

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 |

Owosso Downtown Development Authority

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

Owosso Downtown Development Authority

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Independent Auditor's Report

To the Board
Owosso Downtown Development Authority

We have audited the accompanying financial statements of the governmental activities (full accrual basis) and the General Fund (modified accrual basis) of Owosso Downtown Development Authority (a component unit of the City of Owosso, Michigan) as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Owosso Downtown Development Authority's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities (full accrual basis) and the General Fund (modified accrual basis) of Owosso Downtown Development Authority as of June 30, 2007 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, 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 to the budgetary comparison schedule, 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.

Plante & Moran, PLLC

December 10, 2007

Owosso Downtown Development Authority

Management's Discussion and Analysis

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

Financial Highlights

As discussed in further detail in this analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- Captured property tax revenue, the Authority's largest revenue source, increased by approximately 4.6 percent to \$439,000 from the prior year.
- The bond issue to build the Comstock parking lot was paid off.

Using this Annual Report

This Authority has a single operating fund, which is presented in this financial report from two different perspectives - the modified accrual basis and the full accrual basis. The full accrual basis (referred to as the statement of net assets and the statement of activities) presents a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services. The modified accrual column presents a short-term view; it tells us how the taxpayers' resources were spent during the year, as well as how much is available for future spending.

Analysis of Financial Activities

Following is a three-year trend of activities and resulting net assets:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---------------------------|---------------|-------------------|------------------|
| Revenue: | | | |
| Property taxes | \$ 358,179 | \$ 450,904 | \$ 471,068 |
| Other | 849 | 511 | 193 |
| Total revenue | 359,028 | 451,415 | 471,261 |
| Expenditures: | | | |
| Current services | 43,147 | 54,263 | 72,073 |
| Capital outlay | 49,345 | 144,237 | 101,472 |
| Debt service contribution | 265,921 | 259,856 | 242,893 |
| Total expenditures | 358,413 | 458,356 | 416,438 |
| Change in net assets | <u>\$ 615</u> | <u>\$ (6,941)</u> | <u>\$ 54,823</u> |

Owosso Downtown Development Authority

Management's Discussion and Analysis (Continued)

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|-----------------------------------|-------------------------|------------------------|-------------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 10,694 | \$ 5,364 | \$ 13,887 |
| Due from other governmental units | <u>5,604</u> | <u>103,490</u> | <u>286,928</u> |
| Total assets | 16,298 | 108,854 | 300,815 |
| Liabilities (all current) | <u>9</u> | <u>99,506</u> | <u>236,644</u> |
| Net assets - Unrestricted | <u><u>\$ 16,289</u></u> | <u><u>\$ 9,348</u></u> | <u><u>\$ 64,171</u></u> |

The three-year trend shows the improving cash position of the Authority, as well as the 2007 significant increase in net assets. This improved financial position is the result of continued increases in property tax captures, combined with decreases in the debt service contribution to the City of Owosso's debt. In fact, the debt related to the City's Comstock parking lot was paid in full during the year ended June 30, 2007 and future debt commitments will be reduced to approximately \$128,000 (a reduction of the Authority's expenditures of \$115,000).

Individual Fund/Budgetary Perspective

Because there are no modified accrual to full accrual adjustments, the individual fund, modified accrual based statements present the same information as the full accrual statements. During the current year, the budget was amended to remove the proposed construction of a parking ramp to support a development at the old hotel site, 100 S. Washington St., which would have been financed with a bond issue.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Owosso Downtown Development Authority

Balance Sheet/Statement of Net Assets June 30, 2007

| | Balance Sheet - Modified Accrual | Adjustments | Statement of Net Assets - Full Accrual |
|---------------------------------------|--|-------------------------|--|
| Assets | | | |
| Cash and cash equivalents (Note 4) | \$ 13,887 | \$ - | \$ 13,887 |
| Due from other governmental units | <u>286,928</u> | <u>-</u> | <u>286,928</u> |
| Total assets | <u>\$ 300,815</u> | - | 300,815 |
| Liabilities | | | |
| Accounts payable | \$ 2,268 | - | 2,268 |
| Due to other governmental units | <u>234,376</u> | <u>-</u> | <u>234,376</u> |
| Total liabilities | 236,644 | - | 236,644 |
| Fund Balance - Unreserved | <u>64,171</u> | <u>(64,171)</u> | <u>-</u> |
| Total liabilities and fund balance | <u>\$ 300,815</u> | | |
| Net Assets - Unrestricted | | <u>\$ 64,171</u> | <u>\$ 64,171</u> |

Owosso Downtown Development Authority

Statement of Revenue, Expenditures, and Changes in Fund Balance/ Statement of Activities Year Ended June 30, 2007

| | Revenues and Expenditures - Modified Accrual | | Statement of Activities - Full Accrual |
|--|---|-------------|--|
| | Accrual | Adjustments | Accrual |
| Revenue | | | |
| Property taxes: | | | |
| Ad valorem tax levy | \$ 32,167 | \$ - | \$ 32,167 |
| Tax increment capture | 438,901 | - | 438,901 |
| Interest | 131 | - | 131 |
| Other | 62 | - | 62 |
| Total revenue | 471,261 | - | 471,261 |
| Expenditures | | | |
| Professional services | 3,000 | - | 3,000 |
| Operating supplies and other | 33,665 | - | 33,665 |
| Contractual services | 33,802 | - | 33,802 |
| Advertising | 1,606 | - | 1,606 |
| Capital outlay | 101,472 | - | 101,472 |
| Contribution to the City of Owosso's Debt Service Fund (Note 5) | 242,893 | - | 242,893 |
| Total expenditures | 416,438 | - | 416,438 |
| Change in Fund Balance/Net Assets | 54,823 | - | 54,823 |
| Fund Balance/Net Assets | | | |
| Beginning of year | 9,348 | - | 9,348 |
| End of year | \$ 64,171 | \$ - | \$ 64,171 |

