

ECONOMIC DEVELOPMENT
CORPORATION OF THE
CITY OF DETROIT
(A Component Unit of the
City of Detroit, Michigan)

FINANCIAL STATEMENTS

June 30, 2007 and 2006

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 checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Detroit Economic Development Corporation | County Wayne |
| Fiscal Year End June 30, 2007 | Opinion Date September 21, 2007 | Date Audit Report Submitted to State October 3, 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) George Johnson & Company | | Telephone Number (313) 965-2655 | |
| Street Address 1200 Buhl Building, 535 Griswold | | City Detroit | State Zip MI 48226 |
|  <small>Authorizing CPA Signature</small> | | Printed Name George G. Johnson, C.P.A. | License Number 1101006025 |

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

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George Johnson & Company

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INDEPENDENT AUDITORS' REPORT

September 21, 2007

To the Board of Directors
Economic Development Corporation of the City of Detroit
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Economic Development Corporation of the City of Detroit (“EDC”), a component unit of the City of Detroit, Michigan, as of, and for the years ended, June 30, 2007 and 2006, which collectively comprise EDC’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of EDC’s management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinions.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of EDC as of June 30, 2007 and 2006, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 21, 2007, on our consideration of EDC’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Economic Development Corporation of the City of Detroit
September 21, 2007
Page Two

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The accompanying management's discussion and analysis and schedules of revenue and expenditures - budget and actual (unrestricted fund) are not a required part of the basic financial statements but are 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.


CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2007 and 2006

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

FINANCIAL HIGHLIGHTS

EDC continued its work on some of the City's most exciting projects. The East Riverfront Redevelopment Project continues to unfold. The Graimark Housing Project on the City's east side and the Brush Park Project just north of downtown continued their progress. The Rosa Parks Transit Center Project continued in full gear. The Casino Development Fund, a \$42 million series of projects funded by the City, utilizing monies obtained from the three Detroit casinos, was in its first full year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains two types of financial statements. The statements of net assets and statements of activities (which are presented on pages 8 and 9) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and fund balances for governmental funds (which are presented on pages 10, 11, and 13) are considered fund financial statements. A further discussion of each type of statement follows.

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

June 30, 2007 and 2006

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (continued)

Most of EDC's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending. As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance EDC's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 12 and 14 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 15, explain some of the information in the financial statements and provide more detailed data. A comparison of EDC's unrestricted fund revenue and expenditures to its budget is provided on page 27.

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

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

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|----------------------|-----------------------|-----------------------|-----------------------|
| Assets: | | | |
| Cash and investments | \$ 45.3 | \$ 50.3 | \$ 42.5 |
| Notes receivable | 1.8 | 1.8 | 1.9 |
| Other assets | 2.3 | 1.3 | 1.5 |
| Total Assets | <u>\$ 49.4</u> | <u>\$ 53.4</u> | <u>\$ 45.9</u> |

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

June 30, 2007 and 2006

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|-----------------------|-----------------------|-----------------------|
| Liabilities: | | | |
| Long-term liabilities: | | | |
| Due or expected to be paid within one year | \$ 1.4 | \$ 1.4 | \$ 1.4 |
| Due or expected to be paid in more than one year | 0.8 | 0.9 | 1.0 |
| Other liabilities | <u>5.6</u> | <u>6.8</u> | <u>15.8</u> |
| Total Liabilities | <u>7.8</u> | <u>9.1</u> | <u>18.2</u> |
| Net Assets: | | | |
| Restricted for development | 41.4 | 44.1 | 27.5 |
| Unrestricted | <u>0.2</u> | <u>0.2</u> | <u>0.2</u> |
| Total Net Assets | <u>\$ 41.6</u> | <u>\$ 44.3</u> | <u>\$ 27.7</u> |

The net assets of EDC decreased approximately six percent to \$41.6 million. This decrease is due primarily to timing differences as revenue was received on the first phase of the Casino Development Fund project in the previous year, while a great deal of the expenditures did not occur until the current year.

Cash and investments saw a decrease as the initial revenue on the Casino Development Fund was spent. Other liabilities decreased as a large amount of the outstanding liabilities surrounding the East Riverfront project were paid.

