City of Midland, Michigan

Comprehensive Annual Financial Report
with Supplemental Information
June 30, 2004

City of Midland, Michigan

About the Cover

Summer, winter, spring, and fall… no matter the season, the City of Midland's two senior housing facilities offer affordable, comfortable living quarters with convenient amenities to meet many needs. In 2003, Washington Woods Senior Housing Facility, 821 Cambridge Street, celebrated 25 years of offering safe and convenient housing to senior citizens in the community. Washington Woods has 214 apartment units, and meals and basic health monitoring services are available.

A second facility, Riverside Place, 400 E. Main Street, celebrated its 10th anniversary in 2003. Riverside Place, with views of Midland's vibrant downtown area, has 150 apartments, 20 of which are assisted-living units for residents who need help with activities of daily living.

Washington Woods and Riverside Place provide residents with a comfortable home in a personalized environment.

City of Midland, Michigan

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January 31, 2005

Honorable Mayor and City Council
City of Midland
Midland, Michigan

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Midland for the fiscal year ended June 30, 2004. The City Charter and the Michigan Uniform Budgeting and Accounting Act require the City of Midland (the City) to prepare an annual financial report in accordance with accounting principles generally accepted in the United States (GAAP), and audited in accordance with generally accepted auditing standards. Accordingly, we hereby issue the CAFR of the City of Midland for the year ended June 30, 2004. This report was prepared in accordance with regulations and standards set forth by the City Charter, the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, and the Government Finance Officers Association.

This report consists of management's representations concerning the finances of the City. Management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed to protect the City's assets from loss, theft or misuse, and to compile sufficient reliable information for the preparation of financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Plante & Moran, PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Midland for the fiscal year ended June 30, 2004, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the

overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the year ended June 30, 2004 are fairly presented in conformity with GAAP, and Governmental Auditing Standards issued by the Comptroller General of the United States. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are presented in the Single Audit section of the CAFR.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City

The City of Midland was incorporated in 1887. Located near the center of the eastern portion of Michigan's lower peninsula, approximately 120 miles northwest of Detroit, the City currently occupies a land area of 35.7 square miles and, according to the 2000 Census, serves a population of 41,685. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered to extend its corporate limits by annexation, which occurs periodically in accordance with state statute and the terms of urban cooperation agreements between the City and its surrounding townships.

The City Charter calls for a council-manager form of government. The governing body consists of five council members who are elected on a non-partisan basis, one from each of the City's five wards and who, in turn choose one of their number to serve as mayor. The City Manager and City Attorney are appointed independently by the City Council. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City and for appointing heads of the various departments and all other City employees. The City Attorney oversees all legal matters of the City, including review of contracts and legal documents.

The City provides a full range of services including police and fire protection, community planning and zoning, building inspections, code enforcement, library, sanitation, water and wastewater treatment, construction and maintenance of highways, streets and infrastructure, recreation programs, parks, public transportation and cultural facilities.

The annual budget serves as the foundation for the City's financial planning and control. In April of each year, the City Manager presents a proposed budget to the City Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than the fourth Monday in May. The Council approves appropriations on the functional basis, which is the legal level of control. Expenditures in excess of departmental appropriations are a violation of state law. Amounts not spent by the end of the fiscal year lapse, and require City Council approval to re-appropriate into the next year.

Assessing the City's Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the environment in which the City operates:

Local economy: The City enjoys a favorable economic environment, and local indicators point to continued stability and growth. For some time, the City has been recognized as a community that offers its residents many economic, cultural, recreational and educational benefits. Today these benefits remain as promising as ever, thanks in large part to the growth the area continues to experience. Much of past economic development has focused on the commercial and industrial sector's growth through The Dow Chemical Company and Dow Corning Corporation. While it is true that Dow and Dow Corning are still the major influences, with enough undeveloped land within their fences to expand further during the near term, there has also been an increased amount of time and attention spent on attracting and accommodating other firms. This emphasis upon diversifying the economic base reflects a broader development strategy, which is expected to continue during both the short and long term.

Tax base and/or employment in the City is also provided by a cogeneration power plant facility, small-to-medium manufacturing companies, retail and service establishments, a regional health care organization, state and local educational institutions, financial institutions and local government. The City's July 2004 unemployment rate of 3.7 percent compares favorably to the state's average rate of 7.5 percent and the national average of 5.7 percent. The employed labor force of 21,950 represents a decrease of approximately 1.3 percent from the previous year.

The largest single revenue source is property taxes. The City's tax base has shown steady growth historically, averaging 2.4% over the past five years. However, in 1997, the City's three largest taxpayers filed property assessment appeals, involving approximately 25% of the total tax base. The City is involved in vigorously defending these ongoing appeals before the Michigan Tax Tribunal. Cash reserves of approximately $40 million, amounting to approximately 2/3rds of the tax revenue in dispute, have been established to provide funding in the event that substantial refunds are awarded in any of these cases. The City's tax base is approximately 35% residential and 65% commercial, industrial and utility. The commercial, industrial and utility sector is comprised of administrative, research and production facilities of two large chemical companies, a cogeneration power plant and a variety

of other industries and businesses. The three largest industrial/utility taxpayers make up 51.6% of the tax base. The City Charter allows a property tax rate of up to 18 mills, which is then reduced by the Headlee Amendment to 17.87 mills. During the 2003-04 fiscal year, the City levied only 12.26 of its authorized mills. Under applicable state statutes, the City is also authorized to levy up to one additional mill for libraries and up to 3 additional mills for solid waste management.

In the past fiscal year, the state continued to experience economic difficulties. Approximately 9.5% of the City's total General Fund revenues come from sales tax that is collected by the state and shared with local units of government. Because of reductions in statewide collections of sales, income and single business taxes, the state government has had fewer dollars to pass through to the local units, and has retained a higher portion of the sales tax, in order to balance its own budget. This resulted in a decrease in state shared revenue in the current year, and further reductions are expected for the near term future.

Long-term financial planning: The City maintains master plans for its streets, parks and water and sewer systems, and continues to actively improve infrastructure that supports its citizens. An annual inventory of street condition, aided by a computerized pavement management system, assists in planning current and future street maintenance and construction expenditures. Requests for infrastructure improvements are received from external and internal sources each year in November and are publicly evaluated and prioritized. The resulting engineering priorities report becomes an integral part of the annual budget process.

The City is constructing $2.5 million in storm sewer collection system improvements, as recommended by a recently completed engineering study. The project will address the only developed area of the City experiencing drainage deficiencies. The improvements will be constructed and funded over two fiscal years without the issuance of debt.

The City owns and operates a sanitary landfill, subject to regulatory oversight by the Michigan Department of Environmental Quality. The landfill operation has been extremely successful financially, so much so that a new $2.7 million dollar landfill cell was constructed without issuance of debt. A 12% reduction in tipping fee rates was implemented for the 2003-04 fiscal year.

The City is constructing water distribution system improvements in order to increase water pressure within the northeast section of the City, where water pressure objectives of 45-60 pounds per square inch are not being consistently met, primarily because of higher land elevation in the area where additional residential and commercial growth is occurring. This project was substantially completed during the 2003-04 fiscal year at an estimated cost of $2.5 million. The City's long-range financial plans for the Water Fund provides for system improvements to be financed out of operating revenues, without issuing additional debt.

Cash Management Policies and Practices: Cash temporarily idle during the year was invested, as authorized by the City's formal investment policy and Michigan Public Act 20 of 1943, as amended, in certificates of deposit, obligations of the U.S.

Treasury, commercial paper, repurchase agreements and certain investment pools. Maturities of the investments range from 30 days to eighteen months, with an average maturity of approximately 90 days. The pension trust fund portfolio also includes common stocks, corporate bonds, collateralized mortgage obligations and asset backed securities. The average yield on investments was 1.23% for the City and an average yield of 12.05% for the pension trust fund. Investment income includes appreciation in the fair value of investments. Changes in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

Risk Management: The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The City has purchased commercial insurance for all liability, property and employee health care exposures. Settled claims relating to this insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City's maximum deductible for property and liability exposures is $50,000 per occurrence. For employee injury claims, the City participates in the Michigan Municipal Workers Compensation Pool, 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.

Pension and Other Post-employment Benefits: The City sponsors a single-employer, defined-benefit pension plan for its police and fire employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the City's conservative funding policy, the City has succeeded as of December 31, 2003 in funding 103% of the present value of the projected benefits earned by employees. The over-funded amount is being systematically amortized over 10 years as part of the annual required contribution calculation by the actuary.

The City also provides pension benefits that cover substantially all employees, other than police and fire employees. These benefits are provided through a state-wide plan managed by the Municipal Employees' Retirement System of Michigan(MERS). The City has no obligation in connection with employee benefits offered through this plan beyond its annual contractual payment to MERS.

The City also provides post-employment health care benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 284 retired employees receiving these benefits, which are financed on a prefunding basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City's pension arrangements and post-employment benefits can be found in Notes 11 and 12 in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Midland for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the fifteenth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, which satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report was made possible by the dedicated service of the entire staff of the Finance Department, particularly that of Assistant Controller Dana Strayer and Accountant Martha Rex. Each member of the Department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, the preparation of this document and the accomplishments reported therein would not have been possible without the leadership and support of the Midland City Council.

Sincerely,

Karl S. Tomion
City Manager

David A. Keenan
Director of Fiscal Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Midland, Michigan

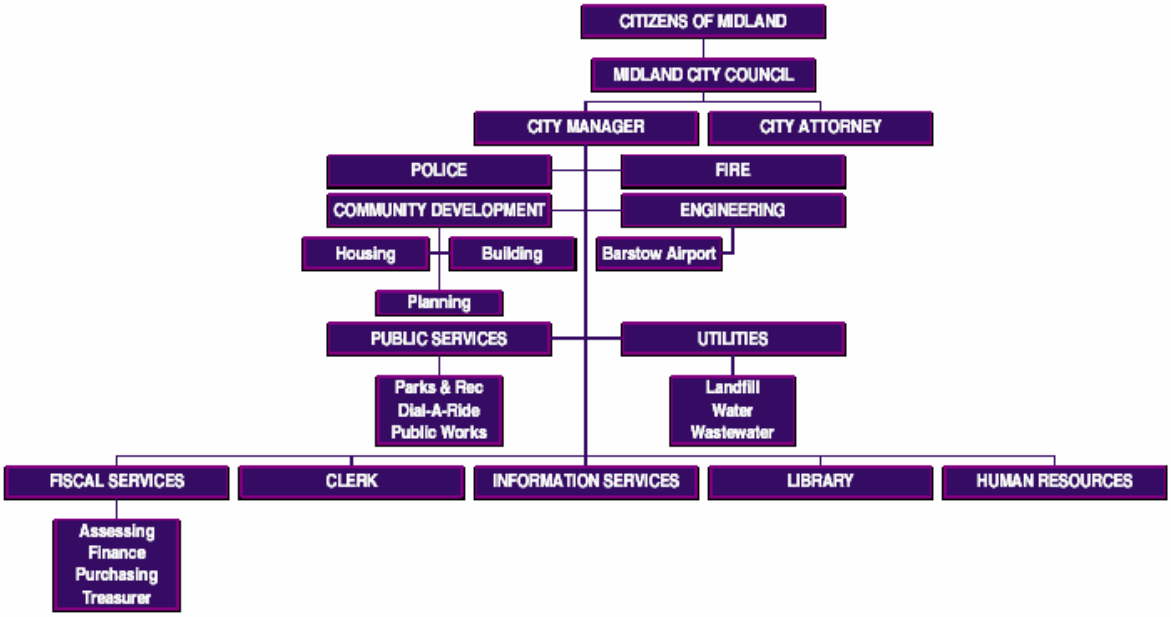
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Organizational Chart



List of Principal Officials
June 30, 2004

CITY COUNCIL

Mayor - Ward I	R. Drummond Black
Ward II	James S. Myers
Ward III	Hollis H. McKeag
Ward IV	Bruce A. Johnson
Ward V	Joseph M. Rokosz

ADMINISTRATIVE STAFF

City Manager	Karl S. Tomion
City Attorney	James O. Branson, III
Assistant City Manager	John E. Duso
Assistant City Manager, Director of Planning and Community Development	Jon J. Lynch
City Assessor	Reid A. DuFord
City Clerk	Selina M. Tisdale
City Controller	Vacant
City Engineer	Brian P. McManus
City Treasurer	Sandra K. Marshall
Chief Building Inspector	Vacant
Fiscal Services Director	David A. Keenan
Fire Chief	Leonardo Garcia
Human Resources Director	Paula Whittington
Information Services Director	John L. Birchmeier
Library Director	Melissa J. Barnard
Police Chief	James Q. St. Louis
Public Services Director	Martin W. McGuire
Purchasing Agent	Michael L. Meyer
Utilities Director	Noel D. Bush

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Independent Auditor's Report

Honorable Mayor and City Council
City of Midland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midland, Michigan as of and for the year ended June 30, 2004, 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 Midland, Michigan'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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midland, Michigan as of June 30, 2004 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 and the budgetary comparison schedules as identified in the table of contents are not a required part 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.

Honorable Mayor and City Council
City of Midland, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Midland, Michigan's basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and retirement systems schedules of funding progress, 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. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Governmental Auditing Standards,* we have also issued our report dated January 31, 2005 on our consideration of the City of Midland, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

January 31, 2005

As management of the City of Midland (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, the financial statements, and the notes to the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $164,425,579. Of this amount, $41,166,542 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net assets increased by $8,043,147 during the fiscal year. Governmental activities accounted for $2,135,252 of this increase, while business-type activities accounted for $5,907,895. The increases are primarily due to accumulating funds for system and infrastructure improvements.

- At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $63,737,824, an increase of $8,144,363 in comparison with the prior year. Approximately 76 percent of this total, or $48,294,508, is reserved for various purposes. Of the remaining unreserved balance, $6,587,725 is designated for specific purposes, leaving an unreserved, undesignated balance of $8,855,591.

- At the end of the current fiscal year, unreserved fund balance for the General Fund was $5,619,677, or 16 percent of total General Fund expenditures (including transfers).

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works (highways and streets and other services), community development, sanitation, parks and recreation, library, airport, transportation, tax appeal defense, interest and agent fees, and other functions. The business-type activities of the City include a regional water distribution system, regional wastewater collection system, a sanitary landfill, a golf course, parking, and real estate rental (primarily two senior citizen housing facilities).

The government-wide financial statements can be found on pages 14-16 of this report.

Fund Financial Statements

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

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

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Major Street Fund, both of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for each of its governmental funds, except for the Cemetery and Capital Projects Funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 17 through 20 of this report.

Proprietary Funds - The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide statements. The City uses Enterprise Funds to account for water distribution, wastewater collection, sanitary landfill operations, downtown parking, senior citizen housing, and golf course operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to account for equipment and fleet operations, data processing services, general and liability insurance, special assessment project funding, and bus garage operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater, Real Estate Rental, and Sanitary Landfill Funds, which are considered to be major funds of the City. The remaining Enterprise Funds and the Internal Service Funds are each combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the remaining Enterprise Funds and the Internal Service Funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 21 through 30 of this report.

Fiduciary Funds - Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs

The basic fiduciary funds financial statements can be found on pages 31 and 32 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 67 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City. This information can be found on pages 68-71 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor Enterprise Funds, and Internal Service Funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $164,425,579 at the close of the most recent fiscal year.

The largest portion of the City's net assets (68 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources need to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and other assets	$ 74,766	$ 69,511	$ 32,082	$ 32,658	$ 106,848	$ 102,169
Capital assets	36,519	33,781	104,548	102,035	141,067	135,816
Total assets	111,285	103,292	136,630	134,693	247,915	237,985
Liabilities						
Current liabilities	8,185	6,904	5,151	6,329	13,336	13,233
Long-term liabilities	43,791	39,215	26,362	29,155	70,153	68,370
Total liabilities	51,976	46,119	31,513	35,484	83,489	81,603
Net Assets						
Invested in capital assets - Net of related debt	34,483	31,454	77,972	73,154	112,455	104,608
Restricted	9,586	5,324	1,219	1,219	10,805	6,543
Unrestricted	15,240	20,395	25,926	24,836	41,166	45,231
Total net assets	**$ 59,309**	**$ 57,173**	**$ 105,117**	**$ 99,209**	**$ 164,426**	**$ 156,382**

An additional portion of the City's net assets (7 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net assets ($41,166,542) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's total net assets increased by $8,043,147 during the fiscal year. Governmental activities accounted for $2,135,252 of this increase, while business-type activities accounted for $5,907,895. The increases are primarily due to accumulating funds for system and infrastructure improvements.

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	$ 3,661	$ 2,741	$ 19,937	$ 18,360	$ 23,598	$ 21,101
Operating grants and contributions	5,266	4,705	-	-	5,266	4,705
Capital grants and contributions	1,575	1,678	1,682	2,358	3,257	4,036
General revenue:						
Property taxes	30,365	31,368	-	-	30,365	31,368
Intergovernmental	3,655	4,031	-	-	3,655	4,031
Investment earnings	1,223	1,234	461	475	1,684	1,709
Transfers, miscellaneous revenue, and special items	(1,515)	(1,674)	2,122	2,213	607	539
Total revenue	44,230	44,083	24,202	23,406	68,432	67,489
Program Expenses						
General government	3,924	3,279	-	-	3,924	3,279
Public safety	9,711	9,250	-	-	9,711	9,250
Public works	6,906	5,169	-	-	6,906	5,169
Community development	728	693	-	-	728	693
Sanitation	2,239	1,970	-	-	2,239	1,970
Parks and recreation	4,021	3,456	-	-	4,021	3,456
Library	4,395	4,334	-	-	4,395	4,334
Transportation	1,507	1,287	-	-	1,507	1,287
Tax appeal defense	4,532	5,361	-	-	4,532	5,361
Other functions	4,103	3,280	-	-	4,103	3,280
Interest on long-term debt	29	37	-	-	29	37
Water	-	-	7,361	7,561	7,361	7,561
Wastewater	-	-	4,469	5,049	4,469	5,049
Landfill	-	-	2,507	3,513	2,507	3,513
Golf course	-	-	984	1,035	984	1,035
Parking system	-	-	186	140	186	140
Real estate rental	-	-	2,787	2,375	2,787	2,375
Total program expenses	42,095	38,116	18,294	19,673	60,389	57,789
Change in Net Assets	**$ 2,135**	**$ 5,967**	**$ 5,908**	**$ 3,733**	**$ 8,043**	**$ 9,700**

Governmental Activities

As mentioned above, governmental activities increased the City's net assets by $2,135,252, due mostly to the Storm Water Management Fund, and the Downtown Development Authority Fund (DDA). The City is funding a $2.5 million storm water collection system improvement project with a two-year millage. Approximately half of these dollars were collected during this fiscal year and are being held for construction in the 2004-2005 year. The DDA sold its interests in two limited partnerships: the Downtown Office Center Limited Partnership and the Larkin Building Limited Partnership. The proceeds from the two sales were $453,613 greater than the recorded values of the investments. At year end, those funds were in cash equivalents in the DDA fund. A more detailed discussion follows:

- Charges for services revenue increased by $919,091. Cable Communications franchise fees are included as charges for services in the current year, while $444,311 was reported as general revenue in the prior year. Public safety revenue increased over the prior year by $182,309 due to increased revenue from permits and district court fees. Library revenues increased by $151,878, due to a catch-up payment from Midland County on the pass-through of penal fines.

- Operating grants and contributions revenue increased by $560,911 over last year, with the largest areas of increase coming in public works ($254,993) and community development ($130,924). The increase in public works is due to the larger amount of gas and weight tax that was passed through to the City from the State of Michigan. The increase in community development is proportionate to the increase in the expenditures related to the Community Development Block Grant program. As a reimbursement-type program, additional expenditures result in greater earned revenues.

- Property tax revenue decreased by $1,010,980. As discussed later in Note 17 of the notes to the financial statements section of this report, the City is reserving net assets to fund potential unfavorable outcomes in three major tax appeal cases. This reserve is recorded as a long-term liability on the government-wide financial statements. Accordingly, any tax revenues collected to fund this reserve are recorded as an increase to the liability, rather than as property tax revenue. As such, while property tax revenues as presented on the governmental funds statement increased from prior year, a portion was transferred to the reserve, thus reducing the remaining balance that is shown as revenue on the government-wide financial statements.

- Intergovernmental revenues decreased by $375,239, mainly due to reductions in the amount of state-shared revenue being passed through to the City from the State of Michigan.

- Certain factors impacted both governmental and business-type activities: the City's workforce includes six collective bargaining units that provide for an average wage increase of 3 percent; health insurance costs increased 16.5 percent; pension costs increased between 3 percent and 12 percent; and general and liability insurance increased by 20 percent. Also, a change in the allocation process of Internal Service Funds between governmental and business-type activities impacted both. Up until the 2004 fiscal year, the Special Assessment Revolving Fund was combined with the General Fund, thereby being reported 100 percent as governmental activities. For the 2004 year, it was separated from the General Fund, and is now allocated as an Internal Service Fund. The impact of this change resulted in an increase to governmental expenses of approximately $1.3 million, with a decrease to business-type expenses by approximately the same.

- Certain public works construction projects, which were still included in "construction in progress" in the prior year, were further reviewed at closure and deemed to be "maintenance" in nature. Accordingly, these projects were expensed during the current year, rather than capitalized. This contributed to an increase in public works expenses over the prior year.

- Tax appeal defense costs decreased significantly because the City was between trials in the current year. The largest of the three major tax appeals was tried in fiscal year 2003, while the other two did not reach trial until after the close of the 2004 fiscal year.

- Other functions increased due to additional separation pay to several employees who retired during the fiscal year.

Business-type Activities

Business-type activities increased the City's net assets by $5,907,895. Key elements follow:

- Charges for services increased by $1,577,057 (9 percent) during the year. The increase was primarily due to a rate adjustment in the Wastewater Fund and increased usage of the sanitary landfill.

- Capital grants and contributions decreased by $676,034 (29 percent). Most of the decrease was due to the completion of golf course improvements in the prior year, which were funded mostly by foundation contributions.

