

# Auditing Procedures Report

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

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

We affirm that:

We are certified public accountants licensed to practice in Michigan.

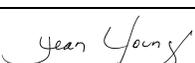
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

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



# **City of Owosso, Michigan**

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

# City of Owosso, Michigan

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# City of Owosso, Michigan

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## Independent Auditor's Report

To the City Council  
City of Owosso, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Owosso, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Owosso, Michigan's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Owosso, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the City Council  
City of Owosso, Michigan

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

*Plante & Moran, PLLC*

December 10, 2007

# City of Owosso, Michigan

## Management's Discussion and Analysis

The following discussion and analysis of the City of Owosso's (the "City") annual financial report presents our view of the City's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the City's basic financial statements, which follow beginning on page 11.

### Overview of the Financial Statements

This annual report consists of the following report sections:

- Management's discussion and analysis (this section)
- Government-wide financial statements
- Fund financial statements
- Notes to financial statements
- Supplemental information
- Combining statements for nonmajor governmental funds

### **Government-wide Financial Statements**

The government-wide financial statements include the statement of net assets (deficit) and the statement of activities. These statements provide both long-term and short-term information about the City's overall financial status. The City's government-wide financial statements begin on page 14 of this report. These statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets (deficit) includes both current and long-term assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid. The combined objective of the government-wide financial statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial position.

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general services. Property taxes, state revenue sharing, and locally raised revenues are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to cover the costs of certain services it provides. The City's water, sewer, wastewater, and contract for transportation services are included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority, Tax Increment Financing Authority, and Brownfield Redevelopment Authority. The City is financially accountable for these "component units" although they are legally separate entities.

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The fund financial statements include the balance sheet and statement of revenues, expenditures, and changes in fund balances which begin on page 14 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law and others are established to control and manage money for particular purposes.

The City has three fund types that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year end. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we reconcile the differences on page 16.
- Proprietary funds - When the City charges customer fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
  - The City's enterprise funds (water, sewer, wastewater, and transportation) are the business-type activities reported in the government-wide financial statements, but provide more detail in the proprietary funds statements.
  - An Internal Service Fund (the other type of proprietary fund) reports equipment rental services to the City's other programs and activities, which is reported in the Fleet Maintenance Fund.
- Fiduciary funds - The City is the trustee, or fiduciary, for the Employees' Retirement System and also acts as a collection agent for other taxing jurisdictions such as schools and the county. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. A separate statement of fiduciary net assets and a statement of changes in fiduciary net assets related to the Employees' Retirement System are presented on pages 20 and 21 of this report. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Highlights

The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the City's total net assets (in thousands):

|                              | Governmental Activities |                  | Business-type Activities |                  | Total            |                  |
|------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
|                              | 2007                    | 2006             | 2007                     | 2006             | 2007             | 2006             |
| <b>Assets</b>                |                         |                  |                          |                  |                  |                  |
| Current assets               | \$ 7,175                | \$ 6,980         | \$ 6,227                 | \$ 5,866         | \$ 13,402        | \$ 12,846        |
| Noncurrent assets            | <u>35,756</u>           | <u>35,578</u>    | <u>14,593</u>            | <u>15,082</u>    | <u>50,350</u>    | <u>50,660</u>    |
| Total assets                 | 42,931                  | 42,558           | 20,820                   | 20,948           | 63,752           | 63,506           |
| <b>Liabilities</b>           |                         |                  |                          |                  |                  |                  |
| Current liabilities          | 1,587                   | 1,714            | 416                      | 422              | 2,003            | 2,136            |
| Long-term liabilities        | <u>1,627</u>            | <u>1,890</u>     | <u>4,649</u>             | <u>4,727</u>     | <u>6,275</u>     | <u>6,617</u>     |
| Total liabilities            | <u>3,214</u>            | <u>3,604</u>     | <u>5,065</u>             | <u>5,149</u>     | <u>8,278</u>     | <u>8,753</u>     |
| <b>Net Assets</b>            |                         |                  |                          |                  |                  |                  |
| Invested in capital assets - |                         |                  |                          |                  |                  |                  |
| Net of related debt          | 34,243                  | 33,664           | 9,993                    | 10,408           | 44,236           | 44,072           |
| Restricted                   | 2,465                   | 2,555            | 1,956                    | 1,699            | 4,421            | 4,254            |
| Unrestricted                 | <u>3,009</u>            | <u>2,735</u>     | <u>3,806</u>             | <u>3,692</u>     | <u>6,815</u>     | <u>6,427</u>     |
| Total net assets             | <u>\$ 39,717</u>        | <u>\$ 38,954</u> | <u>\$ 15,755</u>         | <u>\$ 15,799</u> | <u>\$ 55,472</u> | <u>\$ 54,753</u> |

The net assets of the City's governmental activities increased 2 percent to \$39.7 million. Capital investments funded with current resources of \$1.8 million were on pace with annual consumption (depreciation). Recognition of deferred revenue from special assessment receivables reduced current liabilities. Long-term liabilities were reduced by 14 percent.

The net assets of our business-type activities were relatively unchanged at \$15.8 million. The Water Fund had an operating loss of \$120,000. A surplus from operations in the Sewer Fund will help finance future expenses related to a project separating storm and sanitary flows. Results of operations in the Wastewater Fund, net of capital purchases expensed, approximately broke even.

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

The following table displays the City's changes in net assets (in thousands):

|  | Governmental Activities |                 | Business-type Activities |                | Total         |                 |
|--|-------------------------|-----------------|--------------------------|----------------|---------------|-----------------|
|  | 2007                    | 2006            | 2007                     | 2006           | 2007          | 2006            |
| <b>Revenue</b>                           |                         |                 |                          |                |               |                 |
| Program revenue:                         |                         |                 |                          |                |               |                 |
| Charges for services                     | \$ 1,052                | \$ 1,115        | \$ 4,433                 | \$ 4,490       | \$ 5,485      | \$ 5,605        |
| Operating grants and contributions       | 1,030                   | 1,183           | -                        | -              | 1,030         | 1,183           |
| Capital grants and contributions         | 1,025                   | 126             | 403                      | 300            | 1,428         | 426             |
| General revenue:                         |                         |                 |                          |                |               |                 |
| Property taxes                           | 3,810                   | 3,690           | 40                       | 41             | 3,850         | 3,731           |
| State-shared revenue and other sources   | 1,868                   | 1,920           | -                        | -              | 1,868         | 1,920           |
| Unrestricted investment earnings         | 289                     | 223             | 283                      | 177            | 572           | 400             |
| Miscellaneous                            | 128                     | 60              | -                        | -              | 128           | 60              |
| Total revenue                            | 9,202                   | 8,317           | 5,159                    | 5,008          | 14,361        | 13,325          |
| <b>Program Expenses</b>                  |                         |                 |                          |                |               |                 |
| General government                       | 1,443                   | 1,464           | -                        | -              | 1,443         | 1,464           |
| Public safety                            | 3,420                   | 3,335           | -                        | -              | 3,420         | 3,335           |
| Public works                             | 3,125                   | 2,929           | -                        | -              | 3,125         | 2,929           |
| Community and economic development       | 348                     | 479             | -                        | -              | 348           | 479             |
| Recreation and culture                   | 88                      | 295             | -                        | -              | 88            | 295             |
| Interest on long-term debt               | 15                      | 46              | -                        | -              | 15            | 46              |
| Water supply system                      | -                       | -               | 2,068                    | 2,050          | 2,068         | 2,050           |
| Sewage disposal system                   | -                       | -               | 1,453                    | 1,359          | 1,453         | 1,359           |
| Wastewater treatment system              | -                       | -               | 1,643                    | 1,612          | 1,643         | 1,612           |
| Shaiwassee Area Transportation Authority | -                       | -               | 40                       | 41             | 40            | 41              |
| Total program expenses                   | 8,439                   | 8,548           | 5,204                    | 5,062          | 13,643        | 13,610          |
| <b>Change in Net Assets</b>              | <b>\$ 763</b>           | <b>\$ (231)</b> | <b>\$ (45)</b>           | <b>\$ (54)</b> | <b>\$ 718</b> | <b>\$ (286)</b> |

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

#### Summary:

- The cost of all governmental activities this year was \$8.4 million.
- The amount that City taxpayers paid for these activities through City taxes was \$3.8 million.
- \$5.0 million was paid by the beneficiaries of the program's activities or by other governments and organizations that subsidized certain programs with grants and contributions

#### Analysis:

##### Revenues

- Charge for services/sales - The 5 percent decline in this category reflects a decline in the pace of lot sales at Osburn Lakes Subdivision. The City sold 10 lots this year. Sales have far exceeded the pro forma absorption rate; however, we expect sales to temper based on trend data. Of the 83 lots developed, only 30 remain.
- Property taxes - Including levies for bonded debt were up 3.3 percent, in line with inflation
- State-shared revenues - Revenue from statutory sales taxes distributed by the State declined 2.7 percent.
- Operating and capital grants and contributions - Increased nearly 57.0 percent due to an increased level of funding received for capital projects
- Miscellaneous revenue - Private donations for the loop trail account for the majority of the increase this year.

##### Expenses

- General government - Operational expenses were relatively flat, down slightly over 1.0 percent.
- Public safety - Salaries were up approximately 5.0 percent, in part due to retroactive pay for union contract settlements. Additionally, overtime expenses in the fire department were up 29.0 percent.
- Community and economic development - The prior year reflected substantial completion of the Osburn Lakes Subdivision. The current year reflects more routine programming expenditures.
- Public works - The majority of the year-over-year increase is depreciation expense for the fleet resulting from substantial capital purchases in the prior year and adjustments to residual values.

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

#### Summary:

- Total revenues and operating expenses of the City's business-type activities (water, sewer, wastewater, and Shiawassee Area Transportation Agency) were \$5.2 million. The combined net loss was \$45,000.

#### Analysis:

##### Revenues

- Capital grants and contributions - Were up due to a grant for the separation of storm flows from the sanitary system. The grant and an improved rate of return on investments increased total revenues by 3.0 percent.
- Charge for services - Sales in the Water and Sewer Funds were down 3.6 percent and 4.0 percent, respectively. Charges in the Wastewater Fund were up 4.7 percent, resulting in an overall decline in sales for business-type activities of 1.3 percent.

##### Expenses

- Sewer Fund - Expenses for the separation project were grant driven. This is a multi-year effort that will appear in future operational statements.
- Wastewater Fund - The increase in operational costs for chemicals and utilities was less than 2 percent.
- Water Fund - Expenses were relatively flat year over year.

### The City's Funds

As the City completed the year, its governmental funds (see pages 14 and 15) reported a combined fund balance of \$5.7 million.

- State revenue sharing, which represents 27.0 percent of the General Fund revenues, decreased \$49,000 from the prior year.
- Property tax revenues, the greatest share of revenue for the General Fund at 54.0 percent, increased approximately 3.0 percent.
- Employment levels remained at prior year levels; adjustments to employee compensation were on par with the cost of living. A defined contribution plan with an employer match up to 4.0 percent replaced the defined benefit plan for all new employees except for certain union groups.

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

- Approximately \$41,000 was drawn from the General Fund reserves to pay the local share of construction in progress for the Oliver Street bridge. The total local share of \$400,000, payable over three years, is funded without issuing debt.
- In other governmental funds, \$91,000 was drawn from reserves established from early payoffs of property owners' assessments to pay current debt maturities.

### General Fund Budgetary Highlights

Overall, revenues were up 3.0 percent from last year. Expenditures from recurring operations were up less than 1.0 percent this year over last year. The City invested \$267,000 for capital outlay and contributed \$475,000 to other funds for capital expenditures. This included a supplemental contribution to the street funds, which was necessary because of a shortfall in gas and weight tax revenue projections from the State at year end. This caused a budget variance in the General Fund but avoided deficit conditions in the Major and Local Streets Funds. The public safety department continues to represent the largest component of General Fund operations at 53.0 percent of expenditures.

### Capital Assets

At June 30, 2007, the City had invested \$89.8 million in a broad range of capital assets, including police and fire equipment, buildings, technology, parks and recreational facilities, roads, wastewater facility, water filtration plant, and water and sewer lines as detailed in the table below and Note 5 of the financial statements.

|                          | Governmental Activities |                      | Business-type Activities |                      | Total                |                      |
|--------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
|                          | 2007                    | 2006                 | 2007                     | 2006                 | 2007                 | 2006                 |
| Land                     | \$ 4,483,838            | \$ 4,278,332         | \$ 451,314               | \$ 451,314           | \$ 4,935,152         | \$ 4,729,646         |
| Construction in progress | 283,050                 | -                    | -                        | -                    | 283,050              | -                    |
| Roads and sidewalks      | 41,711,992              | 40,687,465           | -                        | -                    | 41,711,992           | 40,687,465           |
| Land improvements        | 1,379,711               | 1,302,460            | 8,325,665                | 8,123,411            | 9,705,376            | 9,425,871            |
| Buildings                | 2,790,192               | 2,790,192            | 13,239,935               | 13,239,935           | 16,030,127           | 16,030,127           |
| Vehicles                 | 3,267,544               | 3,220,208            | 63,657                   | 63,657               | 3,331,201            | 3,283,865            |
| Office furnishings       | 1,404,129               | 1,404,129            | -                        | -                    | 1,404,129            | 1,404,129            |
| Machinery and equipment  | 2,070,503               | 2,024,027            | 10,342,793               | 10,346,208           | 12,413,296           | 12,370,235           |
| Subtotal assets          | 57,390,959              | 55,706,813           | 32,423,364               | 32,224,525           | 89,814,323           | 87,931,338           |
| Accumulated depreciation | 21,634,958              | 20,129,297           | 17,830,340               | 17,141,840           | 39,465,298           | 37,271,137           |
| Net capital assets       | <u>\$ 35,756,001</u>    | <u>\$ 35,577,516</u> | <u>\$ 14,593,024</u>     | <u>\$ 15,082,685</u> | <u>\$ 50,349,025</u> | <u>\$ 50,660,201</u> |

# **City of Owosso, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Debt**

At year end, the City had \$1.5 million in governmental activities debt and \$4.6 million in business-type activities of bonds and notes outstanding. The City retired \$578,000 of bonds and notes maturing during the year. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

### **Economic Factors and Next Year's Budget and Rates**

The millage rate for fiscal year 2008 is 13.7120. Of that, debt millage is less than three-tenths of a mill. State revenue sharing to the City, which represents 27.0 percent of General Fund revenue, declined 2.7 percent in fiscal year 2007 and is projected to be down again given the economic outlook for the State.

