

CITY OF DETROIT
LOCAL DEVELOPMENT
FINANCE AUTHORITY
(A Component Unit of the
City of Detroit, Michigan)

FINANCIAL STATEMENTS

June 30, 2007 and 2006

**George Johnson
& Company**

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

CONTENTS

| | |
|--|----|
| INDEPENDENT AUDITORS' REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) | 2 |
| FINANCIAL STATEMENTS: | |
| Statements of Net Assets | 7 |
| Statements of Activities | 8 |
| Balance Sheets - Governmental Funds | 9 |
| Reconciliations of Governmental Funds Balance Sheets to Statements of Net Assets | 10 |
| Statements of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds | 11 |
| Reconciliations of Governmental Funds Statements of Revenue, Expenditures, and Changes in Fund Balances to Statements of Activities | 12 |
| NOTES TO FINANCIAL STATEMENTS | 13 |

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INDEPENDENT AUDITORS' REPORT

December 15, 2008

To the Board of Directors
City of Detroit Local Development Finance Authority
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Detroit Local Development Finance Authority ("LDFA"), a component unit of the City of Detroit, Michigan, as of, and for the year ended, June 30, 2007, which collectively comprise LDFA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of LDFA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of LDFA as of June 30, 2006, and for the year then ended, were audited by other auditors whose report dated February 25, 2008 expressed an unqualified opinion on those statements.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LDFA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the aforementioned 2007 financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of LDFA as of June 30, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

LDFA has not presented the budgetary information that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.


CERTIFIED PUBLIC ACCOUNTANTS

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2007 and 2006

This section of the annual report of the City of Detroit Local Development Finance Authority ("LDFA") presents management's discussion and analysis of LDFA's financial performance during the fiscal years that ended on June 30, 2007 and 2006. Please read it in conjunction with LDFA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

There is very little change on the LDFA financial statements from year to year. LDFA's main purpose is to collect taxes within the tax increment district and pay debt service on the bonds that were issued to construct the Jefferson Avenue Chrysler Plant. In May 2002, LDFA expanded its function and adopted resolutions establishing an additional development district and approving the Tax Increment Financing Plan for Technology Park Area No. 1 (the "Plan"). The purpose of the Plan was to partially fund the development of the Wayne State University Research and Technology Park. In October 2003, LDFA further expanded its function and entered into a Core Community Fund grant agreement with the Michigan Economic Development Corporation. The purpose of the grant agreement was to fund projects in the City of Detroit on the East Riverfront, in the downtown district, and in the University Cultural Area.

In prior years, the financial report was prepared by the City of Detroit. In recent years, due to the increased activity being performed by LDFA, LDFA has increased the level of service it has requested the Detroit Economic Growth Corporation ("DEGC") to perform on its behalf. During the fiscal year ended June 30, 2007, recordkeeping for LDFA was transferred over to DEGC.

During the year ended June 30, 2007, LDFA collected tax receipts of \$11.5 million. LDFA, however, is only able to recognize \$5.5 million as revenue on its financial report, as it has accrued a \$6.0 million payable back to the taxing authorities in a one-time adjustment to account for school tax revenue collected in excess of those allowable to be captured under the State of Michigan's Proposal A from 1994. The \$6.0 million figure was arrived at as a result of audits by the State of Michigan for prior years and an estimate of the liability for the current fiscal year.

The \$6.0 million decrease in tax revenue and increase in other liabilities have resulted in the only significant change from previous years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains two types of financial statements. The statements of net assets and statements of activities (which are presented on pages 7 and 8) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and changes in fund balances for governmental funds (which are presented on pages 9 and 11) are considered fund financial statements. A further discussion of each type of statement follows.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2007 and 2006

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements

The government-wide financial statements report information about LDFA as a whole, using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net assets include all of LDFA's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report LDFA's net assets and how they have changed. Net assets represent the difference between LDFA's assets and liabilities, and they represent one way to measure LDFA's financial health or position. Over time, increases or decreases in LDFA's net assets are an indicator of whether its financial health is improving or deteriorating.

