

PERFORMANCE AUDIT
OF THE
CADILLAC LOCAL DEVELOPMENT FINANCE AUTHORITY

February 2005

“...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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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Cadillac Local Development Finance
Authority

Report Number:
27-305-04

Released:
February 2005

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 and chromium from the contaminated groundwater.

Audit Objective:

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

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Audit Conclusion:

The Cadillac Local Development Finance Authority complied with the significant statutory requirements of the LDFA program.

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February 1, 2005

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 has been 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, statements, and exhibits, 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.

AUDITOR GENERAL

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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 1 square mile (640 acres). The contaminated area was increasing at the rate of several feet per year.

The City of Cadillac 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 authority to capture tax revenues attributable to increases in the value of both 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 TIF plans 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 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%

* See glossary at end of report for definition.

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 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 authority 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.

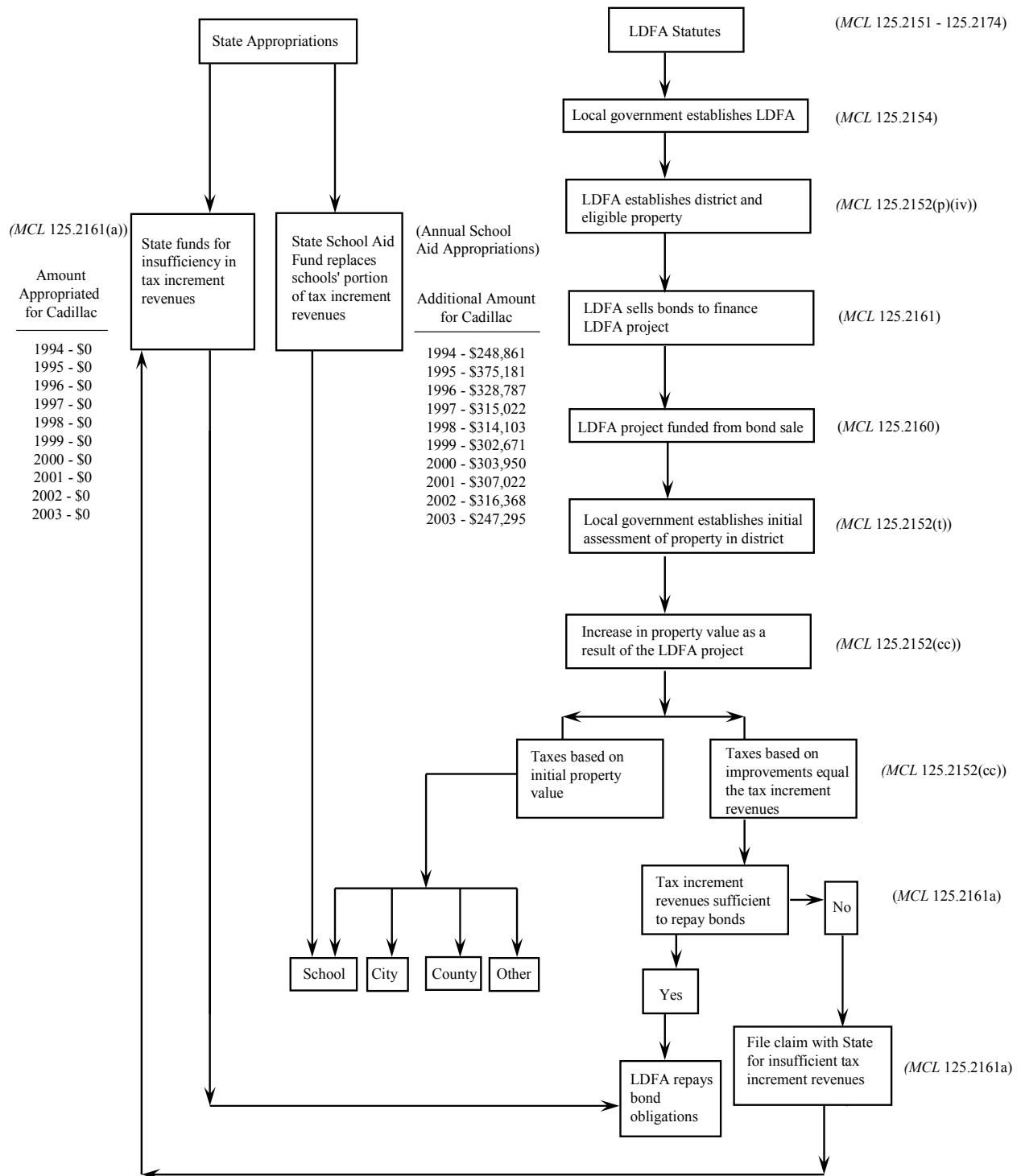
In 1991, the City designated approximately 120 acres as eligible property under Sections 125.2151 - 125.2174 of the *Michigan Compiled Laws* (Act 281, P.A. 1986, as amended). The City adopted an initial TIF plan on April 8, 1991. The City's plan centered around a wood-burning electrical generating plant 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 has contracted with the City of Cadillac 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 (Exhibit 1). The water contaminated with volatile organic compounds is air stripped. The water contaminated with chromium passes through carbon filtering tanks (Exhibit 2) and is then 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 Authority 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**



