

Audit Summary

Like many other organizations, Owosso city government is required to have a review of its financial management practices performed by an independent auditor. During the December 19 City Council meeting, Jean Young, partner in the firm of Plante and Moran, presented the audit report for the fiscal year that ended June 30, 2005.

The audit report that Council received consists of three documents. The first of these is a financial report that summarizes the revenues, expenditures, assets and liabilities of the City. The second document is entitled "Report to the City Council." It is a letter that contains recommendations from the auditors and other information that the auditors believe the Council needs to know. The third document contains supplemental information regarding federal grant awards. This document is required to assure that the City has complied with federal rules and regulations in its management of these grants.

A "Clean" Opinion. The role of the auditors is to express an opinion regarding the financial statements maintained by the City and summarized in the audit report. In its report to the Council, Plante and Moran stated, "In our opinion, the basic financial statements present fairly, in all material respects, the respective financial position of the governmental activities of the City of Owosso, Michigan as of June 30, 2005." This is commonly called a "clean" opinion. It means, in short, that the financial statements accurately describe the City's financial condition.

The auditors arrive at this conclusion by evaluating the accounting principles and practices used by the City and by examining a sample of the financial transactions of the City to test those principles and practices. They do not look at every transaction since that would be a time-consuming and expensive practice. Instead, auditing standards require looking at a sample of the transactions selected by the auditors.

Recommendation. The auditors made a recommendation to the City Council to review the City's investment practices and to consider changes to address the Governmental Accounting Standards Board Statement Number 40 concerning deposits and investment risk disclosure. Finance Director Rick Williams responded to that recommendation by noting that City investment practices must conform to state statute and decisions by the City should await actions by the state following its determination as to whether to apply this statement to Michigan local governments.

Federal Grants. In addition to the financial audit described above, the auditors also review City practices to determine whether there has been compliance with laws, rules, regulations and contracts related to any federal grants received. Grants that were reviewed during this audit include those for the Michigan Avenue reconstruction project, an Assistance to Firefighters Grant for new fire equipment, and a Community Development Block Grant project for the demolition of the old hotel, among others. The auditors determined that the City met the requirements of these various grants.

Legislative Matters. Several legislative matters were highlighted by the auditors so that the City Council might be fully informed about issues that affect the City's financial health. These included:

- **State revenue sharing.** The City's share of the state sales tax accounts for 30% of general fund revenues. Revenue sharing has declined by 9.1%, or nearly \$200,000, since 2000. While no further reductions are anticipated, revenue sharing remains at risk while the state legislature addresses its own budget challenges.
- **Transportation matters.** A portion of gas and weight tax revenues paid by Michigan drivers is returned to the City to pay for street maintenance. These tax collections are 4% behind last year. This could mean that fewer dollars will be available for street

maintenance in years to come. The auditors suggest several actions the City might consider to make up this shortfall.

- Property assessment cap. Proposal A limits the growth in property tax assessments to the rate of inflation. This constitutional amendment and the Headlee Amendment have the effect of reducing the City's millage rate over time. As of June 30, the general operating millage rate was 13.1170 even though the Charter authorizes 15 mills. These amendments will continue to result in millage rate reductions in the future.

Conclusion. The City's financial practices conform to generally accepted accounting standards and the City remains in good financial condition. The legislative matters noted above will present challenges for the City Council in preparing budgets in future years. The Council is expected to address some of these matters during a special meeting scheduled for January 30, 2006.