

# Auditing Procedures Report

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

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

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

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

**Henry McMorran Memorial  
Auditorium Authority  
City of Port Huron, Michigan**

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**Financial Report  
June 30, 2007**

# Henry McMorran Memorial Auditorium Authority

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## Independent Auditor's Report

To the Honorable Commissioners  
Henry McMorran Memorial Auditorium Authority

We have audited the accompanying basic financial statements of Henry McMorran Memorial Auditorium Authority, a component unit of the City of Port Huron, Michigan, as of June 30, 2007 and 2006 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Henry McMorran Memorial Auditorium Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Henry McMorran Memorial Auditorium Authority as of June 30, 2007 and 2006 and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is 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.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. The Authority's articles of incorporation are set to expire on December 31, 2007. Unless the City Council of the City of Port Huron, as the legislative body of the Authority's incorporating unit, extends the term, the Authority, as it is currently established, will cease to exist on that date and all assets will revert to the City. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Plante & Moran, PLLC*

October 24, 2007

# Henry McMorran Memorial Auditorium Authority

## Management's Discussion and Analysis

Our discussion and analysis of Henry McMorran Memorial Auditorium Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Authority's financial statements.

### Using this Annual Report

This annual report consists of two parts: management's discussion and analysis (this section), and the basic financial statements. The basic financial statements are presented on a full accrual basis, which provides both long- and short-term information about the Authority's overall financial status.

### Authority as a Whole

The following table shows the net assets of the Authority in a condensed format as of June 30, 2007 compared to the previous year (in thousands of dollars):

TABLE I

	2007	2006	Change from Prior Year
<b>Assets</b>			
Current assets	\$ 113	\$ 49	\$ 64
Restricted assets	265	557	(292)
Noncurrent assets	<u>2,523</u>	<u>2,666</u>	<u>(143)</u>
Total assets	2,901	3,272	(371)
<b>Liabilities</b>			
Current liabilities	318	267	51
Deferred revenue	<u>266</u>	<u>558</u>	<u>(292)</u>
Total liabilities	<u>584</u>	<u>825</u>	<u>(241)</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	2,523	2,666	(143)
Unrestricted deficit	<u>(206)</u>	<u>(219)</u>	<u>13</u>
Total net assets	<u><b>\$ 2,317</b></u>	<u><b>\$ 2,447</b></u>	<u><b>\$ (130)</b></u>

# Henry McMorran Memorial Auditorium Authority

## Management's Discussion and Analysis

The following table shows the revenue and expense changes in net assets (in thousands of dollars) as of June 30, 2007 compared to the previous year:

TABLE 2

	2007	2006	Change from Prior Year
<b>Revenue</b>			
Facility rental	\$ 753	\$ 778	\$ (25)
Sales	908	879	29
Surcharges	63	66	(3)
Total operating revenue	1,724	1,723	1
Appropriations from the City of Port Huron	335	335	-
Capital contributions	308	569	(261)
Interest	7	4	3
Total revenue	2,374	2,631	(257)
<b>Program Expenses</b>			
Salaries and benefits	1,079	1,061	18
Cost of sales	173	179	(6)
Utilities	345	350	(5)
Repair, maintenance, and other	456	558	(102)
Depreciation	451	422	29
Total program expenses	2,504	2,570	(66)
<b>Change in Net Assets</b>	<b>\$ (130)</b>	<b>\$ 61</b>	<b>\$ (191)</b>

The Authority's operating revenue from rental, sales, and other was \$1,724,000 which was a \$1,000 increase from prior year. In addition, \$308,000 in capital contributions and \$335,000 in an appropriation from the City resulted in total revenues of \$2,374,000. The Authority's operating expenses of \$2,504,000, which includes \$451,000 in depreciation, decreased \$66,000 from the prior year, resulting in a decrease in net assets of \$130,000. The Authority's unrestricted net assets increased \$13,000 from current year operations. However, current year depreciation exceeded capital contributions by \$143,000, resulting in a net decrease of approximately \$130,000 in the Authority's total net assets.

# **Henry McMorran Memorial Auditorium Authority**

## **Management's Discussion and Analysis**

### **Capital Assets**

At June 30, 2007, the Authority had approximately \$2,523,000 invested in a range of capital assets, including furniture, equipment, and facilities. Current year acquisitions of approximately \$308,000 include replacement of exterior auditorium doors, pavilion header replacement, replacement of a Ticketmaster and sound system, and updating ice-making and cooling equipment. These expenditures were made with restricted funds received from a State of Michigan appropriation in 1999.