Total expenditures in the General Fund for the 2008 fiscal year are set at \$8.1 million. Capital outlay expenditures are set at \$2.0 million. The General Fund budget will draw \$254,000 from reserves to complete the Oliver Street bridge.

### **Contacting the City's Financial Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance director's office at the City of Owosso, 301 E. Main Street, Owosso, Michigan 48867 or visit the City's website at [www.ci.owosso.mi.us](http://www.ci.owosso.mi.us) to e-mail questions or comments.

# City of Owosso, Michigan

## Statement of Net Assets (Deficit) June 30, 2007

|   | Primary Government         |                             |                      | Component<br>Units |
|---|----------------------------|-----------------------------|----------------------|--------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total                |                    |
| <b>Assets</b>                                       |                            |                             |                      |                    |
| Cash and investments (Note 3)                       | \$ 4,964,242               | \$ 3,439,239                | \$ 8,403,481         | \$ 13,887          |
| Receivables - Net (Note 4)                          | 2,085,424                  | 407,895                     | 2,493,319            | 514,665            |
| Internal balances                                   | (219,738)                  | 219,738                     | -                    | -                  |
| Inventories and land held for sale                  | 321,360                    | 182,973                     | 504,333              | 89,812             |
| Prepaid costs and other assets                      | 23,299                     | 21,240                      | 44,539               | -                  |
| Restricted assets (Note 8)                          | -                          | 1,955,916                   | 1,955,916            | -                  |
| Capital assets - Net (Note 5):                      |                            |                             |                      |                    |
| Nondepreciable                                      | 4,766,888                  | 451,314                     | 5,218,202            | -                  |
| Depreciable   | 30,989,113                 | 14,141,710                  | 45,130,823           | -                  |
| Total assets  | 42,930,588                 | 20,820,025                  | 63,750,613           | 618,364            |
| <b>Liabilities</b>                                  |                            |                             |                      |                    |
| Accounts payable                                    | 578,620                    | 87,058                      | 665,678              | 625,286            |
| Accrued and other liabilities                       | 262,108                    | 189,492                     | 451,600              | -                  |
| Deferred revenue (Note 4)                           | 149,956                    | -                           | 149,956              | -                  |
| Noncurrent liabilities (Note 7):                    |                            |                             |                      |                    |
| Due within one year                                 | 596,057                    | 139,679                     | 735,736              | -                  |
| Due in more than one year                           | 1,627,242                  | 4,649,191                   | 6,276,433            | -                  |
| Total liabilities                                   | 3,213,983                  | 5,065,420                   | 8,279,403            | 625,286            |
| <b>Net Assets (Deficit)</b>                         |                            |                             |                      |                    |
| Invested in capital assets - Net of<br>related debt | 34,242,897                 | 9,993,024                   | 44,235,921           | -                  |
| Restricted:   |                            |                             |                      |                    |
| Improvement and Replacement Fund                    | 844,628                    | 1,605,916                   | 2,450,544            | -                  |
| Revenue bond reserve                                | -                          | 350,000                     | 350,000              | -                  |
| Streets and highways                                | 1,930                      | -                           | 1,930                | -                  |
| Debt service  | 590,931                    | -                           | 590,931              | -                  |
| Other purposes                                      | 1,027,177                  | -                           | 1,027,177            | -                  |
| Unrestricted (deficit)                              | 3,009,042                  | 3,805,665                   | 6,814,707            | (6,922)            |
| Total net assets (deficit)                          | <u>\$ 39,716,605</u>       | <u>\$ 15,754,605</u>        | <u>\$ 55,471,210</u> | <u>\$ (6,922)</u>  |

# City of Owosso, Michigan

| Functions/Programs                              | Expenses             | Program Revenues     |                                    |                                  |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
|   |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Primary government:</b>                      |                      |                      |                                    |                                  |
| Governmental activities:                        |                      |                      |                                    |                                  |
| General government                              | \$ 1,443,337         | \$ 55,279            | \$ 25,692                          | \$ 219,401                       |
| Public safety                                   | 3,420,393            | 545,172              | -                                  | 130,832                          |
| Public works                                    | 3,125,258            | 85,964               | 990,022                            | 674,383                          |
| Community and economic development              | 348,183              | 354,037              | -                                  | -                                |
| Recreation and culture                          | 88,430               | 11,237               | 14,283                             | -                                |
| Interest on long-term debt                      | 13,743               | -                    | -                                  | -                                |
| Total governmental activities                   | 8,439,344            | 1,051,689            | 1,029,997                          | 1,024,616                        |
| Business-type activities:                       |                      |                      |                                    |                                  |
| Water supply system                             | 2,068,382            | 1,767,079            | -                                  | -                                |
| Sewage disposal system                          | 1,452,952            | 1,464,583            | -                                  | 157,357                          |
| Wastewater treatment system                     | 1,642,680            | 1,201,824            | -                                  | 245,999                          |
| Shiawassee Area Transportation Authority        | 39,572               | -                    | -                                  | -                                |
| Total business-type activities                  | 5,203,586            | 4,433,486            | -                                  | 403,356                          |
| Total primary government                        | <u>\$ 13,642,930</u> | <u>\$ 5,485,175</u>  | <u>\$ 1,029,997</u>                | <u>\$ 1,427,972</u>              |
| <b>Component units:</b>                         |                      |                      |                                    |                                  |
| Downtown Development Authority                  | \$ 416,438           | \$ -                 | \$ -                               | \$ -                             |
| Local Development Financing Authority II        | 18,768               | -                    | -                                  | -                                |
| Brownfield Redevelopment Authority              | 60,858               | -                    | -                                  | -                                |
| Total component units                           | <u>\$ 496,064</u>    | <u>\$ -</u>          | <u>\$ -</u>                        | <u>\$ -</u>                      |
| <b>General revenues:</b>                        |                      |                      |                                    |                                  |
| Property taxes                                  |                      |                      |                                    |                                  |
| State-shared revenues and other sources         |                      |                      |                                    |                                  |
| Unrestricted investment earnings                |                      |                      |                                    |                                  |
| Miscellaneous                                   |                      |                      |                                    |                                  |
| Total general revenues                          |                      |                      |                                    |                                  |
| <b>Change in Net Assets</b>                     |                      |                      |                                    |                                  |
| <b>Net Assets (Deficit) - Beginning of year</b> |                      |                      |                                    |                                  |
| <b>Net Assets (Deficit) - End of year</b>       |                      |                      |                                    |                                  |

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

| Net (Expense) Revenue and Changes in Net Assets |                             |                      |                    |
|---|-----------------------------|----------------------|--------------------|
| Primary Government                              |                             |                      | Component<br>Units |
| Governmental<br>Activities                      | Business-type<br>Activities | Total                |                    |
| \$ (1,142,965)                                  | \$ -                        | \$ (1,142,965)       | \$ -               |
| (2,744,389)                                     | -                           | (2,744,389)          | -                  |
| (1,374,889)                                     | -                           | (1,374,889)          | -                  |
| 5,854   | -                           | 5,854                | -                  |
| (62,910)  | -                           | (62,910)             | -                  |
| (13,743)  | -                           | (13,743)             | -                  |
| (5,333,042)                                     | -                           | (5,333,042)          | -                  |
| -   | (301,303)                   | (301,303)            | -                  |
| -   | 168,988                     | 168,988              | -                  |
| -   | (194,857)                   | (194,857)            | -                  |
| -   | (39,572)                    | (39,572)             | -                  |
| -   | (366,744)                   | (366,744)            | -                  |
| (5,333,042)                                     | (366,744)                   | (5,699,786)          | -                  |
| -   | -                           | -                    | (416,438)          |
| -   | -                           | -                    | (18,768)           |
| -   | -                           | -                    | (60,858)           |
| -   | -                           | -                    | (496,064)          |
| 3,809,763                                       | 39,604                      | 3,849,367            | 569,808            |
| 1,867,778                                       | -                           | 1,867,778            | -                  |
| 290,042   | 282,591                     | 572,633              | 131                |
| 127,913   | -                           | 127,913              | 62                 |
| 6,095,496                                       | 322,195                     | 6,417,691            | 570,001            |
| 762,454   | (44,549)                    | 717,905              | 73,937             |
| 38,954,151                                      | 15,799,154                  | 54,753,305           | (80,859)           |
| <b>\$ 39,716,605</b>                            | <b>\$ 15,754,605</b>        | <b>\$ 55,471,210</b> | <b>\$ (6,922)</b>  |

# City of Owosso, Michigan

## Governmental Funds Balance Sheet June 30, 2007

|  | General Fund        | Major<br>Streets Fund | Subdivision<br>Fund | Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------|---------------------|--|--------------------------------|
| <b>Assets</b>  |                     |                       |                     |  |                                |
| Cash and investments (Note 3)  | \$ 3,573,568        | \$ -                  | \$ -                | \$ 1,390,674                               | \$ 4,964,242                   |
| Receivables - Net (Note 4)   | 906,824             | 243,964               | -                   | 934,636                                    | 2,085,424                      |
| Prepaid costs and other assets   | 23,299              | -                     | -                   | -  | 23,299                         |
| Due from other funds (Note 6)  | 813,519             | -                     | -                   | 1,056,668                                  | 1,870,187                      |
| Inventories and land held for sale   | 75,360              | -                     | 246,000             | -  | 321,360                        |
|  | <b>\$ 5,392,570</b> | <b>\$ 243,964</b>     | <b>\$ 246,000</b>   | <b>\$ 3,381,978</b>                        | <b>\$ 9,264,512</b>            |
| <b>Liabilities and Fund Balances (Deficit)</b>   |                     |                       |                     |  |                                |
| <b>Liabilities</b>   |                     |                       |                     |  |                                |
| Accounts payable   | \$ 362,297          | \$ 77,503             | \$ -                | \$ 101,665                                 | \$ 541,465                     |
| Accrued and other liabilities  | 239,438             | 1,126                 | -                   | 36,232                                     | 276,796                        |
| Due to other funds   | 920,326             | 163,832               | 577,570             | 370,006                                    | 2,031,734                      |
| Deferred revenue (Note 4)  | 351,024             | -                     | -                   | 410,912                                    | 761,936                        |
|  | 1,873,085           | 242,461               | 577,570             | 918,815                                    | 3,611,931                      |
| <b>Fund Balances (Deficit)</b>   |                     |                       |                     |  |                                |
| Reserved for other purposes:   |                     |                       |                     |  |                                |
| Other purposes - General Fund  | 98,659              | -                     | -                   | -  | 98,659                         |
| Other purposes - Special Revenue Funds   | -                   | -                     | -                   | 427,626                                    | 427,626                        |
| Other purposes - Capital Projects Funds  | -                   | -                     | 246,000             | -  | 246,000                        |
| Designated for:  |                     |                       |                     |  |                                |
| Subdivision deficit  | 577,570             | -                     | -                   | -  | 577,570                        |
| Bridge construction  | 223,793             | -                     | -                   | -  | 223,793                        |
| Special assessed property reversions   | 100,000             | -                     | -                   | -  | 100,000                        |
| Economic development projects  | 500,000             | -                     | -                   | -  | 500,000                        |
| Hotel demolition grant reversion   | 247,400             | -                     | -                   | -  | 247,400                        |
| Owosso drain project   | 169,236             | -                     | -                   | -  | 169,236                        |
| Unreserved (deficit), reported in:   |                     |                       |                     |  |                                |
| General Fund   | 1,602,827           | -                     | -                   | -  | 1,602,827                      |
| Special Revenue Funds  | -                   | 1,503                 | (577,570)           | 1,444,606                                  | 868,539                        |
| Debt Service Funds   | -                   | -                     | -                   | 590,931                                    | 590,931                        |
|  | 3,519,485           | 1,503                 | (331,570)           | 2,463,163                                  | 5,652,581                      |
|  | <b>\$ 5,392,570</b> | <b>\$ 243,964</b>     | <b>\$ 246,000</b>   | <b>\$ 3,381,978</b>                        | <b>\$ 9,264,512</b>            |
| Amounts reported for governmental activities in the statement of net assets are different because:   |                     |                       |                     |  |                                |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds   |                     |                       |                     |  | 34,303,040                     |
| Special assessment, revolving loan, and other receivables are expected to be collected over several years and are not available to pay for current year expenditures |                     |                       |                     |  | 611,980                        |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds  |                     |                       |                     |  | (1,983,706)                    |
| Internal Service Funds are included as part of governmental activities   |                     |                       |                     |  | 1,132,710                      |
|  |                     |                       |                     |  | <b>\$ 39,716,605</b>           |
| Net assets of governmental activities  |                     |                       |                     |  | <b>\$ 39,716,605</b>           |