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

June 30, 2007 and 2006

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

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

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|-----------------------|-----------------------|-----------------------|
| Revenue: | | | |
| Program revenue: | | | |
| Reimbursable project costs | \$ 16.6 | \$ 27.1 | \$ 11.2 |
| Other program revenue | 2.3 | 1.5 | 1.1 |
| General revenue: | | | |
| Grants | <u>1.1</u> | <u>0.6</u> | <u>0.3</u> |
| Total Revenue | 20.0 | 29.2 | 12.6 |
| Expenses: | | | |
| Economic development | <u>22.7</u> | <u>12.6</u> | <u>8.0</u> |
| Net Increase (Decrease) in Net Assets | (2.7) | 16.6 | 4.6 |
| Net Assets, Beginning of Year | <u>44.3</u> | <u>27.7</u> | <u>23.1</u> |
| Net Assets, End of Year | <u>\$ 41.6</u> | <u>\$ 44.3</u> | <u>\$ 27.7</u> |

The change in net assets was discussed earlier. Reimbursable project costs decreased back to normal levels as the Transit Center, East Riverfront, and Casino Development Fund projects were very active during the previous year. Expenses increased as activity on these same key projects increased, utilizing some of the income that had been received in the previous year.

There were no significant variances between EDC's unrestricted revenue and expenditures and its budget in any categories. The comparison of these amounts is shown on page 27.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

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

June 30, 2007 and 2006

LONG-TERM LIABILITIES

EDC's long-term liabilities consist of several loans payable to the City of Detroit for various projects that utilize U.S. Department of Housing and Urban Development ("HUD") section 108 or Urban Development Action Grant ("UDAG") funds. This activity is summarized in Note C to the financial statements.

ECONOMIC FACTORS

EDC receives its funding from the City of Detroit Planning Department, as well as from recycled program funds. The Planning Department cut the operating allocation to EDC by 50 percent for the fiscal year ended June 30, 2006. EDC identified recycled program funds to make up the difference for the 2005-06 fiscal year. Funding was restored to its previous levels for the year ending June 30, 2007. Economic factors that could adversely affect EDC in the future include a decrease in funding from the City and a lack of future projects that would allow EDC to continue to recycle funds. EDC's management does not anticipate either of these potential factors to adversely affect EDC in the foreseeable future.

FINANCIAL CONTACT

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

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

| | Governmental Activities | |
|---|--------------------------------|----------------------|
| | 2007 | 2006 |
| Assets: | | |
| Cash (Note A) | \$ 4,483,895 | \$ 7,661,888 |
| Escrow deposits (Note A) | 20,097,789 | 21,341,055 |
| Investments (Note A) | 20,705,663 | 21,294,264 |
| Contracts receivable - City of Detroit (no allowance considered necessary) | 1,231,858 | 101,324 |
| Accounts receivable (no allowance considered necessary): | | |
| Expected to be received within one year | 72,482 | 191,713 |
| Expected to be received in more than one year | 1,000,000 | 1,000,000 |
| Notes receivable, net (Notes A and B) | 1,791,114 | 1,782,375 |
| Total Assets | 49,382,801 | 53,372,619 |
| Liabilities: | | |
| Accounts payable | 5,347,669 | 6,541,587 |
| Due to Detroit Economic Growth Corporation | 50,000 | 64,983 |
| Accrued interest payable | 168,841 | 173,624 |
| Long-term liabilities (Note C): | | |
| Due or expected to be paid within one year | 1,373,415 | 1,363,927 |
| Due or expected to be paid in more than one year | 820,000 | 900,000 |
| Total Liabilities | 7,759,925 | 9,044,121 |
| Net Assets: | | |
| Restricted for development | 41,391,015 | 44,125,389 |
| Unrestricted | 231,861 | 203,109 |
| Total Net Assets | \$ 41,622,876 | \$ 44,328,498 |

