MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF THE

CADILLAC LOCAL DEVELOPMENT FINANCE AUTHORITY

June 2006

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

27-305-06

"...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof."

– Article IV, Section 53 of the Michigan Constitution

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Office of the Auditor General

REPORT SUMMARY

Performance Audit

Cadillac Local Development Finance Authority

Report Number:
27-305-06

Released:
June 2006

The Cadillac Local Development Finance Authority was created in 1991 pursuant to Sections 125.2151 - 125.2174 of the Michigan Compiled Laws *(Act 281, P.A. 1986, as amended). In 1995 and 1996, the Authority constructed a complex of wells, pumps, and decontamination towers and tanks to remove volatile organic compounds from the contaminated groundwater.*

Audit Objective:

To assess the Cadillac Local Development Finance Authority's compliance with significant statutory requirements of the local development finance authority (LDFA) program.

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Audit Conclusion:

We concluded that the Cadillac Local Development Finance Authority complied with significant statutory requirements of the LDFA program.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

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AUDITOR GENERAL

June 13, 2006

The Honorable Patricia L. Birkholz, Chair
Senate Committee on Natural Resources
and Environmental Affairs

The Honorable David W. Palsrok, Chair
House Committee on Natural Resources,
Great Lakes, Land Use, and Environment

The Honorable Nancy C. Cassis, Chair
Senate Committee on Finance

The Honorable Fulton J. Sheen, Chair
House Committee on Tax Policy

Dear Chairpersons:

This is our report on the performance audit of the Cadillac Local Development Finance Authority.

This report is issued pursuant to Section 125.2169 of the *Michigan Compiled Laws*, which states that the Auditor General shall annually audit the authority whose authority district includes eligible property to which Section 125.2152(p)(iv) applies. The audit shall be limited to matters pertaining to the district.

The report contains our report summary; description of authority; flow chart of the local development finance authority process; audit objective, scope, and methodology and prior audit follow-up; comment and significant statutory requirements and related conclusions; various schedules and statements, presented as supplemental information; and a glossary of acronyms and terms.

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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GLOSSARY

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Description of Authority

A portion of the water supply (groundwater) under the City of Cadillac was contaminated by discharges of various chemicals from industrial activity. This contamination occurred before implementation of specific requirements that now regulate discharges. As a result of the contamination, the area could not be developed. However, the City believed that if the property was cleared of the contamination, it could be developed. The City estimated that the area of groundwater contamination covered a surface area equivalent to one square mile (640 acres). The contaminated area was increasing at the rate of several feet per year.

The City began a project to clean up the groundwater in 1983. The project began with the creation of a partnership that included several local companies and the City. As the project progressed, additional funds became necessary. In 1989 and 1990, the project added partners, primarily to provide financing for an electrical generating plant. In 1991, the City began to pursue the use of a local development finance authority* (LDFA) and tax increment financing* (TIF) to finance the cleanup of the groundwater.

Sections 125.2151 - 125.2174 of the *Michigan Compiled Laws* (Act 281, P.A. 1986, as amended) provide for the establishment of LDFAs that allow local governing bodies to establish local authorities to promote economic growth in the communities served by these local units of government. TIF permits an LDFA to capture tax revenues attributable to increases in the value of real and personal eligible property* located in the LDFA's district. The amount by which the current assessed value exceeds the initial assessed value in any one year is the captured assessed value. For the duration of the TIF plan, the local taxing jurisdiction will continue to receive tax revenues based on the initial assessed value. The State reimburses schools for their lost revenue.

The original enabling legislation for LDFAs and TIFs did not include generation facilities* as eligible property. The law was amended in 1991 to include generation facilities as eligible property. The 1991 amendment also added several requirements that are directly related to this LDFA. These included (1) the establishment of an initial TIF plan between January 1 and May 1, 1991 and (2) the provision that not less than 50% of the amount specifically assessed against all parcels in the special assessment district* be assessed against parcels owned by parties potentially responsible for the identified

* *See glossary at end of report for definition.*

groundwater contamination. The reduction in school operating millage resulting from the adoption of Proposal A in 1994 created an uncertainty for LDFAs to meet their obligations. The Legislature passed Act 282, P.A. 1994, to help reduce the impact of the school finance reform on LDFAs. The new amendments provided LDFAs, with eligible obligations, a three-step process to fund the related debt. If the first step does not provide sufficient funding, the LDFA goes to the next step. The three steps are: step 1, captured school revenues; step 2, captured revenues from nonschool millage; and step 3, reimbursement to the LDFAs from the State up to the amount that would have been captured if the 1993 school millages were still being levied.

In 1991, the City designated approximately 120 acres as eligible property under Sections 125.2151 - 125.2174 of the *Michigan Compiled Laws*. The LDFA adopted an initial TIF plan on April 8, 1991. The LDFA's plan centered around a wood-burning electrical generating plant that would sell power to a major power supplier. Under the plan, the Cadillac Local Development Finance Authority constructed a complex of wells, pumps, and decontamination towers and tanks. The Authority issued bonds to finance the construction. The Authority uses tax increment revenues* to pay the bond principal and interest. In 1994, the Authority refinanced the bonds originally sold in 1992. In 2000, the Authority refinanced the bonds again. The Authority paid the bonds off during fiscal year 2004-05 and informed us that it will no longer capture revenue for the purpose of repaying the debt. The Authority is in the process of determining the appropriate distribution of the remaining fund balance in the debt service fund.