# City of Owosso, Michigan

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

|  | General Fund        | Major<br>Streets Fund | Subdivision Fund    | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------|---------------------|--------------------------------|--------------------------------|
| <b>Revenue</b>   |                     |                       |                     |                                |                                |
| Property taxes   | \$ 3,486,219        | \$ -                  | \$ -                | \$ 80,651                      | \$ 3,566,870                   |
| Licenses and permits                                   | 117,621             | -                     | -                   | -                              | 117,621                        |
| Federal grants   | 446                 | 219,401               | -                   | -                              | 219,847                        |
| State and local sources                                | 1,751,458           | 958,292               | -                   | 568,532                        | 3,278,282                      |
| Charges for services                                   | 538,452             | 85,964                | -                   | 81,377                         | 705,793                        |
| Fines and forfeitures                                  | 65,616              | -                     | -                   | -                              | 65,616                         |
| Interest and rentals                                   | 262,969             | 5,109                 | -                   | 21,711                         | 289,789                        |
| Other  | 220,655             | -                     | 236,416             | 39,940                         | 497,011                        |
| <b>Total revenue</b>                                   | <b>6,443,436</b>    | <b>1,268,766</b>      | <b>236,416</b>      | <b>792,211</b>                 | <b>8,740,829</b>               |
| <b>Expenditures</b>                                    |                     |                       |                     |                                |                                |
| Current services:                                      |                     |                       |                     |                                |                                |
| General government                                     | 1,377,286           | -                     | -                   | -                              | 1,377,286                      |
| Public safety  | 3,208,251           | -                     | -                   | -                              | 3,208,251                      |
| Public works   | 963,206             | 1,300,399             | -                   | 802,435                        | 3,066,040                      |
| Recreation and culture                                 | 200,523             | -                     | -                   | 38,636                         | 239,159                        |
| Community and economic development                     | 259,548             | -                     | 22,998              | 30,996                         | 313,542                        |
| Debt service   | -                   | -                     | -                   | 454,768                        | 454,768                        |
| <b>Total expenditures</b>                              | <b>6,008,814</b>    | <b>1,300,399</b>      | <b>22,998</b>       | <b>1,326,835</b>               | <b>8,659,046</b>               |
| <b>Excess of Revenue Over<br/>(Under) Expenditures</b> | <b>434,622</b>      | <b>(31,633)</b>       | <b>213,418</b>      | <b>(534,624)</b>               | <b>81,783</b>                  |
| <b>Other Financing Sources (Uses)</b>                  |                     |                       |                     |                                |                                |
| Transfers in (Note 6)                                  | -                   | 268,772               | -                   | 486,783                        | 755,555                        |
| Transfers out (Note 6)                                 | (475,460)           | (237,140)             | -                   | (42,955)                       | (755,555)                      |
| <b>Total other financing<br/>sources (uses)</b>        | <b>(475,460)</b>    | <b>31,632</b>         | <b>-</b>            | <b>443,828</b>                 | <b>-</b>                       |
| <b>Net Change in Fund Balance</b>                      | <b>(40,838)</b>     | <b>(1)</b>            | <b>213,418</b>      | <b>(90,796)</b>                | <b>81,783</b>                  |
| <b>Fund Balances (Deficit) - Beginning of year</b>     | <b>3,560,323</b>    | <b>1,504</b>          | <b>(544,988)</b>    | <b>2,553,959</b>               | <b>5,570,798</b>               |
| <b>Fund Balances (Deficit) - End of year</b>           | <b>\$ 3,519,485</b> | <b>\$ 1,503</b>       | <b>\$ (331,570)</b> | <b>\$ 2,463,163</b>            | <b>\$ 5,652,581</b>            |

# City of Owosso, Michigan

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

|   |                          |
|---|--------------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>   | <b>\$ 81,783</b>         |
| Amounts reported for governmental activities in the statement of activities are different because:  |                          |
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation                    | 1,086,794                |
| Depreciation on general fixed assets is recorded in the statement of activities; it is not reported at the fund level   | (1,352,274)              |
| Governmental funds do not report the donation of capital assets; in the statement of activities, donations are reported as capital contributions and are expensed over their useful lives | 593,006                  |
| Revenues are recorded in the statement of activities when they are earned; they are not reported in the funds until collected or collectible within 60 days of year end                   | (80,923)                 |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)   | 435,000                  |
| Interest expense is recorded in the statement of activities when incurred; it is not reported in the funds until paid or payable within 60 days of year end                               | 6,025                    |
| Decrease in accumulated sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities                                      | (16,189)                 |
| Internal Service Funds are also included as governmental activities   | <u>9,232</u>             |
| <b>Change in Net Assets of Governmental Activities</b>  | <b><u>\$ 762,454</u></b> |

# City of Owosso, Michigan

## Proprietary Funds Statement of Net Assets (Deficit) June 30, 2007

|  | Enterprise Funds       |                           |                                   |  | Total<br>Business-type<br>Activities | Governmental<br>Activities |
|--|------------------------|---------------------------|-----------------------------------|--|--------------------------------------|----------------------------|
|  | Major Funds            |                           | Nonmajor Fund                     |  |                                      | Internal<br>Service Fund   |
|  | Water Supply<br>System | Sewage Disposal<br>System | Wastewater<br>Treatment<br>System | Shiawassee Area<br>Transportation<br>Authority |                                      |                            |
| <b>Assets</b>                                    |                        |                           |                                   |  |                                      |                            |
| Current assets:                                  |                        |                           |                                   |  |                                      |                            |
| Cash and investments (Note 3)                    | \$ 1,859,716           | \$ 1,405,291              | \$ 174,114                        | \$ 118   | \$ 3,439,239                         | \$ -                       |
| Receivables - Net (Note 4)                       | 334,505                | 144                       | -                                 | -  | 334,649                              | -                          |
| Due from other funds (Note 6)                    | 61,154                 | 216,715                   | 119,855                           | -  | 397,724                              | -                          |
| Due from other governmental units (Note 4)       | 73,246                 | -                         | -                                 | -  | 73,246                               | -                          |
| Inventories                                      | 182,973                | -                         | -                                 | -  | 182,973                              | -                          |
| Prepaid costs and other assets                   | 21,240                 | -                         | -                                 | -  | 21,240                               | -                          |
| Total current assets                             | <u>2,532,834</u>       | <u>1,622,150</u>          | <u>293,969</u>                    | <u>118</u>                                     | <u>4,449,071</u>                     | <u>-</u>                   |
| Noncurrent assets:                               |                        |                           |                                   |  |                                      |                            |
| Restricted assets (Note 8)                       | 350,000                | -                         | 1,605,916                         | -  | 1,955,916                            | -                          |
| Capital assets (Note 5)                          | <u>9,330,707</u>       | <u>962,093</u>            | <u>4,300,224</u>                  | <u>-</u>                                       | <u>14,593,024</u>                    | <u>1,452,961</u>           |
| Total noncurrent assets                          | <u>9,680,707</u>       | <u>962,093</u>            | <u>5,906,140</u>                  | <u>-</u>                                       | <u>16,548,940</u>                    | <u>1,452,961</u>           |
| Total assets                                     | <u>12,213,541</u>      | <u>2,584,243</u>          | <u>6,200,109</u>                  | <u>118</u>                                     | <u>20,998,011</u>                    | <u>1,452,961</u>           |
| <b>Liabilities</b>                               |                        |                           |                                   |  |                                      |                            |
| Current liabilities:                             |                        |                           |                                   |  |                                      |                            |
| Accounts payable                                 | 20,231                 | 3,693                     | 6,160                             | -  | 30,084                               | 2,155                      |
| Accrued and other liabilities                    | 168,124                | 5,465                     | 15,903                            | -  | 189,492                              | 10,476                     |
| Due to other funds (Note 6)                      | 145,407                | -                         | 32,579                            | -  | 177,986                              | 58,191                     |
| Due to other governmental units                  | 56,974                 | -                         | -                                 | -  | 56,974                               | -                          |
| Current portion of compensated absences (Note 7) | 23,634                 | 6,826                     | 14,219                            | -  | 44,679                               | 3,199                      |
| Current portion of long-term debt (Note 7)       | <u>95,000</u>          | <u>-</u>                  | <u>-</u>                          | <u>-</u>                                       | <u>95,000</u>                        | <u>66,995</u>              |
| Total current liabilities                        | 509,370                | 15,984                    | 68,861                            | -  | 594,215                              | 141,016                    |
| Noncurrent liabilities (Note 7):                 |                        |                           |                                   |  |                                      |                            |
| Provision for compensated absences               | 74,422                 | 23,849                    | 45,920                            | -  | 144,191                              | 13,127                     |
| Long-term debt - Net of current portion          | <u>4,505,000</u>       | <u>-</u>                  | <u>-</u>                          | <u>-</u>                                       | <u>4,505,000</u>                     | <u>166,108</u>             |
| Total noncurrent liabilities                     | <u>4,579,422</u>       | <u>23,849</u>             | <u>45,920</u>                     | <u>-</u>                                       | <u>4,649,191</u>                     | <u>179,235</u>             |
| Total liabilities                                | <u>5,088,792</u>       | <u>39,833</u>             | <u>114,781</u>                    | <u>-</u>                                       | <u>5,243,406</u>                     | <u>320,251</u>             |
| <b>Net Assets (Deficit)</b>                      |                        |                           |                                   |  |                                      |                            |
| Invested in capital assets - Net of related debt | 4,730,707              | 962,093                   | 4,300,224                         | -  | 9,993,024                            | 1,219,858                  |
| Restricted for:                                  |                        |                           |                                   |  |                                      |                            |
| Revenue bond reserve                             | 350,000                | -                         | -                                 | -  | 350,000                              | -                          |
| Improvement Fund                                 | -                      | -                         | 279,896                           | -  | 279,896                              | -                          |
| Replacement Fund                                 | -                      | -                         | 1,326,020                         | -  | 1,326,020                            | -                          |
| Unrestricted (deficit)                           | <u>2,044,042</u>       | <u>1,582,317</u>          | <u>179,188</u>                    | <u>118</u>                                     | <u>3,805,665</u>                     | <u>(87,148)</u>            |
| Total net assets                                 | <u>\$ 7,124,749</u>    | <u>\$ 2,544,410</u>       | <u>\$ 6,085,328</u>               | <u>\$ 118</u>                                  | <u>\$ 15,754,605</u>                 | <u>\$ 1,132,710</u>        |

# City of Owosso, Michigan

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

|  | Enterprise Funds       |                           |                                   |                        | Total<br>Business-type<br>Activities | Governmental             |
|--|------------------------|---------------------------|-----------------------------------|------------------------|--------------------------------------|--------------------------|
|  | Major Funds            |                           | Nonmajor Fund                     |                        |                                      | Activities               |
|  | Water Supply<br>System | Sewage Disposal<br>System | Wastewater<br>Treatment<br>System | Transportation<br>Fund |                                      | Internal Service<br>Fund |
| <b>Operating Revenue</b>                     |                        |                           |                                   |                        |                                      |                          |
| Sale of water                                | \$ 1,709,889           | \$ -                      | \$ -                              | \$ -                   | \$ 1,709,889                         | \$ -                     |
| Sewage disposal charges                      | -                      | 1,449,958                 | -                                 | -                      | 1,449,958                            | -                        |
| Property taxes                               | -                      | -                         | -                                 | 39,604                 | 39,604                               | -                        |
| State sources                                | -                      | 157,357                   | -                                 | -                      | 157,357                              | -                        |
| Other charges for services                   | -                      | -                         | 1,200,000                         | -                      | 1,200,000                            | 529,687                  |
| <b>Total operating revenue</b>               | <b>1,709,889</b>       | <b>1,607,315</b>          | <b>1,200,000</b>                  | <b>39,604</b>          | <b>4,556,808</b>                     | <b>529,687</b>           |
| <b>Operating Expenses</b>                    |                        |                           |                                   |                        |                                      |                          |
| Personnel services                           | 748,593                | 172,927                   | 509,934                           | -                      | 1,431,454                            | -                        |
| Administrative and engineering services      | 185,000                | 37,000                    | 149,374                           | -                      | 371,374                              | 95,460                   |
| Contractual and professional services        | 74,439                 | 187,518                   | 32,042                            | 39,572                 | 333,571                              | 4,915                    |
| Supplies and chemicals                       | 163,497                | 13,548                    | 112,642                           | -                      | 289,687                              | 544                      |
| Utilities                                    | 103,598                | 2,094                     | 206,097                           | -                      | 311,789                              | -                        |
| Insurance                                    | 69,561                 | 14,674                    | 52,087                            | -                      | 136,322                              | 54,179                   |
| Maintenance                                  | 185,010                | 21,288                    | 113,007                           | -                      | 319,305                              | 82,321                   |
| Plant charges                                | -                      | 932,014                   | -                                 | -                      | 932,014                              | -                        |
| Depreciation                                 | 300,259                | 30,198                    | 358,046                           | -                      | 688,503                              | 275,477                  |
| <b>Total operating expenses</b>              | <b>1,829,957</b>       | <b>1,411,261</b>          | <b>1,533,229</b>                  | <b>39,572</b>          | <b>4,814,019</b>                     | <b>512,896</b>           |
| <b>Operating Income (Loss)</b>               | <b>(120,068)</b>       | <b>196,054</b>            | <b>(333,229)</b>                  | <b>32</b>              | <b>(257,211)</b>                     | <b>16,791</b>            |
| <b>Nonoperating Revenue (Expenses)</b>       |                        |                           |                                   |                        |                                      |                          |
| Investment income                            | 122,534                | 66,443                    | 93,614                            | -                      | 282,591                              | -                        |
| Rent income                                  | 7,668                  | -                         | -                                 | -                      | 7,668                                | -                        |
| Debt service charges                         | -                      | -                         | 220,000                           | -                      | 220,000                              | -                        |
| Replacement charges                          | -                      | -                         | 25,999                            | -                      | 25,999                               | -                        |
| Equipment replacement cost                   | -                      | -                         | (108,217)                         | -                      | (108,217)                            | -                        |
| Reimbursements and miscellaneous income      | 22,646                 | 1,485                     | 1,824                             | -                      | 25,955                               | -                        |
| Permits                                      | 26,875                 | 13,140                    | -                                 | -                      | 40,015                               | -                        |
| Miscellaneous expense                        | (25,685)               | (41,690)                  | (1,234)                           | -                      | (68,609)                             | -                        |
| Interest expense                             | (212,740)              | -                         | -                                 | -                      | (212,740)                            | (7,559)                  |
| <b>Total nonoperating revenue (expenses)</b> | <b>(58,702)</b>        | <b>39,378</b>             | <b>231,986</b>                    | <b>-</b>               | <b>212,662</b>                       | <b>(7,559)</b>           |
| <b>Changes in Net Assets</b>                 | <b>(178,770)</b>       | <b>235,432</b>            | <b>(101,243)</b>                  | <b>32</b>              | <b>(44,549)</b>                      | <b>9,232</b>             |
| <b>Net Assets - Beginning of year</b>        | <b>7,303,519</b>       | <b>2,308,978</b>          | <b>6,186,571</b>                  | <b>86</b>              | <b>15,799,154</b>                    | <b>1,123,478</b>         |
| <b>Net Assets - End of year</b>              | <b>\$ 7,124,749</b>    | <b>\$ 2,544,410</b>       | <b>\$ 6,085,328</b>               | <b>\$ 118</b>          | <b>\$ 15,754,605</b>                 | <b>\$ 1,132,710</b>      |