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2007 and 2006

| | Governmental Activities | |
|--|--------------------------------|----------------------|
| | 2007 | 2006 |
| Expenses: | | |
| Economic development program: | | |
| Project costs | \$ 18,415,336 | \$ 9,560,133 |
| Professional services | 3,080,159 | 1,968,258 |
| Administrative and operating expenses (Note A) | 1,215,251 | 1,059,449 |
| Total Program Expenses | 22,710,746 | 12,587,840 |
| Program Revenue: | | |
| Economic development program: | | |
| Reimbursable project costs | 16,593,424 | 27,074,761 |
| Investment and other program revenue | 2,340,201 | 1,542,520 |
| Total Program Revenue | 18,933,625 | 28,617,281 |
| Net Program Revenue (Expense) | (3,777,121) | 16,029,441 |
| General Revenue: | | |
| Grants | 1,062,486 | 584,585 |
| Investment and other revenue | 9,013 | 5,893 |
| Total General Revenue | 1,071,499 | 590,478 |
| Net Increase (Decrease) in Net Assets | (2,705,622) | 16,619,919 |
| Net Assets, Beginning of Year | 44,328,498 | 27,708,579 |
| Net Assets, End of Year | \$ 41,622,876 | \$ 44,328,498 |

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2007 and 2006

| | 2007 | | | 2006 | | |
|--|-------------------|----------------------|----------------------|-------------------|----------------------|----------------------|
| | Unrestricted Fund | Restricted Funds | Total All Funds | Unrestricted Fund | Restricted Funds | Total All Funds |
| ASSETS | | | | | | |
| Cash (Note A) | \$ 58,862 | \$ 4,425,033 | \$ 4,483,895 | \$ 32,199 | \$ 7,629,689 | \$ 7,661,888 |
| Escrow deposits (Note A) | | 20,097,789 | 20,097,789 | | 21,341,055 | 21,341,055 |
| Investments (Note A) | 122,577 | 20,583,086 | 20,705,663 | 155,264 | 21,139,000 | 21,294,264 |
| Contracts receivable - City of Detroit (no allowance considered necessary) | 50,000 | 1,181,858 | 1,231,858 | 25,000 | 76,324 | 101,324 |
| Accounts receivable (no allowance considered necessary) | 71,791 | 691 | 72,482 | 74,887 | 116,826 | 191,713 |
| Notes receivable, net (Notes A and B) | | 1,791,114 | 1,791,114 | | 1,782,375 | 1,782,375 |
| Total Assets | \$ 303,230 | \$ 48,079,571 | \$ 48,382,801 | \$ 287,350 | \$ 52,085,269 | \$ 52,372,619 |

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

BALANCE SHEETS - GOVERNMENTAL FUNDS (CONTINUED)

June 30, 2007 and 2006

| | 2007 | | | 2006 | | |
|--|-------------------|----------------------|----------------------|-------------------|----------------------|----------------------|
| | Unrestricted Fund | Restricted Funds | Total All Funds | Unrestricted Fund | Restricted Funds | Total All Funds |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 21,369 | \$ 5,326,300 | \$ 5,347,669 | \$ 19,258 | \$ 6,522,329 | \$ 6,541,587 |
| Due to Detroit Economic Growth Corporation | 50,000 | | 50,000 | 64,983 | | 64,983 |
| Accrued interest payable | | 168,841 | 168,841 | | 173,624 | 173,624 |
| Maturing loans payable (Note C) | | 1,373,415 | 1,373,415 | | 1,363,927 | 1,363,927 |
| Total Liabilities | 71,369 | 6,868,556 | 6,939,925 | 84,241 | 8,059,880 | 8,144,121 |
| Fund Balances: | | | | | | |
| Reserved for development | | 41,211,015 | 41,211,015 | | 44,025,389 | 44,025,389 |
| Unreserved | 231,861 | | 231,861 | 203,109 | | 203,109 |
| Total Fund Balances | 231,861 | 41,211,015 | 41,442,876 | 203,109 | 44,025,389 | 44,228,498 |
| Total Liabilities and Fund Balances | \$ 303,230 | \$ 48,079,571 | \$ 48,382,801 | \$ 287,350 | \$ 52,085,269 | \$ 52,372,619 |

