

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Construction Code Authority	County Lapeer
Fiscal Year End 6/30/07	Opinion Date October 29, 2007	Date Audit Report Submitted to State October 31, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

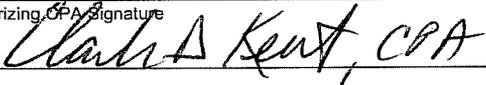
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Brown & Kent, P.C.	Telephone Number 810-664-4470		
Street Address 951 S Main Street, Suite 3	City Lapeer	State MI	Zip 48446
Authorizing CPA Signature 	Printed Name Clark D. Kent		License Number 1101018986

**CONSTRUCTION CODE AUTHORITY
LAPEER, MICHIGAN**

**FINANCIAL REPORT WITH ADDITIONAL INFORMATION
FOR YEARS ENDED JUNE 30, 2007 AND 2006**

CONSTRUCTION CODE AUTHORITY

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BROWN & KENT, P.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board Members
Construction Code Authority
Lapeer, MI 48446

We have audited the accompanying financial statements of the business type activity and each major fund of Construction Code Authority ("CCA"), Lapeer, Michigan, as of and for the years ended June 30, 2007 and 2006, which collectively comprise the CCA's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of CCA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activity and each major fund of Construction Code Authority, at June 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages II through V, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CCA's basic financial statements. The accompanying other supplementary information, as identified, in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brown & Kent, P.C.

Certified Public Accountants

October 29, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSTRUCTION CODE AUTHORITY – LAPEER, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of the Construction Code Authority, Lapeer County, Lapeer, Michigan (the “Authority”), we offer readers of the Authority’s financial statements this narrative overview and analysis of the Authority’s financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented herein in conjunction with the Authority’s financial statements.

FINANCIAL HIGHLIGHTS

- The assets of Construction Code Authority exceeded its liabilities at the end of the fiscal year by \$761,522. Of this amount, \$73,404 may be used to meet the Authority’s ongoing obligations.
- As of the close of the current fiscal year, the Authority’s funds reported combined ending fund balances of \$761,522, a decrease of \$41,928 in comparison with the prior year.
- Program revenues decreased over 29 percent to \$751,000 due largely in part to the decrease in residential permits.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Authority’s basic financial statements. The Authority’s basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. It also contains other supplemental information to provide greater detail of the data presented in the basic financial statements.

Government-wide Financial Statements

Government-wide financial statements provide information about the activities of the Authority, presenting a broad long-term overview of the Authority’s finances, in a manner similar to a private-sector business. This longer-term view uses the accrual basis of accounting, so that it can measure the cost of providing services during the current year, and whether the permit holders and municipal consumers have funded the full cost of providing government services.

The Statement of Net Assets presents information on all of the Authority’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information showing how the Authority’s net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Statement of Net Assets and the Statement of Activities report the governmental activities for the Authority, which encompasses all of the Authority’s services.

Reporting the Authority's Most Significant Funds – Fund Financial Statements

The Authority's fund financial statements provide detailed information about the most significant funds, not the Authority as a whole.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law.

These fund financial statements present a short-term view; they tell us how the Authority's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements by providing information about the Authority's most significant funds.

All of the funds of the Authority can be divided into two categories:

- (1) Enterprise Funds – The Authority maintains one type of enterprise fund to account for its inspections services. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.
- (2) Fiduciary Funds – The fiduciary fund statements provide financial information about activities for which the Authority acts solely as a trustee or agent for the benefit of those outside the government. Fiduciary funds are not reflected in the government-wide financial statements, because the resources of those funds are not available to support the Authority's own programs.

Notes to the Financial Statements

The notes that follow the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Authority as a Whole

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. The following table shows, in a condensed format, the net assets as of June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Assets		
Current Assets	\$ 293,262	\$ 339,775
Capital Assets – Net of Depreciation	668,918	711,925
Total Assets	<u>962,180</u>	<u>1,051,700</u>
Liabilities		
Current Liabilities	200,658	248,250
Long Term Liabilities	-	-
Total Liabilities	<u>200,658</u>	<u>248,250</u>
Net Assets		
Invested in Capital Assets	668,918	711,925
Reserved	19,201	19,201
Unreserved	73,403	72,324
Total Net Assets	<u>\$ 761,522</u>	<u>\$ 803,450</u>