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 the 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 October 1, 2001 through September 30, 2003. 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 State departments and 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 2002-03 and 2001-02 by an auditing 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 October 2003 through March 2004, 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, 2003 and June 30, 2002. Also, we assessed the 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 (#7514801) in November 2002. 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 the significant statutory requirements of the LDFA program.

Conclusion: We concluded that the Cadillac Local Development Finance Authority complied with the 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 Cadillac Local Development Finance Authority complied with this requirement. The Authority used tax increment revenues captured from the eligible property for the fiscal years ended June 30, 2003 and June 30, 2002 for debt service on bonds issued to finance a public utility, including wells and filtering equipment, designed to reduce, eliminate, and prevent the spread of groundwater contamination under the City of Cadillac. According to the 1999 performance report prepared by a private company (Tetra Tech MPS) for the facility, the groundwater contamination has been contained and contaminants are being removed from the groundwater.

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 76% of the public facility's operating costs for fiscal year 2002-03 and 57% of the public facility's operating costs for fiscal year 2001-02.

Statutory Requirement:

Section 125.2160 of 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.

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 the tax increment revenue bonds issued for the cleanup project. The Authority used the special assessments against those potentially responsible parties for the identified groundwater contamination to pay the operating expenses of the public facility for the fiscal years ended June 30, 2003 and June 30, 2002.

Statutory Requirement:

Section 125.2162(3) of the *Michigan Compiled Laws* 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, 2003 and June 30, 2002.

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 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, 2003 and June 30, 2002; the Cadillac Local Development Finance Authority Annual Reports for 2003 and 2002; and the City of Cadillac Tax Increment Financial Plan Reports for the fiscal years ended June 30, 2003 and June 30, 2002:

1. Calculation of Tax Increment Revenues (see page 20). This schedule shows how the tax increment revenues were determined. The schedule shows the actual State equalized value and related millage by type of tax.
2. Additional State School Aid Resulting From Tax Increment Revenues (see page 21). 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 (see page 22). 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 the taxes levied by the municipality or county for operations.

The following statements are as presented in the *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2003 and June 30, 2002:

- 1) Combining Balance Sheet (see page 24).
- 2) Combining Statement of Revenues, Expenditures and Changes in Fund Balances (see page 26).
- 3) Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets - Utilities Fund (see page 29). The City of Cadillac's *Comprehensive Annual Financial Report* presentation of the Utilities Fund's Comparative Statement of

Revenues, Expenses and Changes in Fund Net Assets for the fiscal year ended June 30, 2003 (with comparative totals for the fiscal year ended June 30, 2002) misstated the balances of the Net Assets - Beginning of Year and Net Assets - End of Year by \$214,812 for each fiscal year. The City of Cadillac provided our staff a revised statement on May 18, 2004. Therefore, our report includes the correct amounts.

- 4) Local Development Refunding Bonds, Series 2000 (see page 30).