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

| | 2007 | 2006 |
|---|----------------------|----------------------|
| Total Fund Balances, Governmental Funds | \$ 41,442,876 | \$ 44,228,498 |
| <p>Amounts reported for governmental activities in the statements of net assets differ from amounts reported in the governmental funds balance sheets due to the following:</p> | | |
| <p>Long-term accounts receivable applicable to governmental activities are not due and collectible in the current period and, therefore, are not reported in the funds.</p> | 1,000,000 | 1,000,000 |
| <p>Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:</p> | | |
| Loans payable | (820,000) | (900,000) |
| Total Net Assets, Governmental Activities | \$ 41,622,876 | \$ 44,328,498 |

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

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

For the Years Ended June 30, 2007 and 2006

| | 2007 | | | 2006 | | |
|---|-------------------|----------------------|----------------------|-------------------|----------------------|----------------------|
| | Unrestricted Fund | Restricted Funds | Total All Funds | Unrestricted Fund | Restricted Funds | Total All Funds |
| Revenue: | | | | | | |
| Grants | \$ 1,062,486 | \$ -0- | \$ 1,062,486 | \$ 584,585 | \$ -0- | \$ 584,585 |
| Reimbursable project costs | | 16,593,424 | 16,593,424 | | 27,074,761 | 27,074,761 |
| Investment and other income | 9,013 | 2,340,201 | 2,349,214 | 5,893 | 1,542,520 | 1,548,413 |
| Total Revenue | 1,071,499 | 18,933,625 | 20,005,124 | 590,478 | 28,617,281 | 29,207,759 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Project costs | | 18,415,336 | 18,415,336 | | 9,560,133 | 9,560,133 |
| Professional services | 52,496 | 3,027,663 | 3,080,159 | 53,871 | 1,914,387 | 1,968,258 |
| Administrative and operating expenses (Note A) | 1,215,251 | | 1,215,251 | 1,059,449 | | 1,059,449 |
| Debt service (Note C) | | 80,000 | 80,000 | | 80,000 | 80,000 |
| Total Expenditures | 1,267,747 | 21,522,999 | 22,790,746 | 1,113,320 | 11,554,520 | 12,667,840 |
| Excess (Deficiency) of Revenue over Expenditures | (196,248) | (2,589,374) | (2,785,622) | (522,842) | 17,062,761 | 16,539,919 |
| Other Financing Sources (Uses): | | | | | | |
| Interfund transfers | 225,000 | (225,000) | -0- | 550,000 | (550,000) | -0- |
| Net Increase (Decrease) in Fund Balances | 28,752 | (2,814,374) | (2,785,622) | 27,158 | 16,512,761 | 16,539,919 |
| Fund Balances, Beginning of Year | 203,109 | 44,025,389 | 44,228,498 | 175,951 | 27,512,628 | 27,688,579 |
| Fund Balances, End of Year | \$ 231,861 | \$ 41,211,015 | \$ 41,442,876 | \$ 203,109 | \$ 44,025,389 | \$ 44,228,498 |

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

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

For the Years Ended June 30, 2007 and 2006

| | <u>2007</u> | <u>2006</u> |
|--|-------------------------------------|------------------------------------|
| Net Increase (Decrease) in Fund Balances, Governmental Funds | \$ (2,785,622) | \$ 16,539,919 |
| <p>Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balances due to the following:</p> | | |
| <p>Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statements of net assets. During the years presented, these amounts are as follows:</p> | | |
| Repayment and maturing of line of credit and loans payable | <u>80,000</u> | <u>80,000</u> |
| Net Increase (Decrease) in Net Assets, Governmental Activities | <u><u>\$ (2,705,622)</u></u> | <u><u>\$ 16,619,919</u></u> |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Purpose

The Economic Development Corporation of the City of Detroit (“EDC”) was established under Act No. 338 of the Public Acts of 1974, as amended. Its purpose is to encourage economic development within the City of Detroit, Michigan (the “City”) by assisting with the location and expansion of industrial and commercial enterprises in the City.