# City of Owosso, Michigan

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

|   | Enterprise Funds       |                           |                                   |                        |                                 | Governmental<br>Activities |
|---|------------------------|---------------------------|-----------------------------------|------------------------|---------------------------------|----------------------------|
|   | Major Funds            |                           |                                   | Nonmajor Fund          | Total<br>Business-type<br>Funds |                            |
|   | Water Supply<br>System | Sewage Disposal<br>System | Wastewater<br>Treatment<br>System | Transportation<br>Fund |                                 |                            |
| <b>Cash Flows from Operating Activities</b>   |                        |                           |                                   |                        |                                 |                            |
| Receipts from customers   | \$ 1,770,128           | \$ 1,580,265              | \$ 1,200,000                      | \$ -                   | \$ 4,550,393                    | \$ 529,687                 |
| Payments to employees   | (716,767)              | (163,257)                 | (489,729)                         | -                      | (1,369,753)                     | (94,325)                   |
| Payments to suppliers   | (780,990)              | (1,226,239)               | (811,889)                         | (39,572)               | (2,858,690)                     | (145,405)                  |
| Receipts from (payments to) other funds   | (136,029)              | 9,036                     | 5,620                             | 39,604                 | (81,769)                        | (190,178)                  |
| Net cash (used in) provided by operating activities                                     | 136,342                | 199,805                   | (95,998)                          | 32                     | 240,181                         | 99,779                     |
| <b>Cash Flows from Capital and Financing Activities</b>                                 |                        |                           |                                   |                        |                                 |                            |
| Purchase of capital assets  | (198,840)              | -                         | -                                 | -                      | (198,840)                       | (126,436)                  |
| Debt service and replacement charges  | -                      | -                         | 245,999                           | -                      | 245,999                         | -                          |
| Proceeds from debt issue  | -                      | -                         | -                                 | -                      | -                               | 103,300                    |
| Principal and interest paid on capital debt   | (287,740)              | -                         | -                                 | -                      | (287,740)                       | (76,643)                   |
| Net cash (used in) provided by capital and financing activities                         | (486,580)              | -                         | 245,999                           | -                      | (240,581)                       | (99,779)                   |
| <b>Cash Flows from Investing Activities -</b>   |                        |                           |                                   |                        |                                 |                            |
| Interest received on investments  | 122,534                | 66,443                    | 93,614                            | -                      | 282,591                         | -                          |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                             | (227,704)              | 266,248                   | 243,615                           | 32                     | 282,191                         | -                          |
| <b>Cash and Cash Equivalents - Beginning of year</b>                                    | 2,437,420              | 1,139,043                 | 1,536,415                         | 86                     | 5,112,964                       | -                          |
| <b>Cash and Cash Equivalents - End of year</b>  | <u>\$ 2,209,716</u>    | <u>\$ 1,405,291</u>       | <u>\$ 1,780,030</u>               | <u>\$ 118</u>          | <u>\$ 5,395,155</u>             | <u>\$ -</u>                |
| <b>Balance Sheet Classification of Cash and Cash Equivalents</b>                        |                        |                           |                                   |                        |                                 |                            |
| Cash and investments  | \$ 1,859,716           | \$ 1,405,291              | \$ 174,114                        | \$ 118                 | \$ 3,439,239                    | \$ -                       |
| Restricted cash and investments (Note 3)  | 350,000                | -                         | 1,605,916                         | -                      | 1,955,916                       | -                          |
| Total cash and cash equivalents   | <u>\$ 2,209,716</u>    | <u>\$ 1,405,291</u>       | <u>\$ 1,780,030</u>               | <u>\$ 118</u>          | <u>\$ 5,395,155</u>             | <u>\$ -</u>                |
| <b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>  |                        |                           |                                   |                        |                                 |                            |
| Operating income (loss)   | \$ (120,068)           | \$ 196,054                | \$ (333,229)                      | \$ 32                  | \$ (257,211)                    | \$ 16,791                  |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: |                        |                           |                                   |                        |                                 |                            |
| Depreciation and amortization   | 300,259                | 30,196                    | 358,044                           | -                      | 688,499                         | 275,477                    |
| Other receipts (payments)   | 31,504                 | (27,066)                  | (107,626)                         | -                      | (103,188)                       | -                          |
| Changes in assets and liabilities:  |                        |                           |                                   |                        |                                 |                            |
| Receivables   | 3,050                  | 15                        | -                                 | -                      | 3,065                           | -                          |
| Due from other funds  | 12,153                 | 103,766                   | (25,125)                          | -                      | 90,794                          | -                          |
| Inventories and prepaid costs   | 39,279                 | -                         | -                                 | -                      | 39,279                          | -                          |
| Accounts payable  | (73,127)               | (18,101)                  | (39,012)                          | -                      | (130,240)                       | (3,446)                    |
| Accrued and other liabilities   | 91,474                 | 9,671                     | 20,205                            | -                      | 121,350                         | 1,135                      |
| Due to other funds  | (148,182)              | (94,730)                  | 30,745                            | -                      | (212,167)                       | (190,178)                  |
| Net cash (used in) provided by operating activities                                     | <u>\$ 136,342</u>      | <u>\$ 199,805</u>         | <u>\$ (95,998)</u>                | <u>\$ 32</u>           | <u>\$ 240,181</u>               | <u>\$ 99,779</u>           |

**Noncash Investing, Capital, and Financing Activities** - There were no noncash transactions during the year ended June 30, 2007.

# City of Owosso, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2007

|  | Pension and<br>Other Employee<br>Benefit Trust<br>Fund | Agency Fund    |
|--|--|----------------|
|  | Employees'<br>Retirement<br>System                     | Tax Collection |
|  |  |                |
| <b>Assets</b>  |  |                |
| Cash and cash equivalents (Note 3)                     | \$ 17,981  | \$ 18,238      |
| Investments (Note 3):                                  |  |                |
| Money market funds                                     | 2,867,218  | -              |
| U.S. government securities                             | 7,855,426  | -              |
| Stocks   | 18,427,561   | -              |
| Bonds  | 4,397,935  | -              |
| Receivables  | 124,419  | 63             |
| Total assets   | 33,690,540   | \$ 18,301      |
| <b>Liabilities</b>                                     |  |                |
| Accounts payable                                       | 22,394   | \$ -           |
| Accrued and other liabilities                          | -  | 18,301         |
| Total liabilities                                      | 22,394   | \$ 18,301      |
| <b>Net Assets - Held in trust for pension benefits</b> | <b>\$ 33,668,146</b>                                   |                |

# City of Owosso, Michigan

## Fiduciary Funds Pension and Other Employee Benefit Trust Fund Statement of Changes in Net Assets Year Ended June 30, 2007

|  | Employees'<br>Retirement<br>System |
|--|------------------------------------|
| <b>Additions</b>                                     |                                    |
| Investment income:                                   |                                    |
| Net increase in fair value of investments            | \$ 3,431,607                       |
| Interest and dividends                               | <u>964,437</u>                     |
| Total investment income                              | 4,396,044                          |
| Contributions:                                       |                                    |
| Employer   | 95,731                             |
| Employee   | <u>236,940</u>                     |
| Total contributions                                  | <u>332,671</u>                     |
| Total additions                                      | 4,728,715                          |
| <b>Deductions</b>                                    |                                    |
| Benefit payments                                     | 1,330,308                          |
| Refunds of contributions                             | 127,037                            |
| Administrative expenses                              | <u>130,516</u>                     |
| Total deductions                                     | <u>1,587,861</u>                   |
| <b>Net Increase</b>                                  | 3,140,854                          |
| <b>Net Assets Held in Trust for Pension Benefits</b> |                                    |
| Beginning of year                                    | <u>30,527,292</u>                  |
| End of year  | <u><b>\$ 33,668,146</b></u>        |

# City of Owosso, Michigan

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

|  | Downtown<br>Development<br>Authority | Local<br>Development<br>Financing<br>Authority II | Brownfield<br>Redevelopment<br>Authority | Total                    |
|--|--------------------------------------|---|--|--------------------------|
| <b>Assets</b>                              |                                      |   |  |                          |
| Cash and investments (Note 3)              | \$ 13,887                            | \$ -  | \$ -                                     | \$ 13,887                |
| Due from other governmental units          | 286,928                              | 85,704  | 142,033                                  | 514,665                  |
| Land held for sale                         | -                                    | -   | 89,812                                   | 89,812                   |
| Total assets                               | 300,815                              | 85,704  | 231,845                                  | 618,364                  |
| <b>Liabilities</b>                         |                                      |   |  |                          |
| Accounts payable                           | 2,268                                | -   | -  | 2,268                    |
| Due to other governmental units            | 234,376                              | 119,242   | 269,400                                  | 623,018                  |
| Total liabilities                          | 236,644                              | 119,242   | 269,400                                  | 625,286                  |
| <b>Net Assets (Deficit) - Unrestricted</b> | <b><u>\$ 64,171</u></b>              | <b><u>\$ (33,538)</u></b>                         | <b><u>\$ (37,555)</u></b>                | <b><u>\$ (6,922)</u></b> |

# City of Owosso, Michigan

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|  | <u>Expenses</u>          | <u>Program Revenues</u> | <u>Operating Grants and Contributions</u> |
|--|--------------------------|-------------------------|---|
| Downtown Development Authority -<br>Community and economic development     | \$ 416,438               | \$ -                    |   |
| Local Development Financing Authority II -<br>Interest on long-term debt   | 18,768                   | -                       |   |
| Brownfield Redevelopment Authority -<br>Community and economic development | <u>60,858</u>            | <u>-</u>                |   |
| Total governmental activities  | <u><u>\$ 496,064</u></u> | <u><u>\$ -</u></u>      |   |

General revenues:

Property taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

**Changes in Net Assets**

**Net Assets (Deficit) -**  
Beginning of year

**Net Assets (Deficit) -**  
End of year

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

| Net (Expense) Revenue and Changes in Net Assets |   |  |                   |
|---|---|--|-------------------|
| Downtown<br>Development<br>Authority            | Local<br>Development<br>Financing<br>Authority II | Brownfield<br>Redevelopment<br>Authority | Total             |
| \$ (416,438)                                    | \$ -  | \$ -                                     | \$ (416,438)      |
| -   | (18,768)  | -  | (18,768)          |
| -   | -   | (60,858)                                 | (60,858)          |
| (416,438)                                       | (18,768)  | (60,858)                                 | (496,064)         |
| 471,068   | 79,911  | 18,829                                   | 569,808           |
| 131   | -   | -  | 131               |
| 62  | -   | -  | 62                |
| 471,261   | 79,911  | 18,829                                   | 570,001           |
| 54,823  | 61,143  | (42,029)                                 | 73,937            |
| 9,348   | (94,681)  | 4,474                                    | (80,859)          |
| <b>\$ 64,171</b>                                | <b>\$ (33,538)</b>                                | <b>\$ (37,555)</b>                       | <b>\$ (6,922)</b> |

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

The accounting policies of the City of Owosso, 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:

### **Reporting Entity**

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

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

**Discretely Presented Component Units** - The following component units are reported within the component units column in the statement of net assets. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the component units statement of net assets. Separate financial statements for the component units, other than the Downtown Development Authority, are not available.

The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Complete financial statements of the Downtown Development Authority can be obtained from its administrative offices at the following address:

Administrative Office  
Downtown Development Authority  
301 W. Main Street  
Owosso, MI 48867

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

The Local Development Financing Authority II was created to prevent conditions of unemployment, promote economic growth, and authorize the acquisition and disposal of interests in real and personal property. The Authority's governing body consists of seven individuals, who are selected by the City Council, School Board, Regional Education School District, and County Commission.

The Brownfield Redevelopment Authority was created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment Zone. The Brownfield governing body, which consists of seven individuals, is selected by the City Council, and includes all members of the LDFA board. In addition, the Brownfield budget is subject to approval by the City Council.

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

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

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

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

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

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

Property taxes that are both measurable and available for use to finance operations are recorded as revenue when earned. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are billed on July 1 of the following year.

Noncurrent receivables, such as special assessments, are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end. Interest income on special assessments receivable is not accrued until its due date.

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. General Fund activities are financed by revenues from general property taxes, state-shared revenues, and other sources.

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

The Major Streets Fund is used to account for the proceeds of revenues or financing activities earmarked for major street construction and improvements which require separate accounting because of legal or regulatory provisions.

The Subdivision Fund is used to account for the development of the subdivision.

The City reports the following major Enterprise Funds:

The Water Supply System and Sewage Disposal System Funds are used to account for the provision of water and sewer services to the residents of the City and some residents of the surrounding community. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

The Wastewater Treatment System Fund is used to record the transactions relative to the construction, operation, and maintenance of a wastewater treatment plant. It provides treatment facilities for Owosso and Caledonia Townships, the City of Corunna, as well as for the City itself.

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance services provided to other departments of the City on a cost reimbursement basis.

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, and/or other funds. These include the Employee Retirement System and the Tax Collections Agency Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The Employees' Retirement System is governed by a seven-member pension board that includes three individuals chosen by the City Council. The system is reported within the City's basic financial statements even though its resources cannot be used to fund the City's operations because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

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

## **Note I - 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. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for 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 revenue and expenses. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

### **Assets, Liabilities, and Net Assets or Equity**

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

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

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

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

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

The 2006 taxable valuation of the City totaled \$266.9 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which ad valorem taxes levied consisted of 13.0540 mills for operating purposes, 0.2980 mills for debt service, and 0.1465 mills for the operations of the Shiawassee Area Transportation Authority (SATA). This resulted in approximately \$3.5 million for operating, \$80,000 for debt service, and \$40,000 for SATA. These amounts are recognized in the respective General, Debt Service, and Enterprise Funds financial statements as tax revenue.

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

**Inventories, Land Held for Sale, and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Land held for sale includes the costs incurred by the City to develop the land for sale.

**Restricted Assets** - The revenue bonds and interlocal agreements of the Enterprise Funds require amounts to be set aside for future improvements and replacements and a bond reserve. These amounts have been classified as restricted assets.

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

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

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

|                         |                |
|-------------------------|----------------|
| Roads and sidewalks     | 50 years       |
| Land improvements       | 40 to 50 years |
| Buildings               | 40 to 50 years |
| Vehicles                | 3 to 12 years  |
| Office furnishings      | 5 to 7 years   |
| Machinery and equipment | 3 to 12 years  |

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated 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. 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.

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

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

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

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, except that transfers in and out are budgeted as revenue and expenditures. All annual appropriations lapse at fiscal year end. Charter provisions require department head submissions by the first Monday in February, submission of the budget to the City Council by the first meeting in April, and adoption of the budget by the fourth Monday in May.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City's General Fund had an expenditure budget variance in its transfers line item, where the budgeted amount was \$446,575 and the actual expenditure was \$475,460. A supplemental contribution to the street funds was necessary because of a shortfall in gas and weight tax revenue projections from the State at year end. This caused a budget variance in the General Fund but avoided deficit conditions in the Major and Local Streets Funds.

**Fund Deficits** - The Subdivision Fund had a net deficit at the fund basis at year end of \$331,570. The Subdivision Fund will collect the proceeds on the sale of land to eliminate this deficit.