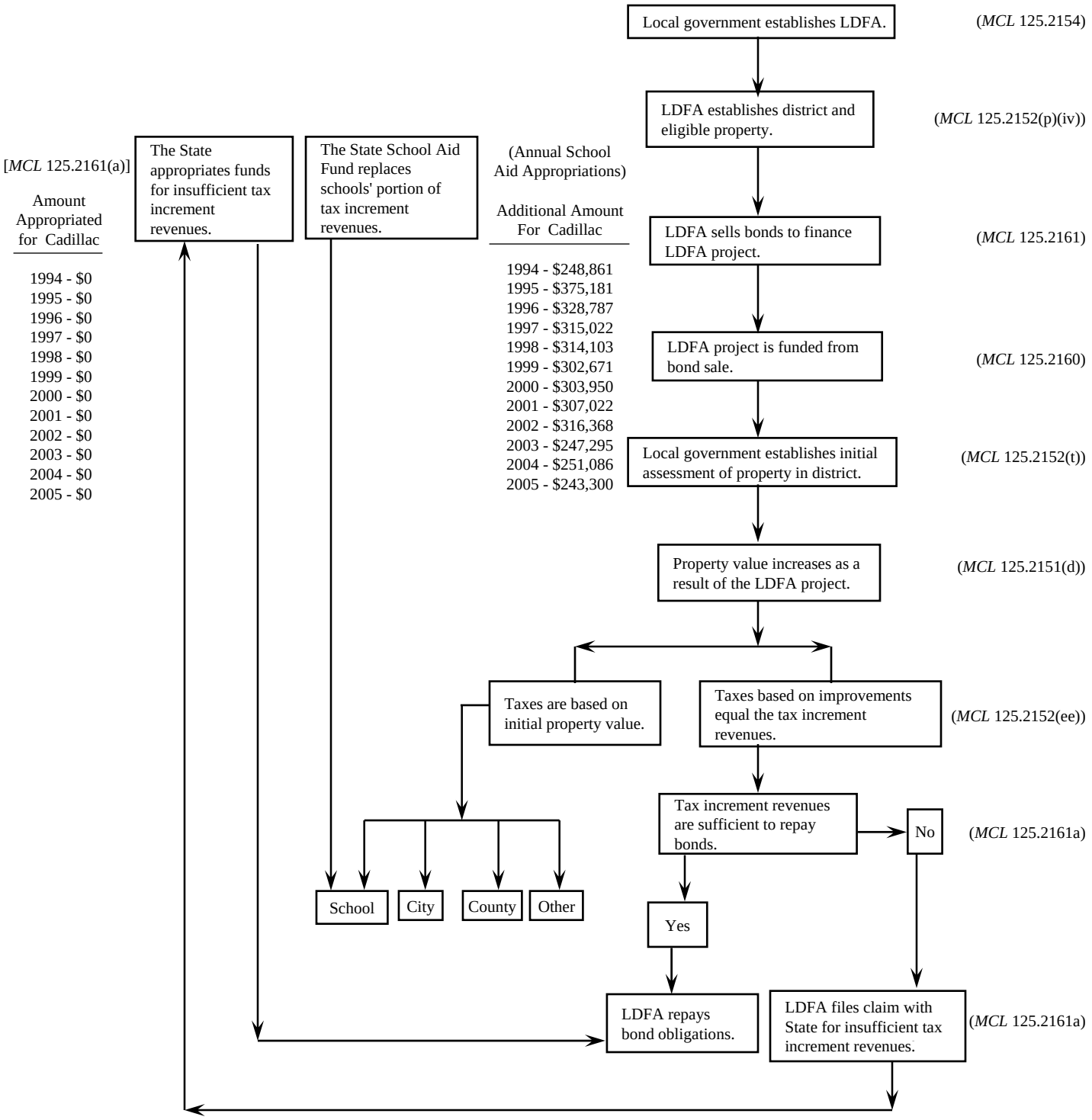
The Authority has contracted with the City to operate the facility. The operation of the facility is funded by a special assessment. Groundwater is pumped from wells to two air-stripping towers (see photograph of air-stripping tower system, presented as supplemental information). The water contaminated with volatile organic compounds is air stripped. The cleaned water is available for sale to the power plant to cool the boiler. If not used to cool the boiler, the clean water goes into a local stream.

The cleanup project received final U.S. Environmental Protection Agency (EPA) approval and facility construction was started in 1995 and completed in September 1996. The City will operate the facility for the 20 to 30 years it is estimated it will take to clean up the groundwater to EPA standards.

* *See glossary at end of report for definition.*

CADILLAC LOCAL DEVELOPMENT FINANCE AUTHORITY

Flow Chart of the Local Development Finance Authority (LDFA) Process



27-305-06

Audit Objective, Scope, and Methodology and Prior Audit Follow-Up

Audit Objective

The objective of our performance audit* of the Cadillac Local Development Finance Authority was to assess its compliance with significant statutory requirements of the local development finance authority (LDFA) program.