EDC is empowered to issue limited obligation economic development revenue bonds to finance industrial expansion and relocation within the City, as authorized under Act No. 338 of the Public Acts of 1974, as amended. The ultimate retirement of these bonds is dependent on sufficient revenue from the lease of applicable properties. EDC recycles various grant funds received to provide loans to qualified businesses in the City for commercial and industrial location and expansion at rates less than the prevailing market. Collections on these loans, including interest, are recycled for use in providing similar loans.

For financial reporting purposes, EDC, along with its wholly-owned subsidiary, Neighborhood Development Corporation, is a component unit of the City because the members of EDC’s Board of Directors are appointed by the City’s mayor and are confirmed by the Detroit City Council, which may veto decisions made by EDC’s Board of Directors. There are no fiduciary funds or component units included in the accompanying financial statements.

Basis of Presentation

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements (continued)

The various funds are summarized by type in the fund financial statements. The following funds are used by EDC:

Unrestricted Fund

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

Restricted Funds

These special revenue funds reflect the receipt of grant funds, loans issued, and repayments of interest and principal which are restricted for recycling for use in similar economic development projects. These funds are not required to legally adopt a budget.

Basis of Accounting

Government-Wide Financial Statements

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

Fund Financial Statements

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (continued)

Fund Financial Statements (continued)

Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

Administration

For the years ended June 30, 2007 and 2006, EDC entered into agreements with Detroit Economic Growth Corporation ("DEGC") for administrative and professional services at an annual cost not to exceed \$625,000 per year for the years ended June 30, 2007 and 2006. These expenditures are reflected in administrative expenses for services rendered for each year.

Accounting for Notes Receivable

EDC is in the business of loaning funds to various companies for which, in some cases, the collection process does not begin immediately. In those instances, the collection process may not begin for a number of years. EDC provides a reserve for these loans if and when the loans are deemed to be partially or fully uncollectible. Due to the nature of the collection terms on these loans, recoverability of these loans may be uncertain and, furthermore, may not be evident for a number of years. The ultimate collectibility of these loans is dependent upon the long-term viability of these companies.

Grant Revenue

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

Cash Deposits

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

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

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Deposits (continued)

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

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|---------------------|
| Carrying amount of deposits | \$ 4,483,895 | \$ 7,661,888 |
| Total bank balances | <u>\$ 5,248,390</u> | <u>\$ 8,690,761</u> |
| Uninsured and uncollateralized bank balances | <u>\$ 4,948,390</u> | <u>\$ 8,390,761</u> |

Investments

Investments are recorded at fair value, based on quoted market prices. As of June 30, 2007 and 2006, EDC's investments are classified as follows:

| | <u>2007</u> | <u>2006</u> |
|--|--------------|--------------|
| Investments held by the counterparty's trust department or agent in EDC's name: | | |
| Money market funds: | | |
| AAAm rating from Standard & Poor's: | | |
| J.P. Morgan U.S. Government Money Market Fund (weighted average maturity of 28 days) | \$ 7,387,283 | \$ 8,069,319 |
| J.P. Morgan Prime Money Market Fund (weighted average maturity of 47 days) | 7,004,062 | 7,404,322 |
| Federated Treasury Cash Series Fund (weighted average maturity of 15 days) | 875,618 | 869,355 |
| Goldman Sachs Financial Square Money Market Fund (weighted average maturity of -0- days) | 514,065 | -0- |

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

| | <u>2007</u> | <u>2006</u> |
|--|-----------------------------|-----------------------------|
| Investments held by the counterparty's trust department or agent in EDC's name (continued): | | |
| Money market funds (continued): | | |
| Unrated: | | |
| J.P. Morgan Liquid Assets Money Market Fund (weighted average maturity of 44 days) | \$ 125,478 | \$ 214,726 |
| Total Money Market Funds | <u>15,906,506</u> | <u>16,557,722</u> |
| Debt securities: | | |
| AAAm rating from Standard & Poor's: | | |
| Federal Home Loan Bank: | | |
| Maturity date November 29, 2007 | 299,814 | -0- |
| Maturity date November 7, 2007 | 1,413,340 | -0- |
| Maturity date October 21, 2007 | 293,814 | -0- |
| Maturity date September 29, 2007 | 295,314 | -0- |
| Maturity date June 4, 2007 | -0- | 2,724,764 |
| Federal National Mortgage Association: | | |
| Maturity date November 14, 2007 | 2,496,875 | -0- |
| Maturity date April 15, 2007 | -0- | 1,396,719 |
| Total Debt Securities | <u>4,799,157</u> | <u>4,121,483</u> |
| U.S. Treasury notes: | | |
| Maturity date May 15, 2007 | -0- | 615,059 |
| Total Investments | <u>\$ 20,705,663</u> | <u>\$ 21,294,264</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