Owosso Downtown Development Authority

**Notes to Financial Statements
June 30, 2007**

Note 1 - Organization

Owosso Downtown Development Authority (the "Authority") was created, effective July 19, 1977, by Ordinance No. 331 of the City of Owosso, Michigan pursuant to Act. No. 197 of the Public Acts of 1975 of the State of Michigan. The Authority may levy an ad valorem tax, not exceeding two mills, on all taxable property in the downtown district. The tax is used for operations of the Authority and planning of improvements in the downtown district. In addition, the Authority may capture the tax levy resulting from any increase in assessed values within the downtown district to be used to finance the development of the downtown area. The Authority's governing body, which consists of nine individuals, is selected by the City Council.

Note 2 - Summary of Significant Accounting Policies

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

Reporting Entity

Owosso Downtown Development Authority is a component unit of the City of Owosso, Michigan. Its basic financial statements are included in the City's basic financial statements because the majority of the governing body is appointed by the City.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenue and expenditures are recognized in the account and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Authority uses the modified accrual basis of accounting. Its revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

In addition to presenting information on the modified accrual basis, the financial statements present information for the Authority using the economic resources measurement focus and the accrual basis of accounting. This information is intended to demonstrate the degree to which taxpayers have funded the full cost of services received. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Owosso Downtown Development Authority

**Notes to Financial Statements
June 30, 2007**

Note 2 - Summary of Significant Accounting Policies (Continued)

Property Taxes - Ad valorem property taxes are levied and collected by the City of Owosso, Michigan as a part of, but in addition to, the regular city tax levy. The ad valorem tax in the special district is not to exceed two mills and can only be used for the operations of the Authority. In addition, the Authority has created a Tax Increment Financing District whereby the Authority captures all taxes collected in the district which result from the increase in the district's assessed value from its initial assessed value of 1984. The captured tax increment can only be used for the development of the downtown area.

The 2006 taxable valuation of the Authority totaled \$25.4 million (a portion of which is not captured from all jurisdictions), on which taxes levied consisted of 1.9556 mills for operating purposes. This resulted in \$471,068 for operating purposes. These amounts are recognized as property tax revenue.

Note 3 - Budget Information

The annual budget is prepared by the City's management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement is presented on an activity basis. A comparison of actual results of operations to the budget included in the basic financial statements shows line item activity, which is in greater detail than the actual budget as adopted by the City Council.

Note 4 - Cash and Cash Equivalents

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. At year end, the Authority had deposits with a bank balance of \$13,942, all of which was covered by federal depository insurance.

Owosso Downtown Development Authority

Notes to Financial Statements June 30, 2007

Note 5 - Related Party Transactions

The contributions to the City of Owosso's Debt Service Fund of \$242,893 represent taxes captured from the Tax Increment Financing District and transferred to the City for the retirement of debt issued to finance the construction of parking lots.

Note 6 - Commitments

Under its pledge to the City, the Authority transfers amounts annually to pay the principal and interest on the City of Owosso general obligation bonds. The annual requirements to service these bonds as of June 30, 2007, including both principal and interest, are shown below:

| | Governmental Activities | | |
|-------|-------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2008 | \$ 110,000 | \$ 17,688 | \$ 127,688 |
| 2009 | 115,000 | 12,933 | 127,933 |
| 2010 | 115,000 | 7,930 | 122,930 |
| 2011 | <u>120,000</u> | <u>2,700</u> | <u>122,700</u> |
| Total | <u>\$ 460,000</u> | <u>\$ 41,251</u> | <u>\$ 501,251</u> |

Required Supplemental Information

Owosso Downtown Development Authority

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

| | Current Year - Modified Accrual | | | |
|--|---------------------------------|-----------------|------------------|------------------|
| | Originally | | | |
| | Adopted | Amended | Actual | Variance |
| | Budget | Budget | | |
| Revenue | | | | |
| Property taxes: | | | | |
| Ad valorem tax levy | \$ 32,300 | \$ 23,025 | \$ 32,167 | \$ 9,142 |
| Tax increment capture | 436,250 | 438,900 | 438,901 | 1 |
| Interest | - | 125 | 131 | 6 |
| Other financing sources | 185,000 | 9,325 | - | (9,325) |
| Other | - | - | 62 | 62 |
| | | | | |
| Total revenue | 653,550 | 471,375 | 471,261 | (114) |
| Expenditures | | | | |
| Professional services | 12,425 | 3,750 | 3,000 | 750 |
| Operating supplies and other | 6,725 | 33,825 | 33,665 | 160 |
| Contractual services | 30,325 | 34,475 | 33,802 | 673 |
| Advertising | 950 | 1,050 | 1,606 | (556) |
| Capital outlay | 253,000 | 95,375 | 101,472 | (6,097) |
| Other financing uses | 60,000 | 60,000 | - | 60,000 |
| Contributions to the City of Owosso's Debt Service Fund | 278,275 | 242,900 | 242,893 | 7 |
| | | | | |
| Total expenditures | 641,700 | 471,375 | 416,438 | 54,937 |
| Excess of Revenue Over Expenditures | 11,850 | - | 54,823 | 54,823 |
| Fund Balance - Beginning of year | 9,348 | 9,348 | 9,348 | - |
| Fund Balance - End of year | <u>\$ 21,198</u> | <u>\$ 9,348</u> | <u>\$ 64,171</u> | <u>\$ 54,823</u> |