Audit Scope

Our audit scope was to examine the program and other records of the Cadillac Local Development Finance Authority for the period July 1, 2003 through June 30, 2005. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The accompanying schedules and statements, presented as supplemental information, were prepared using information obtained from the City of Cadillac; we did not audit this information. Also, we did not audit the Cadillac Local Development Finance Authority's financial statements, portions of which are included in this report. Those statements were audited as part of the *City of Cadillac Comprehensive Annual Financial Report* for fiscal years 2004-05 and 2003-04 by a public accounting firm whose reports were furnished to us. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

Audit Methodology

Our audit procedures, conducted from November 2005 through January 2006, included analyzing program status and financial data related to the LDFA funds as reported in the *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2005 and June 30, 2004. We also assessed the Authority's operations to determine compliance with significant statutory requirements. In addition, we analyzed the State equalized values used to determine tax increment revenues. Further, we determined the amount of additional State school aid that was provided as a result of the LDFA program.

* *See glossary at end of report for definition.*

Prior Audit Follow-Up

We released our prior performance audit of the Cadillac Local Development Finance Authority (#2730504) in February 2005. Our prior audit did not have any recommendations.

COMMENT AND SIGNIFICANT STATUTORY REQUIREMENTS AND RELATED CONCLUSIONS

COMMENT

Background: The Cadillac Local Development Finance Authority was created in 1991 pursuant to Sections 125.2151 - 125.2174 of the *Michigan Compiled Laws* (Act 281, P.A. 1986, amended). This statute provided that a local development finance authority (LDFA) could be used to finance a public facility designed to reduce, eliminate, or prevent the spread of identified soil and groundwater contamination. Section 125.2169 provides that the Auditor General shall annually audit the authority whose authority district includes the eligible property.

Audit Objective: To assess the Cadillac Local Development Finance Authority's compliance with significant statutory requirements of the LDFA program.

Conclusion: We concluded that the Cadillac Local Development Finance Authority complied with significant statutory requirements of the LDFA program.

SIGNIFICANT STATUTORY REQUIREMENTS AND RELATED CONCLUSIONS

Statutory Requirement:

Section 125.2152(p)(iv)(A) of the *Michigan Compiled Laws* states:

> Tax increment revenues captured from the eligible property will be used to finance, or will be pledged for debt service on tax increment bonds used to finance, a public facility in or near the authority district designed to reduce, eliminate, or prevent the spread of identified soil and groundwater contamination, pursuant to law.

Auditor's Compliance Conclusion:

The Authority complied with this requirement. The Authority used tax increment revenues captured from the eligible property for the fiscal years ended June 30, 2005 and June 30, 2004 for debt service on bonds issued to finance a public utility, including wells and filtering equipment, designated to reduce, eliminate, and prevent the spread of groundwater contamination under the City of Cadillac (see Local Development Refunding Bonds, Series 2000, presented as supplemental information). According to the 1999 performance report prepared by a private company for the facility, the groundwater contamination has been contained and contaminants are being removed from the groundwater. The Authority expects the issuance of an updated performance report in 2006.

Statutory Requirement:
Section 125.2152(p)(iv)(C) of the *Michigan Compiled Laws* states:

> Not less than 50% of the amount specially assessed against all parcels in the special assessment district shall be assessed against parcels owned by parties potentially responsible for the identified groundwater contamination pursuant to law.

Auditor's Compliance Conclusion:
The Authority complied with this requirement. Approximately 69% of the special assessments were assessed against parcels owned by parties potentially responsible for the identified groundwater contamination. The special assessments were used to pay for 47% of the facility's operating costs for fiscal year 2004-05 and 93% of the facility's operating costs for fiscal year 2003-04 (see combining statement of revenues, expenditures and changes in fund balances, presented as supplemental information).

Statutory Requirement:
Section 125.2160 for the *Michigan Compiled Laws* states:

> The activities of the authority shall be financed from 1 or more of the following sources:
>
> (a) Contributions to the authority for the performance of its functions.
> (b) Revenues from any property, building, or facility owned, leased, licensed, or operated by the authority or under its control, subject to the limitations imposed upon the authority by trusts or other agreements.
> (c) Tax increment revenues received pursuant to a tax increment financing plan established under sections 12 to 14.
> (d) Proceeds of tax increment bonds issued pursuant to section 14.
> (e) Proceeds of revenue bonds issued pursuant to section 11.
> (f) Money obtained from any other legal source approved by the governing body of the municipality or otherwise authorized by law for use by the authority or the municipality to finance a development program.
> (g) Money obtained pursuant to section 11a.
> (h) Loans from the Michigan strategic fund or the Michigan economic development corporation.

Auditor's Compliance Conclusion:

The Authority complied with this requirement. The activities of the Authority were financed with tax increment revenues received pursuant to a tax increment financing (TIF) plan and amounts assessed against parties potentially responsible for the identified groundwater contamination pursuant to law (see items (c) and (f)).

Statutory Requirement:

Section 125.2162(2) of the *Michigan Compiled Laws* states:

> . . . to the extent that captured tax increment revenues are utilized for the costs of cleanup of identified soil and groundwater contamination, the captured tax increment revenues shall be first credited against the shares of responsibility for the total costs of cleanup of uncollectible parties who are responsible for the identified soil and groundwater contamination pursuant to law, and then shall be credited on a pro rata basis against the shares of responsibility for the total costs of cleanup of other parties who are responsible for the identified soil and groundwater contamination pursuant to law.