The Fleet Maintenance Fund had a deficit in unrestricted net assets of \$87,148. The Fleet Maintenance Fund will eliminate this deficit through expected payback over four years from equipment rental fees due to significant major equipment purchases.

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

The Local Development Financing Authority II had a net deficit at the government-wide basis at year end of \$33,538; on the modified accrual basis of accounting, there was fund balance of \$384. The Local Development Financing Authority II will capture property taxes in the future to eliminate this deficit.

The Brownfield Redevelopment Authority had a net deficit at the government-wide basis at year end of \$37,555; on the modified accrual basis of accounting, there was a fund balance of \$3,745. The Brownfield Redevelopment Authority will capture property taxes in the future to eliminate this deficit.

## **Note 3 - Deposits and Investments**

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

The Pension Trust Fund is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated five banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investments as allowed under state statutory authority as listed above.

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

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

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a deposit policy for custodial credit risk. At year end, the City had bank deposits (certificates of deposit, checking, and savings accounts) of \$6,310,473, of which \$432,287 was covered by federal depository insurance and \$5,878,186 was uninsured and uncollateralized. The component units' deposits had a bank balance of \$13,942, of which all was covered by federal depository insurance. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

| Investment Type                                     | Carrying Value | How Held                   |
|---|----------------|----------------------------|
| U.S. government or agency bond<br>or note (pension) | \$ 7,855,426   | Counterparty               |
| Corporate bonds (pension)                           | 4,397,935      | Counterparty's trust dept. |
| Corporate stocks (pension)                          | 18,427,561     | Counterparty's trust dept. |

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

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy restricts maturities greater than three years to sinking fund-type reserves. The pension trust fund does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity for nonpension funds. At year end, the average maturities of investments are as follows:

| Type of Investment                               | Fair Value   | Less than    |            |              | More than 10<br>Years |
|--|--------------|--------------|------------|--------------|-----------------------|
|  |              | One Year     | 1-5 Years  | 6-10 Years   |                       |
| U.S. government or agency bond or note (pension) | \$ 7,855,426 | \$ 1,126,932 | \$ 256,055 | \$ 1,749,015 | \$ 4,723,424          |
| Corporate bonds (pension)                        | 4,397,935    | 614,388      | 207,673    | 697,080      | 2,878,794             |
| Money market funds (pension)                     | 2,867,218    | 2,867,218    | -          | -            | -                     |
| Money market funds                               | 4,041,876    | 4,041,876    | -          | -            | -                     |

#### Credit Risk

The City's investment policy limits its investment choices to those specified by state statute. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment   | Fair Value   | Rating    | Rating       |
|--|--------------|-----------|--------------|
|  |              |           | Organization |
| Corporate bonds (pension)                          | \$ 2,337,503 | AAA       | S&P          |
| Corporate bonds (pension)                          | 80,301       | AA+       | S&P          |
| Corporate bonds (pension)                          | 47,673       | AA        | S&P          |
| Corporate bonds (pension)                          | 238,131      | A+        | S&P          |
| Corporate bonds (pension)                          | 147,060      | A         | S&P          |
| Corporate bonds (pension)                          | 480,309      | A-        | S&P          |
| Corporate bonds (pension)                          | 231,392      | BBB+      | S&P          |
| Corporate bonds (pension)                          | 360,686      | BBB       | S&P          |
| Corporate bonds (pension)                          | 23,627       | B         | S&P          |
| Corporate bonds (pension)                          | 451,254      | Not rated | -            |
| U.S. government agency bonds<br>or notes (pension) | 7,855,426    | AAA       | S&P          |
| Money market funds (pension)                       | 2,867,218    | Not rated | -            |
| Money market funds                                 | 4,041,876    | Not rated | -            |

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2007

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor and Internal Service Funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

|                     | Governmental Activities |                   |                   | Business-type Activities |                 | Total               |
|---------------------|-------------------------|-------------------|-------------------|--------------------------|-----------------|---------------------|
|                     | General                 | Major             | Nonmajor          | Water Supply             | Sewage          |                     |
|                     | Fund                    | Streets Fund      | and Other Funds   | System                   | Disposal System |                     |
| Receivables:        |                         |                   |                   |                          |                 |                     |
| Taxes               | \$ 5,363                | \$ -              | \$ -              | \$ -                     | \$ -            | \$ 5,363            |
| Intergovernmental   | 761,561                 | 243,964           | 79,927            | 73,246                   | -               | 1,158,698           |
| Special assessments | -                       | -                 | 410,912           | -                        | -               | 410,912             |
| Customers           | -                       | -                 | -                 | 334,505                  | 144             | 334,649             |
| Interest and other  | 139,900                 | -                 | 16,171            | -                        | -               | 156,071             |
| Loans               | -                       | -                 | 427,626           | -                        | -               | 427,626             |
| Total receivables   | <u>\$ 906,824</u>       | <u>\$ 243,964</u> | <u>\$ 934,636</u> | <u>\$ 407,751</u>        | <u>\$ 144</u>   | <u>\$ 2,493,319</u> |

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

|                       | Unavailable       | Unearned          | Total             |
|-----------------------|-------------------|-------------------|-------------------|
| Special assessments   | \$ 260,956        | \$ 149,956        | \$ 410,912        |
| State-shared revenues | 351,024           | -                 | 351,024           |
| Total                 | <u>\$ 611,980</u> | <u>\$ 149,956</u> | <u>\$ 761,936</u> |

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

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

| <b>Governmental Activities</b>        | Balance<br>July 1, 2006 | Additions         | Disposals and<br>Adjustments | Balance<br>June 30, 2007 |
|---------------------------------------|-------------------------|-------------------|------------------------------|--------------------------|
| Capital assets not being depreciated: |                         |                   |                              |                          |
| Land                                  | \$ 4,278,332            | \$ 255,797        | \$ (50,291)                  | \$ 4,483,838             |
| Construction in progress              | -                       | 283,050           | -                            | 283,050                  |
| Subtotal                              | 4,278,332               | 538,847           | (50,291)                     | 4,766,888                |
| Capital assets being depreciated:     |                         |                   |                              |                          |
| Roads and sidewalks                   | 40,687,465              | 1,054,537         | (30,010)                     | 41,711,992               |
| Land improvements                     | 1,302,460               | 77,251            | -                            | 1,379,711                |
| Buildings                             | 2,790,192               | -                 | -                            | 2,790,192                |
| Vehicles                              | 3,220,208               | 90,291            | (42,955)                     | 3,267,544                |
| Office furnishings                    | 1,404,129               | -                 | -                            | 1,404,129                |
| Machinery and equipment               | 2,024,027               | 156,436           | (109,960)                    | 2,070,503                |
| Subtotal                              | 51,428,481              | 1,378,515         | (182,925)                    | 52,624,071               |
| Accumulated depreciation:             |                         |                   |                              |                          |
| Roads and sidewalks                   | 13,361,111              | 813,149           | -                            | 14,174,260               |
| Land improvements                     | 1,127,085               | 72,997            | -                            | 1,200,082                |
| Buildings                             | 1,683,201               | 90,062            | -                            | 1,773,263                |
| Vehicles                              | 1,614,936               | 343,617           | (42,132)                     | 1,916,421                |
| Office furnishings                    | 1,066,449               | 103,602           | -                            | 1,170,051                |
| Machinery and equipment               | 1,276,515               | 204,326           | (79,960)                     | 1,400,881                |
| Subtotal                              | 20,129,297              | 1,627,753         | (122,092)                    | 21,634,958               |
| Net capital assets being depreciated  | 31,299,184              | (249,238)         | (60,833)                     | 30,989,113               |
| Net capital assets                    | <u>\$ 35,577,516</u>    | <u>\$ 289,609</u> | <u>\$ (111,124)</u>          | <u>\$ 35,756,001</u>     |

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

| Business-type Activities               | Balance<br>July 1, 2006 | Additions           | Adjustments and<br>Disposals | Balance<br>June 30, 2007 |
|--|-------------------------|---------------------|------------------------------|--------------------------|
| Capital assets not being depreciated - |                         |                     |                              |                          |
| Land                                   | \$ 451,314              | \$ -                | \$ -                         | \$ 451,314               |
| Capital assets being depreciated:      |                         |                     |                              |                          |
| Buildings                              | 13,239,935              | -                   | -                            | 13,239,935               |
| Improvements other than buildings      | 8,123,411               | 198,842             | 3,412                        | 8,325,665                |
| Vehicles                               | 63,657                  | -                   | -                            | 63,657                   |
| Machinery and equipment                | 10,346,208              | -                   | (3,415)                      | 10,342,793               |
| Subtotal                               | 31,773,211              | 198,842             | (3)                          | 31,972,050               |
| Accumulated depreciation:              |                         |                     |                              |                          |
| Buildings                              | 4,825,505               | 277,519             | (8,390)                      | 5,094,634                |
| Improvements other than buildings      | 3,541,049               | 170,936             | 11,024                       | 3,723,009                |
| Vehicles                               | 54,326                  | 2,993               | 3,963                        | 61,282                   |
| Machinery and equipment                | 8,720,960               | 237,055             | (6,600)                      | 8,951,415                |
| Subtotal                               | 17,141,840              | 688,503             | (3)                          | 17,830,340               |
| Net capital assets being depreciated   | 14,631,371              | (489,661)           | -                            | 14,141,710               |
| Net capital assets                     | <u>\$ 15,082,685</u>    | <u>\$ (489,661)</u> | <u>\$ -</u>                  | <u>\$ 14,593,024</u>     |

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

|                                |                     |
|--------------------------------|---------------------|
| Governmental activities:       |                     |
| General government             | \$ 172,775          |
| Public safety                  | 311,919             |
| Public works                   | 1,102,966           |
| Economic development           | 2,154               |
| Recreation and culture         | 37,939              |
| Total governmental activities  | <u>\$ 1,627,753</u> |
| Business-type activities:      |                     |
| Water                          | \$ 300,259          |
| Sewer                          | 30,198              |
| Wastewater                     | 358,046             |
| Total business-type activities | <u>\$ 688,503</u>   |

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2007

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

The composition of interfund balances is as follows:

| Receivable Fund                | Payable Fund              | Amount              |
|--------------------------------|---------------------------|---------------------|
| <b>Due To/From Other Funds</b> |                           |                     |
| General Fund                   | Major Streets Fund        | \$ 83,088           |
|                                | Subdivision Fund          | 577,570             |
|                                | Other governmental funds  | 94,670              |
|                                | Fleet maintenance         | <u>58,191</u>       |
| Total General Fund             |                           | 813,519             |
| Other governmental funds       | General Fund              | 876,944             |
|                                | Major Streets Fund        | 56,515              |
|                                | Other governmental funds  | <u>123,209</u>      |
| Total other governmental funds |                           | 1,056,668           |
| Water Fund                     | General Fund              | 29,274              |
|                                | Major Streets Fund        | 15,916              |
|                                | Other governmental funds  | 14,350              |
|                                | Wastewater Treatment Fund | <u>1,614</u>        |
| Total Water Fund               |                           | 61,154              |
| Sewer Fund                     | General Fund              | 14,108              |
|                                | Major Streets Fund        | 8,313               |
|                                | Water Fund                | 145,407             |
|                                | Wastewater Treatment Fund | 30,965              |
|                                | Other governmental funds  | <u>17,922</u>       |
| Total Sewer Fund               |                           | 216,715             |
| Wastewater Fund                | Sewer Fund                | <u>119,855</u>      |
| Total due to/from other funds  |                           | <u>\$ 2,267,911</u> |

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur and (2) payments between funds are made.

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

#### Interfund Transfers

|                          | Transfers Out     |                   |                    | Total             |
|--------------------------|-------------------|-------------------|--------------------|-------------------|
|                          | General           | Major             | Other              |                   |
|                          | Fund              | Streets Fund      | Governmental Funds |                   |
| Transfers in:            |                   |                   |                    |                   |
| Major Streets Fund       | \$ 268,772        | \$ -              | \$ -               | \$ 268,772        |
| Other governmental funds | <u>206,688</u>    | <u>237,140</u>    | <u>42,955</u>      | <u>486,783</u>    |
| Total transfers by fund  | <u>\$ 475,460</u> | <u>\$ 237,140</u> | <u>\$ 42,955</u>   | <u>\$ 755,555</u> |

Transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that the budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in others in accordance with budgetary authorizations.

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

|   | Beginning<br>Balance | Additions         | Reductions        | Ending Balance      | Due Within<br>One Year |
|---|----------------------|-------------------|-------------------|---------------------|------------------------|
| <b>Governmental Activities</b>                        |                      |                   |                   |                     |                        |
| General obligation bonds:                             |                      |                   |                   |                     |                        |
| 1992 General Obligation<br>Limited Tax Bonds          | \$ 120,000           | \$ -              | \$ 120,000        | \$ -                | \$ -                   |
| 1994 Unlimited Tax General<br>Obligation Bonds        | 290,000              | -                 | 65,000            | 225,000             | 70,000                 |
| 2001 General Obligation<br>Limited Tax Bonds          | 555,000              | -                 | 95,000            | 460,000             | 110,000                |
| Installment purchase agreements:                      |                      |                   |                   |                     |                        |
| HVAC  | 460,000              | -                 | 35,000            | 425,000             | 35,000                 |
| Vactor equipment                                      | 198,887              | -                 | 46,178            | 152,709             | 48,464                 |
| Elgin sweeper   | -                    | 103,300           | 22,905            | 80,395              | 18,531                 |
| Special assessment bonds:                             |                      |                   |                   |                     |                        |
| 1987 Special Assessment<br>Limited Tax Bonds          | 5,000                | -                 | 5,000             | -                   | -                      |
| 1998 Special Assessment<br>Limited Tax Bonds          | 90,000               | -                 | 60,000            | 30,000              | 30,000                 |
| 1999 Special Assessment<br>Limited Tax Bonds          | 70,000               | -                 | 25,000            | 45,000              | 25,000                 |
| 2001 Special Assessment<br>Limited Tax Bonds          | 125,000              | -                 | 30,000            | 95,000              | 30,000                 |
| Other long-term obligations:                          |                      |                   |                   |                     |                        |
| Self-insurance liabilities (Note 9)                   | 119,644              | -                 | 7                 | 119,637             | 75,000                 |
| Compensated absences                                  | 569,874              | 22,644            | 1,960             | 590,558             | 154,062                |
| Total governmental activities                         | <u>\$ 2,603,405</u>  | <u>\$ 125,944</u> | <u>\$ 506,050</u> | <u>\$ 2,223,299</u> | <u>\$ 596,057</u>      |
| <b>Business-type Activities</b>                       |                      |                   |                   |                     |                        |
| Revenue bond - 2002 Water Supply<br>System            | \$ 4,675,000         | \$ -              | \$ 75,000         | \$ 4,600,000        | \$ 95,000              |
| Other long-term obligations -<br>Compensated absences | 172,611              | 17,589            | 1,330             | 188,870             | 44,679                 |
| Total business-type activities                        | <u>\$ 4,847,611</u>  | <u>\$ 17,589</u>  | <u>\$ 76,330</u>  | <u>\$ 4,788,870</u> | <u>\$ 139,679</u>      |
| <b>Component Units - Installment loan</b>             | <u>\$ 25,000</u>     | <u>\$ -</u>       | <u>\$ 25,000</u>  | <u>\$ -</u>         | <u>\$ -</u>            |