These 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		2003 (Based on 2002 SEV)			2002 (Based on 2001 SEV)		
		State Equalized Value	Millage	Total Captured Levy	State Equalized Value	Millage	Total Captured Levy
Education Captured Revenues:							
School	General	\$ 14,305,437	17.62630	\$ 252,152	\$ 18,015,345	17.71490	\$ 319,140
	IFT 1993	\$ (152,650)	33.20000	(5,068)	\$ (90,750)	33.20000	(3,013)
	IFT 1994	\$ 24,000	8.81315	212	\$ 27,200	8.85745	241
				<u>\$ 247,295</u>			<u>\$ 316,368</u>
ISD	General	\$ 14,305,437	6.03880	\$ 86,388	\$ 18,015,345	6.05970	\$ 109,168
	IFT	\$ (140,650)	6.03880	(849)	\$ (77,150)	6.05970	(468)
				<u>\$ 85,538</u>			<u>\$ 108,700</u>
SET	General	\$ 14,305,437	6.00000	\$ 85,833	\$ 18,015,345	6.00000	\$ 108,092
	IFT 1994	\$ 24,000	6.00000	144	\$ 27,200	6.00000	163
				<u>\$ 85,977</u>			<u>\$ 108,255</u>
Total Education Captured Revenues				<u>\$ 418,810</u>			<u>\$ 533,323</u>
Noneducation Captured Revenues:							
County	General	\$ 14,305,437	8.16780	\$ 116,844	\$ 18,015,345	8.20030	\$ 147,731
	IFT	\$ (140,650)	8.16780	(1,149)	\$ (77,150)	8.20030	(633)
				<u>\$ 115,695</u>			<u>\$ 147,099</u>
City	General	\$ 14,305,437	13.94730	\$ 199,522	\$ 18,015,345	13.99070	\$ 252,047
	IFT	\$ (140,650)	13.94730	(1,962)	\$ (77,150)	13.99070	(1,079)
				<u>\$ 197,561</u>			<u>\$ 250,968</u>
City Policemen/ Firemen Retirement System	General	\$ 14,305,437	1.40000	\$ 20,028	\$ 18,015,345	1.00000	\$ 18,015
	IFT	\$ (140,650)	1.40000	(197)	\$ (77,150)	1.00000	(77)
				<u>\$ 19,831</u>			<u>\$ 17,938</u>
CWTA	General	\$ 14,305,437	0.40000	\$ 5,722	\$ 18,015,345	0.39100	\$ 7,044
	IFT	\$ (140,650)	0.40000	(56)	\$ (77,150)	0.39100	(30)
				<u>\$ 5,666</u>			<u>\$ 7,014</u>
Public Library	General	\$ 14,305,437	0.65000	\$ 9,299	\$ 18,015,345	0.55000	\$ 9,908
	IFT	\$ (140,650)	0.65000	(91)	\$ (77,150)	0.55000	(42)
				<u>\$ 9,207</u>			<u>\$ 9,866</u>
Council on Aging	General	\$ 14,305,437	0.99500	\$ 14,234	\$ 18,015,345	0.98320	\$ 17,713
	IFT	\$ (140,650)	0.99500	(140)	\$ (77,150)	0.98320	(76)
				<u>\$ 14,094</u>			<u>\$ 17,637</u>
Total Noneducation Captured Revenues				<u>\$ 362,053</u>			<u>\$ 450,521</u>
Total Captured Revenues				<u>\$ 780,864</u>			<u>\$ 983,845</u>

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2003 and June 30, 2002 and Cadillac Local Development Finance Authority Annual Report for 2003 and 2002.

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 (d)	32.16%
2003	\$ 551,400	\$ 14,856,837	\$ 14,305,437	\$ 780,864	\$ 247,295 (d)	31.67%

(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) The amount of 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:

Type of Tax	2003			2002		
	Net SEV	School Operating Millage	Captured Revenues	Net SEV	School Operating Millage	Captured Revenues
General	\$ 14,305,437	17.62630	\$ 252,152	\$ 18,015,345	17.71490	\$ 319,140
IFT	\$ (305,300)	16.60000	(5,068)	\$ (181,500)	16.60000	(3,013)
New	\$ 24,000	8.81315	212	\$ 27,200	8.85745	241
			<u>\$ 247,295</u>			<u>\$ 316,368</u>

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2003 and June 30, 2002 and Cadillac Local Development Finance Authority Annual Report for 2003 and 2002.