Auditor's Compliance Conclusion:

The Authority complied with this requirement. The Authority has used the captured tax increment revenues to pay for the debt service on tax increment revenue bonds issued for the cleanup project. The Authority paid off the tax increment revenue bonds during fiscal year 2004-05 and will not capture this tax in future years (see Local Development Refunding Bonds, Series 2000, presented as supplemental information). The Authority used the special assessments against those potentially responsible parties for the identified groundwater contamination to pay the operating expenses of the facility for the fiscal years ended June 30, 2005 and June 30, 2004.

Statutory Requirement:

Section 125.2162(3) of the *Michigan Compiled Laws* (MCL) states:

> The percentage of taxes levied for school operating purposes that is captured and used by the tax increment financing plan and the tax increment financing plans under 1975 PA 197, MCL 125.1651 to 125.1681, the tax increment finance authority act, 1980 PA 450, MCL 125.1801 to 125.1830, and the brownfield redevelopment financing act, 1996 PA 381, MCL 125.2651 to 125.2672, shall not be greater than the percentage capture and use of taxes levied by a municipality or county for operating purposes under the tax increment financing plan and tax increment financing plans under 1975 PA 197, MCL 125.1651 to 125.1681, the tax increment finance

> authority act, 1980 PA 450, MCL 125.1801 to 125.1830, and the brownfield redevelopment financing act, 1996 PA 381, MCL 125.2651 to 125.2672. For purposes of the previous sentence, taxes levied by a county for operating purposes include only millage allocated for county or charter county purposes under the property tax limitation act, 1933 PA 62, MCL 211.201 to 211.217a.

Auditor's Compliance Conclusion:

The Authority complied with this requirement. The percentage of taxes levied for school operating purposes captured and used by the TIF plan did not exceed the plan's percentage captured and used of the taxes levied by the City of Cadillac and the County of Wexford for the fiscal years ended June 30, 2005 and June 30, 2004 (see comparison of tax increment revenues to total taxes, presented as supplemental information).

Statutory Requirement:

Section 125.2163(2) of the *Michigan Compiled Laws* states:

> The authority shall expend the tax increment revenues received for the development program only in accordance with the tax increment financing plan. Tax increment revenues in excess of the estimated tax increment revenues or of the actual costs of the plan to be paid by the tax increment revenues may be retained by the authority only for purposes, that by resolution of the board, are determined to further the development program in accordance with the tax increment financing plan. The excess tax increment revenues not so used shall revert proportionately to the respective taxing jurisdictions. These revenues shall not be used to circumvent existing property tax laws or a local charter that provides a maximum authorized rate for the levy of property taxes.

Auditor's Compliance Conclusion:

The Authority complied with this requirement. The Authority expended tax increment revenues received for the LDFA program in accordance with the TIF plan. Tax increment revenues in excess of the actual costs of the plan were retained by the Authority (see combining statement of revenues, expenditures and changes in fund balances, presented as supplemental information) to further the development program in accordance with the TIF plan. The revenues were not used to circumvent existing property tax laws or a local charter that provides a maximum authorized rate for the levy of property taxes.

Statutory Requirement:

Section 125.2163(3) of the *Michigan Compiled Laws* states:

> The authority shall submit annually to the governing body and the state tax commission a financial report on the status of the tax increment financing plan.

Auditor's Compliance Conclusion:

The Authority complied with this requirement. The Authority has submitted financial reports as required to the State Tax Commission.

SUPPLEMENTAL INFORMATION

Description of Supplemental Information

The Office of the Auditor General prepared the following schedules from information in the *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2005 and June 30, 2004 and the Cadillac Local Development Finance Authority Annual Reports for 2005 and 2004:

1. Calculation of Tax Increment Revenues. This schedule shows how the tax increment revenues were determined. The schedule also shows the actual State equalized value and related millage by type of tax.

2. Additional State School Aid Resulting From Tax Increment Revenues. This schedule reports the total tax increment revenues that relate to the increase in the property values as a result of the acquisition and construction of eligible property in the district. It also reports the amount of additional State school aid needed to make up that portion of the property taxes that would have gone to the schools but went to fund the Cadillac Local Development Finance Authority.

3. Comparison of Tax Increment Revenues to Total Taxes. This schedule shows compliance with Section 125.2162(3) of the *Michigan Compiled Laws*, which limits the amount of tax increment revenues levied for school operations to an amount equal to taxes levied by the municipality or county for operations.

The following LDFA statements are as presented in the *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2005 and June 30, 2004:

1) Combining Balance Sheet.

2) Combining Statement of Revenues, Expenditures and Changes in Fund Balances.

3) Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets - LDFA Utilities Fund

4) Local Development Refunding Bonds, Series 2000.

These LDFA statements include activities of the following funds:

(1) Operating Fund - This fund was established to account for the operations of the groundwater cleanup facility located in the industrial park.

(2) Debt Retirement Fund - This fund was established to account for the accumulation of resources and payment of bond principal and interest.