- Program expenses decreased from last year for water and wastewater activities by $200,097 and $581,025, respectively, due mostly to the change in treatment of the Special Assessment Revolving Fund, as previously discussed. Sanitary landfill program expenses decreased by $1,006,045, mostly due to an adjustment to depreciation expense as a result of underestimating, in prior years, the capacity of cell #14, which was filled to capacity during the current fiscal year.

Financial Analysis of the Governments Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $63,737,824, an increase of $8,144,363 over the prior year. Approximately 24 percent of this total amount ($15,443,316) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to a variety of restricted purposes, with the largest reserve being for tax appeals ($41,848,971). See Note 17 in the notes to the financial statements section of this report for more information on the tax appeals.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was $5,619,677, or 16 percent of total General Fund expenditures. The fund balance of the City's General Fund increased by $4,184,254 during the current fiscal year. This is mainly due to additional property taxes, which were levied during the year ended June 30, 2004 to fund an increase to the fund balance reserved for tax appeal contingencies.

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

The Enterprise Funds operations for the current year resulted in an increase to net assets of $4,535,045. The Water and Wastewater Funds had increases of $1,906,348 and $1,978,959, respectively. Both of these funds set their user fees to allow accumulation of reserves for capital investment and debt service. The increase in net assets reflects the result of this process. The Sanitary Landfill Fund had an increase in net assets of $1,291,169. A portion of this was expected to fund future cell closure and development; however, the landfill received unanticipated revenue of approximately $750,000 due to a neighboring township's disposal of contaminated soils.

General Fund Budgetary Highlights

Differences between the original budget and the final budget were minimal. In general, total revenues and transfers in were greater than budgeted, and expenditures and transfers out were less than budgeted. Intergovernmental revenue and other revenue were less than the final budget, primarily due to the timing of grants and donation-funded expenditures. Public safety and public works were over budget by $46,240 and $51,690, respectively. In each case, personnel costs were higher than anticipated, causing the budget overage.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to $141,066,495 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, systems, machinery and equipment, streets, bridges, and sidewalks. The total increase in the City's investment in capital assets for the current fiscal year was $5,250,759 (a 3.9 percent increase for both governmental and business-type activities).

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

- Construction continued on the water distribution system improvement to increase the water pressure in the northeast section of the City. Various other system additions and improvements were also completed.

- The City's replacement plan of vehicles and equipment continued.

- The sanitary landfill completed construction of cell 15.

- Numerous major and local street projects were completed during the fiscal year.

Additional information on the City's capital assets can be found in Note 5 on pages 49 through 52 of this report.

City of Midland Capital Assets
(in 1,000s of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	$ 3,159	$ 3,159	$ 2,317	$ 2,317	$ 5,476	$ 5,476
Construction in progress	6,885	6,439	3,559	9,530	10,444	15,969
Major and local roads	3,131	1,808	-	-	3,131	1,808
Sidewalks	76	-	-		76	-
Buildings and improvements	21,105	21,033	70,417	70,370	91,522	91,403
Land improvements	1,231	575	5,546	5,540	6,777	6,115
Water and sewer lines	-	-	66,473	56,533	66,473	56,533
Landfill improvements	-	-	9,794	6,754	9,794	6,754
Library circulation materials	6,401	6,565	-	-	6,401	6,565
Equipment	8,198	9,405	4,979	4,802	13,177	14,207
Vehicles	12,588	12,395	597	545	13,185	12,940
Total	62,774	61,379	163,682	156,391	226,456	217,770
Less accumulated depreciation	(26,255)	(26,226)	(59,134)	(55,728)	(85,389)	(81,954)
Total	**$ 36,519**	**$ 35,153**	**$ 104,548**	**$ 100,663**	**$ 141,067**	**$ 135,816**

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of $26,960,886. Of this amount, $19,850,886 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt is backed solely by specified revenue sources.

City of Midland Outstanding Debt
General Obligation and Revenue Bonds
(in 1,000s of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	$ 385	$ 520	$ 19,466	$ 20,839	$ 19,851	$ 21,359
Revenue bonds	-	-	7,110	8,500	7,110	8,500
Total	**$ 385**	**$ 520**	**$ 26,576**	**$ 29,339**	**$ 26,961**	**$ 29,859**

The City's total bonded debt decreased by $3,054,124 during the fiscal year, reflecting the issuance of no new debt, coupled with timely principal payments.

The City maintains an AA rating with Standard and Poor's and an A1 rating with Moody's for the issuance of general obligation debt.

State statutes limit the amount of general obligation debt a government entity may issue to 10 percent of its total assessed valuation. Currently, 10 percent of assessed valuation is approximately $270 million.

Additional information on the City's long-term debt can be found in Note 9, on pages 55 through 57 of this report.

Economic Factors and Next Year's Budgets and Rates

Favorable information became available on two of the three major tax appeals in the form of a ruling from the Michigan Tax Tribunal on one appeal, and the exchange of appraisals on another, which improved the City's position in both appeals. As a result, the City was able to adjust its fund balance reserved for tax appeals downward and return the excess funds to the citizens in the form of a .68 millage credit applied to the July 2004 taxes. One of these two appeals was ultimately settled in October 2004, allowing the City to earmark approximately $5 million of excess reserves to be returned to the citizens from the fund balance reserved for tax appeals of the General Fund. Note 17 of the notes to the financial statements provides addition information on the tax appeals.

Both the Water and Wastewater Funds' rates were increased for the 2004-2005 budget year. The rate increases were necessary as a result of operating cost increases, as well as to provide funding for future system expansion and improvements.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Finance Department at the Midland City Hall, 333 W. Ellsworth Street, Midland, MI 48640. Finance Department staff can be reached at 989-837-3322 or at cityhall@midland-mi.org. Additional information can be obtained at the City's website, www.midland-mi.org.

City of Midland, Michigan

Statement of Net Assets
June 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents (Note 3)	$ 71,391,917	$ 15,027,922	$ 86,419,839
Investments (Note 3)	-	316,239	316,239
Receivables - Net of allowances for uncollectibles:			
Property taxes	274,076	-	274,076
Trust deeds	1,629,452	-	1,629,452
Accounts and contracts	1,067,068	2,228,520	3,295,588
Special assessments - Short-term	117,715	-	117,715
Accrued interest	144,892	31,137	176,029
Internal balances	(4,035,394)	4,035,394	-
Due from other governments	1,858,675	55,737	1,914,412
Inventories	855,287	366,106	1,221,393
Prepaid items	674,026	-	674,026
Restricted assets (Note 6)	-	2,379,276	2,379,276
Property, plant, and equipment - Net of accumulated depreciation (Note 5)	26,475,374	98,671,317	125,146,691
Property, plant, and equipment not depreciated	10,043,568	5,876,236	15,919,804
Special assessments - Long-term	555,842		555,842
Investment in joint venture (Note 1)	232,067	7,245,898	7,477,965
Other property and investments	-	395,897	395,897
Total assets	111,284,565	136,629,679	247,914,244
Liabilities			
Accounts payable	5,065,293	1,274,466	6,339,759
Accrued salaries and wages	513,826	70,821	584,647
Due to other governments	93,000	26,216	119,216
Deposits	84,679	60,514	145,193
Deferred revenue (Note 7)	646,461	-	646,461
Payable from restricted assets:			
Accrued interest	-	250,530	250,530
Current portion - Bonds payable (Note 9)	-	3,095,000	3,095,000
Guarantee deposits	-	50,920	50,920
Noncurrent liabilities (Note 9):			
Due within one year	1,781,563	322,072	2,103,635
Due in more than one year	43,791,376	26,361,928	70,153,304
Total liabilities	51,976,198	31,512,467	83,488,665
Net Assets			
Invested in capital assets - Net of related debt	34,482,454	77,971,667	112,454,121
Restricted for:			
Highway and streets	6,264,944	-	6,264,944
Cemetery operations	1,205,448	-	1,205,448
Federal expenditures	1,643,782	-	1,643,782
Debt service	1,711	1,219,000	1,220,711
Capital projects	470,031	-	470,031
Unrestricted	15,239,997	25,926,545	41,166,542
Total net assets	**$ 59,308,367**	**$ 105,117,212**	**$ 164,425,579**

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

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	$ 3,923,677	$ 247,868	$ 145,357	$ -
Public safety	9,711,488	861,223	57,263	-
Public works	6,905,679	205,493	3,767,478	602,198
Community development	727,679	114,000	440,078	-
Sanitation	2,238,911	157,230	-	-
Parks and recreation	4,021,471	769,802	-	709,282
Library	4,395,461	735,818	160,542	-
Airport	225,844	15,933	-	263,455
Transportation	1,506,906	119,249	695,676	-
Tax appeal defense	4,532,256	-	-	-
Other functions	3,876,951	433,453	-	-
Interest and fiscal agent fees	28,916	-	-	-
Total governmental activities	42,095,239	3,660,069	5,266,394	1,574,935
Business-type activities:				
Water	7,360,975	8,490,822	-	1,029,333
Wastewater	4,468,817	4,260,576	-	652,692
Landfill	2,507,230	3,767,619	-	-
Golf course	984,347	722,901	-	-
Parking system	186,434	85,398	-	-
Real estate rental	2,787,120	2,609,902	-	-
Total business-type activites	18,294,923	19,937,218	-	1,682,025
Total primary government	$ 60,390,162	$ 23,597,287	$ 5,266,394	$ 3,256,960

General revenues:
- Property taxes
- Other tax-related revenue
- Intergovernmental
- Investment earnings
- Miscellaneous revenues

Transfers

Special items (Note 18)

Total general revenues, transfers, and special items

Change in net assets

Net Assets - Beginning of year

Net Assets - End of year

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

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (3,530,452)	$ -	$ (3,530,452)
(8,793,002)	-	(8,793,002)
(2,330,510)	-	(2,330,510)
(173,601)	-	(173,601)
(2,081,681)	-	(2,081,681)
(2,542,387)	-	(2,542,387)
(3,499,101)	-	(3,499,101)
53,544	-	53,544
(691,981)	-	(691,981)
(4,532,256)	-	(4,532,256)
(3,443,498)	-	(3,443,498)
(28,916)	-	(28,916)
(31,593,841)	-	(31,593,841)
-	2,159,180	2,159,180
-	444,451	444,451
-	1,260,389	1,260,389
-	(261,446)	(261,446)
-	(101,036)	(101,036)
-	(177,218)	(177,218)
-	3,324,320	3,324,320
(31,593,841)	3,324,320	(28,269,521)
29,155,614	-	29,155,614
1,209,761	-	1,209,761
3,655,371	-	3,655,371
1,223,337	461,392	1,684,729
149,312	4,268	153,580
(2,117,915)	2,117,915	-
453,613	-	453,613
33,729,093	2,583,575	36,312,668
2,135,252	5,907,895	8,043,147
57,173,115	99,209,317	156,382,432
$ 59,308,367	**$ 105,117,212**	**$ 164,425,579**

Governmental Funds
Balance Sheet
June 30, 2004

	General Fund	Major Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	$ 48,784,292	$ 6,558,273	$ 7,647,846	$ 62,990,411
Receivables - Net of allowances for uncollectibles:				
Property taxes	258,900	-	15,176	274,076
Trust deeds	75,468	-	1,553,984	1,629,452
Accounts and contracts	315,289	12,015	739,280	1,066,584
Accrued interest	109,808	9,374	12,178	131,360
Due from other funds (Note 4)	1,000,000	-	209,186	1,209,186
Due from other governmental units	547,886	510,747	152,704	1,211,337
Inventory	119,849	-	426,377	546,226
Prepaid items	646,883	-	276	647,159
Total assets	**$ 51,858,375**	**$ 7,090,409**	**$ 10,757,007**	**$ 69,705,791**
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 3,988,807	$ 340,563	$ 514,981	$ 4,844,351
Accrued salaries and wages	458,428	-	37,704	496,132
Due to other governmental units	-	-	93,000	93,000
Due to other funds	-	-	359,186	359,186
Deposits	59,147	-	25,532	84,679
Deferred revenue	21,029	-	69,590	90,619
Total liabilities	4,527,411	340,563	1,099,993	5,967,967
Fund Balance				
Reserved for:				
Encumbrances	1,415,208	4,797	1,154,886	2,574,891
Prepaid items and inventory	119,849	-	-	119,849
Trust deeds/installment contracts	75,468	-	1,548,438	1,623,906
Special assessments	-	-	-	-
Tax appeal contingency	40,100,762	1,360,362	377,847	41,838,971
Special trust activities	-	-	173,916	173,916
Cemetery activities	-	-	1,205,448	1,205,448
Debt service	-	-	1,711	1,711
Housing activities	-	-	755,816	755,816
Unreserved:				
Designated for future year expenditures	4,972,578	563,147	-	5,535,725
Designated for future year expenditures - Special Revenue Funds			1,052,000	1,052,000
Undesignated:	647,099	4,821,540	-	5,468,639
Special Revenue Funds	-	-	2,916,921	2,916,921
Capital Projects Fund			470,031	470,031
Permanent Fund	-	-	-	-
Total fund balance	47,330,964	6,749,846	9,657,014	63,737,824
Total liabilities and fund balance	**$ 51,858,375**	**$ 7,090,409**	**$ 10,757,007**	**$ 69,705,791**

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

Governmental Funds
Reconciliation of Balance Sheet to the Statement of Net Assets
Year Ended June 30, 2004

Fund Balance - Total Governmental Funds		$ 63,737,824
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 therefore are not reported in the governmental funds. Those assets consist of capital assets, less accumulated depreciation		29,678,549
Investments in joint ventures are not financial resources and therefore are not reported in the governmental funds		232,067
Internal Service Funds are included as part of governmental activities:		
Net assets of all Internal Service Funds	$ 14,378,332	
Less allocation to business-type activities	(4,035,394)	
Total		10,342,938
Some of the City's receivables will not be collected soon enough after year end to be available to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds - Due from other governmental funds		647,338
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and therefore are not reported in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net assets:		
Bonds and notes payable	(385,000)	
Capital lease payable	(1,651,488)	
Property tax appeal reserve	(40,100,762)	
Compensated absences	(3,193,099)	
Total long-term liabilities		(45,330,349)
Net Assets - Governmental Activities		**$ 59,308,367**

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

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2004

	General Fund	Major Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	$ 30,024,740	$ 1,779,402	$ 2,587,334	$ 34,391,476
Other tax-related revenue	1,209,761	-	-	1,209,761
Licenses and permits	639,672	-	19,314	658,986
Intergovernmental - Federal	57,263	-	596,775	654,038
Intergovernmental - Other	3,713,141	2,947,105	1,557,972	8,218,218
Charges for services	254,062	132,326	1,288,520	1,674,908
Use and admission charges	769,802	-	-	769,802
Investment earnings	834,103	67,694	321,540	1,223,337
Contributions and other revenues	724,853	14,899	2,211,324	2,951,076
Total revenues	38,227,397	4,941,426	8,582,779	51,751,602
Expenditures				
Current:				
General government	2,741,121	-	483,506	3,224,627
Public safety	9,534,824	-	-	9,534,824
Public works	2,023,356	1,121,955	1,328,146	4,473,457
Community development	-	-	855,595	855,595
Sanitation	2,094,872	-	-	2,094,872
Parks and recreation	3,595,215	-	240	3,595,455
Library	-	-	3,386,441	3,386,441
Airport	184,629	-	-	184,629
Transportation	-	-	1,321,997	1,321,997
Tax appeal defense	4,532,256	-	-	4,532,256
Other functions	3,874,156	-	-	3,874,156
Capital improvement	-	1,343,881	3,307,682	4,651,563
Debt service:				
Principal retirement	-	-	135,000	135,000
Interest and fiscal charges	-	-	28,916	28,916
Total expenditures	28,580,429	2,465,836	10,847,523	41,893,788
Excess of Revenues Over (Under) Expenditures	9,646,968	2,475,590	(2,264,744)	9,857,814
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	240,038	240,038
Operating transfers in	1,263,871	2,328	7,579,672	8,845,871
Operating transfers out	(6,726,585)	(724,809)	(3,347,966)	(10,799,360)
Total other financing sources (uses)	(5,462,714)	(722,481)	4,471,744	(1,713,451)
Net Change in Fund Balances	4,184,254	1,753,109	2,207,000	8,144,363
Fund Balance - Beginning of year	43,146,710	4,996,737	7,450,014	55,593,461
Fund Balance - End of year	**$ 47,330,964**	**$ 6,749,846**	**$ 9,657,014**	**$ 63,737,824**

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

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, 2004

Net Change in Fund Balances - Total Governmental Funds		$ 8,144,363
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciable expense		1,816,814
Internal Service Funds are used by the City to charge the cost of certain activities to individual funds. A portion of net revenue (expense) of the Internal Service Funds is reported with governmental activities		(2,066,651)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. Some of the City's receivables will be collected after year end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the funds:		
Special assessments	$ (501,161)	
Due from other governmental units	(101,211)	
Total deferred revenues		(602,372)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets - Principal payments		291,049
Accrued compensated absences, in most cases, are not recorded in governmental funds. These expenses are recognized when earned in the statement of activities		88,372
The collection of property taxes to fund a reserve for tax appeals is recorded as revenue in governmental funds. However, this reserve will eventually be paid out, so it is a liability, and the change in this reserve is shown as a reduction to the current year's property tax revenue in arriving at the change in net assets		(5,235,862)
Investments in joint ventures are not financial resources and therefore are not shown on the fund-based statements		(300,461)
Change in Net Assets of Governmental Activities		**$ 2,135,252**

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

	Business-type Activities - Enterprise Funds			
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	$ 6,453,283	$ 515,038	$ 1,509,487	$ 4,563,976
Investments (Note 3)	-	-	-	-
Receivables - Net of allowances for uncollectibles:				
Accounts and contracts	1,252,162	635,738	8,483	325,714
Special assessments - Current				
Accrued interest	11,391	8,928	2,842	8,316
Due from other funds (Note 6)	-	-	-	9,000
Due from other governmental units	-	55,737	-	-
Inventories	366,106	-	-	-
Prepaid items	-	-	-	-
Total current assets	8,082,942	1,215,441	1,520,812	4,907,006
Noncurrent assets:				
Special assessments - Long-term	-	-	-	-
Restricted assets	1,476,194	1,920,256	-	903,082
Property, plant, and equipment:				
Construction in progress	3,176,637	372,919	10,000	-
Land and land improvements	48,165	148,722	674,756	10,790,712
Buildings and structures	27,318,114	19,185,691	20,266,889	895,452
Water and sewer lines	28,120,063	38,352,774	-	-
Vehicles	101,753	67,360	-	356,419
Equipment	1,988,521	1,425,838	898,093	413,515
Total property, plant, and equipment	60,753,253	59,553,304	21,849,738	12,456,098
Accumulated depreciation	(28,960,367)	(15,057,765)	(6,871,406)	(6,600,784)
Net property, plant, and equipment	31,792,886	44,495,539	14,978,332	5,855,314
Other assets:				
Investment in joint venture	7,245,898	-	-	-
Other property and investments	276,808	119,089	-	-
Total other assets	7,522,706	119,089	-	-
Total assets	**$ 48,874,728**	**$ 47,750,325**	**$ 16,499,144**	**$ 11,665,402**

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

Proprietary Funds
Statement of Net Assets
June 30, 2004

Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 65,882	$ 13,107,666	$ 8,401,506
316,239	316,239	-
6,423	2,228,520	484
		117,715
(340)	31,137	13,533
-	9,000	150,000
-	55,737	-
-	366,106	309,061
-	-	26,867
388,204	16,114,405	9,019,166
-	-	555,842
-	4,299,532	-
-	3,559,556	45,000
5,994,272	17,656,627	371,153
2,750,524	70,416,670	2,697,655
-	66,472,837	-
71,916	597,448	11,618,541
252,629	4,978,596	2,947,482
9,069,341	163,681,734	17,679,831
(1,643,859)	(59,134,181)	(10,839,438)
7,425,482	104,547,553	6,840,393
-	7,245,898	-
-	395,897	-
-	7,641,795	-
$ 7,813,686	**$ 132,603,285**	**$ 16,415,401**

	Business-type Activities - Enterprise Funds			
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Liabilities				
Current liabilities:				
Accounts payable	$ 729,381	$ 89,957	$ 83,100	$ 87,021
Accrued salaries and wages	31,801	19,488	10,079	9,453
Accrued compensated absences	155,289	88,830	47,863	30,090
Due to other funds	-	-	9,000	-
Due to other governments	26,216	-	-	-
Deposits	308	-	60,206	-
Total current liabilities	942,995	198,275	210,248	126,564
Payable from restricted assets:				
Accrued interest	90,274	160,256	-	-
Current portion - Bonds payable	1,335,000	1,760,000	-	-
Guarantee deposits	50,920	-	-	-
Total payable from restricted assets	1,476,194	1,920,256	-	-
Noncurrent liabilities:				
Bonds payable - Long-term	5,775,000	17,705,886	-	-
Accrued compensated absences	177,954	82,205	42,246	48,637
Deferred special assessments				
Accrued landfill closure and postclosure care cost	-	-	-	2,530,000
Total noncurrent liabilities	5,952,954	17,788,091	42,246	2,578,637
Total liabilities	8,372,143	19,906,622	252,494	2,705,201
Net Assets				
Investment in capital assets - Net of related debt	24,682,886	25,029,653	14,978,332	5,855,314
Restricted for:				
Revenue bond retirement	1,219,000	-	-	-
Joint venture operations	7,245,898	-	-	-
Emergency repair	25,000	-	-	-
Unrestricted	7,329,801	2,814,050	1,268,318	3,104,887
Total net assets	**$ 40,502,585**	**$ 27,843,703**	**$ 16,246,650**	**$ 8,960,201**

Some amounts reported for business-type activities in the statement of net assets are different because certain Internal Service Fund balances are included with the business-type activities

Total

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

Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 285,007	$ 1,274,466	$ 220,943
-	70,821	17,694
-	322,072	90,901
-	9,000	1,000,000
-	26,216	-
-	60,514	-
285,007	1,763,089	1,329,538
-	250,530	-
-	3,095,000	-
-	50,920	-
-	3,396,450	-
-	23,480,886	-
-	351,042	151,689
		555,842
-	2,530,000	-
-	26,361,928	707,531
285,007	31,521,467	2,037,069
7,425,482	77,971,667	6,840,393
-	1,219,000	-
-	7,245,898	-
-	25,000	-
103,197	14,620,253	7,537,939
$ 7,528,679	101,081,818	**$ 14,378,332**
	4,035,394	
	$ 105,117,212	

