilanti, Michigan in a separate letter dated October 3, 2006.

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

Plante & Moran, PLLC

October 3, 2006

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, 2006. 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, 2006. However, we noted certain matters that we reported to the management of the City of Ypsilanti, Michigan in a separate letter dated October 3, 2006.

To the Honorable Mayor and
Members of the City Council

Internal Control Over Compliance

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

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

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

Plante & Moran, PLLC

October 3, 2006

City of Ypsilanti, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Justice:				
Gang Resistance Education and Training	16.737	N/A	\$ 8,500	\$ 4,179
Bullet Proof Vest Grant Partnership Program	16.607	N/A	6,372	6,372
Passed through Eastern Michigan University - Prevention of Juvenile Crime and Violence in the Community Grant	16.609	2003-DD-BX-1017	66,500	24,000
Passed through the Michigan Department of Community Health:				
Lawnet Conspiracy Continuation Project	16.579	70771-704B	38,642	6,248
Lawnet Conspiracy Continuation Project	16.579	70771-806B	38,642	<u>33,201</u>
Total passed through Michigan Department of Community Health				<u>39,449</u>
Total U.S. Department of Justice				74,000
U.S. Department of Homeland Security:				
Homeland Security Assistance to Firefighters Grant Program - Fire Prevention and Safety Program	97.044	N/A	31,487	12,861
Homeland Security Assistance to Firefighters Grant Program - Fire Prevention and Safety Program	97.044	N/A	73,116	<u>73,116</u>
Total U.S. Department of Homeland Security				85,977
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 Funds	14.228	GR-751		<u>8,446</u>
Total U.S. Department of Housing and Urban Development				2,758,796

City of Ypsilanti, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Environmental Protection Agency - Passed through Michigan				
Department of Environmental Quality - Capitalization Grants for Drinking Water Quality State Revolving Funds	66.468	7112-01	\$ 785,000	\$ 8,422
	66.468	7122-01	5,300,000	<u>155,059</u>
Total U.S. Environmental Protection Agency				163,481
U.S. Department of the Interior, National Park Service - Passed through Michigan Department of History, Arts and Libraries, State Historic Preservation Office - Historic Preservation Fund Grant				
	15.904	CG05-386	25,000	25,000
U.S. Department of Transportation - Federal Highway Administration:				
Passed through Michigan Department of Transportation Highway Planning and Construction	20.205	LL0300, 80132	105,941	105,941
Passed through Michigan Office of Highway Safety - Michigan Association of Chief of Police Grant	20.600	PT-06-02	2,000	<u>2,000</u>
Total U.S. Department of Transportation				<u>107,941</u>
Total federal awards				<u>\$ 3,215,195</u>

City of Ypsilanti, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Revenue from federal sources - As reported on financial statements - Includes all funds	\$ 170,423
Federal revenue not reported as such in the financial statements:	
Capitalization Grant Proceeds for Drinking Water Revolving Fund *	163,481
Community Development Block Grant/Loans Outstanding*	2,750,350
Historic Preservation Fund Grant money spent and earned in current year not received within 60 days	25,000
MDOT Grant revenue recorded by component unit	<u>105,941</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 3,215,195</u>

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

City of Ypsilanti, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Note 1 - Significant Accounting Policies

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

Note 2 - Loans Outstanding

The institution had the following loan balances outstanding at June 30, 2006. Where required by OMB Circular A-133, these loan balances outstanding are also included in the federal expenditures presented in the schedule of federal awards.

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

Note 3 - Subrecipient Awards

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

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 8,422

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2006

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
- Reportable condition(s) identified that are not considered to be material weaknesses? X Yes ___ 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
- Reportable condition(s) 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(s):

CFDA Number(s)	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, 2006

Section II - Financial Statement Audit Findings

Reference Number	Findings
06-1	<p>Finding Type - Reportable condition</p> <p>Criteria - Segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets.</p> <p>Condition - Due to staffing circumstances during the year, there were some instances where individuals that have access to the general ledger and prepare bank reconciliations were collecting cash.</p> <p>Context - On a recurring basis throughout the year, employees of the finance and accounting departments assisted the treasurer's office with cash collections as necessary to properly serve customers despite the City's staffing circumstances.</p> <p>Effect - Potential for fraud</p> <p>Cause - Staffing shortages</p> <p>Recommendation - To improve internal controls, we recommend that someone else independent of the recordkeeping function be responsible for collection of all cash and cash equivalents in the future.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City agrees with the finding and plans to implement compensating controls when cash collection by individuals with access to recordkeeping is unavoidable due to staffing circumstances. Additional monitoring and approvals will be implemented; the treasurer or designee will verify the cashier's deposit to data entry before the bank deposit is made and the accounting supervisor or designee will verify that the deposit receipt total matches the paperwork.</p>

Section III - Federal Program Audit Findings

None

October 3, 2006

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

Dear Mayor and Council Members:

We recently completed our audit of the basic financial statements of the City of Ypsilanti for the year ended June 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Accounting and Recordkeeping

Grants and Other Revenue Sources

As discussed in prior years, the City does not have a formal written agreement with YCUA related to the DWRF loans documenting the responsibility for performing the federal programs audit. Since the City is planning to seek out additional DWRF loans next fiscal year that will be in the City's name, it will be the City's obligation to perform a federal program audit. City management has discussed this issue with YCUA's auditors in the past; however, a formal written agreement has not been obtained.

Internal Control Structure

The concept of "internal control structure" relates to the system of checks and balances intended to safeguard assets and ensure reliability of the accounting data. The City's policies and procedures that have been put into place, the accounting system, and the environment in which the City operates all interact together to form the internal control structure.