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

<u>School District</u>	<u>2003</u>	<u>2002</u>
Operating Taxes Levied (a):		
General taxes - School operating	\$ 1,491,480	\$ 1,387,410
IFT - Prior to Proposal A	255,867	285,907
IFT - After Proposal A	159,616	144,165
SET	507,701	469,913
SET - IFT	97,051	85,418
ISD - General	510,984	474,588
ISD - IFT	101,225	101,498
Total School Operating Taxes Levied	\$ 3,123,924	\$ 2,948,899
Tax Increment Revenues (b):		
General taxes - School operating	\$ 252,152	\$ 319,140
IFT - Prior to Proposal A	(5,068)	(3,013)
IFT - After Proposal A	212	241
SET	85,833	108,092
SET - IFT 1994	144	163
ISD - General	86,388	109,168
ISD - IFT	(849)	(468)
Total Tax Increment Revenues	\$ 418,812	\$ 533,323
Tax increment revenues as a percentage of total school operating taxes levied	<u>13.41%</u>	<u>18.09%</u>

City of Cadillac and Wexford County

Operating Taxes Levied (a):		
Wexford County	\$ 691,133	\$ 642,238
IFT - Wexford County	136,912	137,353
City General Fund	1,180,175	1,095,735
IFT - City General Fund	233,790	234,340
Policemen and Firemen Retirement	118,463	78,319
IFT - Policemen and Firemen Retirement	23,467	16,750
CWTA	33,847	30,623
IFT - CWTA	6,705	6,549
Cadillac Wexford Public Library	55,001	43,075
IFT - Cadillac Wexford Public Library	10,896	9,212
Wexford County Council on Aging	84,194	77,003
IFT - Wexford County Council on Aging	16,679	16,468
Total City and County Operating Taxes Levied	\$ 2,591,261	\$ 2,387,665
Tax Increment Revenues (b):		
Wexford County	\$ 116,844	\$ 147,731
IFT - Wexford County	(1,149)	(633)
City General Fund	199,522	252,047
IFT - City General Fund	(1,962)	(1,079)
Policemen and Firemen Retirement	20,028	18,015
IFT - Policemen and Firemen Retirement	(197)	(77)
CWTA	5,722	7,044
IFT - CWTA	(56)	(30)
Cadillac Wexford Public Library	9,299	9,908
IFT - Cadillac Wexford Public Library	(91)	(42)
Wexford County Council on Aging	14,234	17,713
IFT - Wexford County Council on Aging	(140)	(76)
Total Tax Increment Revenues	\$ 362,054	\$ 450,521
Tax increment revenues as a percentage of total city and county operating taxes levied	<u>13.97%</u>	<u>18.87%</u>

Source of data: (a) Calculated from information taken from the *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2003 and June 30, 2002.

(b) Cadillac Local Development Finance Authority Annual Report for 2003 or 2002.

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

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CITY OF CADILLAC, MICHIGAN
LDFA FUNDS
COMBINING BALANCE SHEET (a)
YEAR ENDED JUNE 30