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

	Business-type Activities - Enterprise Funds			
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Operating Revenue				
Service charges	$ -	$ 3,992,174	$ -	$ -
Water sales	6,850,399	-	-	-
Use and admission charges	-	-	-	3,766,356
Rentals	348,734	-	2,120,040	-
Fines and forfeits	64,056	53,399	-	1,263
Total operating revenue	7,263,189	4,045,573	2,120,040	3,767,619
Operating Expenses				
Operations	3,406,247	980,128	1,941,481	1,982,880
Administration	702,147	594,208	-	-
Maintenance	1,977,735	1,130,991	-	-
Depreciation	1,099,888	1,245,882	443,707	477,629
Total operating expenses	7,186,017	3,951,209	2,385,188	2,460,509
Net Operating Income (Loss)	77,172	94,364	(265,148)	1,307,110
Nonoperating Revenue (Expenses)				
Investment earnings (losses)	117,576	27,352	19,165	90,569
Gain from investment in joint venture	121,970	-	-	-
Contractual revenues	1,196,491	-	-	-
Profit (loss) on disposition of assets	(2,769)	-	-	-
Sale of meals - Revenue	-	-	418,638	-
Sale of meals - Expense	-	-	(579,520)	-
Miscellaneous revenue	33,911	215,003	69,114	-
Interest expense	(477,670)	(876,413)	-	-
Miscellaneous expenses	(228,491)	(183,129)	-	(106,510)
Total nonoperating revenue (expenses)	761,018	(817,187)	(72,603)	(15,941)
Income (Loss) - Before capital contributions and operating transfers	838,190	(722,823)	(337,751)	1,291,169
Capital Contributions	1,029,333	652,692	-	-
Operating Transfers In	38,825	2,049,090	-	-
Operating Transfers Out	-	-	-	-
Change in Net Assets	1,906,348	1,978,959	(337,751)	1,291,169
Net Assets - Beginning of year	38,596,237	25,864,744	16,584,401	7,669,032
Net Assets - End of year	**$ 40,502,585**	**$ 27,843,703**	**$ 16,246,650**	**$ 8,960,201**

Change in Net Assets

Some amounts reported for business-type activities in the statement of activities are different because of net revenue (expense) of certain internal services are reported with business-type activities

Change in net assets of business-type activities

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

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2004

Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ -	$ 3,992,174	$ 2,026,975
-	6,850,399	-
807,729	4,574,085	-
-	2,468,774	2,924,395
-	118,718	-
807,729	18,004,150	4,951,370
952,388	9,263,124	4,034,545
-	1,296,355	-
98,733	3,207,459	-
175,619	3,442,725	1,381,940
1,226,740	17,209,663	5,416,485
(419,011)	794,487	(465,115)
84,761	339,423	71,139
-	121,970	-
-	1,196,491	-
-	(2,769)	(59,029)
-	418,638	-
-	(579,520)	-
570	318,598	978
-	(1,354,083)	-
-	(518,130)	(190,523)
85,331	(59,382)	(177,435)
(333,680)	735,105	(642,550)
-	1,682,025	113,173
30,000	2,117,915	925,574
-	-	(1,090,000)
(303,680)	4,535,045	(693,803)
7,832,359	96,546,773	15,072,135
$ 7,528,679	**$ 101,081,818**	**$ 14,378,332**
	$ 4,535,045	
	1,372,850	
	$ 5,907,895	

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

	Business-type Activities - Enterprise Funds		
	Water	Wastewater	Real Estate Rental
Cash Flows from Operating Activities			
Receipts from customers	$ 7,307,918	$ 4,023,816	$ 2,610,676
Other receipts (payments)	660,487	33,575	-
Payments to employees	(2,710,725)	(1,691,273)	(908,034)
Cash paid to suppliers for goods and services	(3,387,087)	(1,735,143)	(1,647,614)
Net cash provided in (used in) operating activities	1,870,593	630,975	55,028
Cash Flows from Noncapital Financing Activities -			
Operating transfers in (governmental)	38,825	2,049,090	-
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(3,236,229)	(877,677)	(20,180)
Proceeds from bonds payable	-	309,204	
Principal payments on bonds, notes, and contracts payable	(1,335,000)	(1,655,000)	-
Interest paid	(645,539)	(876,413)	-
Capital contributions	-	-	-
Contractual revenues	1,196,491	-	-
Proceeds from sale of capital assets	4,500	-	-
Net cash used in capital and related financing activities	(4,015,777)	(3,099,886)	(20,180)
Cash Flows from Investing Activities - Investment earnings	115,638	25,467	18,004
Net Increase (Decrease) in Cash and Cash Equivalents	(1,990,721)	(394,354)	52,852
Cash and Cash Equivalents - Beginning of year	9,920,198	2,829,648	1,456,635
Cash and Cash Equivalents - End of year	**$ 7,929,477**	**$ 2,435,294**	**$ 1,509,487**
Balance Sheet Classification			
Cash and cash equivalents	$ 6,453,283	$ 515,038	$ 1,509,487
Restricted assets	1,476,194	1,920,256	-
Total	**$ 7,929,477**	**$ 2,435,294**	**$ 1,509,487**
Noncash Investing Activities - Changes in fair value investments	**$ -**	**$ -**	**$ -**

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

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2004

Business-type Activities - Enterprise Funds

Sanitary Landfill	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 3,823,252	$ 806,252	$ 18,571,914	$ 5,281,296
-	820	694,882	91,083
(801,429)	(486,165)	(6,597,626)	(1,730,016)
(2,169,069)	(356,357)	(9,295,270)	(2,623,629)
852,754	(35,450)	3,373,900	1,018,734
		-	
-	30,000	2,117,915	650,686
	-		
	-		
(1,732,833)	(37,619)	(5,904,538)	(1,029,642)
-	-	309,204	-
-	-	(2,990,000)	-
-	-	(1,521,952)	(54,594)
-	-	-	-
-	-	1,196,491	-
-	-	4,500	67,933
(1,732,833)	(37,619)	(8,906,295)	(1,016,303)
88,228	8,608	255,945	120,770
(791,851)	(34,461)	(3,158,535)	773,887
6,258,909	100,343	20,565,733	7,627,619
$ 5,467,058	**$ 65,882**	**$ 17,407,198**	**$ 8,401,506**
$ 4,563,976	$ 65,882	$ 13,107,666	$ 8,401,506
903,082	-	4,299,532	-
$ 5,467,058	**$ 65,882**	**$ 17,407,198**	**$ 8,401,506**
$ -	**$ 76,224**	**$ 76,224**	**$ -**

	Business-type Activities - Enterprise Funds		
	Water	Wastewater	Real Estate Rental
Reconciliation of operating income (loss) to net cash from operating activities			
Operating income (loss)	$ 472,208	$ 275,481	$ (267,909)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	1,099,888	1,064,453	446,469
Miscellaneous cash received (paid)	339,287	(139,265)	(89,005)
Changes in operating assets and liabilities:			
Accounts receivable	36,682	(21,757)	(7,421)
Due (to) from other funds	(43,280)	-	-
Due from other governmental units	-	-	-
Inventory	(10,648)	8,756	-
Prepaid items	-	-	2,132
Accounts payable	93,217	(499,915)	17,841
Accrued salaries and wages	(66,296)	(39,612)	(23,229)
Customer deposits received	(19,764)	-	-
Customer deposits returned	20,645	-	(15,252)
Accrued landfill closure costs	-	-	15,515
Compensated absences, death benefits, and workers' compensation	(51,346)	(17,166)	(24,113)
Net cash provided by (used in) operating activities	**$ 1,870,593**	**$ 630,975**	**$ 55,028**

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

Business-type Activities - Enterprise Funds			
Sanitary Landfill	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 1,307,109	$ (387,354)	$ 1,399,535	$ (281,658)
477,629	175,619	3,264,058	1,381,940
(106,510)	820	5,327	(103,356)
55,635	(1,225)	61,914	10,037
-	-	(43,280)	-
-	-	-	-
-	-	(1,892)	310
-	-	2,132	(17,169)
(968,940)	176,690	(1,181,107)	46,852
(18,760)	-	(147,897)	(40,702)
-	-	(19,764)	-
-	-	5,393	-
99,000	-	114,515	-
7,591	-	(85,034)	22,480
$ 852,754	**$ (35,450)**	**$ 3,373,900**	**$ 1,018,734**

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

Fiduciary Funds
Statement of Net Assets
June 30, 2004

	Agency Funds	Pension and Other Employee Benefit Trust Funds
Assets		
Cash and cash equivalents	$ (10,765)	$ 11,202,320
Investments:		
Common stock	-	25,405,053
Preferred stock	-	2,051,476
Bonds	-	8,443,075
U.S. government securities	-	1,041,717
Mortgage and asset-backed securities	-	2,212,609
International funds	-	4,375,479
Receivables - Net of allowances for uncollectibles:		
Accounts and contracts	23,527	2,036
Accrued interest receivable	23	103,076
Property taxes	36,006	-
Total assets	48,791	54,836,841
Liabilities		
Due to other governmental units	12,785	-
Deferred revenue	36,006	-
Total liabilities	48,791	-
Net Assets		
Held in trust for pension benefits	-	45,597,847
Held in trust for postemployment health benefits	-	9,238,994
Total net assets	**$ -**	**$ 54,836,841**

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

Fiduciary Funds
Statement of Changes in Net Assets
Year Ended June 30, 2004

	Pension and Other Employee Benefit Trust Fund
Additions	
Contributions:	
Employer	$ 930,996
Employee	578,446
Total contributions	1,509,442
Investment income:	
Net depreciation in fair value of assets	4,606,813
Interest	801,318
Dividends	362,743
Total investment income	5,770,874
Less investment expenses	(355,362)
Net investment income	5,415,512
Total additions	6,924,954
Deductions - Benefit payments	2,761,685
Change in Net Assets	4,163,269
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	50,673,572
End of year	**$ 54,836,841**

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

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

The City is a municipal corporation governed by an elected five-member City Council (the "Council"), which biannually selects one of its members to serve as mayor. The City operates under a Council-Manager form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations, and data from these units are therefore combined with data from the primary government.

Blended Component Unit

Midland Downtown Development Authority - The Midland Downtown Development Authority (MDDA) was established in 1987 for the purpose of maintaining and renovating the downtown Midland area. The MDDA is administered by a 13-person board, which is appointed by the City Council. Funding for the MDDA is provided by a two-mill levy on property within the district and by tax increment financing. All projects initiated by the MDDA are considered public improvements to the City's infrastructure, parks, or parking facilities. Since the MDDA is used exclusively as a financing source for City facilities, it has been blended into the financial statements of the City as a Special Revenue Fund. The MDDA has a June 30 year end.

Joint Ventures

Saginaw-Midland Municipal Water Supply Corporation - The Saginaw-Midland Municipal Water Supply Corporation (SMMWSC), located approximately eight miles east of the city of Midland, is an authority incorporated by the cities of Midland and Saginaw, Michigan, under Act 233, Public Acts of Michigan, 1955, as amended. The SMMWSC is administered by a six-member Board of Trustees, each community appointing three members, and is empowered to prepare, adopt, and submit to the legislative bodies of each municipality an annual budget covering estimated revenues, proposed expenditures, and the necessary funds required from each municipality for the next fiscal year.

Note 1 - Summary of Significant Accounting Policies (Continued)

Funding for the acquisition of property and for the development and improvement of the water supply system is provided by sale of SMMWSC negotiable bonds secured by the full faith and credit of each municipality in a ratio based upon predetermined capacity reserves; 20/43rds for the City of Midland and 23/43rds for the City of Saginaw. Funding for operations is provided by sale of water to the two communities on a consumption basis. The City's equity in the SMMWSC is accounted for in the Water Fund, which is included in the business-type activities column of the statement of net assets.

A summary of the financial information for the year ended June 30, 2004 follows:

Total assets	$ 36,678,710
Total liabilities	23,522,077
Equity - City of Midland	7,049,597
Equity - City of Saginaw	8,107,036
Total revenues	4,710,411
Total expenses	4,448,176
Net income	262,235

At June 30, 2004, total outstanding bonded debt of the SMMWSC was $23,365,000. The City was obligated for $10,867,442 of this total.

Midland City/County Joint Building Authority - The City's ownership interest in the Midland City/County Joint Building Authority is accounted for in the governmental activities column of the statement of net assets. The Authority was created as a financing vehicle for the Midland Law Enforcement Center. The Law Enforcement Center is leased from the Joint Building Authority (JBA) by the City of Midland Police Department, the Midland County Sheriff Department, and the Midland County Central Dispatch Authority. The JBA is governed by a three-person board with the City and County each appointing one member and with the third member being mutually appointed. Additional information concerning the Joint Building Authority and its lease with the City is detailed in Note 8 - Leases.

General - Complete financial statements, which are audited for the Saginaw-Midland Municipal Water Supply Corporation and the Midland City/County Joint Building Authority, are available from the City Clerk's Office.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating parties in the near future for any of the above organizations.

Note 1 - Summary of Significant Accounting Policies (Continued)

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 business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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 current period liabilities.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

Property taxes, franchise fees, licenses, interest, and special assessments are susceptible to accrual. Sales and motor fuel taxes collected and held by the State at fiscal year end on behalf of the City are also recognized as revenue of the current fiscal period. Other receipts become measurable and available when cash is received by the City and are recognized as revenue at that time.

The City reports the following major governmental funds:

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

- The Major Street Fund accounts for state-shared revenues relating to construction activities, repairs, and maintenance of all major streets and trunklines.

The City reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the City's water supply system, capital additions, and retirement of bonds.

- The Wastewater Fund accounts for the operation and maintenance of the City's sewage disposal system, capital additions and improvements, and retirement of bonds.

- The Landfill Fund accounts for the operation and maintenance of the City's trash and garbage disposal system.

- The Real Estate Rental Fund accounts for the operation and maintenance of the City's various senior housing rental properties.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following Internal Service Funds:

- The Data Processing Fund accounts for the operations of the City's Information Services Department.
- The Equipment Revolving Fund accounts for the rental charges of City-owned equipment to other City departments.
- The Service Center Rental Fund accounts for the operations of the City's Service Center building.
- The Insurance Claims Fund accounts for insurance expenses resulting from property and liability claims.
- The Special Assessment Revolving Fund accounts for the funding of the City's special assessment projects.

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Because these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. The Police and Fire Retirement Fund and the Post-Employment Health Care Plan Fund are fiduciary funds of the City. The City's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets.

Agency Funds are used to account for those held by the City as a custodian for other governments or organizations. Agency Funds have only assets and liabilities representing the parties that are entitled to the assets. The Tax Collection Fund and the Shopping Area Redevelopment Authority Fund are accounted for as Agency Funds.

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. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. The portion intended to recover the cost of infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the City, as well as for its component unit, are reported at fair value.

Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payables" or "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Note 1 - Summary of Significant Accounting Policies (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance at June 30, 2003 is equal to 100 percent of outstanding property taxes over four years old plus 4 percent of outstanding property taxes less than five years old.

Properties are assessed annually as of December 31, and property taxes are billed and become a lien on July 1 of the following year. These taxes are due on September 15 with a final collection date of February 28 before they are added to the county tax roll. The City also bills and collects an amount each December, primarily for schools, county, and college. Also included in the December billing is a tax administration fee, which is revenue to the City. The December billing is due on February 14 with a final collection date of February 28. Penalties and interest are assessed on payments received after the due date.

Inventories and Prepaid Items - Inventories are valued at cost on an average cost method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets - Certain resources set aside for debt service on the City's Enterprise Fund revenue bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Additionally, certain resources set aside for closure and postclosure costs for the enterprise landfill operation are classified as restricted assets because their use is limited by applicable State regulations.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Projects with total costs of less than $10,000 are considered repair and are expensed in the year incurred. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Land improvements	20 years
Infrastructure	10-50 years
Vehicles	3-10 years
Office equipment	10 years
Computer equipment	4 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is fully vested when earned, and sick pay is conditionally vested upon completion of 10 years of service. Upon retirement, employees are paid accumulated vacation and one-half of unused sick days at their hourly rate as of their retirement date.

All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for the entire amount, current and long-term, is accrued in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. 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 (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Reclassification - Balances and activities of the Special Assessment Revolving Fund have been reclassified in the 2004 statements to more properly reflect their activity as an Internal Service Fund.

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection on building construction 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 code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 follows:

Shortfall at July 1, 2003		$ (204,324)
Current year building permit revenue		393,381
Related expenses:		
Direct costs	$ 397,760	
Estimated indirect costs	23,866	
Total construction code expenses		421,626
Cumulative shortfall at June 30, 2004		$ (232,569)

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, 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; United States government or federal agency obligations; 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 City Council has designated nine financial institutions for the deposit of Local Unit funds.

Note 3 - Deposits and Investments (Continued)

The investment policy adopted by the City in accordance with Public Act 20 of 1943 (as amended) authorizes investments in U.S. Treasuries, U.S. agencies and instrumentalities, certificates of deposit, commercial paper (meeting certain rating and maturity requirements), repurchase agreements, investment pools, bankers' acceptances of U.S. banks, and mutual funds. Repurchase agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association's model Master Repurchase Agreement. The Treasurer may invest in investment pools organized under the Surplus Funds Investment Pool Act of 1982 and under the Urban Cooperation Act of 1967.

For mutual funds, the Treasurer may invest in funds registered under the Investment Company Act of 1940. This authorization is limited to securities whose intention is to maintain a net asset value of $1.00 per share and investment vehicles that are legal for direct investment by a public corporation.

The above-mentioned City investment policy applies to all financial assets of the City except for its Employee Pension Fund and the Police and Fire Retirement System Fund, which are organized and administered separately. Investments are made pursuant to provisions of the Public Employee Retirement System Investment Act of 1965.

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and cash equivalents	$ 71,391,917	$ 15,027,922	$ 11,191,555	$ 97,611,394
Investments	-	316,239	43,529,409	43,845,648
Restricted assets	-	2,379,276	-	2,379,276
Total	$ 71,391,917	$ 17,723,437	$ 54,720,964	$ 143,836,318

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments follows:

Bank deposits (checking accounts, money market accounts, and certificates of deposit)	$ 97,754,630
Investments in securities, investment pools, and similar vehicles	46,081,688
Total	$ 143,836,318

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at $97,758,294. Of that amount, $344,880 was covered by federal depository insurance and $2,776,187 was covered by collateral held by the City's agent in the City's name. The remainder of the bank balance was uninsured and uncollateralized.

Investments - The City's investments are categorized as either (1) insured or registered or for which the securities are held by the City or its agent in the City's name, (2) uninsured and unregistered for which the securities are held by the counterparty or its trust department or agent in the City's name, or (3) uninsured and unregistered for which the securities are held by the counterparty or its trust department or agent but not in the City's name.

As of June 30, 2003, the City's balances were categorized as follows:

	Category 1	Category 2	Reported Amount (Fair Value)
Categorized:			
Common stock	$ 316,239	$ 25,405,052	$ 25,721,291
Preferred stock	-	2,051,476	2,051,476
Corporate bonds	-	8,443,075	8,443,075
U.S. government securities	-	1,041,717	1,041,717
Mortgage and asset-backed securities	-	2,212,609	2,212,609
International equities	-	4,375,479	4,375,479
Subtotal	316,239	43,529,408	43,845,647
Investments not subject to categorization:			
Bank investment pool funds	-	-	2,015,906
Interlocal agreement investment pool funds	-	-	220,134
Total	$ 316,239	$ 43,529,408	$ 46,081,687

Note 3 - Deposits and Investments (Continued)

The Category 1 investment represents 7,770 shares of Dow Chemical Company common stock that the Golf Course Fund acquired as a gift, the income from which is to be used to operate the golf course. Use of the principal represented by the shares of stock is subject to certain restrictions specified by the donor. There were no Category type 3 investments at June 30, 2004.

The bank investment pool funds consist of bank trust funds, which are held by the trust department of the bank and are regulated by the Michigan Banking Act. The investments under the interlocal agreement investment pool are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement investment pools (MBIA-CLASS) is the same as the value of the pool shares. The bank investment pools, money market mutual funds, and interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

Included in the City's pension fund investments at June 30, 2004 are the following:

- Approximately $321,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

- Approximately $1,546,000 of obligations of the Federal National Mortgage Association. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

- Variable rate instruments (floaters) of approximately $211,000. These securities are based on cash flows from interest and principal payments in underlying securities. These variable rate debt instruments are tied to prevailing short-term interest rates and are relatively insensitive to interest rate changes. There is no prepayment risk associated with these instruments.

Note 3 - Deposits and Investments (Continued)

- Approximately $7,650,000 of corporate bonds and preferred stocks, which are convertible into common stock of their respective companies. These securities are considered to be derivative investments because their value is significantly influenced by the value of securities into which they are convertible.

- Approximately $1,042,000 of United States Governmental Securities. Similar to a zero coupon bond, it is purchased at a discount (which represents the future interest earnings of the investment). The discount is amortized over the remaining maturity of the instrument.

