Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☑ Other	City of Lapeer Economic Development Corp	Lapeer

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
6/30/05	8/19/05	12/12/05

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ Yes ☑ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☑ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☑ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☑ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ Yes ☑ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ Yes ☑ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☑ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ Yes ☑ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ Yes ☑ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✔		
Reports on individual federal financial assistance programs (program audits).			✔
Single Audit Reports (ASLGU).			✔

Certified Public Accountant (Firm Name)			
Layton and Richardson, P.C.			
Street Address	City	State	ZIP
1000 Coolidge Road	East Lansing	MI	48823
Accountant Signature		Date	
Vicki L. Couch, CPA		12/12/05	

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INDEPENDENT AUDITORS' REPORT

Members of the Economic Development
Corporation of the City of Lapeer
Lapeer, MI

We have audited the accompanying basic financial statements of the governmental activities of the ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF LAPEER, MICHIGAN as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 audit provides a reasonable basis for our opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities of the Economic Development Corporation of the City of Lapeer, Michigan, as of December 31, 2004, and the results of its operations for the year then ended, in conformity with the U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued our report dated August 19, 2005, on our consideration of the Economic Development Corporation of the City of Lapeer, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Layton & Richardson, P.C.
Certified Public Accountant

August 19, 2005
East Lansing, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Economic Development Corporation of the City of Lapeer's financial performance provides an overview of the Economic Development Corporation's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Economic Development Corporation's financial statements.

FINANCIAL HIGHLIGHTS

- There was no activity for the Economic Development Corporation this fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Economic Development Corporation as a whole and present a longer-term view of the Economic Development Corporation's finances. Fund financial statements provide more detailed information about the Economic Development Corporation's funds- not the Economic Development Corporation as a whole. These statements tell how these services were financed in the short term as well as what remains for future spending.

Reporting the Economic Development Corporation as a Whole

One of the most important questions asked about the Economic Development Corporation's finances is, "Is the Economic Development Corporation as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Economic Development Corporation as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Economic Development Corporation's *net assets* and changes in them. You can think of the Economic Development Corporation's net assets – the difference between assets and liabilities – as one way to measure the Economic Development Corporation's financial health, or *financial position.* Over time, *increases* or *decreases* in the Economic Development Corporation's net assets are one indicator of whether its *financial health* is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the Economic Development Corporation is shown as a governmental activity while within the City of Lapeer's audit they are shown as a component unit:

- Governmental activities – The Economic Development Corporation's services are reported here. Charges for Services finance most of these activities.

Reporting the Economic Development Corporation's Most Significant Funds

The fund financial statements provide detailed information about the Economic Development Corporation's funds. The Economic Development Corporation's funds utilize the *governmental* accounting approach.

- *Governmental funds* – Most of the Economic Development Corporation's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified ac*crual accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Economic Development Corporation's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Economic Development Corporation's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

THE ECONOMIC DEVELOPMENT CORPORATION AS A WHOLE

Table 1 was summarized from the Economic Development Corporation Statement of Net Assets. The net assets of the Economic Development Corporation increased from $5,184 to $7,541, an increase of $2,357, or 45.5%. In the prior year, the net assets decreased from $5,516 to $5,184, a decrease of $332 or 6.0%. The following table provides a comparison of the current and prior year.

Table 1
Net Assets
(In Hundreds)

	Governmental Activities 2004	Governmental Activities 2003
Current and other assets	$ 75.4	$ 51.8
Total assets	75.4	51.8
Other liabilities	0.0	0.0
Total liabilities	0.0	0.0
Net assets:		
Restricted	0.0	0.0
Unrestricted (deficit)	75.4	51.8
Total net assets	$ 75.4	$ 51.8

Governmental Activities

As stated previously, the net assets of the Economic Development Corporation's governmental activities increased by $2,357 or 45.5%. Unrestricted net assets – the part of net assets that can be used to finance day –to –day operations without constraints established by debt covenants, enabling legislation, or other legal requirements-is recorded as a surplus of $7,541.58.

Table 2 was summarized from the government-wide Statement of Activities. This table summarizes the government-wide program revenues, other revenues, and expenses of the Economic Development Corporation.