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

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

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

Escrow Deposits

Escrow deposits are monies which are held in an escrow account administered by a financial institution designated by EDC and are used specifically for a development project. Interest earnings are either capitalized for future development use or remitted to EDC upon notice. In both cases, interest earnings are recognized as interest income by EDC. Escrow deposits as of June 30, 2007 and 2006 are for casino land development.

Bonds Issued

Bonds issued by EDC are not obligations of EDC and, accordingly, are not reflected on the accompanying financial statements. The bonds are secured by indentures and mortgages on real property.

Interfund Transactions and Eliminations

Interfund transactions are recorded as a payable by the receiving fund and as a receivable by the advancing fund in the fund financial statements. All interfund transactions and balances have been eliminated in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Doubtful Notes Receivable

EDC charges notes receivable to the allowance for doubtful notes receivable when it is probable that a note receivable is impaired (that is, when EDC will be unable to collect all amounts due according to the contractual terms of the agreement). Changes in the present value of an obligation's expected future cash flows from one reporting period to the next are recorded as additions or reductions to the allowance for doubtful notes receivable. EDC also includes in the allowance for doubtful notes receivable a general provision based on EDC's historical recovery of these receivables.

NOTE B - NOTES RECEIVABLE

EDC's portfolio of notes receivable as of June 30, 2007 and 2006 is as follows:

Bricktown Properties, Inc.

This note receivable is collateralized by a fee mortgage on real property. Interest is payable based on cash flow availability, and principal repayment is to occur 20 years after the earlier of construction completion or June 30, 1987.

Wayne State University

Two notes receivable were issued; one was under a federal Block Grant, and the other was under a Recycled Urban Development Action Grant ("UDAG"). Both notes are non-interest bearing and are due in 2010, or upon sale or refinancing of the project, in accordance with the terms of the agreements.

Motor City Building Materials, Inc.

This note receivable is collateralized by a first mortgage on property. The loan was made to assist in the purchase of property adjacent to an EDC building which is used as a materials distribution center. The loan is to be repaid over four years.

Riverbend

This note receivable is due on demand, with interest due at one percent over the prime rate. The note is for gap financing, awaiting U.S. Department of Housing and Urban Development ("HUD") section 108 funds from the City. Repayment is expected within one year.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE B - NOTES RECEIVABLE (CONTINUED)

Midtown Development Corporation

This note receivable is due on demand, with interest due at one percent over the prime rate. The note is for gap financing, awaiting HUD UDAG funding. Repayment is expected within one year.

Ring Screw Textron, Inc.

This loan was made to cover construction costs. Annual payments were due on each July 31. This loan was fully repaid by July 31, 2006.

Ferry Street Development Company, L.L.C.

Annual payments on this note receivable commence on December 31, 2008, and continue on each December 31 through and including December 31, 2020. Interest is computed at six percent, and begins to accrue on January 1, 2008.

Classic Chicken, L.L.C.

This loan was made to purchase equipment and to cover construction costs. The note is non-interest bearing for the first four months, then interest payments of four percent on the outstanding balance are due for the next eight months. Thereafter, monthly payments of \$2,660 are due for the next six years.