- Asset-backed securities of approximately $135,000. These securities are backed by credit card receivables. These obligations typically include credit enhancements in the form of over-collateralization, third-party letters of credit, seller recourse, insurance company guarantees and/or senior subordinated structures. These securities are generally considered to offer modest credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayments for these "pay through" securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Interfund Transfers, Receivables, and Payables

Interfund transfers reported in the fund statements for the year ended June 30, 2004 were as follows:

	Transfers Out				
Transfers in:	General Fund	Major Street Fund	Local Street Fund	Storm Water Mgmt. Fund	Downtown Develop Auth. Fund
General Fund	$ -	$ -	$ -	$ -	$ -
Major Street Fund	-	-	-	-	-
Local Street Fund	-	600,000	-	-	-
Storm Water Mgmt. Fund	2,074,100	124,809	127,419	-	-
Transportation Fund	520,718	-	-	-	-
Grace A. Dow Library Fund	2,567,206	-	-	-	-
CDBG Fund	2,848	-	-	-	-
Downtown Dev. Auth. Fund	-	-	-	-	-
Debt Fund	199,610	-	-	-	163,916
Capital Projects Fund	621,417	-	3,865	306,098	-
Water Fund	-	-	-	-	-
Wastewater Fund	-	-	-	-	-
Parking Fund	-	-	-	-	30,000
Special Assessment Rev.	740,686	-	-	-	-
Total	$ 6,726,585	$ 724,809	$ 131,284	$ 306,098	$ 193,916

The transfer from the General Fund to the Grace A. Dow Memorial Library Fund represents the use of unrestricted resources to finance that program, in accordance with budgetary authorizations. The transfer from the General Fund to the Capital Projects Fund represents funding of construction projects from unrestricted resources, in accordance with budgetary authorizations. The transfer from the Major Street Fund to the Local Street Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51. The transfer from the Debt Fund to the Wastewater Fund is necessary to transfer an additional millage for debt retirement to the Wastewater Fund, which is the fund that accounts for the related debt.

Note 4 - Interfund Transfers, Receivables, and Payables (Continued)

Transfers Out					
CDBG Fund	Debt Fund	Capital Projects Fund	ERF Fund	Special Assessment Revolving	Total
$ -	$ -	$ 173,871	$ 90,000	$ 1,000,000	$ 1,263,871
-	-	2,328	-	-	2,328
212,630	-	15,000	-	-	827,630
-	-	-	-	-	2,326,328
-	-	-	-	-	520,718
-	-	-	-	-	2,567,206
-	-	-	-	-	2,848
-	-	-	-	-	-
-	-	-	-	-	363,526
40,036	-	-	-	-	971,416
-	-	38,825	-	-	38,825
-	1,779,425	269,665	-	-	2,049,090
-	-	-	-	-	30,000
-	-	184,888	-	-	925,574
$ 252,666	$ 1,779,425	$ 684,577	$ 90,000	$ 1,000,000	$ 11,889,360

The composition of interfund balances as of June 30, 2004 was as follows:

Receivable Fund	Payable Fund	Amount
General	Special Assessment Revolving	$ 1,000,000
Special Assessment Revolving	Midland Housing	150,000
Community Development Block Grant	Midland Housing	209,186
Landfill	Real Estate Rental	9,000
Total		$ 1,368,186

The balance owing from the Special Assessment Revolving Fund to the General Fund represents a return of General Fund monies that were used to initiate the Special Assessment Revolving Fund.

The balance owing from the Midland Housing Fund to the Community Development Block Grant (CDBG) Fund represents remaining balances on mortgages subsidized by the CDBG Fund. The remaining two resulted from loans made for working capital purposes.

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated:				
Land	$ 3,159,011	$ -	$ -	$ 3,159,011
Construction in progress	6,438,691	2,047,964	1,602,098	6,884,557
Total capital assets not depreciated	9,597,702	2,047,964	1,602,098	10,043,568
Capital assets being depreciated:				
Major and local roads	1,807,606	1,582,597	259,068	3,131,135
Sidewalks	-	75,936	-	75,936
Buildings	21,032,894	93,925	21,511	21,105,308
Land improvements	574,975	682,322	25,969	1,231,328
Library circulation materials	6,565,463	628,057	792,515	6,401,005
Equipment	9,404,567	402,561	1,608,986	8,198,142
Vehicles	12,395,555	984,390	792,061	12,587,884
Total capital assets being depreciated	51,781,060	4,449,788	3,500,110	52,730,738
Total capital assets before depreciation	61,378,762	6,497,752	5,102,208	62,774,306
Less accumulated depreciation for:				
Major and local roads	46,497	25,535	-	72,032
Sidewalks	-	1,266	-	1,266
Buildings	7,945,967	428,700	21,511	8,353,156
Land improvements	172,957	22,040	25,969	169,028
Library circulation materials	4,241,870	778,345	634,012	4,386,203
Furniture, fixtures, and equipment	7,701,453	482,891	1,586,105	6,598,239
Vehicles	6,117,049	1,183,538	625,147	6,675,440
Subtotal	26,225,793	2,922,315	2,892,744	26,255,364
Net capital assets being depreciated	25,555,267	1,527,473	607,366	26,475,374
Net governmental capital assets	$ 35,152,969	$ 3,575,437	$ 2,209,464	$ 36,518,942

Note 5 - Capital Assets (Continued)

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 2,316,600	$ 80	$ -	$ 2,316,680
Construction in progress	9,529,865	4,020,676	9,990,985	3,559,556
Total capital assets not being depreciated	11,846,465	4,020,756	9,990,985	5,876,236
Capital assets being depreciated:				
Water and sewer lines	56,532,936	9,984,518	44,617	66,472,837
Buildings and building improvements	70,370,555	46,115	-	70,416,670
Land improvements	5,540,226	5,708	80	5,545,854
Landfill improvements	6,753,516	3,040,577	-	9,794,093
Equipment	4,801,745	191,422	14,571	4,978,596
Vehicles	545,317	52,131	-	597,448
Total capital assets being depreciated	144,544,295	13,320,471	59,268	157,805,498
Less accumulated depreciation:				
Water and sewer lines	20,900,783	1,180,493	-	22,081,276
Buildings and building improvements	24,846,115	1,415,216	3,989	26,257,342
Land improvements	811,899	111,747	9,718	913,928
Landfill improvements	5,709,559	374,484	-	6,084,043
Equipment	3,193,314	281,431	22,830	3,451,915
Vehicles	266,323	79,354	-	345,677
Total accumulated depreciation	55,727,993	3,442,725	36,537	59,134,181
Net capital assets being depreciated	88,816,302	9,877,746	22,731	98,671,317
Net business-type capital assets	$ 100,662,767	$ 13,898,502	$ 10,013,716	$ 104,547,553

Note 5 - Capital Assets (Continued)

Depreciation expense charged to programs of the government follows:

Governmental activities:	
General government	$ 420,399
Public safety	334,883
Public works	518,982
Sanitation	98,804
Parks and recreation	322,317
Library	1,033,175
Airport	30,973
Transportation	155,250
Other functions	7,532
Total governmental activities	$ 2,922,315
Business-type activities:	
Water	$ 1,099,888
Wastewater	1,245,882
Landfill	477,629
Golf course	136,152
Parking system	39,467
Real estate rental	443,707
Total business-type activities	$ 3,442,725

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects as of June 30, 2004. The projects include streets, water and wastewater system improvements, landfill improvements, and park improvements. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Street projects	$ 375,861	$ 938,878
Water system improvements	1,257,588	134,269
Wastewater system improvements	61,425	5,486
Landfill improvements	46,331	2,137,493
Park improvements	256,762	91,837
Total	$ 1,997,967	$ 3,307,963

Infrastructure assets have not been retroactively recorded, and will be within four years, as allowed under GASB 34.

Note 6 - Restricted Assets

Enterprise Funds - Cash and cash equivalents are restricted within the Water and Wastewater Funds for future debt service obligations and guaranteed deposits, in the amounts of $1,476,194 and $1,920,256, respectively. Within each of these funds, an offsetting liability "payable from restricted assets" designates the separation of these assets from unreserved assets. In addition, the Landfill Fund has $903,082 of restricted assets that are for closure and postclosure costs.

Note 7 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are 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. As of June 30, 2004, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments not yet due - Internal Service	$ 555,842	$ -
FEMA grant money for fire equipment received in excess of expenses - General Fund	-	21,029
Grant money drawn down in excess of expenses - CDBG Fund	-	11,916
Grand money awaiting final program audit and redistribution - Transportation Fund	-	5,050
Grant money received in excess of earned - Transportation Fund	-	52,624
Total deferred/unearned for governmental funds	$ 555,842	$ 90,619

Note 8 - Leases

Operating Leases

The City leases its police administration facility and landfill equipment under non-cancelable operating leases. Total costs for such leases were $368,857 for the year ended June 30, 2004. According to the terms of its lease with the Midland City/County Joint Building Authority, the City's obligation for operating leases amounts to 64.8 percent of total operating expenses of the police administration facility.

Note 8 - Leases (Continued)

The future minimum lease payments for these leases, including estimates of obligations under the police administration facility lease areas, follows:

Years Ending June 30	Amount
2005	$ 390,125
2006	396,031
2007	244,114
2008	215,111
2009	221,564
2010-2014	1,211,602
Total	$ 2,678,547

Capital Leases

The City has entered into a lease agreement with the Midland City/County Joint Building Authority as lessee for financing the construction of police administration facilities. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The total cost of this lease was $210,274 for the year ended June 30, 2004. Payments under this lease agreement for the year ended June 30, 2004 totaled $210,274, including $56,197 of interest charges.

The future minimum lease obligation and net present value as of June 30, 2004 are as follows:

Years Ending June 30	Amount
2005	$ 202,583
2006	212,899
2007	206,200
2008	215,495
2009	207,530
2010-2013	866,786
Total minimum lease payments	1,911,493
Less amount representing interest	260,005
Present value of minimum lease payments	$ 1,651,488

Note 9 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds, which are direct obligations and pledge the full faith and credit of the City, have been issued for both governmental and business-type activities. Revenue bonds involve a pledge of specific income derived from the acquired or constructed asset to pay debt service and have been issued for business-type activities.

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							
1990 Downtown Development Amount of issue: $660,000 Maturing through: December 2004	6.65% -	$85,000	$ 170,000	$ -	$ (85,000)	$ 85,000	$ 85,000
1992 Downtown Development Amount of issue: $600,000 Maturing through: September 2007	5.65% - 6.05%	$50,000 - $100,000	350,000	-	(50,000)	300,000	50,000
Capital leases (Note 8)			1,807,537	-	(156,049)	1,651,488	202,583
Total bond and capital lease			2,327,537	-	(291,049)	2,036,488	337,583
Other long-term obligations							
Compensated absences *			3,501,581	1,574,949	(1,640,841)	3,435,689	1,443,980
Property tax appeals contingency reserve refunds (Note 17)			34,864,900	5,235,862	-	40,100,762	-
Total other long-term			38,366,481	6,810,811	(1,640,841)	43,536,451	1,443,980
Total governmental activities			$ 40,694,018	$ 6,810,811	$ (1,931,890)	$ 45,572,939	$ 1,781,563
Business-type Activities							
General obligation bonds							
1989 Sewer Construction: Amount of issue: $900,000 Maturing through: October 2005	6.00%	$400,000	$ 800,000	$ -		$ 800,000	$ 400,000
1990 Sewer Construction: Amount of issue - $3,400,000 Maturing through: October 2005	4.75%	$725,000	1,450,000	-		1,450,000	725,000
1993 Sewer Refunding: Amount of issue: $8,230,000 Maturing through: October 2003	4.75%	$1,075,000	1,075,000	-	(1,075,000)	-	-
2001 Sewer Construction: Amount of issue: $13,600,000 Maturing through: May 2021	4.50% - 5.25%	$375,000 - $1,100,000	13,025,000	-	(375,000)	12,650,000	425,000
2001 Sewer Construction - State Revolving Fund: Amount of issue: $5,130,000 Borrowed as of 6/30/03: $4,688,961 Maturing through: April 2022	2.50%	$205,000 - $320,000	4,488,961	76,925	-	4,565,886	210,000
Revenue bonds							
2000 Water Rev Refunding: Amount of issue: $12,190,000 Maturing through: April 2010	4.80%- 5.30%	$1,155,000- $1,390,000	8,500,000	-	(1,390,000)	7,110,000	1,335,000
Total bonds obligations			29,338,961	76,925	(2,840,000)	26,575,886	3,095,000

* Liability will be liquidated by the General Fund, Library Fund, Cable TV Fund, DART Fund, and the DDA Fund based on the allocable portion of the liability.

Note 9 - Long-term Debt (Continued)

Business-type Activities	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Other long-term obligations							
Compensated absences			$ 755,748	$ 373,852	$ (456,486)	$ 673,114	$ 322,072
Landfill closure and postclosure (Note 10)			2,431,000	99,000	-	2,530,000	-
Total other long-term obligations			3,186,748	472,852	(456,486)	3,203,114	322,072
Less current portion payable from restricted assets (Note 6)			3,045,000	50,000	-	3,095,000	3,095,000
Total business-type activities			29,480,709	499,777	(3,296,486)	26,684,000	322,072
Total governmental and business-type activities			$ 70,174,727	$ 7,310,588	$ (5,228,376)	$ 72,256,939	$ 2,103,635

The 1990 and 1992 Downtown Development Bonds were issued pursuant to a tax increment financing plan and development plan for the Midland Downtown Development Area under authority of Act 197, Public Act of Michigan, 1975, as amended. Proceeds of the 1990 bonds were used to finance a portion of the construction cost of a downtown parking structure, as described in the plan and located in the Development Area. The 1992 bonds were used to finance a portion of the Downtown Streetscape Project. The bonds are payable from tax increment revenues pursuant to the plan.

The 1989 and 1990 general obligation sewer construction bonds were approved by the voters of the City in a general election held on November 3, 1987. The City Council has passed a resolution to levy a millage to pay approximately 80 percent of the principal and interest cost of these bonds. The remaining 20 percent of the obligation is to be repaid by fees from the users of the municipal sanitary sewage collection and treatment system. The proceeds have been used for the construction of sewer facilities capitalized in the Wastewater Fund or for the construction of the City's storm sewer separation project.

The full faith and credit and the unlimited taxing power of the City are also pledged for payment of principal and interest on the 1993 Sewer Refunding Bonds, the proceeds of which were used to redeem certain portions of the 1989 and 1990 Sewer Construction Bonds to take advantage of lower interest rates.

The 2001 Sewer Construction Bonds were approved by the voters in a general election held on February 22, 2000. The City Council has approved a resolution to levy a millage to pay approximately 60 percent of the principal and interest cost of these bonds. The 40 percent balance of the obligation is to be repaid by fees from the users of the municipal sanitary sewage collection and treatment system. The proceeds are being used for construction of sewer facilities recorded as construction in progress in the Wastewater Fund.

Note 9 - Long-term Debt (Continued)

On December 3, 2001, the City Council authorized issuance of general obligation limited tax bonds, series 2001, in the principal sum not to exceed $5,130,000. The purpose of this issuance is to fund the construction of a storm water retention basin at the wastewater treatment plant. User fees will fund 40 percent of the principal and interest on these bonds, and the remaining 60 percent will be funded by a millage that the City will levy. The full faith and credit and the limited taxing power of the City are pledged for payment of the principal and interest thereon.

The City has pledged its full faith and credit on the bonded indebtedness of the Saginaw-Midland Municipal Water Supply Corporation, a jointly owned raw water system described in Note 1 - Summary of Significant Accounting Policies.

By statute, the City's general obligation debt is restricted to 10 percent of the equalized value of all property in the City. Certain obligations, such as water revenue refunding bonds, are not subject to this limitation. At June 30, 2004, the City's general obligation debt statutory and legal debt limit amounted to $239,384,160 and the indebtedness subject to the limitation aggregated $12,514,532.

Annual requirements to pay principal and interest on the long-term bonds and capital leases outstanding at June 30, 2004 are as follows:

	Governmental Activities			Business-type Activities		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2005	$ 331,688	$ 25,134	$ 356,822	$ 3,095,000	$ 1,179,505	$ 4,274,505
2006	275,679	24,982	300,661	2,945,000	1,031,606	3,976,606
2007	263,694	25,806	289,500	1,850,000	919,012	2,769,012
2008	291,467	27,053	318,520	1,910,000	834,388	2,744,388
2009	179,015	28,515	207,530	1,940,000	746,107	2,686,107
2010-2014	694,945	171,841	866,786	5,785,000	2,686,950	8,471,950
2015-2019	-	-	-	6,095,000	1,524,612	7,619,612
2020-2022	-	-	-	2,955,886	206,922	3,162,808
Total	$ 2,036,488	$ 303,331	$ 2,339,819	$ 26,575,886	$ 9,129,102	$ 35,704,988

Note 10 - Landfill Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its sanitary landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $2,530,000 reported as landfill closure and postclosure care liability at June 30, 2004 represents the cumulative amount reported to date based on the use of 100 percent of the capacity of Area A (32 acres closed in 1991) and cells 1 through 14 (53 acres closed in 2004), and 4 percent of the estimated capacity of cell 14. The City will recognize the remaining estimated cost of closure and postclosure care of approximately $764,000 as the remaining capacity of cell 15 is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in current dollars. The City expects to close cell 15 during the fiscal year ending June 2010. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and at June 30, 2004, cash and cash equivalents in the amount of $903,082 were held for these purposes, reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

The City has also entered into an agreement to provide a letter of credit in favor of the State of Michigan to fulfill certain bonding requirements imposed upon the City, by Michigan law.

Note 11 - Pension Funds

Police and Fire Pension System

Plan Description - The Police and Fire Pension System is a single-employer defined benefit pension plan that is administered by the City of Midland Police and Fire Employees Retirement System. This plan covers all police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2003, the date of the most recent actuarial valuation, membership consisted of 98 retirees and beneficiaries currently receiving benefits, terminated employees entitled to benefits but not yet receiving them, and 94 current active employees. The plan does not issue a separate financial report.

Funding Policy - The obligation to contribute to and maintain the system for those employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 7 percent of gross wages for firefighters and 8 percent of gross wages for all other employees. The City's funding policy provides for biweekly employee contributions and monthly employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost was $194,061, which was equal to the City's required and actual contribution. The required employer contributions were determined as part of an actuarial valuation at December 31, 2003, using the entry age actuarial funding method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, compounded annually, (c) additional projected salary increases of up to 5.2 percent per year, attributable to seniority/merit and (d) no postretirement benefit increases other than 5 percent increases for Police Command members with 26 or more years at 5, 10, 15, and 20 years after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The overfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

Note 11 - Pension Funds (Continued)

Reserves - As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	$ 4,790,805
Reserve for employer contributions	14,991,827
Reserve for retired benefit payment	25,815,215

Three-year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
2002	None	100	None
2003	None	100	None
2004	$ 194,061	100	None

Schedule of Funding Progress

Actuarial Valuation Date	Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded (Overfunded) ALL (UALL)	Funded Ratio (Percent)	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/01	06/30/03	$ 58,752,348	$ 44,458,293	$ (14,294,055)	132	$ 4,939,281	(289.4)
12/31/02	06/30/04	55,073,738	47,343,528	(7,730,210)	116	5,534,596	(139.7)
12/31/03	06/30/05	51,008,034	49,478,634	1,529,400	103	5,582,280	27.4

Municipal Employees' Retirement System of Michigan

Plan Description - The City of Midland participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer, defined-benefit pension plan that covers substantially all employees of the City other than police and fire employees. The system 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 system. That report may be obtained by writing to MERS at Municipal Way, Lansing, MI 48917.

Note 11 - Pension Funds (Continued)

Funding Policy - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the City's collective bargaining units and requires a contribution from the employees ranging from 0 percent to 5 percent of gross wages. The City's funding policy provides for quarterly employee and employer contributions at actuarially determined rates.

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost of $2,347,812 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002 using the entry age actuarial funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, compounded annually, (c) additional projected salary increases of 0 percent to 4.16 percent per year, attributable to seniority/merit and (d) the assumption that benefits will increase after retirement by 2.5 percent annually, non-compounded. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
2002	$ 1,464,582	100	None
2003	1,727,255	100	None
2004	2,347,812	100	None

Note 11 - Pension Funds (Continued)

Schedule of Funding Progress

Actuarial Valuation Date	Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded (Overfunded) ALL (UALL)	Funded Ratio (Percent)	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/01	06/30/04	$ 64,797,133	$ 75,384,039	$ 10,586,906	86	$ 11,432,757	92.6
12/31/02	06/30/05	64,917,238	79,443,565	14,526,327	82	11,979,594	121.3
12/31/03	06/30/06	68,149,881	86,011,816	17,861,935	79	12,342,359	144.7

Note 12 - Postemployment Benefits

The City of Midland provides postemployment health care coverage under a traditionally insured plan to all retired employees and their qualified spouses and other dependents, as mandated by collective bargaining agreements. Currently, these costs are funded on a "pay as you go" basis.

In general, retirees are required to contribute up to 40 percent of the cost of coverage until attaining a specified age (ages 46 to 50 for police and fire retirees, depending on bargaining group, and 65 for all other retirees), at which time the full cost of coverage becomes the obligation of the City.

The net cost to the City of providing postemployment health care coverage follows:

Year	Number of Retirees	Amount
2004	284	$ 3,544,232
2003	270	3,131,547
2002	270	2,866,760

Note 13 - Claims, Litigation, and Other Contingencies

In the normal course of its activities, the City becomes a party in various legal actions. Although some actions have been brought for large amounts, the City has not generally experienced significant losses or cost. City management is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City.

Note 13 - Claims, Litigation, and Other Contingencies (Continued)

The City has received several federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. City management believes such disallowances, if any, will be immaterial.

Note 14 - Enterprise Fund Contractual Revenue

The City supplies large quantities of water to Dow Chemical Company and Dow Corning Corporation under contractual arrangements with each company. Under the Dow Chemical Supplemental Agreement dated March 1, 1979, and Dow Corning Agreement dated July 15, 1985, the companies agree to pay for the variable cost of industrial grade water. In addition, the companies agree to pay a percentage of certain fixed costs, including the principal and interest costs on debt incurred by the City related to plant expansions necessary to meeting the companies' special requirements. These fixed cost payments are due in monthly installments until the year 2010, or until the bonds are paid in full.

The payment percentage is based upon the cost of the facilities required to meet the companies' exact capacity requirements relative to the total cost of the City's initial capacity requirements.

The percentage of the bond principal and interest payments reimbursed by each company follows:

	Dow Chemical Company	Dow Corning Corporation
1992 Saginaw-Midland - Water Revenue Refinancing Bonds	34.00	4.20
1992 Saginaw-Midland - Water Revenue Bonds	34.00	4.20
1993 Saginaw-Midland - Water Revenue Bonds	34.00	4.20
1998 Saginaw-Midland - Water Revenue Refinancing Bonds	34.00	4.20
2000 Water Revenue Refinancing Bonds	37.976	4.667

Note 14 - Enterprise Fund Contractual Revenue (Continued)

Total payments received under these agreements during the fiscal year were $1,196,491, consisting of principal and interest of $827,919 and $368,572, respectively. These payments have been recorded as nonoperating revenue in the City's Enterprise Funds. Under the terms of these agreements, no equity accrues to either company.

Under the terms of the agreement with Dow Chemical Company, the Water Fund shall retain in a Dow Chemical Emergency Repair and Maintenance Fund, $25,000 to fund Dow's share of non-budgeted repair, replacement, or improvements.

Note 15 - Urban Cooperation Act Agreement

Effective December 30, 1992, the City entered into a 30-year interlocal public agency agreement with the Township of Midland, as authorized by the provisions of Public Act 7 of the Public Acts of the State of Michigan of 1967 (Ex Sess) [MSA 5.4088(1) et seq; MCLA 124.501 et seq].

The agreement provides for (1) the orderly and uncontested annexation to the City of certain property then located in the Township; (2) future sharing, through the year 2022, of revenues derived from the City's levy of property taxes on certain property to be annexed under the agreement; (3) beginning in September 1993, and continuing through the year 2012, the sharing of revenues derived from the City's levy of property taxes on certain commercial and industrial property already located within the City; and (4) extension, at City cost, of water and sewer services by the City to the Township boundary.

The City's obligation under provision 3, above, shall cease if and when total cumulative payments thereunder reach $15,000,000. The amount of revenue sharing due to the Township by the City under this agreement during the year ended June 30, 2004 was $344,620.

Due to the tax appeals by the City's three largest taxpayers (see Note 17), the City and the Township have agreed to have the City hold back the portion of the Township's payments in relation to the additional millage levied for the tax appeal reserve. The amount recorded as a liability to the Township in the General Fund is $1,785,536 as of June 30, 2004.

Note 16 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The City has purchased commercial insurance for liability and property claims, airport liability and pension fiduciary liability claims, and participates in the Michigan Municipal Workers Compensation Pool for employee injury claims.

The Michigan Municipal League risk pool programs operate as common risk-sharing/management programs 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.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 17 - Property Tax Appeals Contingency

The City's three largest taxpayers have filed appeals with the Michigan Tax Tribunal (MTT), seeking to reduce their taxable values from 1997 through the current year. For the year ended June 30, 2004, the aggregate reduction of these three taxpayers for 1997 through 2003 was approximately $577 million, $577 million, $630 million, $570 million, $587 million, $644 million, and $630 million, respectively. If granted in their entirety, the requested adjustments would result in property tax and administrative fee refunds of approximately $52.2 million.

During the year ended June 30, 2004, a decision was reached by the MTT on the years 1997 through 2000, on the largest of the three appeals. If agreed to by both parties, this decision would substantially reduce the amount under dispute; however, the MTT's decision has been appealed by both parties. Accordingly, no reduction to the reserve was made as of June 30, 2004, as a result of the MTT's decision.

In October 2004, a settlement was reached between the City and the second largest of the three tax appeals. See Note 20 - Subsequent Events for additional information.

Note 17 - Property Tax Appeals Contingency (Continued)

In each of the last seven fiscal years, the City levied additional property tax millage, the proceeds of which have been set aside to provide partial funding for the potential liability in the event of an unfavorable resolution of these appeals.

Year Ended June 30	Additional Millage Rate
1998	2.30
1999	2.49
2000	3.24
2001	3.64
2002	1.94
2003	1.44
2004	2.13

The fund balance reserve for the year ended June 30, 2004 is as follows:

General Fund	$ 40,100,762
Special Revenue Funds	1,738,209
Total	$ 41,838,971

Each of the three taxpayers has also filed petitions necessary to appeal their 2004 assessments. While one appeal was settled subsequent to fiscal year end, it is anticipated that adjudication and/or settlement of the remaining two appeals will take several years. A similar additional millage has been levied for the 2004-2005 fiscal year.

The City Council has adopted a policy that any unused funds remaining in the General Fund reserve after final resolution of these appeals will be returned to City taxpayers through a future millage reduction. Because the amount of the reserve will eventually be paid out in satisfaction of these appeals and/or returned to City taxpayers through a future millage reduction, the full amount of the General Fund reserve has been recorded as a liability in the government-wide financial statements. The Special Revenue Funds reserve is not deemed to be refundable, so it will only be paid out in the event of an unfavorable outcome to the tax appeals.

Note 18 - Special Items

In July 2003, the Downtown Development Authority (DDA) sold its 49.5 percent equity in the Downtown Office Center Limited Partnership. The DDA received proceeds of approximately $724,000. In addition, during August 2003 the City sold its 19.4 percent equity interest in the Larkin Building Limited Partnership for proceeds of approximately $30,000. The total gain on the sale of these equity interests of approximately $454,000 is reported as a special item on the government-wide statement of activities.

Note 19 - 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, 2008.

Note 20 - Subsequent Events

On August 9, 2004, the City Council approved the sale of $6.5 million in limited tax general obligation bonds for the construction of a new civic arena. The terms of the issue provide for annual principal and interest payments beginning on May 1, 2005. Annual principal payments range from $135,000 and $490,000, while annual interest payments range from 2.5 percent to 4.7 percent. The final payment will be made in the year 2027. The total estimated cost of the civic arena project is approximately $10.2 million, with the balance of the funding coming primarily from area foundations. The project is expected to be completed in the fall of 2005.

In October 2004, the City and Dow Corning Corporation settled a multi-year tax appeal. See Note 17 for related information. The settlement provided for an approximate 11 percent reduction of the petitioned taxable values for the years under dispute, 1997 through 2004. As of the settlement date, including 2004-2005 tax collections, the City had reserved approximately $7.2 million dollars in the General Fund, and $557,000 in Special Revenue Funds to pay potential liabilities as a result of an unfavorable settlement from the Dow Corning Corporation tax appeal. The actual settlement resulted in a $1,914,996 distribution from the General Fund and a $117,470 distribution from the Special Revenue Funds. The balance of the amount that the General Fund had reserved for the Dow Corning Corporation settlement will be returned to City taxpayers through a millage reduction in July 2005. The balance in Special Revenue Fund reserves will become immediately available to fund future projects.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	$ 30,119,500	$ 30,010,723	$ 30,024,740	$ 14,017
Other tax-related revenue	1,352,800	1,216,001	1,209,761	(6,240)
Licenses and permits	488,100	466,570	639,672	173,102
Intergovernmental	3,818,000	3,872,138	3,770,404	(101,734)
Charges for services	269,500	275,375	254,062	(21,313)
Use and admission charges	685,680	705,148	769,802	64,654
Investment earnings	835,000	835,000	834,103	(897)
Other revenues	545,090	931,678	724,853	(206,825)
Total revenues	38,113,670	38,312,633	38,227,397	(85,236)
Expenditures				
General government	3,098,491	3,416,630	2,741,121	675,509
Public safety	9,438,654	9,488,584	9,534,824	(46,240)
Public works	1,928,307	1,971,666	2,023,356	(51,690)
Sanitation	2,046,712	2,118,453	2,094,872	23,581
Parks and recreation	3,808,012	4,311,019	3,595,215	715,804
Airports	219,523	191,523	184,629	6,894
Tax appeal defense	6,303,832	4,788,443	4,532,256	256,187
Other functions	3,897,106	3,869,680	3,874,156	(4,476)
Reserve for contingencies	350,000	-	-	-
Total expenditures	31,090,637	30,155,998	28,580,429	1,575,569
Excess of Revenues Over Expenditures	7,023,033	8,156,635	9,646,968	1,490,333
Other Financing Sources (Uses)				
Operating transfers in	-	234,265	1,263,871	1,029,606
Operating transfers out	(5,724,322)	(6,990,887)	(6,726,585)	264,302
Net change in fund balance	1,298,711	1,400,013	4,184,254	2,784,241
Fund Balance - Beginning of year	43,146,710	43,146,710	43,146,710	-
Fund Balance - End of year	**$ 44,445,421**	**$ 44,546,723**	**$ 47,330,964**	**$ 2,784,241**

Required Supplemental Information
Budgetary Comparison Schedule - Major Street Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
County road millage	$ 550,000	$ 550,000	$ 550,000	$ -
Intergovernmental - State-shared revenue	2,646,000	2,697,000	2,947,105	250,105
Charges for services	128,589	94,227	132,326	38,099
Investment earnings	35,000	16,776	25,246	8,470
Other revenues	-	14,000	14,899	899
Total revenues	3,359,589	3,372,003	3,669,576	297,573
Expenditures				
Engineering	114,967	112,434	117,770	(5,336)
Roadway maintenance	218,919	118,205	108,773	9,432
Guardrail maintenance	4,759	5,224	5,090	134
Sweeping and flushing	139,119	104,723	97,550	7,173
Shoulder maintenance	5,471	10,666	13,334	(2,668)
Roadside drainage	86,955	92,298	117,832	(25,534)
Curb and gutter maintenance	31,787	40,516	32,133	8,383
Roadside cleanup	12,138	15,263	17,585	(2,322)
Dust control	5,088	11,753	7,859	3,894
Bridge maintenance	-	949	949	-
Snow and ice control	410,910	371,897	318,873	53,024
Traffic services	380,300	361,398	308,461	52,937
Trunkline maintenance	128,589	94,227	100,556	(6,329)
Stormwater activities credit	(89,575)	(95,132)	(124,810)	29,678
Reserve for contingencies	20,000	-	-	-
Total expenditures	1,469,427	1,244,421	1,121,955	122,466
Excess of Revenues Over Expenditures	1,890,162	2,127,582	2,547,621	420,039
Other Financing Uses - Operating transfers out	(2,070,575)	(1,552,045)	(1,605,809)	(53,764)
Net change in fund balance	(180,413)	575,537	941,812	366,275
Fund Balance - Beginning of year	818,275	818,275	818,275	-
Fund Balance - End of year	**$ 637,862**	**$ 1,393,812**	1,760,087	**$ 366,275**

Reconciliation to include Major Street Construction Fund activity for government-wide and fund statements:

Fund Balance - Beginning of year	4,178,462
Revenue	1,271,850
Expenditures	(1,343,881)
Net operating transfers	883,328
Fund Balance - End of year	**$ 6,749,846**

Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Funds. All annual appropriations lapse at the end of the fiscal year.

On or before the second Monday in April, the City Manager presents the proposed budget to the City Council for review. The City holds public hearings and a final budget must be prepared and adopted no later than the fourth Monday in May.

The City Council approves the annual budget, which is prepared at the functional level.

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders, contracts, and other commitments for the expenditure of monies) outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City did not approve budgets for the General Construction Fund and the Cemetery Fund. Accordingly, no budget comparison schedules are provided for.

The City did not approve budgets for the Major Street Construction Fund and the Local Street Construction Fund. For the government-wide and fund financial statements, these two funds have been combined with the Major Street Fund and Local Street Fund, respectively. For the budgetary comparison schedules, the activity relating to these construction funds is shown in the reconciliation at the bottom of the budgetary comparison schedule for the Major Street Fund and Local Street Fund.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City of Midland incurred expenditures that were in excess of amounts budgeted. These unfavorable variances were caused by unanticipated expenditures that became necessary during the year. The significant budget overruns follow:

- General Fund - Public safety budget overrun of $46,240 due to greater than anticipated personnel costs associated with police patrol

- General Fund - Public works budget overrun of $51,690 due to greater than anticipated personnel costs relating to public works activities

- Local Street Fund - Stormwater activities credit budget overrun of $67,441 relates to the allocation of expenditures which are transferred out to other funds. This budget overrun is specifically a function of the favorable budget variance in the roadside drainage expenditures.

- Community Development Block Grant Fund - Budget overruns are the result of various housing rehab and the public services projects and programs budgeted in 2003 but not completed and reimbursed until 2004.

Other Supplemental Information

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Local Street Fund - This fund accounts for the maintenance and construction of streets designated by the Michigan Department of Transportation as local streets.

Storm Water Management Fund - This fund accounts for storm sewer maintenance, open drain cleaning, and county drain assessments related to storm water management within the City.

Transportation Fund - This fund accounts for the City's Dial-A-Ride transportation system.

Grace A. Dow Memorial Library Fund - This fund accounts for library services revenue and a General Fund subsidy to be used for providing library services to the citizens of Midland.

Downtown Development Authority Fund - This fund accounts for property taxes levied by an authority established for the purpose of maintaining and renovating the downtown Midland area.

Community Development Block Grant Fund - This fund accounts for grant revenues from the Department of Housing and Urban Development to be used for residential and other capital improvements.

Special Activities - This fund accounts for resources held by the City in a purely custodial capacity.

Midland Housing Fund - This fund is used to account for a housing rehabilitation trust, which was established by a local foundation.

Cable Communications Fund - This fund accounts for franchise fees generated by an agreement with a local cable company to support two public access channels operated by the City.

Debt Service Fund

The Debt Service Fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Capital Projects Fund

The General Construction Fund accounts for construction activities related to non-street projects.

Permanent Fund

The Cemetery Fund is used to account for the Midland Cemetery perpetual care principal and interest earnings.

	Special Revenue Funds				
Assets	Local Street	Stormwater Management	Transportation	Grace A. Dow Memorial Library	Downtown Development Authority
Cash and cash equivalents	$ 1,237,155	$ 1,716,542	$ 100,154	$ 34,359	$ 2,051,622
Receivables - Net of allowances for uncollectibles:					
Property taxes	-	-	-	-	834
Trust deeds	-	-	-	-	-
Accounts and contracts	-	-	436	100,057	-
Accrued interest	1,830	2,577	161	394	3,665
Due from other funds	-	-	-	-	-
Due from other governments	138,164	-	14,540	-	-
Inventories	-	-	-	-	-
Prepaids	-	-	-	275	-
Total assets	**$ 1,377,149**	**$ 1,719,119**	**$ 115,291**	**$ 135,085**	**$ 2,056,121**
Liabilities and Fund Balance					
Liabilities					
Accounts payable	$ 123,842	$ 1,753	$ 3,657	$ 87,732	$ 15,102
Accrued salaries and wages	-	-	8,961	23,582	1,581
Due to other governments	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deposits	-	-	-	90	-
Deferred revenue	-	-	57,674	-	-
Total liabilities	123,842	1,753	70,292	111,404	16,683
Fund Balance					
Reserved for:					
Encumbrances	8,454	1,075,526	45,000	23,681	-
Trust deeds/installment contracts	-	-	-	-	-
Tax appeal contingency	377,847	-	-	-	-
Special trust activities	-	-	-	-	-
Cemetery operations	-	-	-	-	-
Debt service	-	-	-	-	-
Housing activities	-	-	-	-	-
Unreserved:					
Designated for future year's expenditures	265,767	480,928	-	-	202,288
Undesignated	601,239	160,912	(1)	-	1,837,150
Total fund balance	1,253,307	1,717,366	44,999	23,681	2,039,438
Total liabilities and fund balance	**$ 1,377,149**	**$ 1,719,119**	**$ 115,291**	**$ 135,085**	**$ 2,056,121**

Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
Year Ended June 30, 2004

Special Revenue Funds				Debt Service Fund	Capital Projects Fund	Permanent Fund	
Community Development Block Grant	Cable Communications	Special Activities	Midland Housing	Debt Service	General Construction	Cemetery	Total Nonmajor Governmental Funds
$ -	$ 146,595	$ 254,805	$ 314,444	$ -	$ 589,814	$ 1,202,356	$ 7,647,846
-	-	-	-	14,342	-	-	15,176
1,548,438	-	-	5,546	-	-	-	1,553,984
-	114,944	19,914	460,994	-	41,866	1,069	739,280
-	370	139	641	377	-	2,024	12,178
209,186	-	-	-	-	-	-	209,186
-	-	-	-	-	-	-	152,704
-	-	-	426,377	-	-	-	426,377
-	1	-	-	-	-	-	276
$ 1,757,624	**$ 261,910**	**$ 274,858**	**$ 1,208,002**	**$ 14,719**	**$ 631,680**	**$ 1,205,449**	**$ 10,757,007**
$ 101,926	$ 4,811	$ 1,500	$ -	$ 13,008	$ 161,649	$ 1	$ 514,981
-	3,580	-	-	-	-	-	37,704
-	-	-	93,000	-	-	-	93,000
-	-	-	359,186	-	-	-	359,186
-	-	25,442	-	-	-	-	25,532
11,916	-	-	-	-	-	-	69,590
113,842	8,391	26,942	452,186	13,008	161,649	1	1,099,993
-	2,225	-	-	-	-	-	1,154,886
1,548,438	-	-	-	-	-	-	1,548,438
-	-	-	-	-	-	-	377,847
-	-	173,916	-	-	-	-	173,916
-	-	-	-	-	-	1,205,448	1,205,448
-	-	-	-	1,711	-	-	1,711
-	-	-	755,816	-	-	-	755,816
-	103,017	-	-	-	-	-	1,052,000
95,344	148,277	74,000	-	-	470,031	-	3,386,952
1,643,782	253,519	247,916	755,816	1,711	470,031	1,205,448	9,657,014
$ 1,757,624	**$ 261,910**	**$ 274,858**	**$ 1,208,002**	**$ 14,719**	**$ 631,680**	**$ 1,205,449**	**$ 10,757,007**

	Special Revenue Funds				
	Local Street	Stormwater Management	Transportation	Grace A. Dow Memorial Library	Downtown Development Authority
Revenues					
Property taxes	$ 575,000	$ -	$ -	$ -	$ 435,526
Licenses and permits	-	19,314	-	-	-
Intergovernmental - Federal	-	-	144,855	-	-
Intergovernmental - Other	813,061	-	550,821	76,034	-
Charges for services	-	-	119,249	735,818	-
Investment earnings	10,072	11,879	1,353	2,157	28,547
Contributions and other revenues	7,312	-	-	101,683	768,574
Total revenues	1,405,445	31,193	816,278	915,692	1,232,647
Expenditures					
Current:					
General government	-	-	-	-	-
Public works	886,624	441,522	-	-	-
Community development	-	-	-	-	152,812
Parks and recreation	-	-	-	-	-
Library	-	-	-	3,386,441	-
Transportation	-	-	1,321,997	-	-
Capital improvement	900,505	-	-	90,180	1,366
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	1,787,129	441,522	1,321,997	3,476,621	154,178
Excess of Revenues Over (Under) Expenditures	(381,684)	(410,329)	(505,719)	(2,560,929)	1,078,469
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	-	-
Operating transfers in	827,630	2,326,328	520,718	2,567,206	-
Operating transfers out	(131,284)	(306,098)	-	-	(193,916)
Total other financing sources (uses)	696,346	2,020,230	520,718	2,567,206	(193,916)
Net Change in Fund Balances	314,662	1,609,901	14,999	6,277	884,553
Fund Balance - Beginning of year	938,645	107,465	30,000	17,404	1,154,885
Fund Balance - End of year	**$ 1,253,307**	**$ 1,717,366**	**$ 44,999**	**$ 23,681**	**$ 2,039,438**

Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2004

Special Revenue Funds				Debt Service Fund	Capital Projects Fund	Permanent Fund	
Community Development Block Grant	Cable Communications	Special Activities	Midland Housing	Debt Service	General Construction	Cemetery	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ 1,576,808	$ -	$ -	$ 2,587,334
-	-	-	-	-	-	-	19,314
440,078	-	-	-	-	11,842	-	596,775
-	-	10,939	-	-	107,117	-	1,557,972
-	433,453	-	-	-	-	-	1,288,520
178,807	2,769	989	4,257	4,600	63,543	12,567	321,540
-	-	152,896	100,000	-	732,181	348,678	2,211,324
618,885	436,222	164,824	104,257	1,581,408	914,683	361,245	8,582,779
-	449,429	34,077	-	-	-	-	483,506
-	-	-	-	-	-	-	1,328,146
469,746	-	-	233,037	-	-	-	855,595
-	-	240	-	-	-	-	240
-	-	-	-	-	-	-	3,386,441
-	-	-	-	-	-	-	1,321,997
-	74,937	-	-	-	2,240,694	-	3,307,682
-	-	-	-	135,000	-	-	135,000
-	-	-	-	28,916	-	-	28,916
469,746	524,366	34,317	233,037	163,916	2,240,694	-	10,847,523
149,139	(88,144)	130,507	(128,780)	1,417,492	(1,326,011)	361,245	(2,264,744)
-	1,849	-	238,189	-	-	-	240,038
2,848	-	-	-	363,526	971,416	-	7,579,672
(252,666)	-	-	-	(1,779,425)	(684,577)	-	(3,347,966)
(249,818)	1,849	-	238,189	(1,415,899)	286,839	-	4,471,744
(100,679)	(86,295)	130,507	109,409	1,593	(1,039,172)	361,245	2,207,000
1,744,461	339,814	117,409	646,407	118	1,509,203	844,203	7,450,014
$ 1,643,782	**$ 253,519**	**$ 247,916**	**$ 755,816**	**$ 1,711**	**$ 470,031**	**$ 1,205,448**	**$ 9,657,014**

Other Supplementary Information
Budgetary Comparison Schedule - Local Street Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
County road millage	$ 575,000	$ 575,000	$ 575,000	$ -
Intergovernmental	725,000	746,000	813,061	67,061
Investment earnings	9,000	6,315	10,072	3,757
Total revenues	1,309,000	1,327,315	1,398,133	70,818
Expenditures				
Engineering	44,550	44,528	58,272	(13,744)
Roadway maintenance	301,124	215,609	234,866	(19,257)
Guardrail maintenance	4,560	4,199	2,672	1,527
Sweeping and flushing	208,520	152,927	136,203	16,724
Shoulder maintenance	8,530	6,560	5,310	1,250
Roadside drainage	186,363	199,860	127,419	72,441
Curb and gutter maintenance	161,586	165,190	138,670	26,520
Roadside cleanup	12,190	8,219	7,998	221
Dust control	20,946	22,937	19,354	3,583
Bridge maintenance	-	-	-	-
Snow and ice control	227,013	207,234	223,316	(16,082)
Traffic services	63,456	71,213	59,963	11,250
Stormwater activities credit	(186,363)	(194,860)	(127,419)	(67,441)
Reserve for contingencies	20,000	-	-	-
Total expenditures	1,072,475	903,616	886,624	16,992
Excess of Revenues Over Expenditures	236,525	423,699	511,509	87,810
Other Financing Sources (Uses)				
Operating transfers in	822,000	1,110,113	194,682	(915,431)
Operating transfers out	(1,131,363)	(1,129,156)	(131,284)	997,872
Net Change in Fund Balance	(72,838)	404,656	574,907	170,251
Fund Balance - Beginning of year	282,196	286,254	286,254	-
Fund Balance - End of year	**$ 209,358**	**$ 690,910**	861,161	**$ 170,251**