(3) Utilities Fund - This fund was established to account for the provisions of water utility services to the cogeneration plant located within the boundaries of the Authority.

These schedules and statements are included in this report as supplemental information. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

CADILLAC LOCAL DEVELOPMENT FINANCE AUTHORITY
Calculation of Tax Increment Revenues
For the Fiscal Years Ended June 30

Type of Tax		2005 (Based on 2004 SEV) State Equalized Value (SEV)	Millage	Total Captured Levy	2004 (Based on 2003 SEV) State Equalized Value	Millage	Total Captured Levy
Education Captured Revenues:							
School	General	$ 13,702,388	17.55050	$ 240,484	$ 14,584,496	17.55050	$ 255,965
	IFT 1993	$ (305,300)	16.60000	(5,068)	$ (305,300)	16.60000	(5,068)
	IFT 1994	$ 898,500	8.77525	7,885	$ 21,500	8.77525	189
				$ 243,300			$ 251,086
ISD	General	$ 13,702,388	5.98530	$ 82,013	$ 14,584,496	6.00030	$ 87,511
	IFT	$ 593,200	2.99265	1,775	$ (283,800)	3.00015	(851)
				$ 83,788			$ 86,660
SET	General	$ 13,702,388	6.00000	$ 82,214	$ 14,584,496	5.00000	$ 72,922
	IFT 1994	$ 898,500	6.00000	5,391	$ 21,500	5.00000	108
				$ 87,605			$ 73,030
	Total Education Captured Revenues			$ 414,694			$ 410,776
Noneducation Captured Revenues:							
County	General	$ 13,702,388	8.08930	$ 110,843	$ 14,584,496	8.10400	$ 118,193
	IFT	$ 593,200	4.04465	2,399	$ (283,800)	4.05200	(1,150)
				$ 113,242			$ 117,043
City	General	$ 13,702,388	13.94730	$ 191,111	$ 14,584,496	13.94730	$ 203,414
	IFT	$ 593,200	6.97365	4,137	$ (283,800)	6.97365	(1,979)
				$ 195,248			$ 201,435
City Policemen/ Firemen Retirement System	General	$ 13,702,388	1.80000	$ 24,664	$ 14,584,496	1.60000	$ 23,335
	IFT	$ 593,200	0.90000	534	$ (283,800)	0.80000	(227)
				$ 25,198			$ 23,108
CWTA	General	$ 13,702,388	0.39600	$ 5,426	$ 14,584,496	0.39100	$ 5,703
	IFT	$ 593,200	0.19800	117	$ (283,800)	0.19550	(55)
				$ 5,544			$ 5,647
Public Library	General	$ 13,702,388	0.68250	$ 9,352	$ 14,584,496	0.68380	$ 9,973
	IFT	$ 593,200	0.34125	202	$ (283,800)	0.34190	(97)
				$ 9,554			$ 9,876
Council on Aging	General	$ 13,702,388	0.99420	$ 13,623	$ 14,584,496	0.98720	$ 14,398
	IFT	$ 593,200	0.49710	295	$ (283,800)	0.49360	(140)
				$ 13,918			$ 14,258
	Total Noneducation Captured Revenues			$ 362,704			$ 371,367
	Total Captured Revenues			$ 777,398			$ 782,143

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2005 and June 30, 2004 and Cadillac Local Development Finance Authority Annual Report for 2005 and 2004.

Not audited by the Office of the Auditor General; see audit scope.

CADILLAC LOCAL DEVELOPMENT FINANCE AUTHORITY
Additional State School Aid Resulting From Tax Increment Revenues
For the Fiscal Years Ended June 30

Year	Base Valuation (1990)	State Equalized Valuation	Basis for Determining Tax Increment Revenues (a)	Tax Increment Revenues	Additional State School Aid Paid (b)	Percentage of Tax Increment Revenues Reimbursed by State School Aid
1990	$ 551,400	$ 551,400	$ 0	$ 0	$ 0	
1991	$ 551,400	$ 551,400	$ 0	$ 0	$ 0	
1992	$ 551,400	$ 551,400	$ 0	$ 0	$ 0	
1993	$ 551,400	$ 551,400	$ 0	$ 0	$ 0	
1994 (c)	$ 551,400	$ 7,570,892	$ 7,019,492	$ 491,948	$ 248,861	50.59%
1995	$ 551,400	$ 21,410,800	$ 20,859,400	$ 1,165,420	$ 375,181	32.19%
1996	$ 551,400	$ 18,832,100	$ 18,280,700	$ 1,016,318	$ 328,767	32.35%
1997	$ 551,400	$ 18,067,200	$ 17,515,800	$ 967,456	$ 315,022	32.56%
1998	$ 551,400	$ 18,015,800	$ 17,464,400	$ 960,783	$ 314,103	32.69%
1999	$ 551,400	$ 17,379,900	$ 16,828,500	$ 932,962	$ 302,671	32.44%
2000	$ 551,400	$ 17,365,850	$ 16,814,450	$ 935,511	$ 303,950	32.49%
2001	$ 551,400	$ 17,688,050	$ 17,136,650	$ 946,022	$ 307,022	32.45%
2002	$ 551,400	$ 18,566,745	$ 18,015,345	$ 983,845	$ 316,368	32.16%
2003	$ 551,400	$ 14,856,837	$ 14,305,437	$ 780,864	$ 247,295	31.67%
2004	$ 551,400	$ 15,135,896	$ 14,584,496	$ 782,143	$ 251,086 (d)	32.10%
2005	$ 551,400	$ 14,253,788	$ 13,702,388	$ 777,398	$ 243,300 (d)	31.30%

(a) This amount equals the current year's assessment on the eligible property less the base year valuation (value prior to changes relating to the LDFA project).