The outstanding balances on these notes receivable are as follows as of June 30, 2007 and 2006:

| | <u>2007</u> | <u>2006</u> |
|-------------------------------------|--------------------|--------------------|
| Bricktown Properties, Inc. | \$ 275,000 | \$ 275,000 |
| Wayne State University: | | |
| Block Grant note | 600,000 | 600,000 |
| Recycled UDAG note | 600,000 | 600,000 |
| Motor City Building Materials, Inc. | 9,418 | 21,380 |
| Riverbend | 1,005,010 | 1,080,619 |
| Midtown Development Corporation | 300,000 | 300,000 |
| Ring Screw Textron, Inc. | -0- | 81,358 |

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE B - NOTES RECEIVABLE (CONTINUED)

| | <u>2007</u> | <u>2006</u> |
|--|-----------------------------------|-----------------------------------|
| Ferry Street Development Company, L.L.C. | \$ 500,000 | \$ 500,000 |
| Classic Chicken, L.L.C. | 170,000 | -0- |
| Various notes receivable that have been fully reserved | <u>2,221,025</u> | <u>2,221,025</u> |
| | 5,680,453 | 5,679,382 |
| Less: Allowance for doubtful notes receivable | <u>(3,889,339)</u> | <u>(3,897,007)</u> |
| Net Notes Receivable | <u><u>\$ 1,791,114</u></u> | <u><u>\$ 1,782,375</u></u> |

Changes in the allowances for doubtful notes receivable are as follows for the years ended June 30, 2007 and 2006:

| | <u>2007</u> | <u>2006</u> |
|-----------------------------|-----------------------------------|-----------------------------------|
| Balance, beginning of year | \$ 3,897,007 | \$ 3,917,080 |
| Additions (reductions) | <u>(7,668)</u> | <u>(20,073)</u> |
| Balance, End of Year | <u><u>\$ 3,889,339</u></u> | <u><u>\$ 3,897,007</u></u> |

Because of the long-term nature of these notes receivable and the uncertainty of the time of collection on many of these notes receivable, the fair value of these notes receivable as of June 30, 2007 and 2006 cannot be readily determined.

NOTE C - LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2007 and 2006 consist of the following:

Line of Credit

EDC established a \$4.3 million line of credit with J.P. Morgan Chase Bank. Interest is charged at one percent over J.P. Morgan Chase Bank's prime rate. The line of credit is guaranteed by the future income streams of two of EDC's UDAG notes receivable. Payments on the line of credit are made primarily from the restricted funds. No balance was outstanding on this line of credit as of June 30, 2007, 2006, or 2005.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE C - LONG-TERM LIABILITIES (CONTINUED)

Loans Payable - City of Detroit

EDC is administering loans for the City under various loan programs. The repayment terms to the City are similar to the corresponding notes receivable (see Note B). EDC acts as a pass-through agency for these loans unless instructed by the City to retain the loan repayments for possible future project activity. Payments on these loans are made primarily from the restricted funds.

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

| | |
|-------------------------------------|----------------------------|
| Balance, July 1, 2005 | \$ 2,362,398 |
| Less: Repayments | <u>(98,471)</u> |
| Balance, June 30, 2006 | 2,263,927 |
| Less: Repayments | <u>(70,512)</u> |
| Balance, June 30, 2007 | <u>\$ 2,193,415</u> |
| Amounts Due Within One Year: | |
| June 30, 2006 | \$ 1,363,927 |
| June 30, 2007 | <u>\$ 1,373,415</u> |

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

| <u>For the Years</u> <u>Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|----------------------------|--------------------------|----------------------------|
| 2008 | \$ 1,373,415 | \$ 137,174 | \$ 1,510,589 |
| 2009 | 85,000 | 57,202 | 142,202 |
| 2010 | 85,000 | 51,173 | 136,173 |
| 2011 | 85,000 | 45,081 | 130,081 |
| 2012 | 85,000 | 38,931 | 123,931 |
| 2013-2017 | <u>480,000</u> | <u>82,787</u> | <u>562,787</u> |
| | <u>\$ 2,193,415</u> | <u>\$ 412,348</u> | <u>\$ 2,605,763</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007 and 2006

NOTE D - REIMBURSABLE CONTRACTS

EDC has entered into contracts to render services in exchange for reimbursements with local and state governments and agencies or departments. Contract costs (primarily operating expenses) allocated and billed to the contracts are subject to audit by the respective parties; however, no costs incurred prior to July 1, 1998 are subject to further audit.