Table 2
Changes in Net Assets
(In Hundreds)

	Governmental Activities 2004	Governmental Activities 2003
Revenues:		
Program revenues:		
Charges for Services	$ 0.0	$ 0.0
Operating grants and contributions	0.0	0.0
General revenues:		
Other	25.2	0.1
Total Revenues	25.2	0.1
Expenses:		
General government	$ 1.6	$ 3.5
Total Expenses	1.6	3.5
Increase in net assets Before transfers	23.6	(3.4)
Transfers	0.0	0.0
Increase (Decrease) in Net Assets	23.6	(3.4)
Net assets, January 1	51.8	55.2
Net assets, December 31	75.4	51.8

Total revenue from all sources totaled $2,517 which was comprised of $2,500 in loan application fees and $17 in unrestricted interest income.

The governmental activities of the Economic Development Corporation had an expense of $160 which was for meeting fees. Due to utilizing full accrual on the government-wide statements, the

expenditures for capital assets including infrastructure are not recorded as expenses in the current year but are capitalized on the Statement of Net Assets and are depreciated over the useful life of the asset. Only the current year depreciation would be included as an expense.

THE ECONOMIC DEVELOPMENT CORPORATION'S FUNDS

The Economic Development Corporation received a total of $17.40 of interest income in the current year compared to $14.15 of interest income in the prior year and had a total expense of $160.00 in the current year which was for meeting fees compared to the total expense of $346.00 in the prior year which was for audit fees in the amount of $250.00 and bank service charges in the amount of $96. The fund balance increased from $5,184 to $7,541, an increase of $2,357 or 45.5% compared to the prior year decrease from $5,516 to $5,184, or 6.0%.

Economic Development Corporation Budgetary Highlights

- The Economic Development Corporation budget did not change during the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Economic Development Corporation does not have any capital assets.

There were no major capital asset events during the current fiscal year.

Debt

The Economic Development Corporation does not have any outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Trends in Industrial Growth in the area.

The Economic Development Corporation reviews the industrial growth trends to determine the potential for industrial projects and establishes a budget for charges for services and application processing expenses.

Requests for Information

This financial report is designed to provide a general overview of the Economic Development Corporation's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lapeer, Director of Financial Services, 576 Liberty Park, Lapeer, MI 48446.

ECONOMIC DEVELOPMENT CORPORATION OF THE
CITY OF LAPEER, MICHIGAN

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2004

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
ASSETS			
Cash-checking	$ 1,801.95	$	$ 1,801.95
Cash-savings	5,739.63		5,739.63
	$ 7,541.58	$	$ 7,541.58
FUND BALANCE	$ 7,541.58	$	$ 7,541.58

See accompanying notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF LAPEER, MICHIGAN

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2004

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
EXPENDITURES/EXPENSES			
General government	$ 160.00	$	$ 160.00
GENERAL REVENUES			
Fees	2,500.00		2,500.00
Interest income	17.40		17.40
TOTAL REVENUES	2,517.40		2,517.40
CHANGES IN NET ASSETS	2,357.40		2,357.40
FUND BALANCE/NET ASSETS, JANUARY 1	5,184.18		5,184.18
FUND BALANCE/NET ASSETS, DECEMBER 31	$ 7,541.58	$	$ 7,541.58

See accompanying notes to financial statements.

NOTE 1: REPORTING ENTITY

In accordance with the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Economic Development Corporation of the City of Lapeer is considered a component unit of the City of Lapeer, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the Economic Development Corporation are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Lapeer.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Economic Development Corporation conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

A. Government-Wide and Fund Financial Statements

The government-wide financial statement (i.e. the statements of net assets and the statement of changes in net assets) reports information on all of the nonfiduciary activities of the Economic Development Corporation of the City of Lapeer. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable which a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contribution that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

B. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statement is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Governmental fund financial statement is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenenues are considered available when they are collectible within the current period or soon enough thereafter to liabilities of the current period.

C. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: **REVENUE BONDS**

The Corporation is organized pursuant to the State of Michigan, Public Act No. 338 of 1974, as amended, and the City of Lapeer, Michigan Ordinances. The primary purpose of the Corporation is to encourage and assist commercial enterprises to locate and expand facilities and services to the City and its residents. This purpose is accomplished by the Corporation entering into lease contracts with commercial enterprises. According to the terms of the lease contracts, the Corporation agrees to issue revenue bonds, the proceeds from which will be used to finance a project benefitting the commercial enterprise, and the commercial enterprise agrees to make lease payments equal to the bond principal and interest payments. When the bonds are paid in full, the ownership of the project is transferred to the commercial enterprise. The revenue bonds are payable solely from the net revenues derived from the project, and the bond collateral is a mortgage on the project and the lease contract.