The following table shows the changes of the net assets during the fiscal year ending June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Revenue		
Program Revenues:		
Charges for Services	\$ 751,194	\$ 1,060,650
General Revenue		
Interest Income	9,265	7,837
Other Revenue	-	1,000
Total Revenue	<u>760,459</u>	<u>1,069,487</u>
Program Expenses		
Operating Expenses	<u>802,387</u>	<u>1,017,210</u>
Total Program Expenses	<u>802,387</u>	<u>1,017,210</u>
Change in Net Assets	<u>\$ (41,928)</u>	<u>\$ 52,277</u>

The Authority's program revenues, as reported in the Statement of Activities, totaled approximately \$751,000, down approximately \$309,000 from the prior fiscal year. This is due largely in part to the economic condition of the housing industry in Michigan. Total program expenses, as reported in the Statement of Activities, totaled approximately \$802,000, down approximately \$215,000 from the prior year. Some of the major expenses decreased were primarily due to reduction in staff and operating hours as well as fewer inspections being conducted.

The Authority's Funds

The Authority uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources municipal members and others provide to it and may provide more insight into the Authority's overall financial health.

The Authority completed this year with combined net assets of \$761,522, a decrease of \$41,928 from last year.

The Enterprise Fund accounts for most of the Authority's government services. The most significant are providing inspections, which include building, plumbing, mechanical, and electrical.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007 and 2006, the Authority had \$989,502 and \$989,502, respectively, invested in a broad range of capital assets, including land, buildings and equipment. There were no additions or deletions through this year.

	<u>2007</u>	<u>2006</u>
Land and Improvements	\$ 78,325	\$ 78,325
Buildings and Improvements	778,675	778,675
Equipment	<u>132,502</u>	<u>132,502</u>
Total Capital Assets	989,502	989,502
Less Accumulated Depreciation	<u>320,584</u>	<u>277,577</u>
Net Capital Assets	<u>\$ 668,918</u>	<u>\$ 711,925</u>

General Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget to take into account events during the year, which included a decrease in inspection revenue from residential activity.

Economic Factors and Next Year's Budget

We anticipate we will see continued decline in new construction starts through the coming year. It appears that the construction industry as a whole and residential construction in particular will continue to slow. This will result in fewer permits being issued and thus a reduction in anticipated revenue and expenses for the 2007-2008 fiscal year. Our 2007-2008 budget was developed in anticipation of these factors.

Contacting the Authority's Management

This financial report is intended to provide our clients, customers and municipal membership with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the General Manager's office at 1075 Suncrest Drive, Lapeer, MI 48446.

BASIC FINANCIAL STATEMENTS

**CONSTRUCTION CODE AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 267,018	\$ 303,379
Receivables		
Accounts	-	258
Interest	98	338
Employee	2,895	6,425
Prepaid Expense	23,251	24,036
Due from other funds	-	5,339
Total Current Assets	<u>293,262</u>	<u>339,775</u>
Non-current Assets		
Capital Assets	989,502	989,502
Less: Accumulated Depreciation	(320,584)	(277,577)
Total Non-current Assets	<u>668,918</u>	<u>711,925</u>
TOTAL ASSETS	<u><u>\$ 962,180</u></u>	<u><u>\$ 1,051,700</u></u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 4,995	\$ 7,416
Accrued Expenses	19,209	16,626
Compensated Absences	14,058	19,623
Deposits	-	4,000
Deferred Revenue	162,396	200,585
Total Current Liabilities	<u>200,658</u>	<u>248,250</u>
TOTAL LIABILITIES	200,658	248,250
NET ASSETS		
Invested in Capital Assets Net of Related Debt	668,918	711,925
Reserved	19,201	19,201
Unreserved	73,403	72,324
TOTAL NET ASSETS	<u>761,522</u>	<u>803,450</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 962,180</u></u>	<u><u>\$ 1,051,700</u></u>

The accompanying notes are an integral part of the financial statements.