	2003			
	OPERATING FUND	DEBT RETIREMENT FUND	UTILITIES FUND	TOTAL
<u>ASSETS AND OTHER DEBITS</u>				
<u>ASSETS</u>				
Cash	\$ 692	\$ 674	\$ 18,074	\$ 19,440
Investments	1,955,696	982,704	98,626	3,037,026
Receivables				
Taxes	0	0	0	0
Accrued Interest	18,980	11,617	0	30,597
Accounts	0	0	2,358	2,358
Unbilled Services	0	0	0	0
Due from Primary Government	0	22,210	0	22,210
Fixed Assets (Net of Accumulated Depreciation)	0	0	177,578	177,578
<u>OTHER DEBITS (a)</u>				
Amount Available in Debt Service Funds	N/A	N/A	N/A	N/A
Amount to be Provided for Long-Term Debt	N/A	N/A	N/A	N/A
TOTAL ASSETS	<u>\$ 1,975,368</u>	<u>\$ 1,017,205</u>	<u>\$ 296,636</u>	<u>\$ 3,289,209</u>
<u>LIABILITIES AND EQUITY</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 10,589	\$ 0	\$ 0	\$ 10,589
Accrued Expenditures	421	0	53	474
Due to Primary Government	2,011	0	67	2,078
Deferred Revenue	292,188	0	0	292,188
Revenue Bonds Payable	N/A	N/A	N/A	N/A
Total Liabilities	<u>\$ 305,209</u>	<u>\$ 0</u>	<u>\$ 120</u>	<u>\$ 305,329</u>
<u>EQUITY AND OTHER CREDITS</u>				
Contributed Capital (a)	N/A	N/A	N/A	N/A
Retained Earnings (a)				
Unreserved	N/A	N/A	N/A	N/A
Invested in Capital Assets Net of Related Debt (a)	\$ 0	\$ 0	\$ 177,578	\$ 177,578
Net Assets (a)				
Unrestricted	0	0	118,938	118,938
Fund Balance				
Reserved for:				
Debt Service	0	1,017,205	0	1,017,205
Groundwater Cleanup	1,670,159	0	0	1,670,159
Total Retained Earnings/Fund Balance (a)	N/A	N/A	N/A	N/A
Total Equity and Other Credits (a)	N/A	N/A	N/A	N/A
Total Net Assets/Fund Balance (a)	<u>\$ 1,670,159</u>	<u>\$ 1,017,205</u>	<u>\$ 296,516</u>	<u>\$ 2,983,880</u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS (a)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
TOTAL LIABILITIES AND EQUITY (a)	<u>\$ 1,975,368</u>	<u>\$ 1,017,205</u>	<u>\$ 296,636</u>	<u>\$ 3,289,209</u>

N/A: Not Applicable.

(a) Change in format from 2002 Combining Balance Sheet due to the City of Cadillac implementing Governmental Accounting Standards Board Statement No. 34.

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2003 and June 30, 2002.

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

2002					2001				
OPERATING FUND	DEBT RETIREMENT FUND	UTILITIES FUND	GENERAL LONG-TERM DEBT	TOTAL	OPERATING FUND	DEBT RETIREMENT FUND	UTILITIES FUND	GENERAL LONG-TERM DEBT	TOTAL
\$ 1,632	\$ 63,759	\$ 6,498	\$ 0	\$ 71,889	\$ 6,208	\$ 938	\$ 13,737	\$ 0	\$ 20,883
1,860,992	886,471	97,448	0	2,844,911	1,774,316	716,957	75,508	0	2,566,781
0	0	0	0	0	0	3,006	0	0	3,006
20,492	11,547	0	0	32,039	21,916	7,549	0	0	29,465
0	510	2,773	0	3,283	0	4,500	0	0	4,500
0	0	0	0	0	0	0	4,346	0	4,346
0	13,946	0	0	13,946	0	95	0	0	95
0	0	181,874	0	181,874	0	0	186,170	0	186,170
0	0	0	976,233	976,233	0	0	0	733,045	733,045
0	0	0	1,583,767	1,583,767	0	0	0	2,456,955	2,456,955
<u>\$1,883,116</u>	<u>\$ 976,233</u>	<u>\$ 288,593</u>	<u>\$2,560,000</u>	<u>\$5,707,942</u>	<u>\$1,802,440</u>	<u>\$ 733,045</u>	<u>\$ 279,761</u>	<u>\$3,190,000</u>	<u>\$6,005,246</u>
\$ 6,740	\$ 0	\$ 0	\$ 0	\$ 6,740	\$ 3,429	\$ 0	\$ 0	\$ 0	\$ 3,429
241	0	22	0	263	0	0	44	0	44
18,886	0	779	0	19,665	490	0	0	0	490
241,107	0	0	0	241,107	197,978	0	0	0	197,978
0	0	0	2,560,000	2,560,000	0	0	0	3,190,000	3,190,000
<u>\$ 266,974</u>	<u>\$ 0</u>	<u>\$ 801</u>	<u>\$2,560,000</u>	<u>\$2,827,775</u>	<u>\$ 201,897</u>	<u>\$ 0</u>	<u>\$ 44</u>	<u>\$3,190,000</u>	<u>\$3,391,941</u>
\$ 0	\$ 0	\$ 214,812	\$ 0	\$ 214,812	\$ 0	\$ 0	\$ 214,812	\$ 0	\$ 214,812
\$ 0	\$ 0	\$ 72,980	\$ 0	\$ 72,980	\$ 0	\$ 0	\$ 64,905	\$ 0	\$ 64,905
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
0	976,233	0	0	976,233	0	733,045	0	0	733,045
1,616,142	0	0	0	1,616,142	1,600,543	0	0	0	1,600,543
<u>\$1,616,142</u>	<u>\$ 976,233</u>	<u>\$ 72,980</u>	<u>\$ 0</u>	<u>\$2,665,355</u>	<u>\$1,600,543</u>	<u>\$ 733,045</u>	<u>\$ 64,905</u>	<u>\$ 0</u>	<u>\$2,398,493</u>
<u>\$1,616,142</u>	<u>\$ 976,233</u>	<u>\$ 287,792</u>	<u>\$ 0</u>	<u>\$2,880,167</u>	<u>\$1,600,543</u>	<u>\$ 733,045</u>	<u>\$ 279,717</u>	<u>\$ 0</u>	<u>\$2,613,305</u>
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>\$1,883,116</u>	<u>\$ 976,233</u>	<u>\$ 288,593</u>	<u>\$2,560,000</u>	<u>\$5,707,942</u>	<u>\$1,802,440</u>	<u>\$ 733,045</u>	<u>\$ 279,761</u>	<u>\$3,190,000</u>	<u>\$6,005,246</u>
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