Fund Financial Statements

The fund financial statements provide more detailed information about LDFA's funds, not LDFA as a whole. Funds are accounting devices that LDFA uses to keep track of specific sources of funding and spending for particular purposes.

Most of LDFA's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending. As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance LDFA's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 10 and 12 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 13, explain some of the information in the financial statements and provide more detailed data.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2007 and 2006

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects the condensed statements of net assets as of June 30, 2007, 2006, and 2005:

Table 1
Statements of Net Assets
June 30, 2007, 2006, and 2005
(in millions of dollars)

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|-------------------------|-------------------------|-------------------------|
| Assets: | | | |
| Cash | \$ 5.3 | \$ 5.4 | \$ 5.4 |
| Investments and other assets | <u>33.9</u> | <u>28.8</u> | <u>24.8</u> |
| Total Assets | <u>39.2</u> | <u>34.2</u> | <u>30.2</u> |
| Liabilities: | | | |
| Long-term liabilities: | | | |
| Due or expected to be paid within one year | 3.3 | 3.3 | 3.4 |
| Due or expected to be paid in more than one year | 76.2 | 79.6 | 82.8 |
| Other liabilities | <u>7.1</u> | <u>0.9</u> | <u>0.9</u> |
| Total Liabilities | <u>86.6</u> | <u>83.8</u> | <u>87.1</u> |
| Net Assets (Deficit): | | | |
| Restricted for debt service | 27.2 | 28.2 | 24.1 |
| Restricted for grant projects | 5.0 | 5.1 | 5.2 |
| Unrestricted | <u>(79.6)</u> | <u>(82.9)</u> | <u>(86.2)</u> |
| Total Net Assets (Deficit) | <u>\$ (47.4)</u> | <u>\$ (49.6)</u> | <u>\$ (56.9)</u> |

The net assets of LDFA increased by approximately four percent. The increase is due primarily to two factors. Grant expenses decreased more than \$2 million as the activities related to the Core Communities grant wound down. In prior years, LDFA was increasing net assets annually by more than \$7 million, as the tax revenue was greatly exceeding the debt service expenditures. The amount of increase is reduced this year due to the one-time adjustment to account for the excess school tax revenue captured, but should return to its normal level of increase in future years.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2007 and 2006

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Investments and other assets increased due to the higher amount of tax receipts as compared to the debt service costs. Other liabilities increased due to the accrual of the excess school tax revenue refund due.

Table 2 reflects the condensed statements of activities for the years ended June 30, 2007, 2006, and 2005:

Table 2
Statements of Activities
For the Years Ended June 30, 2007, 2006, and 2005
(in millions of dollars)

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|--------------------------------|--------------------------------|--------------------------------|
| Revenue: | | | |
| General revenue | \$ 7.4 | \$ 14.9 | \$ 12.7 |
| Expenses: | | | |
| Economic development | <u>5.2</u> | <u>7.6</u> | <u>7.0</u> |
| Net Increase in Net Assets | 2.2 | 7.3 | 5.7 |
| Net Assets (Deficit), Beginning of Year | <u>(49.6)</u> | <u>(56.9)</u> | <u>(62.6)</u> |
| Net Assets (Deficit), End of Year | <u><u>\$ (47.4)</u></u> | <u><u>\$ (49.6)</u></u> | <u><u>\$ (56.9)</u></u> |

The decrease in general revenue for the fiscal year ended June 30, 2007 is due to the one-time adjustment to account for the excess school tax revenue captured, but should return to its normal level in future years. Expenses decreased because activity for the Core Communities grant was very limited in the fiscal year.

LONG-TERM LIABILITIES

The debt service for the bonds issued to support the project is the only long-term liability LDFA has.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2007 and 2006

ECONOMIC FACTORS

LDFA receives a large majority of its revenue through tax receipts. The economic health of the tax increment district area has a substantial impact on the level of revenue received. The plant appears to be performing well enough to sustain the district, especially given the large amount of positive disparity between the taxes being captured and the amounts needed for debt service.

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of LDFA's finances and to demonstrate LDFA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the office of the chief financial officer of the Detroit Economic Growth Corporation, 500 Griswold, Suite 2200, Detroit, Michigan 48226.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

| | Governmental Activities | |
|---|--------------------------------|------------------------|
| | 2007 | 2006 |
| Assets: | | |
| Cash (Note A) | \$ 5,272,831 | \$ 5,355,048 |
| Investments (Note A) | 29,596,009 | 28,715,165 |
| Property taxes receivable (Note B) | 4,241,421 | -0- |
| Accounts receivable (no allowance considered necessary) | 4,495 | -0- |
| Accrued interest receivable (Note A) | 105,234 | 92,449 |
| Total Assets | 39,219,990 | 34,162,662 |
| Liabilities: | | |
| Accounts payable | 45,419 | 127,411 |
| Property tax refund payable (Note B) | 6,307,664 | -0- |
| Accrued interest payable | 739,856 | 769,595 |
| Long-term liabilities (Note C): | | |
| Due or expected to be paid within one year | 3,315,000 | 3,285,000 |
| Due or expected to be paid in more than one year | 76,240,000 | 79,555,000 |
| Total Liabilities | 86,647,939 | 83,737,006 |
| Net Assets (Deficit): | | |
| Restricted for debt service | 27,166,868 | 28,177,335 |
| Restricted for grant projects | 4,960,183 | 5,088,321 |
| Unrestricted | (79,555,000) | (82,840,000) |
| Total Net Assets (Deficit) | \$ (47,427,949) | \$ (49,574,344) |

See notes to financial statements.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2007 and 2006

| | Governmental Activities | |
|--|--------------------------------|------------------------|
| | 2007 | 2006 |
| Expenses: | | |
| Economic development program: | | |
| Grant expenses | \$ 265,164 | \$ 2,473,193 |
| Administrative and operating expenses (Note A) | 328,255 | 347,959 |
| Interest expense | 4,587,831 | 4,768,932 |
| | 5,181,250 | 7,590,084 |
| General Revenue: | | |
| Property taxes (Note B) | 5,489,734 | 11,350,812 |
| Earnings on investments | 1,631,072 | 1,072,629 |
| Other revenue | 206,839 | 2,469,491 |
| | 7,327,645 | 14,892,932 |
| | 2,146,395 | 7,302,848 |
| Net Assets (Deficit), Beginning of Year | (49,574,344) | (56,877,192) |
| | \$ (47,427,949) | \$ (49,574,344) |

See notes to financial statements.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2007 and 2006

| | General Fund | |
|---|----------------------|----------------------|
| | 2007 | 2006 |
| ASSETS | | |
| Cash (Note A) | \$ 5,272,831 | \$ 5,355,048 |
| Investments (Note A) | 29,596,009 | 28,715,165 |
| Property taxes receivable (Note B) | 4,241,421 | -0- |
| Accounts receivable (no allowance considered necessary) | 4,495 | -0- |
| Accrued interest receivable (Note A) | 105,234 | 92,449 |
| Total Assets | \$ 39,219,990 | \$ 34,162,662 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts payable | \$ 45,419 | \$ 127,411 |
| Property tax refund payable (Note B) | 6,307,664 | -0- |
| Total Liabilities | 6,353,083 | 127,411 |
| Fund Balance: | | |
| Reserved for debt service | 27,906,724 | 28,946,930 |
| Reserved for grant projects | 4,960,183 | 5,088,321 |
| Total Fund Balance | 32,866,907 | 34,035,251 |
| Total Liabilities and Fund Balance | \$ 39,219,990 | \$ 34,162,662 |

See notes to financial statements.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

| | 2007 | 2006 |
|---|------------------------|------------------------|
| Total Fund Balance, Governmental Funds | \$ 32,866,907 | \$ 34,035,251 |
| <p>Amounts reported for governmental activities in the statements of net assets differ from amounts reported in the governmental funds balance sheets due to the following:</p> | | |
| <p>Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:</p> | | |
| Bonds payable | (79,555,000) | (82,840,000) |
| Accrued interest payable | (739,856) | (769,595) |
| Total Net Assets (Deficit), Governmental Activities | \$ (47,427,949) | \$ (49,574,344) |

See notes to financial statements.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

**STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

For the Years Ended June 30, 2007 and 2006

| | General Fund | |
|--|----------------------|----------------------|
| | 2007 | 2006 |
| Revenue: | | |
| Property taxes (Note B) | \$ 5,489,734 | \$ 11,350,812 |
| Earnings on investments | 1,631,072 | 1,072,629 |
| Other revenue | 206,839 | 2,469,491 |
| Total Revenue | 7,327,645 | 14,892,932 |
| Expenditures: | | |
| Current: | | |
| Grant expenditures | 265,164 | 2,473,193 |
| Administrative and operating expenses (Note A) | 328,255 | 347,959 |
| Interest expense | 4,617,570 | 4,799,205 |
| Debt service (Note C) | 3,285,000 | 3,370,000 |
| Total Expenditures | 8,495,989 | 10,990,357 |
| Net Increase (Decrease) in Fund Balance | (1,168,344) | 3,902,575 |
| Fund Balance, Beginning of Year | 34,035,251 | 30,132,676 |
| Fund Balance, End of Year | \$ 32,866,907 | \$ 34,035,251 |

See notes to financial statements.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2007 and 2006

| | 2007 | 2006 |
|---|---------------------|---------------------|
| Net Increase (Decrease) in Fund Balance, Governmental Funds | \$ (1,168,344) | \$ 3,902,575 |
| <p>Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balance due to the following:</p> | | |
| <p>Repayment of long-term debt is reported as an expenditures in governmental funds, but the repayment reduces long-term liabilities in the statements of net assets. During the years presented, these amounts are as follows:</p> | | |
| Repayment of bonds payable | 3,285,000 | 3,370,000 |
| Accrued interest payable, beginning of year | 769,595 | 799,868 |
| Less: Accrued interest payable, end of year | (739,856) | (769,595) |
| Net Increase in Net Assets, Governmental Activities | \$ 2,146,395 | \$ 7,302,848 |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Purpose

The City of Detroit Local Development Finance Authority (“LDFA”) was created by a Detroit City Council resolution dated October 31, 1988 under the provisions of Act 281, Public Acts of Michigan of 1986. LDFA was established, in part, for the purpose of financing the Jefferson/Conner Industrial Revitalization Project (the “Project”). The Project’s area encompasses approximately 380 acres and is located in the southeast portion of the City of Detroit, Michigan (the “City”). Chrysler LLC’s Jefferson North Assembly Plant occupies approximately 60 percent of the Project’s total land area. In May 2002, LDFA expanded its function and adopted resolutions establishing an additional development district and approving the Tax Increment Financing Plan for Technology Park Area No. 1 (the “Plan”). The purpose of the Plan was to partially fund the development of the Wayne State University Research and Technology Park. In October 2003, LDFA entered into a Core Community Fund grant agreement with the Michigan Economic Development Corporation that includes several City improvement projects.

For financial reporting purposes, LDFA is a component unit of the City because the members of LDFA’s Board of Directors are appointed by the City’s mayor and are confirmed by the Detroit City Council, which approves LDFA’s budget. There are no fiduciary funds or component units included in the accompanying financial statements.