CONSTRUCTION CODE AUTHORITY
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
RETAINED EARNINGS - ENTERPRISE FUND
FOR YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Inspection Fees		
Building	\$ 248,560	\$ 327,273
Plumbing	95,543	144,320
Mechanical	129,708	187,575
Electrical	<u>123,752</u>	<u>149,836</u>
Total Inspection Fees	597,563	809,004
Plan Review Fees		
Building	17,624	27,046
Plumbing	2,337	3,414
Mechanical	3,078	3,811
Electrical	<u>2,508</u>	<u>2,962</u>
Total Plan Review Fees	25,547	37,233
General Revenues		
Fire Prevention	6,955	6,788
Rental Fees	69,746	111,638
Zoning	18,503	23,347
Ordinance Enforcement	8,740	11,828
Addressing	2,679	6,578
Rental Income	3,821	24,834
Bond Forfeitures	-	5,366
Other	<u>17,640</u>	<u>24,035</u>
Total General Revenues	<u>128,084</u>	<u>214,414</u>
TOTAL OPERATING REVENUES	751,194	1,060,651
OPERATING EXPENSES	<u>802,387</u>	<u>1,017,210</u>
OPERATING INCOME	(51,193)	43,441
NON-OPERATING REVENUES AND EXPENSES		
Investment Income	9,265	7,836
Gain on Sale of Assets	-	1,000
Interest Expense	<u>-</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES AND EXPENSES	<u>9,265</u>	<u>8,836</u>
NET INCOME (LOSS)	(41,928)	52,277
RETAINED EARNINGS – BEGINNING OF YEAR	<u>803,450</u>	<u>751,173</u>
RETAINED EARNINGS – END OF YEAR	<u><u>\$ 761,522</u></u>	<u><u>\$ 803,450</u></u>

The accompanying notes are an integral part of the financial statements.

**CONSTRUCTION CODE AUTHORITY
STATEMENTS OF CASH FLOWS - ENTERPRISE FUND
FOR YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 709,442	\$ 1,038,842
Receipts from Rental Activity	(180)	24,834
Payments to Suppliers	(247,385)	(289,307)
Payments to Employees	(516,614)	(692,517)
Advances from (to) Employees	3,530	(6,425)
Internal Activity – Payments from (to) Other Funds	5,339	25,409
Net Cash Provided By (Used In) Other Funds Operating Activities	(45,868)	100,836
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	-	(36,658)
Proceeds from Sale of Assets	-	1,000
Net Cash Provided By (Used In) Capital and Related Financing Activities	-	(35,658)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	9,507	7,717
Net Cash Provided By (Used In) Investing Activities	9,507	7,717
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,361)	72,895
CASH AND CASH EQUIVALENTS – Beginning of Year	303,379	230,484
CASH AND CASH EQUIVALENTS – End of Year	\$ 267,018	\$ 303,379
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES		
Operating Income	\$ (51,193)	\$ 43,441
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	43,007	50,806
(Increase) Decrease In:		
Receivable	3,788	(6,160)
Prepaid Expense	785	(960)
Due from Other Funds	5,339	25,409
Increase (Decrease) In:		
Payable	(2,422)	(3,392)
Accrued Expenses	2,583	(11,959)
Compensated Absences	(5,565)	891
Deposits	(4,000)	-
Deferred Revenue	(38,190)	2,760
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (45,868)	\$ 100,836

The accompanying notes are an integral part of the financial statements.

**CONSTRUCTION CODE AUTHORITY
STATEMENTS OF FIDUCIARY NET ASSETS
JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
	Trust & Agency Fund	Trust & Agency Fund
ASSETS		
Cash and Cash Equivalents	<u>\$ 4,499</u>	<u>\$ 14,086</u>
TOTAL ASSETS	<u><u>\$ 4,499</u></u>	<u><u>\$ 14,086</u></u>
LIABILITIES		
Deposits	\$ 4,499	\$ 8,747
Due to General Fund	<u>-</u>	<u>5,339</u>
TOTAL LIABILITIES	<u><u>\$ 4,499</u></u>	<u><u>\$ 14,086</u></u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2007 AND 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Construction Code Authority (“CCA”), Michigan, established in 1983, is a governmental entity created under the constitution and statutes of the State of Michigan. Located in Lapeer, the CCA operates under an elected board, which consists of a chairman, vice chairman, secretary/treasurer, and two trustees. The CCA is contracted by numerous governmental units to provide inspections in various areas, including building, plumbing, mechanical, and electrical. Ownership is vested in cities, villages and townships, all of which are located in the counties of Lapeer, Genesee, and St. Clair, Michigan.

The accounting and reporting policies of the CCA, conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The more significant accounting policies of CCA are described below.

A. REPORTING ENTITY

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the CCA consists of all funds, departments, boards, and agencies that are not legally separate from the CCA.

B. BASIS OF PRESENTATION

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The CCA’s basic financial statements include both government-wide (reporting the CCA as a whole) and fund financial statements (reporting the CCA’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the CCA’s activities are classified as business type activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The CCA’s net assets are reported in three parts; (1) invested in capital assets net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The CCA first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the CCA’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The costs by function are normally covered by charges to customers.

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2007 AND 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

FUND FINANCIAL STATEMENTS:

The CCA segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The CCA has presented the following major governmental funds:

Enterprise Fund – This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. This is the CCA’s major fund.

Trust and Agency Fund – This fund is used to account for the collection and disbursement of performance and other deposits payable.

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The revenues susceptible to accrual are franchise fees, licenses, charges for service, and interest income. All other Governmental Fund Type revenues are recognized when received.

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2007 AND 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETS AND BUDGETARY ACCOUNTING

The CCA Board follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the beginning of the fiscal year, the board proposes an operating budget for each budgetary fund. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. State statute requires that the budget be submitted in summary form. Also, more detailed line item budgets are included for administrative control.
- (2) The budgets are adopted by a majority vote of the CCA Board.
- (3) Formal budgetary integration is employed as a management control device during the year.
- (4) Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Amendments to the Budget are approved by the CCA Board, as necessary.

E. CASH EQUIVALENTS

The CCA considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

F. INVESTMENTS

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

G. DEFERRED REVENUE

Deferred revenue arises in governmental funds when revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. In enterprise funds, this arises when resources are received by the government before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. Deferred revenue amounted to \$162,396, which is due to open permits that have inspections to be completed but have been paid for.

H. INTERFUND TRANSACTIONS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations.

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2007 AND 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. CAPITAL ASSETS

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated Assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, and equipment.

Assets capitalized have an original cost of \$1,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and Improvements	20-50 years
Equipment	5-10 years
Land Improvements	20 years

J. NET ASSETS

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the CCA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

K. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. ACCUMULATED UNPAID BENEFITS

The CCA allows employees to accumulate vacation or sick time from year to year. The liability for the accumulated vacation and sick time is reflected in the financial statements as "Compensated Absences."

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2007 AND 2006**

NOTE 2 – CASH AND EQUIVALENTS AND INVESTMENTS

CASH AND EQUIVALENTS

A summary of cash and equivalents as of June 30, 2007 follows:

	Carrying Value	Bank Balance	Covered By FDIC Insurance
Demand Deposits	\$ 140,842	\$ 156,114	\$ 156,114
Petty Cash	300	-	-
Certificate of Deposit	130,375	130,375	130,375
	<u>\$ 271,517</u>	<u>\$ 286,484</u>	<u>\$ 286,484</u>

Bank balance does not reflect deposits in transit or outstanding checks.

FDIC Regulation Number 330.8 provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000, in every financial institution that is not a branch location and that is a member of FDIC in the following deposit accounts:

- (1) All demand, non-interest bearing accounts (checking), in the name of the authorized or statutory custodian (treasurer) of public funds.
- (2) All savings deposits which include regular passbook, daily interest savings, and time certificates of deposit in the name of the governmental unit's custodian.

NOTE 3 – RETIREMENT PLAN

In lieu of social security, the CCA has established a defined contribution pension plan, which covers substantially all of the employees, that is administered through an insurance company. Eligibility for the plan requires 6 months of service and a minimum age of 18 years and a maximum age of 75 years. The annual contribution of the plan is equal to 15% of an employee's annual compensation up to \$40,000 in earnings. Effective January 1, 2007, the employees' annual compensation limit changed to \$25,000. The employer contributes 50% of the annual contribution for the plan's first year and the employee contributes 50%. The employer contributions graduate each year thereafter up to a maximum of a full 15%. During the years ended June 30, 2007 and 2006, the CCA contributed \$32,534 and \$44,768, respectively, to the plan.

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2007 AND 2006**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 and 2006, was as follows:

	Balance 7-01-06	Additions	Deletions	Balance 6-30-07
Capital Assets Not Being Depreciated				
Land	\$ 73,000	\$ -	\$ -	\$ 73,000
Total Capital Assets Not Being Depreciated	73,000	-	-	73,000
Capital Assets Being Depreciated				
Land Improvements	5,325	-	-	5,325
Building and Improvements	778,675	-	-	778,675
Equipment	132,502	-	-	132,502
Total Capital Assets Being Depreciated	916,502	-	-	916,502
Less Accumulated Depreciation For				
Land Improvements	1,754	355	-	2,109
Building and Improvements	169,864	33,518	-	203,382
Equipment	105,959	9,134	-	115,093
Total Accumulated Depreciation	277,577	43,007	-	320,584
Total Capital Assets Being Depreciated, Net	638,925	(43,007)	-	595,918
Total Government Assets, Net	\$ 711,925	\$ (43,007)	\$ -	\$ 668,918

Depreciation expense was \$43,007 and \$50,806 for the years ended June 30, 2007 and 2006, respectively, and was charged as direct expense to operating expenses.

NOTE 5 – RENTAL INCOME

Effective June 20, 2007, the CCA entered into an agreement to rent a portion of their building located at 1075 Suncrest Drive, Lapeer, Michigan, for a period of five years commencing on October 1, 2007. The lease expires on September 30, 2012, with an option to renew for two additional years. The following is a summary of annual minimum rentals “scheduled” or anticipated to be received over the next five years:

6-30-08	\$ 21,150
6-30-09	28,200
6-30-10	28,200
6-30-11	28,200
6-30-12	28,200

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2007 AND 2006**

NOTE 6 – RISK MANAGEMENT

The CCA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The CCA carries commercial insurance for risks to cover these losses. The CCA also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 7 – CONTINGENT LIABILITY

The CCA is involved in various legal actions arising in the normal course of business. In the opinion of the CCA Board, such matters will not have a material effect upon the financial position of the CCA.

OTHER SUPPLEMENTAL INFORMATION

**CONSTRUCTION CODE AUTHORITY
BUDGETARY COMPARISON SCHEDULE - ENTERPRISE FUND
FOR YEAR ENDED JUNE 30, 2007**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
OPERATING REVENUES				
Inspection Fees				
Building	\$ 297,000	\$ 229,292	\$ 248,560	\$ 19,268
Plumbing	145,000	83,972	95,543	11,571
Mechanical	145,000	115,817	129,708	13,891
Electrical	155,000	111,233	123,752	12,519
Total Inspection Fees	<u>742,000</u>	<u>540,314</u>	<u>597,563</u>	<u>57,249</u>
Plan Review Fees				
Building	30,000	16,824	17,624	800
Plumbing	5,000	2,363	2,337	(26)
Mechanical	5,000	3,109	3,078	(31)
Electrical	4,000	2,425	2,508	83
Total Plan Review Fees	<u>44,000</u>	<u>24,721</u>	<u>25,547</u>	<u>826</u>
General Revenues				
Fire Prevention	4,000	6,932	6,955	23
Rental Fees	41,000	66,445	69,746	3,301
Zoning	20,000	17,600	18,503	903
Ordinance Enforcement	15,000	8,744	8,740	(4)
Addressing	6,000	2,612	2,679	67
Rental Income	27,000	4,168	3,821	(347)
Bond Forfeitures	-	-	-	-
Other	16,357	17,565	17,640	75
Total General Revenues	<u>129,357</u>	<u>124,066</u>	<u>128,084</u>	<u>4,018</u>
TOTAL OPERATING REVENUES	915,357	689,101	751,194	62,093
OPERATING EXPENSES				
Salaries				
Inspectors	353,250	320,155	316,844	3,311
Administrative/Office	230,797	196,204	186,780	9,424
Board	6,700	4,873	6,075	(1,202)
Benefits				
Deferred Compensation	12,056	11,806	12,980	(1,174)
Health Insurance	51,631	37,988	38,197	(209)
Life Insurance	2,160	1,940	1,803	137
Pension	44,774	30,766	32,534	(1,768)
Board Secretary	1,200	1,298	1,275	23
Capital Outlay	3,000	2,100	-	2,100
Computer Expenses	24,500	19,107	17,300	1,807
Contract Services	3,000	-	-	-
Depreciation	48,350	43,007	43,007	-

The accompanying notes are an integral part of the financial statements.