### **Budgetary Highlights**

Over the course of the year, the budgeted revenues were down \$56,500 from lower concessions sales and parking due to less people in attendance at events. The budgeted expenses were down \$104,000 in part by lower employee benefits, insurance, and utilities resulting in a \$47,000 better than projected budgeted net operating loss.

### **Economic Factors**

The Authority's articles of incorporation are set to expire on December 31, 2007. The City has not made a decision as to what option it will choose as the next step for the McMorran Place facility.

The current economy for the State of Michigan and St. Clair County is struggling; as a result a hardship has fallen on both city and county residents. Declining attendance, participation, and the use of the McMorran Place facility, are expected to affect the decreases in revenue for 2008. These factors were considered in preparing the Authority's budget for the 2007/2008 fiscal year.

### **Contacting the Authority's Management**

This financial report is intended to provide the Authority's board of commissioners with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the Authority's administration at 701 McMorran Blvd., Port Huron, MI 48060.

# Henry McMorran Memorial Auditorium Authority

## Statement of Net Assets

	June 30	
	2007	2006
<b>Assets</b>		
Current assets:		
Cash (Note 2)	\$ 75,398	\$ 7,486
Accounts receivable (Note 1)	20,181	18,804
Interest receivable	319	3,093
Inventories	8,875	11,814
Prepaid and other	7,726	7,611
Total current assets	112,499	48,808
Restricted assets (Note 3)	265,487	557,429
Property and equipment - Net (Note 5)	2,523,270	2,665,622
Total assets	2,901,256	3,271,859
<b>Liabilities</b>		
Current liabilities:		
Accounts payable:		
Trade	124,560	36,126
Related party	37,725	28,914
Accrued payroll and related taxes	111,426	106,237
Other liabilities	44,582	96,037
Total current liabilities	318,293	267,314
Unearned revenue (Note 6)	265,487	557,429
Total liabilities	583,780	824,743
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	2,523,270	2,665,622
Unrestricted deficit	(205,794)	(218,506)
Total net assets	<u>\$ 2,317,476</u>	<u>\$ 2,447,116</u>

# Henry McMorran Memorial Auditorium Authority

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2007	2006
<b>Operating Revenue</b>		
Rental of facilities	\$ 752,882	\$ 777,575
Special attractions and promotions	68,479	63,483
Canteen sales	351,637	351,247
Alcohol sales	164,334	163,989
Parking lot	259,370	244,656
Surcharges	62,663	65,655
Catering and other	64,243	56,121
Total operating revenue	1,723,608	1,722,726
<b>Operating Expenses</b>		
Salaries and wages - Net of reimbursement	784,974	777,532
Employee benefits and payroll taxes	294,257	282,341
Cost of sales - Canteen and alcohol	172,667	179,166
Utilities	345,400	349,833
Repairs, maintenance, and other	455,507	558,198
Provision for depreciation	450,795	422,058
Total operating expenses	2,503,600	2,569,128
<b>Loss from Operations</b>	(779,992)	(846,402)
<b>Nonoperating Revenue</b>		
Appropriation from the City of Port Huron	335,000	335,000
Gain on sale of assets	400	-
Interest income	6,509	3,796
Total nonoperating revenue	341,909	338,796
<b>Loss - Before capital contributions</b>	(438,083)	(507,606)
<b>Capital Contributions</b> - From assets constructed with grants or donated from outside sources	308,443	568,883
<b>Net (Loss) Income</b>	(129,640)	61,277
<b>Net Assets</b> - Beginning of year	2,447,116	2,385,839
<b>Net Assets</b> - End of year	<u>\$ 2,317,476</u>	<u>\$ 2,447,116</u>