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

	2003		
	OPERATING	DEBT	
	FUND	RETIREMENT	TOTAL
		FUND	
<u>REVENUES</u>			
Taxes	\$ 145,400	\$ 780,864	\$ 926,264
Interest and Rents	99,345	40,376	139,721
Total Revenues	<u>\$ 244,745</u>	<u>\$ 821,240</u>	<u>\$ 1,065,985</u>
<u>EXPENDITURES</u>			
Public Works	\$ 190,728	\$ 0	\$ 190,728
Debt Service			
Principal Retirement	0	660,000	660,000
Interest and Fiscal Charges	0	120,268	120,268
Refunding Bond Issuance Costs	0	0	0
Advance Refunding Escrow	0	0	0
Total Expenditures	<u>\$ 190,728</u>	<u>\$ 780,268</u>	<u>\$ 970,996</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 54,017</u>	<u>\$ 40,972</u>	<u>\$ 94,989</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds of Refunding Bonds	\$ 0	\$ 0	\$ 0
Payment to Refunded Bond Escrow Agent	0	0	0
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ 54,017</u>	<u>\$ 40,972</u>	<u>\$ 94,989</u>
<u>FUND BALANCE</u> - Beginning of Year	<u>1,616,142</u>	<u>976,233</u>	<u>2,592,375</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 1,670,159</u>	<u>\$ 1,017,205</u>	<u>\$ 2,687,364</u>

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2003 and June 30, 2002.

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

2002			2001		
OPERATING FUND	DEBT RETIREMENT FUND	TOTAL	OPERATING FUND	DEBT RETIREMENT FUND	TOTAL
\$ 121,693	\$ 983,902	\$ 1,105,595	\$ 121,845	\$ 946,023	\$ 1,067,868
105,006	38,594	143,600	111,536	50,662	162,198
<u>\$ 226,699</u>	<u>\$ 1,022,496</u>	<u>\$ 1,249,195</u>	<u>\$ 233,381</u>	<u>\$ 996,685</u>	<u>\$ 1,230,066</u>
\$ 211,100	\$ 0	\$ 211,100	\$ 162,674	\$ 0	\$ 162,674
0	630,000	630,000	0	450,000	450,000
0	149,308	149,308	0	285,284	285,284
0	0	0	0	81,494	81,494
0	0	0	0	2,059,555	2,059,555
<u>\$ 211,100</u>	<u>\$ 779,308</u>	<u>\$ 990,408</u>	<u>\$ 162,674</u>	<u>\$ 2,876,333</u>	<u>\$ 3,039,007</u>
<u>\$ 15,599</u>	<u>\$ 243,188</u>	<u>\$ 258,787</u>	<u>\$ 70,707</u>	<u>\$ (1,879,648)</u>	<u>\$ (1,808,941)</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,603,600	\$ 3,603,600
0	0	0	0	(3,513,000)	(3,513,000)
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 90,600</u>	<u>\$ 90,600</u>
\$ 15,599	\$ 243,188	\$ 258,787	\$ 70,707	\$ (1,789,048)	\$ (1,718,341)
1,600,543	733,045	2,333,588	1,529,836	2,522,093	4,051,929
<u>\$ 1,616,142</u>	<u>\$ 976,233</u>	<u>\$ 2,592,375</u>	<u>\$ 1,600,543</u>	<u>\$ 733,045</u>	<u>\$ 2,333,588</u>