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

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

|           | Governmental Activities |                   |                     | Business-type Activities |                     |                     |
|-----------|-------------------------|-------------------|---------------------|--------------------------|---------------------|---------------------|
|           | Principal               | Interest          | Total               | Principal                | Interest            | Total               |
| 2008      | \$ 366,995              | \$ 69,141         | \$ 436,136          | \$ 95,000                | \$ 208,484          | \$ 303,484          |
| 2009      | 350,402                 | 51,683            | 402,085             | 115,000                  | 205,059             | 320,059             |
| 2010      | 333,983                 | 34,660            | 368,643             | 135,000                  | 200,689             | 335,689             |
| 2011      | 196,724                 | 20,189            | 216,913             | 160,000                  | 195,059             | 355,059             |
| 2012      | 45,000                  | 13,636            | 58,636              | 180,000                  | 188,259             | 368,259             |
| 2013-2017 | 220,000                 | 22,395            | 242,395             | 1,290,000                | 799,450             | 2,089,450           |
| 2018-2022 | -                       | -                 | -                   | 2,090,000                | 411,678             | 2,501,678           |
| 2023-2027 | -                       | -                 | -                   | 535,000                  | 13,375              | 548,375             |
| Total     | <u>\$ 1,513,104</u>     | <u>\$ 211,704</u> | <u>\$ 1,724,808</u> | <u>\$ 4,600,000</u>      | <u>\$ 2,222,053</u> | <u>\$ 6,822,053</u> |

### Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

|                                  | Business-type<br>Activities |
|----------------------------------|-----------------------------|
| Revenue bond restrictions:       |                             |
| Revenue bond reserve             | \$ 350,000                  |
| Improvement and replacement fund | <u>1,605,916</u>            |
| Total restricted assets          | <u>\$ 1,955,916</u>         |

### Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee medical benefits and participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general and auto liability, auto physical damage and property loss claims, and the Michigan Municipal League for Workers' Compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 9 - Risk Management (Continued)

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

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

At June 30, 2007, the City has \$198,927 on deposit with the Authority to pay claims. Upon termination of the program, any amounts remaining on deposit after the Authority has settled all claims incurred prior to termination will be returned to the City. The City estimates the liability for claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

|  | 2007       | 2006       |
|--|------------|------------|
| <b>Unpaid Claims - Beginning of year</b>                     | \$ 119,644 | \$ 172,854 |
| Incurred claims (including claims incurred but not reported) | 34,252     | 21,455     |
| Claim payments   | (34,259)   | (74,665)   |
| <b>Unpaid Claims - End of year</b>                           | \$ 119,637 | \$ 119,644 |

## **Note 10 - Defined Benefit Pension Plans**

### **City of Owosso Employees' Retirement System**

**Plan Description** - The City of Owosso Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Owosso, Michigan; this plan covers substantially all the employees of the City, except for certain retired union employees of the American Federation of State, County, and Municipal Employees and the Police Command Bargaining Unit, both of which participate in the Michigan Municipal Employees' Retirement System. During the prior year, the plan was closed to all new employees under the AFSCME and General union agreements. The employees under the AFSCME and General union agreements participate in a defined contribution plan administered under ICMA for which the City matches employee contributions up to 4.0 percent. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2006, the date of the most recent actuarial valuation, membership consisted of 80 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 89 current active employees. The plan does not issue a separate financial statement.

**Funding Policy** - 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.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6.0 percent, excluding the police union, to which the City contributes up to 4.0 percent with the members being responsible for any additional contribution requirements. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings and contributions from the City.

### Note 10 - Defined Benefit Pension Plans (Continued)

**Annual Pension Costs** - For the year ended June 30, 2007, the City made contributions of \$95,731, in accordance with actuarial requirements. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method, except the general union which uses the aggregate cost method. Significant actuarial assumptions used include (i) a 7.5 percent investment rate of return, (ii) projected salary increases of 4.5 percent to 12.8 percent per year depending on age, attributable to seniority/merit, and (iii) 1.4 percent per year cost of living adjustments for the first 10 years of retirement. Both (i) and (ii) 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 unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years.

**Reserves** - As of June 30, 2007, the plan's legally required reserves have been fully funded as follows:

|                                      |              |
|--------------------------------------|--------------|
| Reserve for employees' contributions | \$ 3,751,416 |
| Reserve for retired benefit payments | 14,256,161   |

Three-year trend information as of June 30 follows:

|                               | Fiscal Year Ended June 30 |      |           |
|-------------------------------|---------------------------|------|-----------|
|                               | 2005                      | 2006 | 2007      |
| Employees' Retirement System: |                           |      |           |
| Annual pension costs (APC)    | \$ 2,671                  | \$ - | \$ 95,731 |
| Percentage of APC contributed | 100%                      | N/A  | 100%      |
| Net pension obligation        | -                         | -    | -         |

### Michigan Municipal Employees' Retirement System

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers certain retired union members of the American Federation of State, County, and Municipal Employees (AFSCME) and certain union members of the Police Command Bargaining Unit employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the system. That financial report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

### Note 10 - Defined Benefit Pension Plans (Continued)

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiations with the City's competitive bargaining units and requires 6.40 percent and 10.87 percent contributions from the employees of AFSCME and Police Command Bargaining Unit employees, respectively.

**Annual Pension Costs** - For the year ended June 30, 2007, the City was not required to make an annual contribution to the plan. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (i) an 8.0 percent investment rate of return and (ii) projected salary increases of 4.5 percent to 12.9 percent per year depending on age, attributable to seniority/merit. Both (i) and (ii) 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 unfunded actuarial liability is being amortized as a level percent of payroll. The remaining amortization period is 29 years.

Three-year trend information as of June 30 follows:

|   | Fiscal Year Ended June 30             |              |              |
|---|---------------------------------------|--------------|--------------|
|   | 2005                                  | 2006         | 2007         |
| Annual pension costs (APC)              | \$ -                                  | \$ -         | \$ -         |
| Percentage of APC contributed           | N/A                                   | N/A          | N/A          |
| Net pension obligation                  | -                                     | -            | -            |
|   | Actuarial Valuation as of December 31 |              |              |
|   | 2004                                  | 2005         | 2006         |
| Actuarial value of assets               | \$ 3,409,478                          | \$ 3,457,494 | \$ 3,662,770 |
| Actuarial accrued liability (AAL)       |                                       |              |              |
| (entry age)                             | \$ 3,267,995                          | \$ 3,435,995 | \$ 3,625,641 |
| Unfunded AAL (UAAL)                     | \$ (141,483)                          | \$ (21,499)  | \$ (37,129)  |
| Funded ratio                            | 104%                                  | 101%         | 101%         |
| Covered payroll                         | \$ 311,509                            | \$ 347,795   | \$ 357,822   |
| UAAL as a percentage of covered payroll | 0%                                    | 0%           | 0%           |

## **Note 10 - Defined Benefit Pension Plans (Continued)**

### **Defined Contribution Pension Plan**

The City provides pension benefits to the city manager position along with new employees under the AFSCME and General union agreements with a defined contribution plan administered under ICMA for which the City provides employer contributions. In accordance with these requirements, the City contributed \$7,682 during the current year and employees contributed \$2,098 during the year.

## **Note 11 - Construction Code Fees**

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

|                                       |                     |
|---------------------------------------|---------------------|
| Shortfall at July 1, 2006             | \$ (277,714)        |
| Current year building permit revenue  | 107,578             |
| Related expenses - Direct costs       | <u>122,079</u>      |
| Cumulative shortfall at June 30, 2007 | <u>\$ (292,215)</u> |

## **Note 12 - Contingent Liabilities**

The City has been served in civil and administrative actions brought against it seeking damages from matters within the geographical limits of and/or activities of the City of Owosso, Michigan. In the opinion of the administration and its legal counsel, the settlement of these actions should have no material effect upon the financial position of the City.

## **Required Supplemental Information**

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# City of Owosso, Michigan

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

|   | Original<br>Budget         | Amended<br>Budget          | Actual                     | Variance with<br>Amended<br>Budget |
|---|----------------------------|----------------------------|----------------------------|------------------------------------|
| <b>Fund Balance - Beginning of year</b>     | \$ 3,560,323               | \$ 3,560,323               | \$ 3,560,323               | \$ -                               |
| <b>Resources (Inflows)</b>                  |                            |                            |                            |                                    |
| Property taxes                              | 3,471,650                  | 3,388,275                  | 3,486,219                  | 97,944                             |
| Local sources                               | 985,700                    | 1,190,825                  | 1,205,313                  | 14,488                             |
| State and federal sources                   | 1,819,000                  | 1,726,800                  | 1,751,904                  | 25,104                             |
| Other financing sources                     | 700,000                    | -                          | -                          | -                                  |
| Appropriations of fund balance              | -                          | 355,175                    | -                          | (355,175)                          |
| Amounts available for appropriation         | 10,536,673                 | 10,221,398                 | 10,003,759                 | (217,639)                          |
| <b>Charges to Appropriations (Outflows)</b> |                            |                            |                            |                                    |
| General government                          | 1,307,300                  | 1,435,025                  | 1,377,286                  | 57,739                             |
| Public safety                               | 3,985,250                  | 3,237,900                  | 3,208,251                  | 29,649                             |
| Community and economic development          | 265,375                    | 270,275                    | 259,548                    | 10,727                             |
| Public works                                | 950,825                    | 1,065,350                  | 963,206                    | 102,144                            |
| Recreation and culture                      | 196,300                    | 205,950                    | 200,523                    | 5,427                              |
| Transfers                                   | 271,300                    | 446,575                    | 475,460                    | (28,885)                           |
| Total charges to appropriations (outflows)  | 6,976,350                  | 6,661,075                  | 6,484,274                  | 176,801                            |
| <b>Fund Balance - End of year</b>           | <b><u>\$ 3,560,323</u></b> | <b><u>\$ 3,560,323</u></b> | <b><u>\$ 3,519,485</u></b> | <b><u>\$ (40,838)</u></b>          |

# City of Owosso, Michigan

**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Special Revenue Fund**  
**Major Streets Fund**  
**Year Ended June 30, 2007**

|   | Original<br>Budget | Amended<br>Budget | Actual           | Variance<br>with<br>Amended<br>Budget |
|---|--------------------|-------------------|------------------|---------------------------------------|
| <b>Fund Balance</b> - Beginning of year                       | \$ 1,503           | \$ 1,503          | \$ 1,504         | \$ 1                                  |
| <b>Resources (Inflows)</b> - Major                            | <u>1,312,350</u>   | <u>1,905,325</u>  | <u>1,537,538</u> | <u>(367,787)</u>                      |
| Amounts available for<br>appropriation                        | 1,313,853          | 1,906,828         | 1,539,042        | (367,786)                             |
| <b>Charges to Appropriations</b><br><b>(Outflows)</b> - Major | <u>1,312,350</u>   | <u>1,905,325</u>  | <u>1,537,539</u> | <u>367,786</u>                        |
| <b>Fund Balance</b> - End of year                             | <u>\$ 1,503</u>    | <u>\$ 1,503</u>   | <u>\$ 1,503</u>  | <u>\$ -</u>                           |

# City of Owosso, Michigan

## Required Supplemental Information Pension System Schedules of Funding Progress and Employer Contributions June 30, 2007

The schedule of funding progress is as follows:

### Employees' Retirement System

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|------------------------------|---------------------|---|
| 12/31/00                 | \$ 31,509,050                 | \$ 22,593,749                         | \$ (8,915,301)            | 139.5                        | \$ 3,788,920        | 235.3                                   |
| 12/31/01                 | 32,532,073                    | 23,409,003                            | (9,123,070)               | 139.0                        | 3,809,203           | 239.5                                   |
| 12/31/02                 | 31,681,327                    | 24,793,616                            | (6,887,711)               | 127.8                        | 3,840,501           | 179.3                                   |
| 12/31/03                 | 32,112,528                    | 25,761,222                            | (6,351,306)               | 124.7                        | 3,993,163           | 159.1                                   |
| 12/31/04                 | 32,090,371                    | 25,762,080                            | (6,328,291)               | 124.6                        | 3,996,822           | 158.3                                   |
| 12/31/05                 | 32,277,585                    | 27,939,504                            | (4,338,081)               | 115.5                        | 4,162,066           | 104.2                                   |
| 12/31/06                 | 32,505,226                    | 28,673,197                            | (3,832,029)               | 113.4                        | 3,933,310           | 97.4                                    |

The schedule of employer contributions is as follows:

### Employees' Retirement System

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution | Percentage Contributed |
|-------------------|--------------------------|------------------------------|------------------------|
| 6/30/01           | 12/31/99                 | \$ -                         | N/A                    |
| 6/30/02           | 12/31/00                 | -                            | N/A                    |
| 6/30/03           | 12/31/01                 | -                            | N/A                    |
| 6/30/04           | 12/31/02                 | -                            | N/A                    |
| 6/30/05           | 12/31/03                 | 2,671                        | 100                    |
| 6/30/06           | 12/31/04                 | -                            | N/A                    |
| 6/30/07           | 12/31/05                 | 95,731                       | 100                    |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2006, the latest actuarial valuation, follows:

|                               |  |
|-------------------------------|--|
| Actuarial cost method         | Entry age for police patrol and fire, aggregate for all others |
| Amortization method           | Level percent open   |
| Remaining amortization period | 10 years   |
| Asset valuation method        | Open four-year smoothed market                                 |
| Actuarial assumptions:        |  |
| Investment rate of return     | 7.5%   |
| Projected salary increases*   | 4.5% - 12.8%   |
| *Includes inflation at        | 4.5%   |
| Cost of living adjustments    | 1.4% of the base pension for the first 10 years of retirement  |

## **Other Supplemental Information**

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# City of Owosso, Michigan

## Other Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2007

|   | Original<br>Budget   | Amended<br>Budget    | Actual               | Variance with<br>Amended<br>Budget |
|---|----------------------|----------------------|----------------------|------------------------------------|
| <b>Fund Balance</b> - Beginning of year                 | \$ 427               | \$ 427               | \$ 427               | \$ -                               |
| <b>Resources (Inflows)</b> - Local                      | <u>851,375</u>       | <u>843,000</u>       | <u>802,435</u>       | <u>(40,565)</u>                    |
| Amounts available for<br>appropriation                  | 851,802              | 843,427              | 802,862              | (40,565)                           |
| <b>Charges to Appropriations<br/>(Outflows)</b> - Local | <u>851,375</u>       | <u>843,000</u>       | <u>802,435</u>       | <u>40,565</u>                      |
| <b>Fund Balance</b> - End of year                       | <u><u>\$ 427</u></u> | <u><u>\$ 427</u></u> | <u><u>\$ 427</u></u> | <u><u>\$ -</u></u>                 |

# City of Owosso, Michigan

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

|  | Nonmajor Special Revenue Funds |                     |                  |                       | Nonmajor Debt Service Funds        |                                    |                                    |                                    |                                    |                                    |                                    |                  |
|--|--------------------------------|---------------------|------------------|-----------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------|
|  | Local<br>Streets               | Revolving Loan      | Historical       | Public<br>Improvement | 2007 Special                       | 2006 Special                       | 2005 Special                       | 2004 Special                       | 2003 Special                       | 2001 Special                       | 2000 Special                       | 1999 Special     |
|  |                                |                     |                  |                       | Assessment<br>Limited Tax<br>Bonds |                  |
| <b>Assets</b>                              |                                |                     |                  |                       |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                  |
| Cash and investments                       | \$ -                           | \$ 120,430          | \$ 69,065        | \$ 844,628            | \$ -                               | \$ 71,399                          | \$ 79,746                          | \$ 51,181                          | \$ 11,490                          | \$ 22,055                          | \$ 29,774                          | \$ 17,302        |
| Special assessments receivable             | -                              | -                   | -                | -                     | 149,955                            | 127,576                            | 35,216                             | 43,657                             | 6,838                              | 10,590                             | 17,778                             | 11,327           |
| Accounts receivable                        | -                              | 14,677              | 1,494            | -                     | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                |
| Loans receivable                           | -                              | 427,626             | -                | -                     | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                |
| Due from other funds                       | 72,652                         | 506,572             | -                | -                     | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                |
| Due from other governmental units          | 43,777                         | 36,150              | -                | -                     | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                |
| <b>Total assets</b>                        | <b>\$ 116,429</b>              | <b>\$ 1,105,455</b> | <b>\$ 70,559</b> | <b>\$ 844,628</b>     | <b>\$ 149,955</b>                  | <b>\$ 198,975</b>                  | <b>\$ 114,962</b>                  | <b>\$ 94,838</b>                   | <b>\$ 18,328</b>                   | <b>\$ 32,645</b>                   | <b>\$ 47,552</b>                   | <b>\$ 28,629</b> |
| <b>Liabilities and Fund Balances</b>       |                                |                     |                  |                       |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                  |
| <b>Liabilities</b>                         |                                |                     |                  |                       |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                  |
| Accounts payable                           | \$ 8,686                       | \$ 92,804           | \$ 175           | \$ -                  | \$ -                               | \$ -                               | \$ -                               | \$ -                               | \$ -                               | \$ -                               | \$ -                               | \$ -             |
| Accrued and other liabilities              | 844                            | -                   | 388              | -                     | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                |
| Due to other funds                         | 106,472                        | -                   | 20,470           | -                     | -                                  | 71,399                             | 79,746                             | 51,181                             | 11,490                             | 165                                | -                                  | -                |
| Due to other governmental units            | -                              | 35,000              | -                | -                     | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                |
| Deferred revenue                           | -                              | -                   | -                | -                     | 149,955                            | 127,576                            | 35,216                             | 43,657                             | 6,838                              | 10,590                             | 17,778                             | 11,327           |
| <b>Total liabilities</b>                   | <b>116,002</b>                 | <b>127,804</b>      | <b>21,033</b>    | <b>-</b>              | <b>149,955</b>                     | <b>198,975</b>                     | <b>114,962</b>                     | <b>94,838</b>                      | <b>18,328</b>                      | <b>10,755</b>                      | <b>17,778</b>                      | <b>11,327</b>    |
| <b>Fund Balances</b>                       |                                |                     |                  |                       |                                    |                                    |                                    |                                    |                                    |                                    |                                    |                  |
| Reserved                                   | -                              | 427,626             | -                | -                     | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                                  | -                |
| Unreserved                                 | 427                            | 550,025             | 49,526           | 844,628               | -                                  | -                                  | -                                  | -                                  | -                                  | 21,890                             | 29,774                             | 17,302           |
| <b>Total fund balances</b>                 | <b>427</b>                     | <b>977,651</b>      | <b>49,526</b>    | <b>844,628</b>        | <b>-</b>                           | <b>-</b>                           | <b>-</b>                           | <b>-</b>                           | <b>-</b>                           | <b>21,890</b>                      | <b>29,774</b>                      | <b>17,302</b>    |
| <b>Total liabilities and fund balances</b> | <b>\$ 116,429</b>              | <b>\$ 1,105,455</b> | <b>\$ 70,559</b> | <b>\$ 844,628</b>     | <b>\$ 149,955</b>                  | <b>\$ 198,975</b>                  | <b>\$ 114,962</b>                  | <b>\$ 94,838</b>                   | <b>\$ 18,328</b>                   | <b>\$ 32,645</b>                   | <b>\$ 47,552</b>                   | <b>\$ 28,629</b> |

(Continued on next page)

# City of Owosso, Michigan

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

|  | Nonmajor Debt Service Funds                        |  |  |  |  |  |                                     |                                     |  |   |
|--|--|--|--|--|--|--|-------------------------------------|-------------------------------------|--|---|
|  | 1998 Special<br>Assessment<br>Limited Tax<br>Bonds | 1997 Special<br>Assessment<br>Limited Tax<br>Bonds | 1996 Special<br>Assessment<br>Limited Tax<br>Bonds | 1995 Special<br>Assessment<br>Limited Tax<br>Bonds | 1994 Special<br>Assessment<br>Limited Tax<br>Bonds | 1994<br>General<br>Obligation<br>Bonds | 1990 Building<br>Authority<br>Bonds | 1992 Building<br>Authority<br>Bonds | 1987 Special<br>Assessment<br>Limited Tax<br>Bonds | Total Nonmajor<br>Governmental<br>Funds |
| <b>Assets</b>                              |  |  |  |  |  |  |                                     |                                     |  |   |
| Cash and investments                       | \$ 1,257   | \$ 28,225  | \$ 11,260  | \$ -   | \$ 3,608   | \$ -                                   | \$ -                                | \$ 12,390                           | \$ 16,864  | \$ 1,390,674                            |
| Special assessments receivable             | 2,725  | -  | -  | -  | 5,250  | -                                      | -                                   | -                                   | -  | 410,912                                 |
| Accounts receivable                        | -  | -  | -  | -  | -  | -                                      | -                                   | -                                   | -  | 16,171                                  |
| Loans receivable                           | -  | -  | -  | -  | -  | -                                      | -                                   | -                                   | -  | 427,626                                 |
| Due from other funds                       | -  | -  | -  | -  | -  | 13                                     | 112,929                             | 364,502                             | -  | 1,056,668                               |
| Due from other governmental units          | -  | -  | -  | -  | -  | -                                      | -                                   | -                                   | -  | 79,927                                  |
| <b>Total assets</b>                        | <b>\$ 3,982</b>                                    | <b>\$ 28,225</b>                                   | <b>\$ 11,260</b>                                   | <b>\$ -</b>  | <b>\$ 8,858</b>                                    | <b>\$ 13</b>                           | <b>\$ 112,929</b>                   | <b>\$ 376,892</b>                   | <b>\$ 16,864</b>                                   | <b>\$ 3,381,978</b>                     |
| <b>Liabilities and Fund Balances</b>       |  |  |  |  |  |  |                                     |                                     |  |   |
| <b>Liabilities</b>                         |  |  |  |  |  |  |                                     |                                     |  |   |
| Accounts payable                           | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -                                   | \$ -                                | \$ -                                | \$ -   | \$ 101,665                              |
| Accrued and other liabilities              | -  | -  | -  | -  | -  | -                                      | -                                   | -                                   | -  | 1,232                                   |
| Due to other funds                         | -  | 439  | 8,172  | -  | 3,608  | -                                      | -                                   | -                                   | 16,864   | 370,006                                 |
| Due to other governmental units            | -  | -  | -  | -  | -  | -                                      | -                                   | -                                   | -  | 35,000                                  |
| Deferred revenue                           | 2,725  | -  | -  | -  | 5,250  | -                                      | -                                   | -                                   | -  | 410,912                                 |
| <b>Total liabilities</b>                   | <b>2,725</b>                                       | <b>439</b>   | <b>8,172</b>                                       | <b>-</b>   | <b>8,858</b>                                       | <b>-</b>                               | <b>-</b>                            | <b>-</b>                            | <b>16,864</b>                                      | <b>918,815</b>                          |
| <b>Fund Balances</b>                       |  |  |  |  |  |  |                                     |                                     |  |   |
| Reserved                                   | -  | -  | -  | -  | -  | -                                      | -                                   | -                                   | -  | 427,626                                 |
| Unreserved                                 | 1,257  | 27,786   | 3,088  | -  | -  | 13                                     | 112,929                             | 376,892                             | -  | 2,035,537                               |
| <b>Total fund balances</b>                 | <b>1,257</b>                                       | <b>27,786</b>                                      | <b>3,088</b>                                       | <b>-</b>   | <b>-</b>   | <b>13</b>                              | <b>112,929</b>                      | <b>376,892</b>                      | <b>-</b>   | <b>2,463,163</b>                        |
| <b>Total liabilities and fund balances</b> | <b>\$ 3,982</b>                                    | <b>\$ 28,225</b>                                   | <b>\$ 11,260</b>                                   | <b>\$ -</b>  | <b>\$ 8,858</b>                                    | <b>\$ 13</b>                           | <b>\$ 112,929</b>                   | <b>\$ 376,892</b>                   | <b>\$ 16,864</b>                                   | <b>\$ 3,381,978</b>                     |

# City of Owosso, Michigan

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

|  | Nonmajor Special Revenue Funds |                   |                  |                    | Nonmajor Debt Service Funds               |   |   |   |   |   |   |   |
|--|--------------------------------|-------------------|------------------|--------------------|---|---|---|---|---|---|---|---|
|  | Local Streets                  | Revolving Loan    | Historical       | Public Improvement | 2007 Special Assessment Limited Tax Bonds | 2006 Special Assessment Limited Tax Bonds | 2005 Special Assessment Limited Tax Bonds | 2004 Special Assessment Limited Tax Bonds | 2003 Special Assessment Limited Tax Bonds | 2001 Special Assessment Limited Tax Bonds | 2000 Special Assessment Limited Tax Bonds | 1999 Special Assessment Limited Tax Bonds |
| <b>Revenue</b>                                     |                                |                   |                  |                    |   |   |   |   |   |   |   |   |
| Property taxes                                     | \$ -                           | \$ -              | \$ -             | \$ -               | \$ -                                      | \$ -                                      | \$ -                                      | \$ -                                      | \$ -                                      | \$ -                                      | \$ -                                      | \$ -                                      |
| State and local sources                            | 278,879                        | 28,100            | 18,660           | -                  | -   | -   | -   | -   | -   | -   | -   | -   |
| Interest income                                    | 2,342                          | 8,468             | 3,913            | -                  | -   | -   | -   | -   | -   | 1,881                                     | 1,228                                     | 923                                       |
| Special assessments                                | 45,281                         | -                 | -                | -                  | -   | -   | -   | -   | -   | 4,871                                     | 10,089                                    | 7,454                                     |
| Other  | -                              | 29,274            | 6,860            | -                  | -   | -   | -   | -   | -   | -   | 1,557                                     | 1,099                                     |
| Total revenue                                      | 326,502                        | 65,842            | 29,433           | -                  | -   | -   | -   | -   | -   | 6,752                                     | 12,874                                    | 9,476                                     |
| <b>Expenditures</b>                                |                                |                   |                  |                    |   |   |   |   |   |   |   |   |
| Current:   |                                |                   |                  |                    |   |   |   |   |   |   |   |   |
| Other  | -                              | -                 | 620              | -                  | -   | -   | -   | -   | -   | -   | -   | -   |
| Preservation and maintenance                       | 775,775                        | -                 | 15,224           | -                  | -   | -   | -   | -   | -   | -   | -   | -   |
| General and administrative                         | 26,660                         | 30,996            | 22,792           | -                  | -   | -   | -   | -   | -   | -   | -   | -   |
| Debt service                                       | -                              | -                 | -                | -                  | -   | -   | -   | -   | -   | 16,659                                    | 18,598                                    | 28,058                                    |
| Total expenditures                                 | 802,435                        | 30,996            | 38,636           | -                  | -   | -   | -   | -   | -   | 16,659                                    | 18,598                                    | 28,058                                    |
| <b>Excess of Revenue Over (Under) Expenditures</b> | (475,933)                      | 34,846            | (9,203)          | -                  | -   | -   | -   | -   | -   | (9,907)                                   | (5,724)                                   | (18,582)                                  |
| <b>Other Financing Sources (Uses) -</b>            |                                |                   |                  |                    |   |   |   |   |   |   |   |   |
| Transfers  | 475,933                        | -                 | 10,850           | -                  | -   | -   | -   | -   | -   | -   | -   | -   |
| <b>Net Change in Fund Balances</b>                 | -                              | 34,846            | 1,647            | -                  | -   | -   | -   | -   | -   | (9,907)                                   | (5,724)                                   | (18,582)                                  |
| <b>Fund Balances - Beginning of year</b>           | 427                            | 942,805           | 47,879           | 844,628            | -   | -   | -   | -   | -   | 31,797                                    | 35,498                                    | 35,884                                    |
| <b>Fund Balances - End of year</b>                 | <u>\$ 427</u>                  | <u>\$ 977,651</u> | <u>\$ 49,526</u> | <u>\$ 844,628</u>  | <u>\$ -</u>                               | <u>\$ 21,890</u>                          | <u>\$ 29,774</u>                          | <u>\$ 17,302</u>                          |