# Henry McMorran Memorial Auditorium Authority

## Statement of Cash Flows

	Year Ended June 30	
	2007	2006
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 1,722,231	\$ 1,739,043
Payments to suppliers	(1,219,217)	(1,433,836)
Payments to employees	(779,785)	(761,834)
Net cash used in operating activities	(276,771)	(456,627)
<b>Cash Flows from Noncapital Financing Activities</b> - Appropriation from the City of Port Huron	335,000	335,000
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition of capital assets	(308,443)	(610,131)
Sale of capital assets	400	-
Donations received for arena improvements	-	22,000
Funds received from Seeing Stars program and other donations	300	462
Net cash used in capital and related financing activities	(307,743)	(587,669)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	25,484	31,400
<b>Net Decrease in Cash</b>	(224,030)	(677,896)
<b>Cash</b> - Beginning of year	563,915	1,241,811
<b>Cash</b> - End of year	<u>\$ 339,885</u>	<u>\$ 563,915</u>
<b>Balance Sheet Classification of Cash</b>		
Current assets - Cash	\$ 75,398	\$ 7,486
Restricted assets - Cash	264,487	556,429
Total balance sheet classification of cash	<u>\$ 339,885</u>	<u>\$ 563,915</u>
<b>Reconciliation of Loss from Operations to Net Cash from Operating Activities</b>		
Loss from operations	\$ (779,992)	\$ (846,402)
Adjustments to reconcile loss from operations to net cash from operating activities:		
Depreciation	450,795	422,058
Changes in assets and liabilities:		
(Increase) decrease in receivables	(1,377)	16,317
Decrease (increase) in inventories	2,939	(4,234)
(Increase) decrease in prepaid and other	(115)	557
Increase (decrease) in accounts payable	97,245	(21,726)
Increase in accrued payroll	5,189	15,698
Decrease in other current liabilities	(51,455)	(38,895)
Net cash used in operating activities	<u>\$ (276,771)</u>	<u>\$ (456,627)</u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2007, there were no noncash investing, capital, or financing activities. During the year ended June 30, 2006, approximately \$20,000 of capital asset additions were donated to the Authority.

# Henry McMorran Memorial Auditorium Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### Note I - Summary of Significant Accounting Policies

Henry McMorran Memorial Auditorium Authority (the "Authority"), a nonprofit municipal corporation, was organized on August 13, 1956 for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, and/or maintaining a civic auditorium and sports arena. The Authority, which was incorporated under the provisions of Act 31, Public Acts of Michigan, 1948, as amended, is a nonprofit corporation and, accordingly, is exempt from income taxes.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

**Reporting Entity** - The Authority has been identified as a component unit of the City of Port Huron (the "City"). GASB Statement No. 14 defines a component unit to include those governmental organizations that are fiscally dependent on the primary government.

The Authority has exclusive jurisdiction over the control, operation, and maintenance of the facilities. The City of Port Huron has contractually assumed responsibility to reimburse the Authority for any excess of operating expenses over revenue received from operations and will be responsible for necessary capital improvements, furnishings, and equipment. There is no time limitation on the financial responsibilities of the City.

The agreement with the City also provides that the Authority shall pay any earnings from the operations of the facilities to the City.

**Basis of Accounting** - The accrual basis of accounting is used by Henry McMorran Memorial Auditorium Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989 to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Authority has elected not to apply private sector standards issued after November 30, 1989.

**Accounts Receivable** - Accounts receivable are reported net of an allowance for doubtful accounts totaling \$2,400 for the years ended June 30, 2007 and 2006.

**Inventories** - Inventories are stated at the lower of cost or market on a specific identification basis.

# Henry McMorran Memorial Auditorium Authority

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## Notes to Financial Statements June 30, 2007 and 2006

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

**Cash Equivalents** - The Authority considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

**Property and Equipment** - Land upon which the facilities are located was donated to the Authority by the City of Port Huron. The facilities and original equipment were donated by a philanthropic organization. These properties are stated in the financial statements at the estimated fair value at the date of donation. Expenditures for improvements and equipment from funds derived from operations or City of Port Huron appropriations have been recorded at historical cost.

Depreciation of building, improvements, and equipment is provided over the estimated useful lives of the respective assets by the straight-line method. Contributed capital relating to donated fixed assets is being amortized to fund equity as the related depreciation is being charged to operations.

**Unearned Revenue** - Unearned revenue represents primarily the unexpended proceeds from the Seeing Stars program and a State of Michigan grant, which are not considered fully earned until the proceeds have been expended for the restricted purposes.

**Fund Deficit** - The Authority has an accumulated deficit of unrestricted net assets. Plans to eliminate the deficit have been filed with the State of Michigan Local Audit Finance Division.