(b) This amount equals the school taxes that went to fund the LDFA program via the tax increment revenue process that were made up by an increase in school aid paid by the State.

(c) Construction began on the generating plant.

(d) These amounts were calculated as follows:

	2005			2004		
Type of Tax	Net SEV	School Operating Millage	Captured Revenues	Net SEV	School Operating Millage	Captured Revenues
General	$ 13,702,388	17.55050	$ 240,484	$ 14,584,496	17.55050	$ 255,965
IFT	$ (305,300)	16.60000	(5,068)	$ (305,300)	16.60000	(5,068)
New	$ 898,500	8.77525	7,885	$ 21,500	8.77525	189
			$ 243,300			$ 251,086

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2005 and June 30, 2004 and Cadillac Local Development Finance Authority Annual Report for 2005 and 2004.

Not audited by the Office of the Auditor General; see audit scope.

CADILLAC LOCAL DEVELOPMENT FINANCE AUTHORITY
Comparison of Tax Increment Revenues to Total Taxes
(Documentation of Compliance With Section 125.2162(3) of the *Michigan Compiled Laws*)
For the Fiscal Years Ended June 30

School District	2005		2004	
Operating Taxes Levied (a):				
General taxes - School operating	$ 1,759,361		$ 1,667,133	
IFT - Prior to Proposal A	119,050		161,291	
IFT - After Proposal A	167,846		145,774	
SET	601,474		474,953	
SET - IFT	102,211		73,720	
ISD - General	600,000		569,972	
ISD - IFT	79,617		78,989	
Total School Operating Taxes Levied		$ 3,429,559		$ 3,171,832
Tax Increment Revenues (b):				
General taxes - School operating	$ 240,484		$ 255,965	
IFT - Prior to Proposal A	(5,068)		(5,068)	
IFT - After Proposal A	7,885		189	
SET	82,214		73,030	
SET - IFT 1994	5,391		108	
ISD - General	82,013		86,660	
ISD - IFT	1,775		(851)	
Total Tax Increment Revenues		$ 414,694		$ 410,033
Tax increment revenues as a percentage of total school operating taxes levied		12.09%		12.93%
City of Cadillac and Wexford County				
Operating Taxes Levied (a):				
Wexford County	$ 810,917		$ 769,804	
IFT - Wexford County	107,605		106,681	
City General Fund	1,398,156		1,324,862	
IFT - City General Fund	185,528		183,602	
Policemen and Firemen Retirement	180,442		151,985	
IFT - Policemen and Firemen Retirement	23,944		21,062	
CWTA	39,697		37,141	
IFT - CWTA	5,268		5,147	
Cadillac Wexford Public Library	68,418		64,955	
IFT - Cadillac Wexford Public Library	9,079		9,002	
Wexford County Council on Aging	99,664		93,775	
IFT - Wexford County Council on Aging	13,225		12,996	
Total City and County Operating Taxes Levied		$ 2,941,943		$ 2,781,012
Tax Increment Revenues (b):				
Wexford County	$ 110,843		$ 117,043	
IFT - Wexford County	2,399		(1,150)	
City General Fund	191,111		201,435	
IFT - City General Fund	4,137		(1,979)	
Policemen and Firemen Retirement	24,664		23,108	
IFT - Policemen and Firemen Retirement	534		(227)	
CWTA	5,426		5,647	
IFT - CWTA	117		(56)	
Cadillac Wexford Public Library	9,352		9,876	
IFT - Cadillac Wexford Public Library	202		(97)	
Wexford County Council on Aging	13,623		14,258	
IFT - Wexford County Council on Aging	295		(140)	
Total Tax Increment Revenues		$ 362,703		$ 367,718
Tax increment revenues as a percentage of total city and county operating taxes levied		12.33%		13.22%

Source of data: (a) Calculated from information taken from the *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2005 and June 30, 2004.

(b) Cadillac Local Development Finance Authority Annual Report for 2005 and 2004.

Not audited by the Office of the Auditor General; see audit scope.