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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
YEAR ENDED JUNE 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>OPERATING REVENUES</u>			
Water Charges to Customers	\$ 14,815	\$ 13,516	\$ 15,576
<u>OPERATING EXPENSES</u>			
Personal Services	\$ 1,759	\$ 1,933	\$ 2,344
Employee Benefits	927	925	1,112
Audit	360	350	325
Depreciation	4,296	4,296	4,296
Operating Supplies	0	0	228
Total Operating Expenses	<u>\$ 7,342</u>	<u>\$ 7,504</u>	<u>\$ 8,305</u>
Operating Income (Loss)	\$ 7,473	\$ 6,012	\$ 7,271
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Interest Revenue	<u>1,251</u>	<u>2,063</u>	<u>4,445</u>
Net Income (Loss)	N/A	N/A	\$ 11,716
Change in Net Assets	\$ 8,724	\$ 8,075	N/A
<u>RETAINED EARNINGS</u> - Beginning of Year	N/A	N/A	53,189
<u>NET ASSETS</u> - Beginning of Year (a)	<u>287,792</u>	<u>279,717</u>	<u>N/A</u>
<u>RETAINED EARNINGS</u> - End of Year	N/A	N/A	<u>\$ 64,905</u>
<u>NET ASSETS</u> - End of Year (a)	<u>\$ 296,516</u>	<u>\$ 287,792</u>	<u>N/A</u>

N/A: Not applicable.

(a) Change due to the City of Cadillac implementing Governmental Accounting Standards Board Statement No. 34.

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2003 and June 30, 2002.

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

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 10/10/2000

Amount of Issue \$3,640,000

Fiscal Year 2002-03

Amount of Issue	\$ 3,640,000
Redeemed prior to current period	(1,080,000)
Redeemed during fiscal year	(660,000)
Outstanding balance - End of fiscal year	<u>\$ 1,900,000</u>

Due Dates	Interest Rates	Requirements		
		Principal	Interest	Total
September 1, 2003			\$ 44,084	\$ 44,084
March 1, 2004	4.50%	\$ 690,000	44,084	734,084
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
		<u>\$ 1,900,000</u>	<u>\$ 168,796</u>	<u>\$ 2,068,796</u>

Source of data: *City of Cadillac Comprehensive Annual Financial Report* for the fiscal years ended June 30, 2003 and June 30, 2002.

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

Fiscal Year 2001-02

Amount of Issue	\$ 3,640,000
Redeemed prior to current period	(450,000)
Redeemed during fiscal year	(630,000)
Outstanding balance - End of fiscal year	<u>\$ 2,560,000</u>

Due Dates	Interest Rates	Requirements		
		Principal	Interest	Total
September 1, 2002			\$ 58,769	\$ 58,769
March 1, 2003	4.45%	\$ 660,000	58,769	718,769
September 1, 2003			44,084	44,084
March 1, 2004	4.50%	690,000	44,084	734,084
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
		<u>\$ 2,560,000</u>	<u>\$ 286,334</u>	<u>\$ 2,846,334</u>

CADILLAC LOCAL DEVELOPMENT FINANCE AUTHORITY

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.

CADILLAC LOCAL DEVELOPMENT FINANCE AUTHORITY

ACTIVATED CARBON ABSORPTION SYSTEM

This photograph shows the activated carbon absorption system that groundwater containing chromium passes through prior to being air stripped.



Image of activated carbon absorption system printed with permission of the City of Cadillac.

GLOSSARY

Glossary of Acronyms and Terms

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	<i>Michigan Compiled Laws.</i>
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 <i>Michigan Compiled Laws</i> .
tax increment financing (TIF)	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.