### Note 2 - Deposits and Investments

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

# Henry McMorran Memorial Auditorium Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 2 - Deposits and Investments (Continued)

The Authority has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are subject to custodial credit risk, which is 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 Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. For the years ended June 30, 2007 and 2006, the Authority had \$162,757 and \$381,666, respectively, of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Authority 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 Authority 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.

### Note 3 - Restricted Assets

Restricted assets of the Authority have been restricted for the renovation and revitalization of the McMorran Place Auditorium and Main Arena.

Restricted assets at June 30, 2007 and 2006 consist of the following:

	2007	2006
Cash and cash equivalents	\$ 264,487	\$ 556,429
Other receivables	1,000	1,000
Total	<u>\$ 265,487</u>	<u>\$ 557,429</u>

### Note 4 - Henry McMorran Memorial Auditorium Trust

The instrument governing the Henry McMorran Memorial Auditorium Trust (the "Trust"), held by the Community Foundation of St. Clair County (previously held by the City of Port Huron), provides that trust income be used for the preservation, repair, or replacement of the auditorium. There was no trust income distributed to the Authority during the years ended June 30, 2007 and 2006.

# Henry McMorran Memorial Auditorium Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 5 - Capital Assets

A summary of the Authority's capital assets activity for the years ended June 30, 2007 and 2006 is as follows:

	2005	Additions	Deletions	2006	Depreciable Life - Years
Land	\$ 25,000	\$ -	\$ -	\$ 25,000	N/A
Building and improvements	6,897,894	582,827	-	7,480,721	10-40
Equipment	<u>2,461,653</u>	<u>47,764</u>	<u>-</u>	<u>2,509,417</u>	10
Total capital assets	9,384,547	630,591	-	10,015,138	
Less accumulated depreciation	<u>(6,927,458)</u>	<u>(422,058)</u>	<u>-</u>	<u>(7,349,516)</u>	
Net capital assets	<u>\$ 2,457,089</u>	<u>\$ 208,533</u>	<u>\$ -</u>	<u>\$ 2,665,622</u>	

	2006	Additions	Deletions	2007	Depreciable Life - Years
Land	\$ 25,000	\$ -	\$ -	\$ 25,000	N/A
Building and improvements	7,480,721	308,443	-	7,789,164	10-40
Equipment	<u>2,509,417</u>	<u>-</u>	<u>3,468</u>	<u>2,505,949</u>	10
Total capital assets	10,015,138	308,443	3,468	10,320,113	
Less accumulated depreciation	<u>(7,349,516)</u>	<u>(450,795)</u>	<u>(3,468)</u>	<u>(7,796,843)</u>	
Net capital assets	<u>\$ 2,665,622</u>	<u>\$ (142,352)</u>	<u>\$ -</u>	<u>\$ 2,523,270</u>	

# Henry McMorran Memorial Auditorium Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 6 - Changes in Unearned Revenue

The following is the activity in the unearned revenue accounts:

	Operating	State Grant	Seeing Stars	Total
Balance - June 30, 2005	\$ -	\$ 1,036,066	\$ 20,276	\$ 1,056,342
Funds received for locker room improvements	22,000	-	-	22,000
Funds received from fund-raising campaign	-	-	462	462
Funds expended for capital improvements	(22,000)	(526,423)	-	(548,423)
Interest income - Restricted	-	26,343	705	27,048
Balance - June 30, 2006	-	535,986	21,443	557,429
Funds received from fund-raising campaign	-	-	300	300
Funds expended for capital improvements	-	(308,443)	-	(308,443)
Interest income - Restricted	-	15,345	856	16,201
Balance - June 30, 2007	\$ -	\$ 242,888	\$ 22,599	\$ 265,487

### Note 7 - Interest Income

The following is the interest income earned as of June 30, 2007 and 2006:

	Operating	State Grant	Seeing Stars	Total
Interest income - Operations	\$ 3,796	\$ -	\$ -	\$ 3,796
Interest income - Restricted	-	26,343	705	27,048
Total 2006	\$ 3,796	\$ 26,343	\$ 705	\$ 30,844
Interest income - Operations	\$ 4,691	\$ 1,721	\$ 97	\$ 6,509
Interest income - Restricted	-	15,345	856	16,201
Total 2007	\$ 4,691	\$ 17,066	\$ 953	\$ 22,710

The restricted interest income represents interest earned on contributions that have been restricted for a specific purpose; hence, such amounts have been recorded as deferred revenue.