CITY OF CADILLAC, MICHIGAN
LFDA FUNDS
COMBINING BALANCE SHEET
JUNE 30

	2005			
ASSETS	OPERATING FUND	DEBT RETIREMENT FUND	UTILITIES FUND	TOTAL
CURRENT ASSETS				
Cash	$ 265,592	$ 367,681	$ 28,070	$ 661,343
Investments	1,340,886	197,039	110,831	1,648,756
Receivables				
Accounts	0	0	2,902	2,902
Accrued Interest	21,505	4,598	2,474	28,577
Due from Primary Government	0	0	0	
Due from Other Governments	0	15,606	2,035	17,641
Due from Component Units	0	0	0	0
TOTAL CURRENT ASSETS	$ 1,627,983	$ 584,924	$ 146,312	$ 2,359,219
CAPITAL ASSETS				
Investment in System	$ 0	$ 0	$ 214,812	$ 214,812
Less Accumulated Depreciation	0	0	45,826	45,826
Net Capital Assets	$ 0	$ 0	$ 168,986	$ 168,986
TOTAL ASSETS	$ 1,627,983	$ 584,924	$ 315,298	$ 2,528,205
LIABILITIES AND EQUITY				
LIABILITIES				
Accounts Payable	$ 21,622	$ 0	$ 0	$ 21,622
Accrued Expenditures	576	0	60	636
Due to Primary Government	0	0	0	0
Due to Other Governments	4,993	0	0	4,993
Due to Component Units	0	0	0	0
Deferred Revenue	30,161	0	0	30,161
Total Liabilities	$ 57,352	$ 0	$ 60	$ 57,412
EQUITY				
Net Assets				
Invested in Capital Assets	$ 0	$ 0	$ 168,986	$ 168,986
Unrestricted	0	0	146,252	146,252
Fund Balance				
Reserved for:				
Debt Service	0	584,924	0	584,924
Ground Water Clean-Up	1,570,631	0	0	1,570,631
Total Net Assets/Fund Balance	$ 1,570,631	$ 584,924	$ 315,238	$ 2,470,793
TOTAL LIABILITIES AND EQUITY	$ 1,627,983	$ 584,924	$ 315,298	$ 2,528,205

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2005 and June 30, 2004.

Not audited by the Office of the Auditor General; see audit scope.

2004				2003			
OPERATING FUND	DEBT RETIREMENT FUND	UTILITIES FUND	TOTAL	OPERATING FUND	DEBT RETIREMENT FUND	UTILITIES FUND	TOTAL
$ 616	$ 12,425	$ 9,543	$ 22,584	$ 692	$ 674	$ 18,074	$ 19,440
1,862,523	1,021,284	114,488	2,998,295	1,955,696	982,704	98,626	3,037,026
0	0	2,687	2,687	18,980	11,617	0	30,597
24,455	11,606	2,491	38,552	0	0	2,358	2,358
0	0	0	0	0	22,210	0	22,210
2,374	0	0	2,374	0	0	0	0
0	0	2,779	2,779	0	0	0	0
$ 1,889,968	$ 1,045,315	$ 131,988	$ 3,067,271	$ 1,975,368	$ 1,017,205	$ 119,058	$ 3,111,631
$ 0	$ 0	$ 214,812	$ 214,812	$ 0	$ 0	$ 214,812	$ 214,812
0	0	41,530	41,530	0	0	37,234	37,234
$ 0	$ 0	$ 173,282	$ 173,282	$ 0	$ 0	$ 177,578	$ 177,578
$ 1,889,968	$ 1,045,315	$ 305,270	$ 3,240,553	$ 1,975,368	$ 1,017,205	$ 296,636	$ 3,289,209
$ 13,732	$ 0	$ 0	$ 13,732	$ 10,589	$ 0	$ 0	$ 10,589
380	0	45	425	421	0	53	474
0	0	0	0	2,011	0	67	2,078
16,887	0	1,379	18,266	0	0	0	0
0	3,230	0	3,230	0	0	0	0
166,953	0	0	166,953	292,188	0	0	292,188
$ 197,952	$ 3,230	$ 1,424	$ 202,606	$ 305,209	$ 0	$ 120	$ 305,329
$ 0	$ 0	$ 173,282	$ 173,282	$ 0	$ 0	$ 177,578	$ 177,578
0	0	130,564	130,564	0	0	118,938	118,938
0	1,042,085	0	1,042,085	0	1,017,205	0	1,017,205
1,692,016	0	0	1,692,016	1,670,159	0	0	1,670,159
$ 1,692,016	$ 1,042,085	$ 303,846	$ 3,037,947	$ 1,670,159	$ 1,017,205	$ 296,516	$ 2,983,880
$ 1,889,968	$ 1,045,315	$ 305,270	$ 3,240,553	$ 1,975,368	$ 1,017,205	$ 296,636	$ 3,289,209

CITY OF CADILLAC, MICHIGAN
LDFA GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30

	2005		
	OPERATING FUND	DEBT RETIREMENT FUND	TOTAL
REVENUES			
Taxes	$ 151,382	$ 777,398	$ 928,780
Interest and Rents	52,786	18,261	71,047
Total Revenues	$ 204,168	$ 795,659	$ 999,827
EXPENDITURES			
Public Works	$ 325,553	$ 0	$ 325,553
Debt Service			
Principal Retirement	0	1,210,000	1,210,000
Interest and Fiscal Charges	0	42,820	42,820
Total Expenditures	$ 325,553	$ 1,252,820	$ 1,578,373
Excess (Deficiency) of Revenues Over Expenditures	$ (121,385)	$ (457,161)	$ (578,546)
FUND BALANCE - Beginning of Year	1,692,016	1,042,085	2,734,101
FUND BALANCE - End of Year	$ 1,570,631	$ 584,924	$ 2,155,555

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2005 and June 30, 2004.

Not audited by the Office of the Auditor General; see audit scope.