Reconciliation to include Local Street Construction Fund activity for government-wide and fund financial statements:

Fund balance - Beginning of year	652,391
Revenues	7,312
Expenditures	(900,505)
Net operating transfers	632,948
Fund balance - End of year	**$ 1,253,307**

Other Supplementary Information
Budgetary Comparison Schedule - Stormwater Management Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Charges for services	$ 19,000	$ 20,735	$ 19,314	$ (1,421)
Investment earnings	4,500	4,134	11,879	7,745
Total revenues	23,500	24,869	31,193	6,324
Expenditures				
Administration	22,415	22,628	22,622	6
Open drain maintenance	148,235	89,990	19,417	70,573
Storm sewer maintenance	283,626	186,317	123,655	62,662
Inspection expenses	16,616	18,059	22,448	(4,389)
Storm sewer repair	9,500	5,348	1,152	4,196
Purchased services	275,938	289,993	252,228	37,765
Reserve for contingency	25,000	-	-	-
Total expenditures	781,330	612,335	441,522	170,813
Excess of Expenditures Over Revenues	(757,830)	(587,466)	(410,329)	177,137
Other Financing Sources (Uses)				
Operating transfers in	2,350,038	2,364,092	2,326,328	(37,764)
Operating transfers out	(1,570,000)	(1,350,000)	(306,098)	(1,043,902)
Net Change in Fund Balance	22,208	426,626	1,609,901	1,183,275
Fund Balance - Beginning of year	107,465	107,465	107,465	-
Fund Balance - End of year	**$ 129,673**	**$ 534,091**	**$ 1,717,366**	**$ 1,183,275**

Other Supplementary Information
Budgetary Comparison Schedule - Transportation Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Use and admission charges	$ 120,000	$ 120,000	$ 119,249	$ (751)
Investment earnings	-	1,560	1,353	(207)
Intergovernmental - Federal	147,436	146,176	144,855	(1,321)
Intergovernmental - State	589,742	580,148	550,821	(29,327)
Total revenues	857,178	847,884	816,278	(31,606)
Expenditures				
Operations	1,066,564	1,027,354	1,050,092	(22,738)
Administration	112,675	110,816	106,487	4,329
Dispatching	94,641	101,700	105,089	(3,389)
Capital outlay	15,000	45,000	-	45,000
Other	67,748	60,358	60,329	29
Reserve for contingencies	10,000	-	-	-
Total expenditures	1,366,628	1,345,228	1,321,997	23,231
Excess of Expenditures Over Revenues	(509,450)	(497,344)	(505,719)	(8,375)
Other Financing Sources - Operating transfers in	509,450	467,344	520,718	53,374
Net Change in Fund Balance	-	(30,000)	14,999	44,999
Fund Balance - Beginning of year	30,000	30,000	30,000	-
Fund Balance - End of year	**$ 30,000**	**$ -**	**$ 44,999**	**$ 44,999**

Other Supplementary Information
Budgetary Comparison Schedule - Grace A. Dow Library Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
State aid	$ 60,000	$ 76,098	$ 76,034	$ (64)
Library services	554,552	624,369	735,818	111,449
Investment earnings	-	1,768	2,157	389
Other revenues	39,100	109,935	101,683	(8,252)
Total revenues	653,652	812,170	915,692	103,522
Expenditures				
Personal services	2,006,901	2,064,469	2,077,884	(13,415)
Supplies	678,490	702,801	685,316	17,485
Other charges	696,553	628,297	623,241	5,056
Capital outlay	131,274	120,704	90,180	30,524
Total expenditures	3,513,218	3,516,271	3,476,621	39,650
Excess of Expenditures Over Revenues	(2,859,566)	(2,704,101)	(2,560,929)	143,172
Other Financing Sources - Operating transfers in	2,787,162	2,686,697	2,567,206	(119,491)
Net Change in Fund Balance	(72,404)	(17,404)	6,277	23,681
Fund Balance - Beginning of year	17,404	17,404	17,404	-
Fund Balance - End of year	**$ (55,000)**	**$ -**	**$ 23,681**	**$ 23,681**

Other Supplementary Information
Budgetary Comparison Schedule - Downtown Development Authority Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	$ 409,000	$ 414,604	$ 435,526	$ 20,922
Investment earnings	16,000	16,000	28,547	12,547
Other revenue	-	311,040	768,574	457,534
Total revenues	425,000	741,644	1,232,647	491,003
Expenditures				
Personal services	57,197	71,006	70,900	106
Supplies	1,300	2,049	1,990	59
Other charges	108,733	108,160	79,922	28,238
Capital expenditures	-	11,366	1,366	10,000
Reserve for contingencies	15,000	-	-	-
Total expenditures	182,230	192,581	154,178	38,403
Excess of Revenues Over Expenditures	242,770	549,063	1,078,469	529,406
Other Financing Sources (Uses)				
Operating transfers in	14,000	14,000	-	(14,000)
Operating transfers out	(193,916)	(193,916)	(193,916)	-
Net Change in Fund Balance	62,854	369,147	884,553	515,406
Fund Balance - Beginning of year	1,602,436	1,154,885	1,154,885	-
Fund Balance - End of year	**$ 1,665,290**	**$ 1,524,032**	**$ 2,039,438**	**$ 515,406**

Other Supplementary Information
Budgetary Comparison Schedule - Community Development Block Grant Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Federal grants	$ 511,085	$ 511,085	$ 440,078	$ (71,007)
Program income	180,000	180,000	178,807	(1,193)
Investment earnings	-	-	-	-
Total revenues	691,085	691,085	618,885	(72,200)
Expenditures				
Administration	35,000	36,290	40,115	(3,825)
Residential home rehabs	300,808	239,036	265,778	(26,742)
Public services project	71,950	79,032	108,002	(28,970)
Affordable housing	15,000	51,337	55,851	(4,514)
Removal of architectural barriers	55,000	10,000	-	10,000
Reserve for contingencies	10,000	-	-	-
Total expenditures	487,758	415,695	469,746	(54,051)
Excess of Revenues Over Expenditures	203,327	275,390	149,139	(126,251)
Other Financing Sources (Uses)				
Operating transfers in	-	-	2,848	2,848
Operating transfers out	(122,000)	(211,500)	(252,666)	(41,166)
Net Change in Fund Balance	81,327	63,890	(100,679)	(164,569)
Fund Balance - Beginning of year	1,744,461	1,744,461	1,744,461	-
Fund Balance - End of year	**$ 1,825,788**	**$ 1,808,351**	**$ 1,643,782**	**$ (164,569)**

Other Supplementary Information
Budgetary Comparison Schedule - Cable Communications Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Charges for services	$ 491,250	$ 410,423	$ 433,453	$ 23,030
Investment earnings	4,952	3,416	2,769	(647)
Other revenues	1,000	1,934	1,849	(85)
Total revenues	497,202	415,773	438,071	22,298
Expenditures				
Personal services	267,852	274,593	278,507	(3,914)
Supplies	19,610	22,064	21,375	689
Other charges	124,746	152,401	149,547	2,854
Reserve for contingencies	12,000	-	-	-
Capital outlay	55,500	79,835	74,937	4,898
Total expenditures	479,708	528,893	524,366	4,527
Net Change in Fund Balance	17,494	(113,120)	(86,295)	26,825
Fund Balance - Beginning of year	339,814	339,814	339,814	-
Fund Balance - End of year	**$ 357,308**	**$ 226,694**	**$ 253,519**	**$ 26,825**

Other Supplementary Information
Budgetary Comparison Schedule - Special Activities Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Grant revenue	$ 5,286	$ 5,286	$ 10,939	$ 5,653
Contributions and other revenues	92,525	92,525	152,896	60,371
Investment earnings	873	873	988	115
Total revenues	98,684	98,684	164,823	66,139
Expenditures				
Supplies	7,675	7,675	8,175	(500)
Other charges	19,065	19,065	20,863	(1,798)
Capital outlay	5,278	5,278	5,278	-
Total expenditures	32,018	32,018	34,316	(2,298)
Excess of Revenues Over Expenditures	66,666	66,666	130,507	63,841
Fund Balance - Beginning of year	117,409	117,409	117,409	-
Fund Balance - End of year	**$ 184,075**	**$ 184,075**	**$ 247,916**	**$ 63,841**

Other Supplementary Information
Budgetary Comparison Schedule - Midland Housing Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Investment earnings	$ 3,354	$ 3,354	$ 4,257	$ 903
Proceeds from sale of assets	224,428	224,428	238,189	13,761
Contributions and other revenues	100,000	100,000	100,000	-
Total revenues	327,782	327,782	342,446	14,664
Expenditures				
Cost of assets sold	217,000	217,000	228,509	(11,509)
Warranty maintenance	5,000	5,000	4,528	472
Total expenditures	222,000	222,000	233,037	(11,037)
Excess of Revenues Over Expenditures	105,782	105,782	109,409	3,627
Fund Balance - Beginning of year	646,407	646,407	646,407	-
Fund Balance - End of year	**$ 752,189**	**$ 752,189**	**$ 755,816**	**$ 3,627**

Other Supplementary Information
Budgetary Comparison Schedule - Debt Service
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	$ 1,532,059	$ 1,529,074	$ 1,529,052	$ (22)
Industrial facilities tax	47,756	47,756	47,756	-
Investment earnings	-	3,702	4,600	898
Total revenues	1,579,815	1,580,532	1,581,408	876
Expenditures				
Principal retirement:				
1992 sewer bonds	-	-	-	-
1993 sewer refunding bonds	-	-	-	-
2001 sewer bonds	-	-	-	-
2001 sewer bonds - State revolving fund	-	-	-	-
1990 DDA bonds	85,000	85,000	85,000	-
1992 DDA bonds	50,000	50,000	50,000	-
Interest:				
1989 sewer bonds	-	-	-	-
1990 sewer bonds	-	-	-	-
1992 sewer bonds	-	-	-	-
1993 sewer refunding bonds	-	-	-	-
2001 sewer bonds	-	-	-	-
2001 sewer bonds - State revolving fund	-	-	-	-
1990 DDA bonds	8,479	8,479	8,479	-
1992 DDA bonds	19,263	19,263	19,263	-
Paying agent fees	1,175	1,174	1,174	-
Total expenditures	163,917	163,916	163,916	-
Excess of Revenues Over Expenditures	1,415,898	1,416,616	1,417,492	876
Other Financing Sources (Uses)				
Operating transfers in	363,527	363,526	363,526	-
Operating transfers out	(1,779,425)	(1,779,425)	(1,779,425)	-
Net Change in Fund Balance	-	717	1,593	876
Fund Balance - Beginning of year	118	118	118	-
Fund Balance - End of year	**$ 118**	**$ 835**	**$ 1,711**	**$ 876**

Enterprise Funds

Enterprise Funds are used to account for operations financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

Golf Course Fund - This fund accounts for the operations of the Currie Municipal Golf Course.

Parking System Fund - This fund accounts for the operations of the City's metered and leased parking spaces and downtown parking structure.

Other Supplementary Information
Nonmajor Proprietary Funds
Combining Statement of Net Assets
June 30, 2004

	Golf Course	Parking System	Total Nonmajor Proprietary Funds
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	$ -	$ 65,882	$ 65,882
Investments	316,239	-	316,239
Receivables - Net of allowances for uncollectibles:			
Accounts and contracts	-	6,425	6,425
Accrued interest	(435)	95	(340)
Total current assets	315,804	72,402	388,206
Property, plant, and equipment			
Land and land improvements	4,833,944	1,160,328	5,994,272
Buildings and structure	1,337,524	1,413,000	2,750,524
Vehicles	71,916	-	71,916
Equipment	243,661	8,968	252,629
Total property, plant, and equipment	6,487,045	2,582,296	9,069,341
Accumulated depreciation	(1,034,002)	(609,857)	(1,643,859)
Net property, plant, and equipment	5,453,043	1,972,439	7,425,482
Total assets	5,768,847	2,044,841	7,813,688
Liabilities			
Current Liabilities - Accounts payable	285,643	(636)	285,007
Net Assets			
Investment in capital assets	5,453,043	1,972,439	7,425,482
Unrestricted	30,161	73,038	103,199
Total net assets	**$ 5,483,204**	**$ 2,045,477**	**$ 7,528,681**

Other Supplementary Information
Nonmajor Proprietary Funds
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2004

	Golf Course	Parking System	Total Nonmajor Proprietary Funds
Operating Revenues - Use and admission charges	$ 722,331	$ 85,398	$ 807,729
Operating Expenses			
Operations	903,385	49,003	952,388
Maintenance	-	98,731	98,731
Depreciation	136,152	39,467	175,619
Total operating expenditures	1,039,537	187,201	1,226,738
Net Operating Loss	(317,206)	(101,803)	(419,009)
Nonoperating Revenues			
Investment earnings	84,235	526	84,761
Other revenue	570	-	570
Total nonoperating revenues	84,805	526	85,331
Loss - Before operating transfers	(232,401)	(101,277)	(333,678)
Operating Transfers In	-	30,000	30,000
Change in Net Assets	(232,401)	(71,277)	(303,678)
Net Assets - Beginning of year	5,715,605	2,116,754	7,832,359
Net Assets - End of year	**$ 5,483,204**	**$ 2,045,477**	**$ 7,528,681**

Other Supplementary Information
Nonmajor Proprietary Funds
Combining Statement of Cash Flows
Year Ended June 30, 2004

	Golf Course	Parking Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	$ 722,332	$ 84,173	$ 806,505
Payment to suppliers	(279,792)	(108,476)	(388,268)
Payment to employees	(445,470)	(40,695)	(486,165)
Other receipts	568	-	568
Net cash used in operating activities	(2,362)	(64,998)	(67,360)
Cash Flows from Noncapitqal Financing Activities			
Operating transfers in	-	30,000	30,000
Capital contributions			
Cash Flows from Capital and Related Financing Activities - Acquisition of capital assets	(5,649)	-	(5,649)
Cash Flows from Investing Activities - Investment earnings	8,011	537	8,548
Net Decrease in Cash and Cash Equivalents	-	(34,461)	(34,461)
Cash and Cash Equivalents - Beginning of year	-	100,343	100,343
Cash and Cash Equivalents - End of year	**$ -**	**$ 65,882**	**$ 65,882**
Noncash Investing Activities - Changes in fair value of investments	**$ 76,224**	**$ -**	**$ 76,224**
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	$ (317,206)	$ (101,803)	$ (419,009)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	136,152	39,467	175,619
Miscellaneous cash received	568	-	568
Changes in operating assets and liabilities:			
Accounts receivable	-	(1,225)	(1,225)
Accounts payable	178,124	(1,437)	176,687
Net cash used in operating activities	**$ (2,362)**	**$ (64,998)**	**$ (67,360)**

Trust Funds

Trust Funds are used to account for assets held by the City in a trustee capacity.

Police and Fire Pension Fund - This fund accounts for the accumulation of resources for, and the payment of, pension benefits.

Postemployment Health Care Fund - This fund accounts for revenues and expenses primarily resulting from the City's self-funding contributions toward postemployment health care benefits.

Agency Funds

Agency Funds are used to account for assets held by the City as an agent for individuals, organizations, or other governments.

Shopping Area Redevelopment Fund - The City acts as an agent for the financial management of this authority. This fund accounts for special assessments charged against property owners within the authority district for promotion of the area.

Tax Collection Fund - This fund is used to account for taxes collected on behalf of other governmental units.

Other Supplementary Information
Pension and Other Employee Benefit Trust Funds
Statement of Plan Net Assets
June 30, 2004

	Police and Fire Pension	Post-employment Health Care	Total
Assets			
Cash and cash equivalents	$ 1,981,456	$ 9,220,864	$ 11,202,320
Investments:			
Common stock	25,405,053	-	25,405,053
Preferred stock	2,051,476	-	2,051,476
Bonds	8,443,075	-	8,443,075
U.S. government securities	1,041,717	-	1,041,717
Mortgage and asset-backed securities	2,212,609		2,212,609
International funds	4,375,479	-	4,375,479
Receivables - Net of allowances for uncollectibles:			
Accounts and contracts	-	2,036	2,036
Accrued interest	86,982	16,094	103,076
Total assets	**$ 45,597,847**	**$ 9,238,994**	**$ 54,836,841**
Net Assets			
Held in trust for pension benefits	$ 45,597,847	$ -	$ 45,597,847
Held in trust for postemployment health benefits	-	9,238,994	9,238,994
Total net assets	**$ 45,597,847**	**$ 9,238,994**	**$ 54,836,841**

Other Supplementary Information
Pension and Other Employee Benefit Trust Funds
Statement of Changes in Plan Net Assets
Year Ended June 30, 2004

	Police and Fire Pension	Post-employment Health Care	Total
Additions			
Contributions:			
Employer	$ -	$ 930,996	$ 930,996
Employee	578,446	-	578,446
Total contributions	578,446	930,996	1,509,442
Investment income:			
Net depreciation in fair value of assets	4,606,813	-	4,606,813
Interest	693,996	107,322	801,318
Dividends	362,743	-	362,743
Total investment income	5,663,552	107,322	5,770,874
Less investment expenses	(355,362)	-	(355,362)
Net investment income	5,308,190	107,322	5,415,512
Total additions	5,886,636	1,038,318	6,924,954
Deductions - Benefit payments	2,761,685	-	2,761,685
Change in Net Assets	3,124,951	1,038,318	4,163,269
Net Assets Held in Trust			
Beginning of year	42,472,896	8,200,676	50,673,572
End of year	**$ 45,597,847**	**$ 9,238,994**	**$ 54,836,841**

Other Supplementary Information
Agency Funds
Combining Statement of Changes in Plan Net Assets
Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Shopping Area Redevelopment Authority				
Assets				
Cash and cash equivalents	$ 9,602	$ 47,991	$ 52,624	$ 4,969
Accrued interest	13	99	89	23
Property taxes	-	72,012	36,006	36,006
Total assets	**$ 9,615**	**$ 120,102**	**$ 88,719**	**$ 40,998**
Liabilities				
Accounts payable	$ 1,245	$ 25,785	$ 27,030	$ -
Due to other governmental units	8,370	38,069	41,447	4,992
Deferred revenue	-	72,012	36,006	36,006
Total liabilities	**$ 9,615**	**$ 135,866**	**$ 104,483**	**$ 40,998**
Tax Collection Fund				
Assets				
Cash and cash equivalents	$ 12,389	$ 80,293,311	$ 80,321,434	$ (15,734)
Accounts and contracts	-	960,942	937,415	23,527
Total assets	**$ 12,389**	**$ 81,254,253**	**$ 81,258,849**	**$ 7,793**
Liabilities - Due to other governmental governmental units	**$ 12,389**	**$ 81,254,253**	**$ 81,258,849**	**$ 7,793**
Total All Agency Funds				
Assets				
Cash and cash equivalents	$ 21,991	$ 80,341,302	$ 80,374,058	$ (10,765)
Accounts and contracts	-	960,942	937,415	23,527
Accrued interest	13	99	89	23
Property taxes	-	72,012	36,006	36,006
Total assets	**$ 22,004**	**$ 81,374,355**	**$ 81,347,568**	**$ 48,791**
Liabilities				
Accounts payable	$ 1,245	$ 25,785	$ 27,030	$ -
Due to other governmental funds	20,759	81,292,322	81,300,296	12,785
Deferred revenue	-	72,012	36,006	36,006
Total liabilities	**$ 22,004**	**$ 81,390,119**	**$ 81,363,332**	**$ 48,791**

Internal Service Funds

Internal Service Funds are used to account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

Data Processing Fund - This fund accounts for the operations of the City's Information Services Department.

Equipment Revolving Fund - This fund accounts for the rental charges of City-owned equipment to other City departments.

Service Center Rental Fund - This fund accounts for the operations of the City's Service Center building.

Insurance Claims Fund - This fund accounts for insurance expenses resulting from property and liability claims.

Special Assessment Revolving Fund - This fund accounts for the funding of the City's special assessment projects.