# Henry McMorran Memorial Auditorium Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### **Note 8 - Employee Retirement System**

All of the Authority's full-time employees participate in the Municipal Employees' Retirement System of Michigan (MERS), a multiemployer agent pension plan established by Act 427, Public Acts of 1984 of the State of Michigan. The Authority has 14 active participants whose total payroll was \$504,970 and \$499,580 for the years ended June 30, 2007 and 2006, respectively. The Authority's pension expense for the years ended June 30, 2007 and 2006 was \$49,606 and \$40,765, respectively.

The Authority met all actuarially determined employer contribution requirements for the years ended June 30, 2007 and 2006. Additional information regarding the plan's operation, significant actuarial assumptions, trend information, and funding status and progress can be found in the City of Port Huron's Comprehensive Annual Financial Report, of which the Authority is a component unit. The pension benefit obligation and net assets available for benefits for the Authority alone, separate from the plan as a whole, are not provided in the actuarial report.

### **Note 9 - Risk Management**

The Authority 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 of Port Huron has purchased commercial insurance for property damage, contractors' equipment, data processing, health care, and employee dishonesty, for which the Authority reimburses the City its portion of the premiums.

The Authority participates in the Michigan Municipal Risk Management Authority program for general, auto, professional, public officials, and errors and omissions liabilities. The Authority is uninsured for Acts of God and environmental cleanup losses. Past experience indicates that the initial passthrough of premium charges by the City of Port Huron has been sufficient to cover the liabilities and settled claims under this program. Past experience also shows that, for the Authority, incurred but not reported claims have not been significant in amount. Further details of how the Michigan Municipal Risk Management Authority pool operates can be found in the City of Port Huron's Comprehensive Annual Financial Report, of which Henry McMorran Memorial Auditorium Authority is a component unit.

### **Note 10 - Postemployment Benefits**

The Authority provides healthcare benefits to substantially all full-time employees upon retirement, in accordance with labor contracts. Currently, five retirees are eligible. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. For the years ended June 30, 2007 and 2006, this amounted to approximately \$44,000 and \$42,000, respectively.

# Henry McMorran Memorial Auditorium Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### **Note 10 - Postemployment Benefits (Continued)**

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

### **Note 11 - Seeing Stars Pledge**

In August 1999, an individual pledged to give the Authority's Seeing Stars campaign a \$500,000 donation restricted for auditorium renovations. The pledge stipulates that the donor will match all donations received by the Authority in the amount of \$10,000 or greater until the \$500,000 amount has been met. For the years ended June 30, 2007 and 2006, the cumulative amount received under this pledge was \$414,885.



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October 24, 2007

To the Honorable Commissioners  
Henry McMorran Memorial Auditorium  
Authority  
701 McMorran Boulevard  
Port Huron, Michigan 48060

Dear Commissioners:

We recently completed our audit of the basic financial statements of Henry McMorran Memorial Auditorium Authority (the "Authority"), a component unit of the City of Port Huron, for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful in your oversight of the Authority's financial management. Specifically, they require us to report internal control issues that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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

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

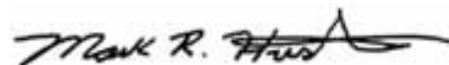
**Audit Adjustment** - During our audit testing, we identified an adjustment needed to correct the Authority's trial balance, which was due to an entry that was mis-posted during the year. This entry did not change the net income of the Authority since it was a reclassification between two balance sheet accounts. However, we bring this to your attention since it meets the above definition of a matter to be communicated. We recommend that an additional review be conducted of the trial balance or of manually-posted journal entries on a periodic basis to identify corrections needed in a timely manner.

This communication is intended solely for the information and use of management, the Commission, others within the organization, and the City of Port Huron and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank all of the Authority's personnel for the courtesy and assistance extended to us during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendation, we would be happy to discuss them at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Mark R. Hurst



Lisa C. Manetta



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plantemoran.com

October 24, 2007

To the Honorable Commissioners  
Henry McMorran Memorial Auditorium  
Authority  
701 McMorran Boulevard  
Port Huron, Michigan 48060

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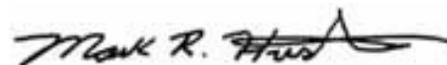
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Very truly yours,

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