Basis of Presentation

The financial statements of LDFA consist of government-wide financial statements, which include the statements of net assets and statements of activities, and fund financial statements, which include the balance sheets and statements of revenue, expenditures, and changes in fund balances for governmental funds.

Government-Wide Financial Statements

The government-wide financial statements report information about all of LDFA’s assets, liabilities, net assets, revenue, and expenses, similar to the financial statements of non-governmental enterprises.

Fund Financial Statements

For purposes of the fund financial statements, the accounts of LDFA are organized on the basis of governmental funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. The various funds are summarized by type in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements (continued)

The following fund is used by LDFA:

General Fund

The General Fund is the general operating fund of LDFA. It is used to account for all financial resources other than those required to be accounted for in another fund.

Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned and expenses are recorded when incurred. Grants and other revenue intended for use in specific projects are classified as program revenue. All other revenue, including all property tax revenue, is classified as general revenue.

Fund Financial Statements

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance. Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt, or earlier if the susceptible-to-accrual criteria are met.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Administration

For the years ended June 30, 2007 and 2006, LDFA entered into agreements with the Detroit Economic Growth Corporation (“DEGC”) for administrative and professional services at an annual cost not to exceed \$200,000 per year for the years ended June 30, 2007 and 2006. These expenditures are reflected in administrative expenses for services rendered for each year.

Grant Revenue

Grant revenue is recognized when expenses that are reimbursable under an agreement with the funding source are incurred.

Cash Deposits

State of Michigan statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial credit risk is the risk that, in the event of a bank failure, LDFA’s deposits may not be returned to LDFA. LDFA does not have a deposit policy for custodial credit risk.

As of June 30, 2007 and 2006, LDFA’s carrying amount of deposits and bank balances, and the bank balances that are not covered by federal depository insurance, are as follows:

| | <u>2007</u> | <u>2006</u> |
|--|---------------------|---------------------|
| Carrying amount of deposits | \$ 5,272,831 | \$ 5,355,048 |
| Total bank balances | <u>\$ 5,323,163</u> | <u>\$ 5,387,317</u> |
| Uninsured and uncollateralized bank balances | <u>\$ 5,223,163</u> | <u>\$ 5,240,086</u> |

Investments

Investments are recorded at fair value, based on quoted market prices.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

As of June 30, 2007 and 2006, LDFA's investments are classified as follows:

| | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| Investments held by the counterparty's trust department or agent in DBRA's name: | | |
| Money market funds: | | |
| AAAm rating from Standard & Poor's: | | |
| First American Treasury Obligations Fund, Class Y (weighted average maturity of one day) | <u>\$ 29,596,009</u> | <u>\$ 28,715,165</u> |

These investments, along with the related accrued interest receivable, are accumulated and reserved in accordance with bond ordinance provisions or other restrictive covenants.

State of Michigan statutes authorize LDFA to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Act, and mutual funds composed entirely of the above investments. LDFA has no investment policy that would further limit its investment options.

LDFA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, LDFA will not be able to recover the value of its investments that are in the possession of an outside party. LDFA places no limit on the amount it may invest in any one issuer. Investments that represent five percent or more of LDFA's total investments are identified in the preceding schedule.

Stewardship, Compliance, and Accountability

LDFA is required by State of Michigan statute to adopt a budget for the general fund. However, no budget was prepared for the year ended June 30, 2007.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to classifications used in 2007.

NOTE B - PROPERTY TAXES

LDFA is authorized to finance its activities by capturing an incremental portion of the tax proceeds on the increases in the assessed value on the real and personal property of the Jefferson North Assembly Plant that are levied by the City and Wayne County, Michigan.

The City levies property taxes on July 1 of each year. Property taxes are due to the City on August 15 of each year, but may be paid in two installments, which are due on August 15 and December 31 of each year. Liens are assessed on unpaid taxes on July 1 of each year. The City is scheduled to remit collected property taxes to LDFA in December and June of each year.