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Assets			
Current assets:			
Cash and investments	$ 1,676,819	$ 3,078,877	$ 625,369
Receivables:			
Accounts and contracts	484	-	-
Special assessments - Current	-	-	-
Accrued interest	3,215	5,941	1,178
Due from other funds	-	-	-
Inventories	-	309,061	-
Prepaid items	-	-	-
Total current assets	1,680,518	3,393,879	626,547
Special assessments - Long-term	-	-	-
Property, plant, and equipment:			
Construction in progress	45,000	-	-
Land and land improvements	-	-	371,153
Buildings and structures	-	29,493	2,668,162
Vehicles	-	11,618,541	-
Equipment	2,057,933	774,155	115,394
Total property, plant, and equipment	2,102,933	12,422,189	3,154,709
Accumulated depreciation	(1,786,272)	(6,864,757)	(2,188,409)
Net property, plant, and equipment	316,661	5,557,432	966,300
Total assets	1,997,179	8,951,311	1,592,847
Liabilities and Net Assets			
Liabilities			
Accounts payable	4,035	205,163	4,092
Accrued salaries and wages	7,257	10,437	-
Accrued compensated absences - Current	31,051	59,850	-
Accrued compensated absences - Noncurrent	95,519	56,170	-
Due to other funds	-	-	-
Deferred special assessments	-	-	-
Total liabilities	137,862	331,620	4,092
Net Assets			
Invested in capital assets - Net of related debt	316,661	5,557,432	966,300
Unrestricted	1,542,656	3,062,259	622,455
Total net assets	**$ 1,859,317**	**$ 8,619,691**	**$ 1,588,755**

Other Supplementary Information
Internal Service Funds
Combining Statement of Net Assets
June 30, 2004

Insurance Claims Fund	Special Assessment Revolving Fund	Totals
$ 606,467	$ 2,413,974	$ 8,401,506
-	-	484
-	117,715	117,715
-	3,198	13,532
-	150,000	150,000
-	-	309,061
26,867	-	26,867
633,334	2,684,887	9,019,165
-	555,842	555,842
-	-	45,000
-	-	371,153
-	-	2,697,655
-	-	11,618,541
-	-	2,947,482
-	-	17,679,831
-	-	(10,839,438)
-	-	6,840,393
633,334	3,240,729	16,415,400
7,652	-	220,942
-	-	17,694
-	-	90,901
-	-	151,689
-	1,000,000	1,000,000
-	555,842	555,842
7,652	1,555,842	2,037,068
-	-	6,840,393
625,682	1,684,887	7,537,939
$ 625,682	**$ 1,684,887**	**$ 14,378,332**

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Operating Revenues			
Charges for services - Internal	$ 760,927	$ 383,657	$ -
Special assessment revenue	-	-	-
Miscellaneous	-	34,289	-
Rental	-	2,700,074	190,032
Total operating revenues	760,927	3,118,020	190,032
Operating Expenses			
Operations	940,581	2,085,885	175,830
Depreciation	148,410	1,123,339	110,191
Total operating expenses	1,088,991	3,209,224	286,021
Net Operating Income (Loss)	(328,064)	(91,204)	(95,989)
Nonoperating Revenues (Expenses)			
Investment earnings	22,568	40,539	8,032
Gain on disposal of assets	7,131	(66,160)	-
Miscellaneous revenue	-	978	-
Miscellaneous expenses	(40,250)	(150,273)	-
Total nonoperating revenues	(10,551)	(174,916)	8,032
Income (Loss) - Before capital contributions and operating transfers	(338,615)	(266,120)	(87,957)
Capital Contributions	2,566	110,607	-
Operating Transfers In	-	-	-
Operating Transfers Out	-	(90,000)	-
Change in Net Assets	(336,049)	(245,513)	(87,957)
Net Assets - Beginning of year	2,195,366	8,865,204	1,676,712
Net Assets - End of year	**$ 1,859,317**	**$ 8,619,691**	**$ 1,588,755**

Other Supplementary Information
Internal Service Funds
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2004

Insurance Claims Fund	Special Assessment Revolving Fund	Total
$ 882,391	$ -	$ 2,026,975
-	184,888	184,888
-	-	34,289
-	-	2,890,106
882,391	184,888	5,136,258
832,249	-	4,034,545
-	-	1,381,940
832,249	-	5,416,485
50,142	184,888	(280,227)
-	-	71,139
-	-	(59,029)
-	-	978
-	-	(190,523)
-	-	(177,435)
50,142	184,888	(457,662)
-	-	113,173
-	740,686	740,686
-	(1,000,000)	(1,090,000)
50,142	(74,426)	(693,803)
575,540	1,759,313	15,072,135
$ 625,682	**$ 1,684,887**	**$ 14,378,332**

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Cash Flows from Operating Activities			
Receipts from customers	$ 860,877	$ 3,118,021	$ 190,032
Payments to suppliers and vendors	(478,293)	(998,793)	(163,802)
Payments to employees	(603,136)	(1,113,910)	(12,970)
Other receipts	7,131	78,608	-
Net cash (used in) provided by operating activities	(213,421)	1,083,926	13,260
Cash Flows from Noncapital Financing Activities - Operating transfers in (out)	-	(90,000)	-
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(120,709)	(908,934)	-
Interest paid	-	-	-
Proceeds from sale of capital assets	-	67,933	-
Net cash used in capital and related financing activities	(120,709)	(841,001)	-
Cash Flows from Investing Activities - Investment earnings	21,642	38,068	7,555
Net (Decrease) in Cash and Cash Equivalents	(312,488)	190,993	20,815
Cash and Cash Equivalents - Beginning of year	1,989,307	2,887,884	604,554
Cash and Cash Equivalents - End of year	**$ 1,676,819**	**$ 3,078,877**	**$ 625,369**
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	$ (328,062)	$ (87,295)	$ (95,988)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	148,410	1,123,339	110,191
Miscellaneous cash received (paid)	(33,119)	(75,581)	-
Changes in operating assets and liabilities:			
Accounts receivable	(50)	-	-
Inventory	-	310	-
Prepaid items	431	-	-
Accounts payable	(4,099)	144,950	(1,450)
Accrued salaries and wages	(15,682)	(25,527)	507
Compensated absences, death benefits, and worker's compensation	18,750	3,730	-
Net cash provided by (used in) operating activities	**$ (213,421)**	**$ 1,083,926**	**$ 13,260**

Insurance Claims Fund	Special Assessment Revolving Fund	Total
$ 915,528	$ 196,839	$ 5,281,297
(982,741)	-	(2,623,629)
-	-	(1,730,016)
5,344	-	91,083
(61,869)	196,839	1,018,735
-	740,686	650,686
-	-	(1,029,643)
-	(54,594)	(54,594)
-	-	67,933
-	(54,594)	(1,016,304)
-	53,505	120,770
(61,869)	936,436	773,887
668,336	1,477,538	7,627,619
$ 606,467	**$ 2,413,974**	**$ 8,401,506**
$ 44,799	$ 184,888	$ (281,658)
-	-	1,381,940
5,344	-	(103,356)
(1,863)	11,951	10,038
-	-	310
(17,600)	-	(17,169)
(92,549)	-	46,852
-	-	(40,702)
-	-	22,480
$ (61,869)	**$ 196,839**	**$ 1,018,735**

Statistical Section

Fiscal Year	Property Taxes	State-shared Revenue	Other Agencies	Investment Earnings	Charges for Services
1993-94	$ 18,219,252	$ 5,352,897	$ 205,432	$ 744,483	$ 1,280,916
1994-95	18,829,033	5,617,091	393,517	951,396	1,237,620
1995-96	19,269,784	5,844,633	381,968	918,752	929,196
1996-97	19,543,640	5,972,778	196,356	1,123,333	938,305
1997-98	25,628,944	6,434,629	261,120	1,483,895	983,575
1998-99	26,087,384	7,006,247	427,159	1,776,451	1,357,534
1999-00	28,353,669	7,214,638	285,067	2,356,193	1,570,854
2000-01	29,366,066	7,801,807	521,035	3,137,488	1,728,087
2001-02	29,162,659	7,837,492	521,624	1,507,370	2,001,906
2002-03*	32,623,101	8,190,673	513,973	1,035,995	942,646
2003-04*	35,601,237	8,111,101	642,196	1,147,227	939,090

PERCENT OF TOTAL REVENUE

1993-94	63.23%	18.57%	0.71%	2.58%	4.44%
1994-95	63.39	18.91	1.33	3.20	4.17
1995-96	63.38	19.22	1.26	3.02	3.06
1996-97	62.17	19.00	0.63	3.57	2.98
1997-98	67.27	16.89	0.69	3.89	2.58
1998-99	65.31	17.54	1.07	4.45	3.40
1999-00	67.25	17.11	0.68	5.59	3.73
2000-01	64.58	17.16	1.15	6.90	3.80
2001-02	66.09	17.76	1.18	3.41	4.54
2002-03	70.98	17.82	1.12	2.26	2.05
2003-04	70.53	16.07	1.27	2.27	1.86

* Includes additional Special Revenue Funds as a result of the City's implementation of GASB 34. 2001-2002 fiscal year numbers were not restated to reflect these additional funds.

Statistical Information
General Government Revenues by Source
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years
(Unaudited)

Use and Admission Fees	Library Services	Licenses and Permits	Other Revenues	Total
$ 420,061	$ 354,140	$ 337,228	$ 1,903,770	$ 28,818,179
459,546	450,558	351,218	1,412,332	29,702,311
475,320	483,438	398,067	1,704,185	30,405,343
499,520	520,238	533,449	2,106,415	31,434,034
481,528	580,841	510,921	1,732,856	38,098,309
514,985	511,334	442,978	1,819,066	39,943,138
544,312	533,010	442,361	1,091,151	42,391,255
553,197	579,259	537,986	1,248,097	45,473,022
615,346	551,568	505,920	1,424,912	44,128,797
639,979	583,807	527,862	901,467	45,959,503
769,802	735,818	658,986	1,870,217	50,475,674

1.46%	1.23%	1.17%	6.61%
1.55	1.52	1.18	4.75
1.56	1.59	1.31	5.60
1.59	1.66	1.70	6.70
1.26	1.53	1.34	4.55
1.29	1.21	1.04	4.29
1.28	1.26	1.04	2.58
1.22	1.27	1.18	2.74
1.39	1.25	1.15	3.23
1.39	1.27	1.15	1.96
1.53	1.46	1.31	3.71

Fiscal Year	Public Safety	Public Works	Parks and Recreation	General Government
1993-94	$ 7,788,026	$ 5,985,264	$ 2,869,952	$ 2,294,817
1994-95	8,045,716	6,301,223	2,995,935	2,692,123
1995-96	8,599,968	5,397,934	2,945,419	3,135,626
1996-97	8,618,067	5,400,266	2,893,703	3,358,226
1997-98	8,116,770	5,665,048	3,129,166	3,990,861
1998-99	8,425,944	5,596,876	3,065,359	5,614,263
1999-00	8,070,567	5,722,972	3,124,882	3,506,126
2000-01	8,113,997	6,494,579	3,265,055	3,867,774
2001-02	8,450,083	6,662,006	3,341,863	4,119,864
2002-03*	9,027,665	14,374,248 (1)	3,403,096	3,199,646
2003-04*	9,534,824	11,053,409 (1)	3,595,455	3,299,564

PERCENT OF TOTAL EXPENDITURES

1993-94	31.31%	24.06%	11.53%	9.22%
1994-95	30.11	23.58	11.21	10.07
1995-96	32.13	20.17	11.00	11.72
1996-97	31.01	19.43	10.41	12.08
1997-98	28.31	19.76	10.91	13.92
1998-99	27.90	18.53	10.15	18.59
1999-00	25.98	18.43	10.06	11.29
2000-01	24.82	19.86	9.99	11.83
2001-02	22.80	17.98	9.02	11.12
2002-03	21.09	33.58	7.95	7.47
2003-04	22.76	26.38	8.58	7.88

* Includes additional Special Revenue Funds as a result of the City's implementation of GASB No. 34. Prior fiscal year numbers were not restated to reflect these additional funds.

(1) Includes capital improvements, which were not reported for fiscal years prior to 2002-2003.

(2) Includes the Transportation Fund, which was reported as an Enterprise Fund prior to 2002-2003.

Statistical Information
General Government Expenditures by Function
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years
(Unaudited)

Debt Retirement	Library	Airports	Other Functions	Total
$ 1,515,617	$ 1,895,669	$ 217,673	$ 2,315,422	$ 24,882,440
1,441,949	2,181,455	212,668	2,850,368	26,721,437
1,484,170	2,258,539	210,526	2,734,777	26,766,959
1,423,832	2,444,086	160,434	3,492,060	27,790,674
1,455,820	2,707,571	103,921	3,504,589	28,673,746
1,415,032	2,785,100	103,296	3,198,509	30,204,379
1,363,614	2,991,871	266,376	6,012,832	31,059,240
1,402,310	3,048,146	151,400	6,351,311	32,694,572
1,874,557	3,204,195	151,719	9,252,545	37,056,832
162,005	3,392,062	160,330	10,591,051 (2)	44,310,103
163,916	3,476,621	184,329	10,585,370 (2)	41,893,488

6.09%	7.62%	0.87%	9.30%
5.40	8.16	0.80	10.67
5.54	8.44	0.79	10.21
5.12	8.80	0.58	12.57
5.08	9.44	0.36	12.22
4.68	9.22	0.34	10.59
4.39	9.63	0.86	19.36
4.29	9.32	0.46	19.43
5.06	8.64	0.41	24.97
0.37	7.66	0.36	23.90
0.39	8.30	0.44	25.27

Property Taxes - The City's taxes are due and payable and a lien created upon the assessed property on July 1 each year. Real property taxes remaining unpaid on the following March 1 are turned over to the County Treasurer for collection. If real property taxes are not paid within two years from the May 1 deadline, the property is sold to satisfy this lien.

Midland and Bay Counties have established a Delinquent Tax Revolving Fund which purchases all real property taxes returned delinquent as of March 1 of each year. Uncollected personal property taxes are negligible.

Taxable property in the City is assessed by the City Assessor and is subject to review by the County Board of Equalization.

Starting in 1995, property taxes have been calculated using Taxable Value rather than State Equalized Value, which was used prior to 1994. This change became effective when the governor, on December 29, 1994, signed into law Public Act No. 415 of 1994. Increases in Taxable Value are limited to 5 percent, the Consumer Price Index, or State Equalized Value, whichever is less. These limits are calculated on a parcel-by-parcel basis. This legislation did not change the method of computing assessed value and the system of county and state equalization. The "traditional" assessed value is still required to be 50 percent of market value.

The City Charter provides a tax rate limitation for general operation at $18.00 per $1,000 of taxable value. Additionally, the City may levy taxes in excess of this limitation, pursuant to state law, for the following purposes:

Purpose	Authority	Rate per $1,000 Taxable Value
Police and fire Pension requirements	Act 345, Public Acts of Michigan, 1937 as amended	$2.00
Refuse collection and disposal	Act 298, Public Acts of Michigan, 1917, as amended	$3.00

On November 7, 1978, Article 9, Section 6, of the 1963 Michigan Constitution was amended, placing certain limitations on increases of property taxes. The amendment does not limit taxes imposed for the payment of bonds or other indebtedness which have been approved by the voters.

Industrial Facilities Tax - The Michigan Plant Rehabilitation and Industrial Development Districts Law provides significant tax incentives to industry to renovate and expand aging plants and to build new plants in Michigan. Under the provisions of the Act, qualifying cities, villages, and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new plants to the area. Firms situated in such districts pay an Industrial Facilities Tax (IFT) in lieu of property taxes on plant and equipment for a period of up to 12 years. For rehabilitated plant and equipment, the assessed value is frozen at previous levels. New plant and equipment is taxed at one-half the current millage rate. It must be emphasized, however, that ad valorem property taxes on land and inventories are specifically excluded under the Act.

Tax Administration Fee - Public Act 206 of 1893, as amended, empowers local units of government to charge an administration fee of up to 1 percent to offset actual costs incurred in assessing property values, collecting property tax levies, and in the review and appeal processes. This fee, which is added to each tax bill and is paid by the property owners, is calculated by multiplying the property tax owed by 1 percent on both the winter and summer tax bills. The City began charging a 1 percent tax administration fee on both the summer and winter tax bills for 1997. The revenue generated from this fee is being used for contracted legal and appraisal services involved in defending tax appeals and to begin work on a complete revaluation of property in the City.

Statistical Information
Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property		Total	
	Taxable Value	Full Value	Taxable Value	Full Value	Taxable Value	Full Value
1994-95 (1)	$ 964,938,750	$ 1,929,877,500	$ 953,511,900	$ 1,907,023,800	$ 1,918,450,650	$ 3,836,901,300
1995-96	1,010,005,100	2,026,398,200	959,031,900	1,918,063,800	1,969,037,000	3,944,462,000
1996-97	1,037,774,300	2,084,502,800	960,273,000	1,920,546,000	1,998,047,300	4,005,048,800
1997-98	1,065,697,500	2,144,223,000	956,887,900	1,913,775,800	2,022,585,400	4,057,998,800
1998-99	1,095,869,750	2,210,177,300	968,714,000	1,937,428,000	2,064,583,750	4,147,605,300
1999-00	1,132,848,300	2,265,696,600	1,011,985,200	2,023,970,400	2,144,833,500	4,289,667,000
2000-01	1,174,316,700	2,348,633,400	987,213,300	1,974,426,600	2,161,530,000	4,323,060,000
2001-02	1,221,339,400	2,442,678,800	1,018,557,300	2,037,114,600	2,239,896,700	4,479,793,400
2002-03	1,338,981,200	2,677,962,400	1,217,591,600	2,435,183,200	2,556,572,800	5,113,145,600
2003-04 (2)	1,955,616,400	3,911,232,800	433,722,100	867,444,200	2,389,338,500	4,778,677,000

(1) State Equalized Value

(2) For 2003-2004, buildings on leased land were reclassified from personal property to real property.

Does not include industrial or commercial facilities state equalized valuations.

Source: City's Assessing Department

Statistical Information
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Original Tax Levy	Current Tax Collections	Percent Collected Current	Delinquent Tax Collections	Total Tax Collections
1994-95	$ 18,506,222	$ 18,485,610	99.9	2,417	18,485,610
1995-96	18,931,761	18,757,494	99.1	1,519	18,757,494
1996-97	19,197,740	19,075,017	99.2	31,231	19,075,017
1997-98	24,355,288	24,154,200	99.0	30,791	24,154,200
1998-99	24,817,502	24,705,051	99.3	43,329	24,705,051
1999-00	27,029,454	26,786,861	99.1	5,151	26,786,861
2000-01	28,005,663	27,763,188	99.1	2,215	27,763,188
2001-02	27,793,182	27,567,733	99.1	21,766	27,567,733
2002-03	28,804,136	28,488,644	98.8	6,815	28,488,644
2003-04	31,708,040	31,470,866	99.2	10,283	31,470,866

Source: City's financial records

Statistical Information
Property Tax Rates - Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	City of Midland *		Midland Public School District	Midland County	Delta College	Midland Intermediate School District	State Education
1994-95							
Homestead	9.300		5.8315	7.5313	2.0427	1.1756	6.00
Non-Homestead	9.300		18.0000	7.5313	2.0427	1.1756	6.00
1995-96							
Homestead	9.300		5.3257	7.4513	2.0427	1.1756	6.00
Non-Homestead	9.300		18.0000	7.4513	2.0427	1.1756	6.00
1996-97							
Homestead	9.300		4.6400	8.2096	2.0427	1.1756	6.00
Non-Homestead	9.300		17.2978	8.2096	2.0427	1.1756	6.00
1997-98							
Homestead	11.600	(1)	5.1762	8.2874	2.0427	1.1756	6.00
Non-Homestead	11.600	(1)	18.0000	8.2874	2.0427	1.1756	6.00
1998-99							
Homestead	11.600	(1)	4.9211	7.7254	2.0427	1.1756	6.00
Non-Homestead	11.600	(1)	18.0000	7.7254	2.0427	1.1756	6.00
1999-00							
Homestead	12.120	(1)	4.7248	8.1955	2.0427	1.1756	6.00
Non-Homestead	12.120	(1)	18.0000	8.1955	2.0427	1.1756	6.00
2000-01							
Homestead	12.480	(1)	4.5237	8.3155	2.0427	1.1756	6.00
Non-Homestead	12.480	(1)	18.0000	8.3155	2.0427	1.1756	6.00
2001-02							
Homestead	12.000	(1)	4.2526	8.2655	2.5427	1.1756	6.00
Non-Homestead	12.000	(1)	18.0000	8.2655	2.5427	1.1756	6.00
2002-03							
Homestead	11.760	(1)	6.0970	8.3055	2.5427	1.1756	6.00
Non-Homestead	11.760	(1)	20.0000	8.3055	2.5427	1.1756	6.00
2003-04							
Homestead	12.900	(1)	5.8585	8.0255	2.5427	1.1756	5.00
Non-Homestead	12.900	(1)	20.0000	8.0255	2.5427	1.1756	5.00

* Includes voter approved debt millage

Note: 1994/95 to present tax rates are applied upon each $1,000 of taxable value.

(1) The City of Midland property tax rate was increased in 1997/1998 through 2003/2004 for a special tax appeal millage.

Source: City's Assessing Department

Statistical Information
Gross Property Tax Levies - Direct and Overlapping Governments (A)
Last Ten Fiscal Years

Fiscal Year	City of Midland (B)	School Districts (C)	Counties (D)	Delta College	Downtown Development Authority	Total
1994-95	$ 18,506,222	$ 43,977,379	$ 14,995,113	$ 4,064,448	$ 38,175	$ 81,581,337
1995-96	18,931,761	44,529,388	15,142,098	4,158,269	38,977	82,800,493
1996-97	19,197,740	43,538,780	16,954,058	4,216,688	39,781	83,947,047
1997-98	25,270,017	45,411,140	17,394,402	4,288,843	39,225	92,403,627
1998-99	25,734,200	45,902,084	16,555,870	4,370,237	39,987	92,602,378
1999-00	28,006,562	47,811,260	18,282,506	4,555,526	40,064	98,695,918
2000-01	28,992,276	47,717,179	18,668,999	4,583,778	37,884	100,000,116
2001-02	28,810,150	48,840,260	19,151,033	5,889,017	39,448	102,729,908
2002-03	32,145,783	58,803,485	20,365,637	6,697,617	40,758	118,053,280
2003-04	32,843,747	53,725,916	19,742,117	6,252,743	40,807	112,605,330

(A) Reported amount includes TIF proceeds.

(B) 1997-98 through present amounts include a 1 percent tax administration fee.

(C) Includes the portion of these taxing units located within the city limits: Midland Public Schools, Midland County Education Services Agency, Bay-Arenac Intermediate School District, Bullock Creek Schools, Bay City Schools, and State Education tax.

(D) Includes the portion of these taxing units located within the city limits: Midland County and Bay County.

Source: City's Assessing Department

Statistical Information
2003 Ten Largest Taxpayers
Year Ended June 30, 2004

	Taxable Value	Percentage of City Total
Midland Cogeneration Venture	$ 590,473,700	24.71%
Dow Chemical/Dow Agrosciences	432,836,800	18.12
Dow Corning	179,919,800	7.53
Consumers Power Company	16,289,300	0.68
Midland Venture Limited Partnership (Mall)	13,925,500	0.58
MVCC Ltd. Partnership (Ashman Ct. Hotel)	6,426,400	0.27
Meijers Inc.	6,379,500	0.27
Alliance TP Portfolio (Apartments)	5,868,500	0.25
Nicolaos Rapanos	5,521,700	0.23
Budwarker Inc	5,230,000	0.22
Total	**$ 1,262,871,200**	**52.86%**
City of Midland Total	**$ 2,389,338,500**	

The individual values are for real and personal property owned by the designated taxpayer, but not including industrial facilities taxable amounts.

Source: City's Assessing Department

Statistical Information
Special Assessment Collections
Last Ten Fiscal Years

Fiscal Year	Current Special Assessment Installment Due	Total Current and Delinquent Collections*
1994-95	$ 464,639	$ 464,639
1995-96	511,742	511,742
1996-97	407,698	407,698
1997-98	356,859	356,859
1998-99	329,639	329,639
1999-00	258,379	258,379
2000-01	218,285	218,285
2001-02	166,174	166,174
2002-03	211,300	211,300
2003-04	199,405	199,405

* Midland County refunds the City for all delinquent special assessments through their Delinquent Tax Revolving Fund.

Source: City's financial records

Statistical Information
Computation of Legal Debt Margin
Year Ended June 30, 2004

Taxable Valuation - December 31, 2003: $2,389,338,500

	Actual Direct Debt	Statutory Percentage of Taxable Valuation	Statutory Limit	Legal Debt Margin
General Obligation Debt	$ 12,514,532	10	$ 239,384,160	$ 226,869,628
Special Assessment Debt	-	12	287,260,992	287,260,992

Limitations on Borrowing

Act 279, Public Acts of Michigan, 1909, as amended, and provisions of the City Charter state that net bonded indebtedness of the City shall not exceed 10 percent of the City's assessed valuation.

Bonds which are not required to be included in this computation of net indebtedness, according to said Act 279, are:

A. Special Assessment Bonds
B. Mortgage Bonds
C. Motor Vehicle Highway Fund Bonds
D. Revenue Bonds
E. Bonds issued, or contracts or assessment obligation, incurred to comply with an order of the Water Resources Commission or a court of competent jurisdiction
F. Other obligations incurred for water supply, sewage, drainage or refuse disposal projects necessary to protect the public health by abating pollution.

Statistical Information
Direct, Indirect, and Overlapping Debt
Year Ended June 30, 2004

Jurisdiction	Dated	Amount	Amount Outstanding
Direct Debt			
General Obligation Bonds:			
Wastewater System Bonds	11/01/1989	$ 800,000	
Wastewater System Bonds	10/01/1990	1,450,000	
Wastewater Construction Bonds	04/01/2001	12,650,000	
State Revolving Fund Bonds	12/20/2001	4,565,886	
Downtown Development Authority Bonds	06/01/1990	85,000	
Downtown Development Authority Bonds	10/01/1992	300,000	
Total General Obligations Bonds		19,850,886	
Revenue Bonds:			
Water Revenue Bonds	02/01/2000	7,110,000	
Total direct debt			$ 26,960,886
Capital Lease Payable			1,651,488
Less:			
Self Supported G.O. Bonds:			
20% of Wastewater System Bonds supported by Wastewater System user fees		450,000	
40% of Wastewater System Bonds supported by Wastewater System user fees		6,886,354	
Revenue Bonds		7,110,000	14,446,354
Net direct debt			14,166,020
Indirect Debt			
City's share - Saginaw-Midland Water Supply Corporation Bonds		10,867,442	
Less amount paid from City's water earnings		10,867,442	
Net indirect debt			-0-
Overlapping Debt	Net Tax Supported Debt	City Share	
71.71% Midland County	$ 3,007,630	$ 2,156,771	
.18% Bay County	32,605,203	58,689	
1.80% Bullock Creek School District	16,621,189	299,181	
.30% Bay City School District	10,295,000	30,885	
.15% Bay Arenac ISD	790,000	1,185	
Net overlapping debt			2,546,711
Net direct, indirect, and overlapping debt			**$ 16,712,731**
Per Capita Debt (42,092 population):			
Net direct debt			$ 336.55
Net indirect debt			0.00
Net overlapping debt			60.50
Total per capita direct, indirect, and overlapping debt			**$ 397.05**

Statistical Information
Property Value, Construction, and Bank Deposits
Last Ten Fiscal Years
Year Ended June 30, 2004

Fiscal Year	Property Values (A)	Construction (B)	Bank Deposits (C)
1994-95	$ 3,836,901,300	$ 21,525,894	$ 486,403,000
1995-96	3,944,462,000	18,093,914	510,956,000
1996-97	4,005,048,800	37,957,046	550,609,000
1997-98	4,057,998,800	47,763,801	499,676,000
1998-99	4,147,605,300	46,061,266	491,050,000
1999-00	4,289,667,000	41,517,466	488,836,000
2000-01	4,323,060,000	56,210,918	1,221,563,000
2001-02	4,479,793,400	66,338,161	1,283,712,000
2002-03	5,113,145,600	52,098,649	1,332,973,000
2003-04	4,778,677,000	53,838,620	1,290,591,000

(A) City's Assessing Department
(B) City's Building Department
(C) FDIC Annual Report of Deposits per Chemical Bank

Statistical Information
Ratio of Annual Debt Service Requirements
for General Bonded Debt to General Expenditures
Last Ten Fiscal Years
Year Ended June 30, 2004
(Unaudited)

Fiscal Year	Principal	Interest and Fiscal Charges	Total Debt Service	Total General Expenditures*	Ratio of Debt Service To General Expenditures (Percent)
1994-95	$ 846,000	$ 595,949	$ 1,441,949	$ 26,721,437	5.40
1995-96	939,000	545,170	1,484,170	26,766,959	5.54
1996-97	940,000	483,832	1,423,832	27,790,674	5.12
1997-98	1,017,000	438,820	1,455,820	28,673,746	5.08
1998-99	1,018,000	397,032	1,415,032	30,204,379	4.68
1999-00	1,012,000	351,614	1,363,614	31,059,240	4.39
2000-01	1,097,000	305,310	1,402,310	32,427,716	4.32
2001-02	1,241,000	633,557	1,874,557	37,056,832	5.06
2002-03	1,471,000	602,660	2,073,660	42,808,998	4.84
2003-04	1,343,000	581,863	1,924,863	39,653,124	4.85

* Includes General, Special Revenue, and Debt Service Funds

Source: City's financial records

Statistical Information
Schedule of Revenue Bond Coverage
Water Supply System
Last Ten Fiscal Years
Year Ended June 30, 2004

				Debt Service Requirements			
Fiscal Year	Gross Revenue	Operating Expenses	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
1994-95	$ 6,691,298	$ 4,133,780	$ 2,557,518	$ 800,000	$ 1,287,203	$ 2,087,203	1.22
1995-96	7,395,600	4,201,091	3,194,509	990,000	1,220,227	2,210,227	1.45
1996-97	7,763,929	4,896,789	2,867,140	980,000	1,160,779	2,140,779	1.34
1997-98	8,257,530	5,184,391	3,073,139	975,000	1,099,263	2,074,263	1.48
1998-99	8,923,318	5,522,026	3,401,292	1,120,000	1,033,063	2,153,063	1.58
1999-00	9,336,542	6,782,050	2,554,492	1,745,000	992,439	2,737,439	0.93
2000-01	8,937,836	5,932,598	3,005,238	1,105,000	587,603	1,692,603	1.78
2001-02	9,587,590	6,108,391	3,479,199	1,260,000	534,970	1,794,970	1.94
2002-03	9,732,581	5,924,678	3,807,903	1,325,000	475,294	1,800,294	2.12
2003-04	9,801,295	6,266,043	3,535,252	1,390,000	428,090	1,818,090	1.94

Statistical Information
Ratio of Net Bonded Debt to State Equalized Value and Per Capita
Last Ten Fiscal Years
Year Ended June 30, 2004

Fiscal Year	Population (1)	State Equalized Values		Gross Bonded Debt	Debt Service Fund Balance	Less Self-Support G.O. & Rev. Bond Debt	Net Bonded Debt	Ratio of Net Bonded Debt to State Equalized Value	Net Bonded Debt Per Capita
1994-95	39,900	$ 1,918,450,650		$ 35,535,000	$ 1,023	$ 24,085,000	$ 11,448,977	0.60	$ 287
1995-96	40,175	1,969,037,000	(2)	32,885,000	1,184	22,374,000	10,509,816	0.53	262
1996-97	40,210	1,998,047,300	(2)	30,215,000	6,490	20,644,000	9,564,510	0.48	238
1997-98	40,600	2,022,585,400	(2)	27,420,000	3,872	18,866,000	8,550,128	0.42	211
1998-99	40,650	2,064,583,750	(2)	24,445,000	3,624	16,909,000	7,532,376	0.36	185
1999-00	40,700	2,144,833,500	(2)	20,815,000	5,807	14,291,000	6,518,193	0.30	160
2000-01	41,685	2,161,530,000	(2)	31,285,000	21,901	17,698,000	13,565,099	0.63	325
2001-02	41,810	2,239,896,700	(2)	29,293,280	22,626	16,435,312	12,835,342	0.57	307
2002-03	41,935	2,556,572,800	(2)	29,858,961	118	16,170,584	13,688,259	0.54	326
2003-04	42,092	2,389,338,500	(2)	26,960,886	1,711	14,446,354	12,512,821	0.52	297

(1) Estimates provided by City Planning Department
(2) Taxable value

City of Midland, Michigan

Statistical Information
Economic and Statistical Data
Year Ended June 30, 2004

Location and Area

The City of Midland, Michigran, consisting of 35.6489 square miles, is located in the east central portion of Michigan's Lower Peninsula. Midland is also the County Seat and the location of the corporate headquarters for The Dow Chemical Company. The City of Midland is a stable residential and industrial community with above-average incomes and educational levels. Many of the City's residents are professional, technical, or management employees of Dow Chemical and, to a large extent, the work force is made up of employees with a chemical, research, or academic background.

The City of Midland, Michigan, in relation to other major cities in Michigan, is located approximately as follows:

120	miles northwest of Detroit
86	miles north of Lansing
111	miles northeast of Grand Rapids
19	miles west of Bay City
24	miles northwest of Saginaw
27	miles east of Mt. Pleasant

City Government

Midland is governed by a five-member elected City Council. Every two years, the Council elects one of its members to serve as mayor. Daily administration is headed by a City Manager. This Council-Manager form of government has been in effect since January 1945. The City's fiscal year commences July 1 and ends June 30.

Statistical Data

Total	377	Full time
Number	114	Part time
Employees	142	Temporary and seasonal
	633	Total
Fire	3	Fire stations
Protection	45	Fire fighting personnel
	1	Clerical personnel
Police	1	Police station
Protection	48	Sworn police officers
	3	Clerical personnel
	18	Part-time crossing guards
Streets	78.33	miles major streets
	152.1	miles local streets
	16.05	miles state highway

Water Operation

Raw water is pumped from Lake Huron by the Saginaw-Midland Municipal Water Supply Corporation, a facility owned jointly by the two cities. The raw water is then pumped to the two communities for treatment at their individual treatment plants.

Water treatment plant capacity:	
Potable water	28.8 MGD
Industrial grade water	19.2 MGD
Customers:	
City - Potable water	15,370
Industrial water	2
Water District No. 1	2,756
Auburn	917
Homer Township	852
Larkin Township	602
Midland Township	494
Water mains	306 miles
Hydrants	2,558

Sewers

194 miles of sanitary sewers
168 miles of storm sewers

Recreation

6 major parks
8 active recreation parks
61 neighborhood parks
Total park area (approximately 2,700 acres)

1 9-hole municipal par 3 golf course
2 18-hole municipal golf courses
1 twin artificial ice rink arena
1 municipal swimming pool
1 15,000 ft.^{2} skateboard park

Population

1940 U.S. Census	10,329
1950 U.S. Census	14,285
1960 U.S. Census	27,779
1970 U.S. Census	35,176
1980 U.S. Census	37,269
1990 U.S. Census	38,053
2000 U.S. Census	41,685

Statistical Information
Demographic Statistics
Year Ended June 30, 2004

Fiscal Year	Population	Per Capita Income	Median Age	School Enrollment (2)
1994-95	39,900 *	$ 19,347 (1)	33.1 (1)	9,164
1995-96	40,175 *	19,347 (1)	33.1 (1)	9,434
1996-97	40,210 *	19,347 (1)	33.1 (1)	9,519
1997-98	40,600 *	19,347 (1)	33.1 (1)	9,618
1998-99	40,650 *	19,347 (1)	33.1 (1)	9,569
1999-00	40,700 *	19,347 (1)	33.1 (1)	9,616
2000-01	41,685 (1)	26,818 (1)	36.2 (1)	9,501
2001-02	41,810 *	26,818 (1)	36.2 (1)	9,688
2002-03	41,935 *	26,818 (1)	36.2 (1)	9,677
2003-04	42,092 *	26,818 (1)	36.2 (1)	9,636

Sources:

(*) Estimates provided by City Planning Department

(1) U.S. Bureau of the Census

(2) According to fourth Friday counts for kindergarten, elementary, and middle/high schools, Midland Public School District (includes special education students).

Federal Awards Supplemental Information

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Midland, Michigan

We have audited the basic financial statements of the City of Midland, Michigan for the year ended June 30, 2004 and have issued our report thereon dated January 31, 2005. In our opinion, the basic financial statements previously referred to present fairly, in all material respects, the respective financial position of the City of Midland, Michigan as of June 30, 2004. Those basic financial statements are the responsibility of the management of the City of Midland, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Midland, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards, reconciliation of financial statements federal revenue with schedule of expenditures of federal awards, and supplementary schedules related to the Transportation Fund are presented for the purpose of additional analysis and is 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

January 31, 2005

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Report Letter on Compliance with Laws and Regulations and
Internal Control - Basic Financial Statements

To the Honorable Mayor and City Council
City of Midland, Michigan

We have audited the financial statements of the City of Midland, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated January 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Midland, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Midland, 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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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To the Honorable Mayor and City Council
City of Midland, Michigan

We noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Midland, Michigan in a separate letter dated January 31, 2005.

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

January 31, 2005

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Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

To the Honorable Mayor and City Council
City of Midland, Michigan

Compliance

We have audited the compliance of the City of Midland, 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, 2004. The major federal program of the City of Midland, 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 Midland, Michigan's management. Our responsibility is to express an opinion on the City of Midland, 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 Midland, 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 Midland, Michigan's compliance with those requirements.

In our opinion, the City of Midland, 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, 2004.

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To the Honorable Mayor and City Council
City of Midland, Michigan

Internal Control Over Compliance

The management of the City of Midland, 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 Midland, 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 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 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

January 31, 2005

City of Midland, Michigan

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Community Development Block Grant:	14.218		
B-01-MC-26-0037		$ 344,000	$ 246,469
B-02-MC-26-0037		336,000	372,897
B-03-MC-26-0037		313,000	-
Total U.S. Department of Housing and Urban Development			619,366
Office of Ground Water and Drinking Water, Environmental Protection Quality - State Revolving Fund Loan #5199-01	66.468	1,255,754	78,146
U.S. Department of Transportation - Passed through Michigan Department of Transportation:			
Section 5311 (formerly Section 18) Program Grants:	20.509		
02-0068/Z1 (2002)		145,579	31,693
02-0068/Z1(2003)		146,908	112,660
Total Section 5311 Program Grants			144,353
National Highway Traffic Safety Administration - Passed through the State of Michigan, Department of State Police - Click It or Ticket Mobilization (PT-04-05)	20.602	20,008	8,548
Total U.S. Department of Transportation			152,901
U.S. Department of Justice:			
Office of Justice Programs - Bulletproof Vest Program - MI State Police:	16.607		
Grant ID (2000)		10,754	2,178
Grant ID (2001)		3,045	-
Grant ID (2002)		2,610	-
Grant ID (2004)		7,862	-
Total Bullet-proof Vest Program - MI State Police			2,178
Local Law Enforcement Block Grant Program - 2003-LB-BX-2019	16.592	11,923	11,923
Total U.S. Department of Justice			14,101
Federal Emergency Management Authority - Passed through Equipment Grant EMW-2003-FG-17586	83.554	85,707	43,162
Total federal awards			**$ 907,676**

See Notes to Schedule of Expenditures of Federal Awards.

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal revenue per financial statements (includes all funds)	$ 654,038
Add program income classified as federal expenditures	179,288
Add State Revolving Fund loan not recorded as federal revenue	78,146
Less award from excess 2001 monies granted in current fiscal year but expenses in prior year	(8,393)
Add repayment of 2000 grant expenditures incurred in a previous fiscal year, but returned in current fiscal year	2,841
Less deferred revenue at June 30, 2003	(11,842)
Add deferred revenue at June 30, 2004	13,598
Federal expenditures per the schedule of expenditures of federal awards	**$ 907,676**

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Midland, 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 present in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

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

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	$ 53,386

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? ____ Yes X None reported

Noncompliance material to financial statements noted? ____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ____ Yes X No
- 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:

Program Title	Amount Outstanding
EPA - State Revolving Fund Loan #5199-01	$ 4,565,886

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

Auditee qualified as low-risk auditee? X Yes ____ No

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

Summary Schedule of Prior Year Audit Findings

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
2003	2003-1	The City did not have a system in place to adequately monitor subrecipient awards for compliance with the Davis-Bacon Act.	14.218	None	Procedures have been put in place to monitor compliance with Davis-Bacon Act.

Additional Information
Transportation Fund (Dial-A-Ride)

Transportation Fund (Dial-A-Ride)
Schedule of Operating Revenues
Year Ended June 30, 2004

	7/1/2003-9/30/2003	10/1/03-6/30/2004	Total
Operating revenues:			
Customer fares	$ 20,890	$ 79,972	$ 100,862
Contractual	3,348	15,039	18,387
Total operating revenues	**$ 24,238**	**$ 95,011**	**$ 119,249**

Transportation Fund (Dial-A-Ride)
Schedule of Operating Expenses
Year Ended June 30, 2004

	Operations	Maintenance	General and Administration	Total
Labor:				
Operator's salaries and wages	$ 578,882	$ -	$ -	$ 578,882
Other salaries and wages	-	-	73,595	73,595
Dispatchers' salaries and wages	64,676	-	-	64,676
Fringe benefits	202,754	-	22,995	225,749
Services:				
Advertising fees	-	-	5,653	5,653
Audit fees	-	-	1,600	1,600
Other	-	114,552	155,799	270,351
Materials and supplies consumed:				
Fuel and lubricants	61,931	-	-	61,931
Other	4,924	-	1,264	6,188
Utilities - Telephone	57	-	-	57
Casualty and liability costs:				
Premiums for public liability and property damage insurance	16,431	-	-	16,431
Travel, meetings, and training	1,080	-	698	1,778
Leases and rentals	15,105	-	-	15,105
Total operating expenses	**$ 945,840**	**$ 114,552**	**$ 261,604**	**$ 1,321,996**

Transportation Fund (Dial-A-Ride)
Schedule of Nonoperating Revenues
Year Ended June 30, 2004

	7/1/2003-9/30/2003	10/1/03-6/30/2004	Total
Federal operating grants:			
U.S. DOT Operating Grant - Section 5311:			
Contract 2002-0068/Z3	$ 31,693	$ -	$ 31,693
Contract 2002-0068/Z4	-	112,660	112,660
Total	31,693	112,660	144,353
Prior grant year audit adjustments	-	5,552	5,552
Total federal operating grants (a)	31,693	118,212	149,905
State of Michigan Operating Grants:			
Local bus operating assistance (Act 51)	126,773	432,526	559,299
Prior grant year audit adjustments	-	(8,479)	(8,479)
Total state operating grants	126,773	424,047	550,820
City of Midland General Fund	127,362	393,356	520,718
Other nonoperating income	384	969	1,353
Total nonoperating revenues	**$ 286,212**	**$ 936,584**	**$ 1,222,796**

Transportation Fund (Dial-A-Ride)
Schedule of Computation - Net Eligible Cost of General Operations
Year Ended June 30, 2004

	Federal Section 5311		State Operating Assistance	
	2002-0068/Z3 7/1/03-9/30/2003	2002-0068/Z4 10/1/03-6/30/2004	7/1/03-9/30/2003	10/1/03-6/30/2004
Expenses:				
Labor	$ 156,358	$ 560,795	$ 156,358	$ 560,795
Fringe benefits	51,981	173,768	51,981	173,768
Service	62,599	215,005	62,599	215,005
Materials and supplies	13,602	54,517	13,602	54,517
Utilities	57	-	57	-
Casualty and liability cost	-	16,431	-	16,431
Travel, meetings, and training	973	805	973	805
Leases and rentals	3,866	11,239	3,866	11,239
Capital outlay	-	99,690	-	99,690
Total eligible expenses	289,436	1,132,250	289,436	1,132,250
Less ineligible expenses -				
Capital outlay	-	99,690	-	99,690
Net eligible expenses	**$ 289,436**	**$ 1,032,560**	**$ 289,436**	**$ 1,032,560**
Calculated reimbursement	**$ 31,693**	**$ 113,065**	**$ 126,773**	**$ 436,050**
Limited to cap of	**$ 42,904**	**$ 113,605**	**$ 126,773**	**$ 436,050**
Adjusted grant accrued/received	**$ 31,693**	**$ 112,660**	**$ 126,773**	**$ 432,526**

Transportation Fund (Dial-A-Ride)
Schedule of Expenditures of State Awards
Michigan Department of Transportation
Year Ended June 30, 2004

Program Title	(Accrued) Deferred Revenue July 1, 2003	Current Year Program Expenditures	Current Year State Receipts	Current Year State Adjustments	(Accrued) Deferred Revenue June 30, 2004
Operating assistance - 2001-02	$ 104,482	$ -	$ -	$ (104,482)	$ -
Operating assistance - 2002-03	28,856	126,773	145,575	-	47,658
Operating assistance - 2003-04	-	436,050	424,998	-	(11,052)
Total	**$ 133,338**	**$ 562,823**	**$ 570,573**	**$ (104,482)**	**$ 36,606**

Transportation Fund (Dial-A-Ride)
Mileage Data
Year Ended June 30, 2004

	Public Transit Mileage
Demand - Response	
First quarter	$ 105,742
Second quarter	113,169
Third quarter	115,789
Fourth quarter	111,957
Total	**$ 446,657**

Transportation Fund (Dial-A-Ride)
Property and Equipment
Year Ended June 30, 2004

Vehicles	$ 780,116
Office furniture and equipment	30,668
Shelters	15,940
Radio and antennae	35,055
Total	861,779
Less accumulated depreciation	467,620
Net	**$ 394,159**