Since each bond issued by the Corporation is payable solely from the net revenues derived from the related project through lease payments, and since the bonds are not a general obligation of the Corporation, the bonds and related lease contracts have not been reflected in the financial statements of the Corporation.

As of December 31, 2004, the Corporation has issued the following revenue bonds:

	DATE OF BOND CLOSING	AMOUNT OF REVENUE BONDS ISSUED
First National Bank of Lapeer	12/17/79	$ 500,000.00
Growth and Opportunity	11/02/79	275,000.00
Peninsular Slate	12/28/79	200,000.00
Doc Development Company	12/21/79	363,000.00
Houghtaling Project	02/11/80	180,000.00
Dowsett Project	11/10/80	300,000.00
The Thread Forms, Inc. Project	11/06/81	400,000.00
MESC Project	02/28/82	323,300.00
Lapeer Foundry & Machine, Inc.	03/11/82	950,000.00
DeMille Industrial Development	06/18/82	200,000.00
The Whitman Project	06/30/83	368,806.00
Growth & Oppor. Inc. II Project	08/22/83	625,000.00
Barnard & Balaze Project	12/28/83	209,000.00
J.L. Avery Project	01/05/84	250,000.00
Lapeer Medical Center	01/17/84	475,000.00
Growth & Opportunity, Inc.	02/13/84	600,000.00
C & P Partnership Project	06/26/85	616,000.00
Copres Leasing Company	12/30/85	806,000.00
The Lapeer Associates, Ltd.	06/20/86	1,500,000.00
Lapeer Enterprise Center	12/29/86	298,531.00
Albar Industries Inc.	11/15/89	3,500,000.00
Dott Manufacturing	11/15/89	4,128,000.00
Lapeer Regional Hospital	06/01/91	1,980,170.00
Vidon Plastics	07/05/95	1,075,000.00
JMA Development, Inc.	09/22/95	1,347,000.00
JMA Development, Inc.	06/17/99	4,000,000.00

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Economic Development Corporation
of the City of Lapeer
Lapeer, Michigan

We have audited the general purpose financial statements of the ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF LAPEER, MICHIGAN, as of and for the year ended December 31, 2004, and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Economic Development Corporation of the City of Lapeer, Michigan's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Economic Development Corporation of the City of Lapeer, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the City Commissioners, management, and State and Federal Agencies. However, this report is a matter of public record and its distribution is not limited.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
August 19, 2005

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LETTER OF COMMENTS AND RECOMMENDATIONS

Members of The Economic Development Corporation
of the City of Lapeer
Lapeer, Michigan

We have examined the financial statements of the Economic Development Corporation of the City of Lapeer, Michigan for the year ended December 31, 2004, and have issued our report thereon dated August 19, 2005. As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the Economic Development Corporation of the City of Lapeer, Michigan is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected, Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. However, our examination did disclose the following conditions that we believe result in a risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Economic Development Corporation of the City of Lapeer, Michigan may occur and not be detected within a timely period.

Segregation of Duties

Segregation of duties is an arrangement of responsibilities such that the work of one employee serves as a check on the work of others. The least desirable situation is one in which a single employee is responsible for an entire accounting process from the origin of each transaction to the ultimate posting in the general ledger. This situation enhances the likelihood that intentional or unintentional errors will occur and remain undetected.

Because it is often difficult in a small governmental unit to segregate accounting duties, alternative controls should be implemented to compensate for lack of a segregation of duties. Such controls as management supervision are an effective means of improving control and reducing the risk of error without incurring additional cost.

We recommend that the Uniform Budgeting Manual for Local Units of Government In Michigan, issued by the Michigan Department of Treasury, be used to provide appropriate guidelines for the preparation of budgets which comply with legal requirements.

We appreciate the assistance and cooperation extended to us by the Corporation's officials and employees during our examination, and we thank them.

This report is intended for the information of the Board of Directors, management and federal, state and local grantor agencies. However, this report is a matter of public record, and its distribution is not limited.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
August 19, 2005