(Continued on next page)

# City of Owosso, Michigan

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

### Nonmajor Debt Service Funds

|  | 1998 Special<br>Assessment<br>Limited Tax<br>Bonds | 1997 Special<br>Assessment<br>Limited Tax<br>Bonds | 1996 Special<br>Assessment<br>Limited Tax<br>Bonds | 1995 Special<br>Assessment<br>Limited Tax<br>Bonds | 1994 Special<br>Assessment<br>Limited Tax<br>Bonds | 1994<br>General<br>Obligation<br>Bonds | 1990 Building<br>Authority Bonds | 1992 Building<br>Authority Bonds | 1987 Special<br>Assessment<br>Limited Tax<br>Bonds | Total Nonmajor<br>Governmental<br>Funds |
|--|--|--|--|--|--|--|----------------------------------|----------------------------------|--|---|
| <b>Revenue</b>                           |  |  |  |  |  |  |                                  |                                  |  |   |
| Property taxes                           | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ 80,651                              | \$ -                             | \$ -                             | \$ -   | \$ 80,651                               |
| State and local sources                  | -  | -  | -  | -  | -  | -                                      | 116,870                          | 126,023                          | -  | 568,532                                 |
| Interest income                          | 254  | 1,333  | 565  | -  | -  | -                                      | -                                | 49                               | 755  | 21,711                                  |
| Special assessments                      | 4,291  | 8,245  | -  | -  | -  | -                                      | -                                | -                                | 1,146  | 81,377                                  |
| Other                                    | 397  | 661  | -  | -  | -  | -                                      | -                                | -                                | 92   | 39,940                                  |
| <b>Total revenue</b>                     | <b>4,942</b>                                       | <b>10,239</b>                                      | <b>565</b>   | <b>-</b>   | <b>-</b>   | <b>80,651</b>                          | <b>116,870</b>                   | <b>126,072</b>                   | <b>1,993</b>                                       | <b>792,211</b>                          |
| <b>Expenditures</b>                      |  |  |  |  |  |  |                                  |                                  |  |   |
| Current:                                 |  |  |  |  |  |  |                                  |                                  |  |   |
| Other                                    | -  | -  | -  | -  | -  | -                                      | -                                | -                                | -  | 620                                     |
| Maintenance                              | -  | -  | -  | -  | -  | -                                      | -                                | -                                | -  | 790,999                                 |
| General and administrative               | -  | -  | -  | -  | -  | -                                      | -                                | -                                | -  | 80,448                                  |
| Debt service                             | 22,700   | 32,776   | 6,881  | -  | -  | 80,638                                 | 116,870                          | 126,023                          | 5,565  | 454,768                                 |
| <b>Total expenditures</b>                | <b>22,700</b>                                      | <b>32,776</b>                                      | <b>6,881</b>                                       | <b>-</b>   | <b>-</b>   | <b>80,638</b>                          | <b>116,870</b>                   | <b>126,023</b>                   | <b>5,565</b>                                       | <b>1,326,835</b>                        |
| <b>Excess of Revenue Over (Under)</b>    |  |  |  |  |  |  |                                  |                                  |  |   |
| <b>Expenditures</b>                      | (17,758)   | (22,537)   | (6,316)  | -  | -  | 13                                     | -                                | 49                               | (3,572)  | (534,624)                               |
| <b>Other Financing Sources (Uses) -</b>  |  |  |  |  |  |  |                                  |                                  |  |   |
| Transfers                                | -  | (274)  | (7,707)  | (26,819)   | (1,244)  | -                                      | -                                | -                                | (6,911)  | 443,828                                 |
| <b>Net Change in Fund Balances</b>       | <b>(17,758)</b>                                    | <b>(22,811)</b>                                    | <b>(14,023)</b>                                    | <b>(26,819)</b>                                    | <b>(1,244)</b>                                     | <b>13</b>                              | <b>-</b>                         | <b>49</b>                        | <b>(10,483)</b>                                    | <b>(90,796)</b>                         |
| <b>Fund Balances - Beginning of year</b> | <b>19,015</b>                                      | <b>50,597</b>                                      | <b>17,111</b>                                      | <b>26,819</b>                                      | <b>1,244</b>                                       | <b>-</b>                               | <b>112,929</b>                   | <b>376,843</b>                   | <b>10,483</b>                                      | <b>2,553,959</b>                        |
| <b>Fund Balances - End of year</b>       | <b>\$ 1,257</b>                                    | <b>\$ 27,786</b>                                   | <b>\$ 3,088</b>                                    | <b>\$ -</b>  | <b>\$ -</b>  | <b>\$ 13</b>                           | <b>\$ 112,929</b>                | <b>\$ 376,892</b>                | <b>\$ -</b>  | <b>\$ 2,463,163</b>                     |

# **City of Owosso, Michigan**

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**Report to the City Council**

**June 30, 2007**

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

We recently completed our audit of the basic financial statements of the City of Owosso, Michigan (the "City") for the year ended June 30, 2007. The following items are presented for your consideration on attachments as outlined below.

| <u>Title</u>   | <u>Page</u> |
|--|-------------|
| <b>Informational Items</b>   |             |
| Statement on Auditing Standards Nos. 104 to 111 - The Risk Assessments Standards                         | 2           |
| Statement on Auditing Standards No. 114 - The Auditor's Communication with Those Charged with Governance | 2-3         |
| Retiree Healthcare Benefits  | 3-4         |
| Process Documentation  | 4           |
| <b>Legislative Matters</b>   |             |
| Revenue Sharing  | 5-6         |
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| New Cable Franchise Legislation  | 7           |
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| Property Tax Legislation   | 8-9         |
| 911 Surcharge Sunset Extended Temporarily  | 9           |
| Bonding to Fund Liability for Other Postemployment Benefits  | 9           |
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| Municipal Finance Act Revisions  | 11          |

We appreciate the opportunity to be of service to the City of Owosso. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the City. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

*Plante & Moran, PLLC*

December 10, 2007

## **Informational Items**

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# **City of Owosso, Michigan Informational Items**

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## **Statement on Auditing Standards Nos. 104 to 111 - The Risk Assessment Standards**

The AICPA issued Statements on Auditing Standards (SAS 104 to SAS 111) that will substantially affect the auditing process. The effective date for the City will be for audits of financial statements for and after the year ending June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

The auditor to obtain a deeper understanding of (1) the City and its internal control, for the purpose of identifying the risks of material financial misstatement, and (2) what the City is doing to mitigate those risks

A more rigorous assessment of the risks based on that understanding, with additional emphasis on significant risks that call for special audit consideration

A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We have invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance with the requirements, which is tailored to the unique environment for governmental entities. As a result, our 2008 audit process will have many new features and elements built in. We will work with the City to understand the elements, involve it in the information gathering process, and perform audit tests focused on the risks embedded in the City's financial statements. To provide the City with as much lead time as possible in the data gathering process, we will review the information needs and provide the City with the tools necessary in the near future.

## **Statement on Auditing Standards No. 114 - The Auditor's Communication with Those Charged with Governance**

Accompanying the substantial audit changes required by SAS 104-111 for June 30, 2008 are new communication standards required by SAS 114. In the wake of well-publicized audit failures, like Enron, Tyco, and Worldcom and emerging best practices in corporate governance, expectations have increased for auditors to communicate openly and candidly with those charged with governance regarding significant findings and issues related to the audit.

# **City of Owosso, Michigan Informational Items**

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## **Statement on Auditing Standards No. 114 - The Auditor's Communication with Those Charged with Governance (Continued)**

At the end of the June 30, 2008 audit, the council will receive a very structured letter that will contain discussion and comments on the following topics:

- The auditor's responsibility under generally accepted auditing standards
- An overview of the planned scope and timing of the audit
- Significant findings from the audit, including:
  - The auditor's views about the qualitative aspects of the entity's accounting practices
  - Major difficulties encountered in performing the audit
  - Uncorrected misstatements
  - Disagreements with management
  - Material, corrected misstatements that were brought to the attention of management
  - Representations the auditor is requesting from management
  - Significant issues and findings

### **Retiree Healthcare Benefits**

The Governmental Accounting Standards Board has 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 intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree healthcare benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree healthcare benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

# **City of Owosso, Michigan Informational Items**

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## **Retiree Healthcare Benefits (Continued)**

This statement is being phased in over a three year-period, similar to GASB No. 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months' lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. Therefore, funding the contribution will actually reduce your long-run cost.

We understand the City is currently offering various employees the option of converting their accumulated sick leave time for health care insurance for a set period of time after retirement. Due to various factors such as the probability of employees accepting this option in lieu of the cash payout of accumulated sick leave payout along with the forgone compensation under the deferred benefit plan, the financial impact to the City is not known at this time.

## **Process Documentation**

Based on the recent management changes that have occurred at the City, along with the impact of the new auditing standards we recommend the City review, update and revise, as necessary, its policies and procedures - for financial and nonfinancial matters. This will help to preserve the knowledge base that the current City employees possess, in a tangible form that will be able to be referenced, referred to, and passed down to future City employees. Plante & Moran, PLLC can be of assistance in this process, and consolidate the amount of work the City would have to do to conform with new auditing standards at the same time. We would value the opportunity to discuss the benefits that we can offer.

# **Legislative Matters**

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# City of Owosso, Michigan Legislative Matters

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## Revenue Sharing

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than \$750 million) and to enact a new 6 percent tax on certain services (raising approximately \$700 million per year). As part of the continuation budget that was also passed on October 1, there are still approximately \$400 million of "to-be-determined" cuts that were agreed to in late October completing the State's fiscal year 2007/2008 budget process. **In December, the services tax was repealed and replaced with a surcharge to the new Michigan Business Tax.** The outcome of other matters will also impact revenue sharing and those matters include:

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

# **City of Owosso, Michigan Legislative Matters**

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## **Revenue Sharing (Continued)**

While the Governor's initial budget for fiscal year 2007/2008 included incentives for increased revenue sharing to communities that shared services, the incentives were not included in the final budget. In addition, revenue sharing was held "flat" for fiscal year 2007/2008 from fiscal year 2007 levels in the final approved budget.

Also, we have received numerous inquiries regarding a noticeable shortfall in the October 2007 revenue sharing payment from the State. The shortfall relates to the 30-day continuation budget passed by the State, which ended October 31. The continuation budget provided limited funds and therefore October revenue sharing payments were much lower than expected. The Michigan Department of Treasury has indicated that since the actual budget has passed, those remaining funds will be remitted to communities either with their December 2007 payment or in an extra payment from Treasury prior to the December 2007 payment.

## **New Michigan Business Tax**

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

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes - specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

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

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

# **City of Owosso, Michigan Legislative Matters**

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## **New Michigan Business Tax (Continued)**

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

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

## **New Cable Franchise Legislation**

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

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

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.
- A credit, based on annual maintenance fees paid for use of public rights-of-way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bill’s franchise fee.
- Audits of the video service providers’ calculation of gross revenue are limited to once every two years.

The City likely began receiving its first payment under the new Act beginning in May 2007 or shortly thereafter. We strongly encourage the City to review this payment compared to payments previously received and follow up with your provider as required. Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

# City of Owosso, Michigan Legislative Matters

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## Other Legislative Items

In addition to the legislature's main focus on the business tax structure and solving the budget deficit, the following are a summary of a few other matters impacting local government finance receiving attention in Lansing these days:

- **Act 312** - Several articles have been written about recent discussions on potential revisions to Act 312, which governs collective bargaining between local governments and their police and fire bargaining units.
- **Local Government Consolidation** - Two bills to eliminate potential barriers to consolidation efforts have received attention by the legislature (House Bills 4266 and 4246).
- **Drain Code Revisions** - A series of bills dealing with revisions to the drain code were voted on by the House in August (House Bills 4641, 4642, 4643, 4644, and 4688).
- **Transportation Tax Increase** - There continues to be ongoing discussion about the need for additional monies to properly fund the Michigan transportation system. More information can be found at [http://www.drivemi.org/mtt\\_members.php](http://www.drivemi.org/mtt_members.php).

## Property Tax Legislation

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

# **City of Owosso, Michigan Legislative Matters**

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## **Property Tax Legislation (Continued)**

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

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

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

## **911 Surcharge Sunset Extended Temporarily**

Local governments receiving monies under the Emergency Service Enabling Act to support 911 operations faced the potential elimination or change in the funding formula at December 31, 2006. To allow further analysis of this issue, the sunset of the Act was extended one year to December 31, 2007 (Public Act 249 of 2006). The surcharge to fund 911 operations has been the subject of considerable discussions over the last several months with the approaching expiration at December 31, 2007. Action is required by the legislature to continue this charge beyond December 31, 2007 so discussions will continue on this subject into September and perhaps the remainder of the fall legislative session.

## **Bonding to Fund Liability for Other Postemployment Benefits**

The day quickly approaches for local governments to measure the liability for nonpension benefits granted to government employees at retirement (most notably retiree health care). Once these benefits are measured, local governments will face the tough choice of advance funding these benefits (which some are doing now), remain on a pay-as-you-go plan (which is the path for most local governments), or a combination thereof. To provide local governments with additional funding options, legislation was introduced in 2006 which would allow for bonding as a funding tool. The legislation was passed by the Michigan legislature and vetoed by the governor. It was expected that the legislation was going to be reconsidered in 2007.

# **City of Owosso, Michigan Legislative Matters**

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## **Property Assessment Cap**

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

|      |             |
|------|-------------|
| 2007 | 3.7 percent |
| 2006 | 3.3 percent |
| 2005 | 2.3 percent |
| 2004 | 2.3 percent |
| 2003 | 1.5 percent |
| 2002 | 3.2 percent |
| 2001 | 3.2 percent |
| 2000 | 1.9 percent |
| 1999 | 1.6 percent |
| 1998 | 2.7 percent |
| 1997 | 2.8 percent |
| 1996 | 2.8 percent |
| 1995 | 2.6 percent |
| 1994 | 3.0 percent |

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

For the year ended June 30, 2007, the City's Headlee maximum property tax rate for its operating levy was 13.054 mills even though City Charter would allow the City to levy 15 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated in several published studies and reports, due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop-up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue, particularly given the significant gap that now exists between taxable value and state equalized value.

# **City of Owosso, Michigan Legislative Matters**

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## **Municipal Finance Act Revisions - Reminder**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City’s year end (December 31, 2007) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.