In 1994, State of Michigan (the "State") voters passed Proposal A, which affected school property tax revenue. As a result, Tax Increment Plans are only allowed to capture school tax revenue to the extent necessary to cover existing debt service, and the excess must be returned to the State. An audit was completed by the State for the years ended June 30, 2001 through June 30, 2005, but an audit of subsequent years has not been completed as of June 30, 2007; therefore, an estimated allowance has been recorded for those years.

Property taxes for the years ended June 30, 2007 and 2006 are as follows:

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|----------------------|
| Tax increment district revenue | \$ 11,490,384 | \$ 11,350,812 |
| Less: | | |
| Refund for the years ended June 30, 2001 through June 30, 2005 | <u>(6,000,650)</u> | <u>-0-</u> |
| | <u>\$ 5,489,734</u> | <u>\$ 11,350,812</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)**June 30, 2007 and 2006****NOTE C - LONG-TERM LIABILITIES**

On September 15, 1998, LDFA issued \$52,205,000 in 1998 Series A subordinated bonds, of which \$46,869,964 is being used to pay the City for certain costs of public facilities. Principal and interest payments commenced on May 1, 1999 and are payable through May 2021. Interest payments are due semi-annually each May and November.

On September 5, 1997, LDFA issued \$45,865,000 in 1997 Series A tax increment refunding bonds, with an average interest rate of 5.3 percent per annum, to refund \$42,000,000 of outstanding bonds issued in 1991. The proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on all of the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability for those bonds has been removed from the financial statements. The amount of defeased debt outstanding as of June 30, 2007 and 2006 is \$30,895,000 and \$33,615,000, respectively.

On September 5, 1997, LDFA also issued \$11.5 million in 1997 Series B and Series C tax increment bonds, the proceeds of which are being used to pay the City for certain costs of public facilities. Principal payments commenced on July 14, 2000 and are payable through July 2021. Interest payments are due semi-annually each May and November and commenced on November 1, 1997.

The interest rates on the outstanding fixed-rate bonds range from 4.2 percent to 5.3 percent per annum. The property taxes of LDFA are pledged for repayment of the bonds.

Long-term liability activity for the years ended June 30, 2007 and 2006 is as follows:

| | <u>2007</u> | <u>2006</u> |
|-----------------------------|------------------------------------|------------------------------------|
| Balance, beginning of year | \$ 82,840,000 | \$ 86,210,000 |
| Less: Repayments | <u>(3,285,000)</u> | <u>(3,370,000)</u> |
| Balance, End of Year | <u><u>\$ 79,555,000</u></u> | <u><u>\$ 82,840,000</u></u> |
| Amounts due within one year | <u><u>\$ 3,315,000</u></u> | <u><u>\$ 3,285,000</u></u> |

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE C - LONG-TERM LIABILITIES (CONTINUED)

Maturities of long-term liabilities are as follows as of June 30, 2007:

| <u>For the Years Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|-----------------------------|-----------------------------|------------------------------|
| 2008 | \$ 3,315,000 | \$ 4,439,135 | \$ 7,754,135 |
| 2009 | 3,345,000 | 4,260,245 | 7,605,245 |
| 2010 | 3,385,000 | 4,079,525 | 7,464,525 |
| 2011 | 5,405,000 | 3,896,298 | 9,301,298 |
| 2012 | 5,465,000 | 3,597,308 | 9,062,308 |
| 2013-2017 | 30,315,000 | 13,236,574 | 43,551,574 |
| 2018-2021 | 28,325,000 | 4,044,448 | 32,369,448 |
| | <u>\$ 79,555,000</u> | <u>\$ 37,553,533</u> | <u>\$ 117,108,533</u> |

NOTE D - RISK MANAGEMENT

LDFA has insurance policies covering its directors and officers. It also has general liability insurance and property insurance covering its various assets. Due to the extent of insurance that LDFA maintains, the risk of loss to LDFA, in management's opinion, is minimal.