NOTE E - RISK MANAGEMENT

The directors and officers of EDC have been indemnified from risk by the Detroit City Council (the "Council"). In July 1980, the Council provided indemnity to EDC Board members for any claims or causes of action brought against them acting in their official authorized capacity for EDC. EDC does maintain general liability insurance on any land that it may acquire through the acquisition process of the various projects it handles for the City. EDC is not in the business of buying and holding land; therefore, any land it may take title to is only held on a temporary basis until it can be turned over to the City or to a developer. The risk EDC undertakes in this process is minimal and, in management's opinion, is sufficiently covered by its insurance policies.

REQUIRED SUPPLEMENTARY INFORMATION

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT
SCHEDULES OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - UNRESTRICTED FUND (UNAUDITED)

For the Years Ended June 30, 2007 and 2006

| | 2007 | | | 2006 | | | | |
|---|------------------|------------------|------------------|--|------------------|------------------|------------------|--|
| | Original Budget | Final Budget | Actual | Positive (Negative) Variance with Final Budget | Original Budget | Final Budget | Actual | Positive (Negative) Variance with Final Budget |
| Revenue: | | | | | | | | |
| Grants | \$ 1,055,333 | \$ 1,055,333 | \$ 1,062,486 | \$ 7,153 | \$ 555,333 | \$ 555,333 | \$ 584,585 | \$ 29,252 |
| Investment and other income | 9,667 | 9,667 | 9,013 | (654) | 4,667 | 4,667 | 5,893 | 1,226 |
| Total Revenue | 1,065,000 | 1,065,000 | 1,071,499 | 6,499 | 560,000 | 560,000 | 590,478 | 30,478 |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| Professional services | 59,667 | 59,667 | 52,496 | 7,171 | 54,667 | 54,667 | 53,871 | 796 |
| Administrative and operating expenses | 1,230,333 | 1,230,333 | 1,215,251 | 15,082 | 1,055,333 | 1,055,333 | 1,059,449 | (4,116) |
| Total Expenditures | 1,290,000 | 1,290,000 | 1,267,747 | 22,253 | 1,110,000 | 1,110,000 | 1,113,320 | (3,320) |
| Excess (Deficiency) of Revenue over Expenditures | (225,000) | (225,000) | (196,248) | 28,752 | (550,000) | (550,000) | (522,842) | 27,158 |
| Other Financing Sources: | | | | | | | | |
| Interfund transfers | 225,000 | 225,000 | 225,000 | -0- | 550,000 | 550,000 | 550,000 | -0- |
| Net Increase in Fund Balance | \$ -0- | \$ -0- | \$ 28,752 | \$ 28,752 | \$ -0- | \$ -0- | \$ 27,158 | \$ 27,158 |

See note to schedules of revenue and expenditures - budget and actual (unrestricted fund).

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**NOTE TO SCHEDULES OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL - UNRESTRICTED FUND (UNAUDITED)**

For the Years Ended June 30, 2007 and 2006

NOTE A - BUDGETS AND BUDGETARY ACCOUNTING

The Economic Development Corporation of the City of Detroit (“EDC”) establishes a budget that is reflected in the financial statements for the unrestricted fund. The budget is presented on the modified accrual basis of accounting.

Budgeted amounts are as presented to EDC’s Finance Committee and approved by EDC’s Board of Directors. No amendments to the budget were made during the year. Appropriations are authorized by EDC’s management. Unexpended appropriations lapse at the end of the fiscal year.

George Johnson & Company

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September 21, 2007

To the Finance Committee and Management
Economic Development Corporation of the City of Detroit
Detroit, Michigan

In planning and performing our audit of the financial statements of the Economic Development Corporation of the City of Detroit (“EDC”) 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 EDC’s internal control over financial reporting (“internal control”) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EDC’s internal control. Accordingly, we do not express an opinion on the effectiveness of EDC’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 combination of control deficiencies, that adversely affects EDC’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of EDC’s financial statements that is more than inconsequential will not be prevented or detected by EDC’s internal control.

A material weakness is a significant deficiency, or 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 EDC’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 might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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


CERTIFIED PUBLIC ACCOUNTANTS