**CONSTRUCTION CODE AUTHORITY
BUDGETARY COMPARISON SCHEDULE - ENTERPRISE FUND
FOR YEAR ENDED JUNE 30, 2007**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
OPERATING EXPENSES (Continued)				
Education	\$ 4,100	\$ 1,125	\$ 5,769	\$ (4,644)
Equipment Rental	7,700	8,272	8,610	(338)
Insurance				
Disability	7,484	12,577	11,507	1,070
Errors & Omissions	8,955	8,920	9,484	(564)
General	2,500	2,346	2,786	(440)
Liability	8,955	8,920	10,592	(1,672)
Workers' Compensation	7,010	8,938	7,727	1,211
Janitorial Services	8,000	5,000	5,200	(200)
Lab Work	1,000	1,270	1,105	165
Legal & Professional	19,000	23,780	20,755	3,025
Miscellaneous	9,250	9,524	8,949	575
Office Supplies	8,500	6,694	6,434	260
Operating Supplies	4,000	1,829	1,816	13
Operations Review	-	-	-	-
Payroll Taxes	13,975	12,168	11,499	669
Repairs & Maintenance	7,300	5,116	5,346	(230)
Telephone	10,750	11,382	11,612	(230)
Utilities	15,460	17,942	16,401	1,541
TOTAL OPERATING EXPENSES	<u>925,357</u>	<u>815,047</u>	<u>802,387</u>	<u>12,660</u>
OPERATING INCOME	(10,000)	(125,946)	(51,193)	74,753
NON-OPERATING REVENUES AND EXPENSES				
Investment Income	10,000	9,262	9,265	3
Gain on Sale of Assets	-	-	-	-
Interest Expense	-	-	-	-
TOTAL NON-OPERATING REVENUES AND EXPENSES	<u>10,000</u>	<u>9,262</u>	<u>9,265</u>	<u>3</u>
NET INCOME	<u>\$ -</u>	<u>\$ (116,684)</u>	(41,928)	<u>\$ 74,756</u>
RETAINED EARNINGS –				
Beginning of Year			<u>803,450</u>	
RETAINED EARNINGS –				
End of Year			<u>\$ 761,522</u>	

The accompanying notes are an integral part of the financial statements.



BROWN & KENT, P.C.

Certified Public Accountants

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To the Board Members
Construction Code Authority
Lapeer, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Construction Code Authority (CCA) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Construction Code Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCA's internal control. Accordingly, we do not express an opinion on the effectiveness of CCA's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following deficiency to be a significant deficiency in internal control:

Lack of adequate controls to produce full-disclosure GAAP financial statements.

Requirement: All Michigan governmental units are required to prepare financial statements in accordance with generally accept accounting principles (GAAP). This is the responsibility of the CCA's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: CCA, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, CCA's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

Effect: The result of this condition is that CCA lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

We would expect this comment to continue from year to year. We do not recommend any changes to this situation at this time and communicate that as required by professional standards.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that we consider to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be control deficiencies or material weaknesses, as defined above. We believe the significant deficiency described above is not a material weakness.

The following comments relate to some of CCA's accounting, financial and administrative policies and procedures that we observed during the course of our audit. These matters are not considered control deficiencies or material weaknesses as defined by professional standards but are intended to strengthen internal controls. This letter does not affect our report dated October 29, 2007 on the financial statements of Construction Code Authority.

BANK RECONCILIATIONS – Due to the size of office staff, there is a lack of segregation of duties regarding the bank reconciliation. The person responsible for preparing the checks also prepares the bank reconciliation. It is recommended that someone independent of bank reconciliation should open the bank statement to review cancelled checks, review the bank reconciliation after completion, and initial and date the report.

REFUNDS – During our testing, we observed refunds issued without proper documentation, no indication who is requesting the refund, and no approval. We recommend a procedure be established to formalize the procedure of having a refund issued to a customer indicating the reason for the request, signature of who is requesting the refund and approval by the code official.

This communication is intended solely for the information and use of management, Board Members, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the Board for the opportunity to serve as auditors for the Construction Code Authority. We would also like to thank the general manager and staff for the courtesy and assistance provided to us during our audit. Please contact us, if you have any questions regarding these or any other matters.

Brown & Kent, P.C.

Certified Public Accountants

October 29, 2007