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October 3, 2006

In planning and performing our audit of the financial statements of the City of Ypsilanti as of June 30, 2006, we considered the City's internal control structure in order to determine the extent of our auditing procedures for the purpose of expressing an opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions; however, we noted two matters involving the internal controls and their operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control system that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. The functioning of internal control was assessed at a point in time and no assurances can be drawn that internal control is functioning or will continue to function beyond the point in time at which it was assessed. None of the items noted are considered to be material weaknesses.

Segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets. It is our understanding that individuals from the accounting and finance departments periodically assisted the treasurer's office with cash collections during the later part of the year due to staffing shortages. Individuals from the accounting and finance departments also have the ability to prepare bank reconciliations and create journal entries. To improve internal controls, we recommend that someone else independent of the recordkeeping functions be responsible for collection of all cash and cash equivalents (checks, etc.).

This report is intended solely for the information and use of the City of Ypsilanti's management and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Legislative Issues

Revenue Sharing

This year's state budget discussion offered the hint of an increase in revenue sharing from the last several years. Revenue sharing was identified as a priority by the Legislature during its initial budget discussions and several proposals existed which included a blanket increase in revenue sharing of several percent and one which tied the increase in revenue sharing to local governments who demonstrated that they had engaged in service sharing, service consolidation, etc. In the end, the summer budget compromises that occurred in July saw no increases in revenue sharing over the last several years.

October 3, 2006

With the appropriation reductions to revenue sharing since 2001 (including approximately \$600 million in fiscal year 2006/2007 over amounts calculated by the statutory formula), a number of townships are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing (remember that the constitutional portion cannot be adjusted). Many townships no longer have any statutory revenue sharing remaining as a result. For those communities, because sales tax collections have increased, their revenue sharing is actually increasing because they are now only receiving constitutional revenue sharing. The remaining amount of total statutory revenue sharing in the State's budget (approximately \$400 million) is supporting cities, villages, and larger, urban townships.

The statutory formula sunsets in 2007, so the remaining statutory revenue-sharing dollars will receive considerable attention next year. Next year, the State will also need to begin dealing with counties again as it relates to statutory revenue sharing. In fiscal year 2004/2005, the State eliminated statutory revenue sharing received by counties (which was approximately \$182 million in fiscal year 2003/2004) and, in return, allowed the counties to advance the levy of their operating millage to July from December. The additional monies from the earlier levy were utilized to create a reserve fund by the counties to replace lost statutory revenue sharing. The expectation is that when the reserve funds at individual counties become depleted, the counties will re-enter the State's statutory revenue sharing formula. It is very possible that the return of county statutory revenue sharing could be at the expense of city, village, and township statutory revenue sharing.

Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform") on state-shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

State revenue sharing accounts for approximately 22 percent of the City's total General Fund revenue. The table below details state-shared revenue for the City over the past five years as well as estimates for the next two fiscal years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2001.

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State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	\$ 2,519,229	\$ 1,451,119	\$ 3,970,348	\$ -
2002	2,336,695	1,465,900	3,802,595	(167,753)
2003	2,114,488	1,489,331	3,603,819	(366,529)
2004	1,772,659	1,466,283	3,238,942	(731,406)
2005	1,702,362	1,501,276	3,203,638	(766,710)
2006 *	1,640,998	1,526,268	3,167,266	(803,082)
2007 *	1,598,913	1,569,079	3,167,992	(802,356)

* Amounts represent estimates.

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

Update on Business Tax Reform

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget. The Legislature has created a "Joint Committee on Economic Growth," charged with submitting to the Legislature by December 1 recommendations on a replacement tax for the Single Business Tax. Also, ending and replacing the State's personal property tax, a significant revenue source to many local governments, is an item that has been added to the Committee's agenda.

These matters will receive considerable attention going forward and in 2007.

Transportation Matters

In 2004, the Legislature modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund if a surplus existed. As a condition of the transfer, the amended law requires that certain conditions be met including the adoption of an asset management process for the Major and Local Street systems. It is important to note that these provisions sunset 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. There is also currently legislation proposed that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

As part of the governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which would provide approximately \$400 million to be used by local governments as federal match monies on local road projects. The program requires legislation before it becomes effective.

Fire Protection Grants

Certain communities with qualifying state-owned property within their jurisdiction receive fire protection grants from the State of Michigan. Despite past efforts to secure a consistent source and level of funding for these payments from the State, appropriations annually continue to vary and be the subject of the State's budget deliberation process. With the uncertain nature of the State's budget, the nature of their appropriation (i.e., inconsistent) and the history involving their availability, local governments receiving these monies should continue to budget these monies carefully when doing multiyear planning.

Property Assessment Cap

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

2006	3.8%
2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

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The 2005 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2006. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

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

For the year ended June 30, 2006, the City's Headlee maximum property tax rate for its operating levy was 19.0211 mills even though City Charter would allow the City to levy 20.0000 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

Telecommunications Act Changes

Changes were made by the Legislature to restrict the ability of local governments to engage in telecommunications activities. Additionally, threats exist at both the federal and state level to restrict or eliminate the ability of local governments to regulate and franchise cable television, which would impact franchise fees received by local governments. We encourage the City to monitor their developments closely given the impact that a reduction in cable franchise fees could have on the City's budget.

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

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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, 2006) and is good for one year thereafter. In addition, the City should consider the need to file a qualifying statement for each of its component units.

We would like to thank the City and all those involved with the audit process for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



David H. Helisek