2004			2003		
OPERATING FUND	DEBT RETIREMENT FUND	TOTAL	OPERATING FUND	DEBT RETIREMENT FUND	Total
$ 217,874	$ 782,143	$ 1,000,017	$ 145,400	$ 780,864	$ 926,264
38,749	22,205	60,954	99,345	40,376	139,721
$ 256,623	$ 804,348	$ 1,060,971	$ 244,745	$ 821,240	$ 1,065,985
$ 234,766	$ 0	$ 234,766	$ 190,728	$ 0	$ 190,728
0	690,000	690,000	0	660,000	660,000
0	89,468	89,468	0	120,268	120,268
$ 234,766	$ 779,468	$ 1,014,234	$ 190,728	$ 780,268	$ 970,996
$ 21,857	$ 24,880	$ 46,737	$ 54,017	$ 40,972	$ 94,989
1,670,159	1,017,205	2,687,364	1,616,142	976,233	2,592,375
$ 1,692,016	$ 1,042,085	$ 2,734,101	$ 1,670,159	$ 1,017,205	$ 2,687,364

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CITY OF CADILLAC, MICHIGAN
LDFA UTILITIES FUND
A COMPONENT UNIT OF THE CITY OF CADILLAC, MICHIGAN
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FISCAL YEAR ENDED JUNE 30

	2005	2004	2003
OPERATING REVENUES			
Water Charges to Customers	$ 16,192	$ 14,944	$ 14,815
OPERATING EXPENSES			
Personal Services	$ 2,014	$ 2,555	$ 1,759
Employee Benefits	997	1,573	927
Audit	400	400	360
Depreciation	4,296	4,296	4,296
Operating Supplies	102	0	0
Total Operating Expenses	$ 7,809	$ 8,824	$ 7,342
Operating Income (Loss)	$ 8,383	$ 6,120	$ 7,473
NON-OPERATING REVENUES (EXPENSES)			
Interest Revenue	3,009	1,210	1,251
Change in Net Assets	$ 11,392	$ 7,330	$ 8,724
NET ASSETS - Beginning of Year	303,846	296,516	287,792
NET ASSETS - End of Year	$ 315,238	$ 303,846	$ 296,516

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2005 and June 30, 2004.

Not audited by the Office of the Auditor General; see audit scope.

LOCAL DEVELOPMENT REFUNDING BONDS, SERIES 2000
For the Fiscal Years Ended June 30, 2005 and 2004

TITLE OF ISSUE: Local Development Refunding Bonds, Series 2000 (Limited Tax General Obligation)

PURPOSE: For the purpose of (i) advance refunding the Authority's Tax Increment Revenue Refunding Bonds, Series 1994, dated October 1, 1994 (the "1994 Bonds") maturing in the years 2004 through 2010 on March 1, 2003 at 102% of par, (ii) defeasing the 1994 Bonds maturing in the years 2001, 2002, and 2003 (the "Defeased Bonds") as the same shall become due (the "Defeasance"), and (iii) paying certain expenses relating to the issuance of the Bonds.

DATE OF ISSUE: October 10, 2000

AMOUNT OF ISSUE: $3,640,000

	Fiscal Year 2004-05
Amount of Issue	$ 3,640,000
Redeemed prior to current period	(2,430,000)
Redeemed during fiscal year	(1,210,000)
Outstanding balance - End of fiscal year	$ 0

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2005 and June 30, 2004.

Not audited by the Office of the Auditor General; see audit scope.

Fiscal Year 2003-04

Amount of Issue	$ 3,640,000
Redeemed prior to current period	(1,740,000)
Redeemed during fiscal year	(690,000)
Outstanding balance - End of fiscal year	$ 1,210,000

Due Dates	Interest Rates	Requirements Principal	Requirements Interest	Requirements Total
September 1, 2004			$ 28,558	$ 28,558
March 1, 2005	4.70%	$ 715,000	28,558	743,558
September 1, 2005			11,756	11,756
March 1, 2006	4.75%	495,000	11,756	506,756
		$ 1,210,000	$ 80,628	$ 1,290,628

CADILLAC LOCAL DEVELOPMENT FINANCE AUTHORITY

Photograph of Air-Stripping Tower System

This photograph shows the air-stripping tower system that contaminated groundwater passes through to remove volatile organic compounds.

Image of air-stripping tower system printed with permission of the City of Cadillac.

GLOSSARY

CWTA	Cadillac-Wexford Transportation Authority (county public transportation).
eligible property	Land improvements, buildings, and other real property located within an authority district.
EPA	U.S. Environmental Protection Agency.
generation facility	A facility that generates energy.
IFT	industrial facilities tax.
ISD	intermediate school district.
local development finance authority (LDFA)	A public body to oversee the operations of a tax increment financing plan.
MCL	*Michigan Compiled Laws.*
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
SET	State education tax.
SEV	State equalized value.
special assessment district	A district that pays not less than 50% of the operating expenses of the public facility per Section 125.2152(p)(iv)(C) of the *Michigan Compiled Laws*.

tax increment financing (TIF)	Financing that allows a municipality to capture any increases in the property taxes paid on eligible property that is caused by an increase in the value of the property after it is included in the district.
tax increment revenues	The amount of ad valorem property taxes attributable to the application of the levy of all taxing jurisdictions on the captured assessed value of the property in the development area.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL