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	**Schoolcraft County EDC**	**Schoolcraft**

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
9/30/05	**12/21/05**	**1/24/06**

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)			
Anderson, Tackman & Company, PLC			
Street Address	City	State	ZIP
901 Ludington Street	**Escanaba**	**MI**	**49829**
Accountant Signature		Date	
		1/24/06	

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

COMPONENT UNIT FINANCIAL STATEMENTS

September 30, 2005

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS
OFFICES IN MICHIGAN AND WISCONSIN

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Christina A. Smigowski, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Schoolcraft County Economic
Development Corporation
Manistique, Michigan 49854

We have audited the accompanying financial statements of the Schoolcraft County Economic Development Corporation, a component unit of Schoolcraft County, as of and for the year ended September 30, 2005, as listed in the table of contents. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental 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 financial statements referred to above present fairly, in all material respects, the financial position of the Schoolcraft County Economic Development Corporation, as of September 30, 2005, and the changes in financial position and cash flows for the year 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 December 21, 2005, on our consideration of the Schoolcraft County Economic Development Corporation's internal control over financial reporting and our tests of its' compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters.

901 LUDINGTON STREET ESCANABA, MICHIGAN 49829 (906) 786-3111 FAX (906) 786-8940

Board of Directors
Schoolcraft County Economic
Development Corporation

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 in accordance with Government Audit Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages MDA-1 through MDA-3 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.

Anderson, Tackman & Company P.L.C.

Certified Public Accountants

December 21, 2005

Schoolcraft County Economic Development Corporation

Management Discussion and Analysis
This section of the Schoolcraft County Economic Development Corporation's (SCEDC) annual financial report presents our discussion and analysis of the SCEDC's financial performance during the year ended September 30, 2005. Please read it in conjunction with the SCEDC's financial statements.
The following table summarized the net assets as of September 30, 2005 and 2004:

	2005	2004
Assets		
Current Assets:		
Cash - - Restricted	$45,405	$51,906
Unrestricted	2,496	31,023
Certificate of Deposit	11,104	10,934
Accounts receivable - - housing	11,620	-
Admin.	3,725	-
Total Current Assets	**$74,350**	**$93,863**
Fixed Assets:		
Land	$ 5,000	$ 5,000
Building	18,000	18,000
Building improvements	19,136	19,136
Office equipment and furniture	8,234	8,234
Less accumulated depreciation	(26,831)	(23,250)
Net Fixed Assets	23,539	27,120
Total Assets	**$97,889**	**$120,983**
Current Liabilities:		
Accounts payable - - housing	$ 4,150	$ 6,730
Accrued payroll taxes	2,115	3,574
Total Current Liabilities	**$ 6,265**	**$ 10,304**

Net Assets:		
Invested in capital assets, net of related debt	$ 23,539	$ 27,120
Unrestricted	68,085	83,559
Total Net Assets	**$ 91,624**	**$110,679**
Total Liabilities and Net Assets	**$ 97,889**	**$120,983**

The following revenue table provides comparative revenue and expense information for the fiscal years ended September 30, 2005 and 2004:

Operating Revenues:		
Federal sources:		
Rehabilitation grants - - County	$161,345	$ 46,766
Administration and project Management	30,615	17,850
Replacement housing		45,000
State sources:		
Rehabilitation grants - - City	98,137	46,500
DPA Grant		79,877
Administration and project Management	20,274	34,770
Homelinks	500	250
MSHDA Miscellaneous	5,198	
Other:		
County appropriation	8,000	8,000
City appropriation	1,100	1,100
Program income - - City	6,792	21,036
County	23,621	61,272
Township appropriations	2,000	5,000
Homeowner share – City	35,379	
Miscellaneous	3,829	6,082
Total Operating Revenues	**396,790**	**373,503**
Operating Expenses:		
Rehabilitation grants - - City	133,893	64,648
County	152,491	177,680
Replacement housing		40,000
Rehabilitation using program inc. - - City	2,434	37
- - County	10,071	5,502
DPA grants - - County	7,619	19,148
County emergency	1,950	5,495

Administrative Expenses:

Salaries & wages	59,878	57,656
Fringe benefit expense	7,130	5,634
Payroll taxes	4,581	4,411
Advertising	480	1,246
Marketing	74	1,071
Office supplies	1,575	2,139
Depreciation	3,581	3,581
Postage	823	952
Telecommunications	2,841	2,966
Travel & Training	2,975	2,479
Insurance	1,163	1,187
Professional services	7,883	4,211
Utilities	1,926	1,949
Subscriptions & dues	1,301	1,276
Repair & maintenance	861	1,372
Miscellaneous	484	2,055
Total Operating Expenses	**416,014**	**406,687**
Operating Loss	**(19,224)**	**(33,184)**
Non-Operating Income (expense)		
Interest income	169	165
Net loss	(19,055)	(33,019)
Net assets, beginning of year	**110,679**	**143,698**
Net Assets, end of year	**$91,624**	**110,679**

The Schoolcraft County SCEDC revenues increased along with expenses but overall showed a deficit of $19,055, the result of reduction of grant funding due primarily to budget cuts at the state and federal level. This financial report is designed to provide our citizens with a general overview of the SCEDC's finances and to demonstrate accountability in the funds received.

If you have any questions about this report or need additional information, please contact the SCEDC office directly at 321 Deer Street, Manistique, MI 49854.

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF NET ASSETS

September 30, 2005

ASSETS

CURRENT ASSETS:	
Cash - Restricted	$ 45,405
Unrestricted	2,496
Certificate of Deposit	11,104
Accounts receivable - Housing	11,620
- Admin.	3,725
TOTAL CURRENT ASSETS	74,350
FIXED ASSETS:	
Land	5,000
Building	18,000
Building improvements	19,136
Office equipment and furniture	8,234
Less accumulated depreciation	(26,831)
NET FIXED ASSETS	23,539
TOTAL ASSETS	$ 97,889

LIABILITIES AND EQUITY

CURRENT LIABILITIES:	
Accounts payable - Housing	$ 4,150
Accrued payroll taxes	2,115
TOTAL CURRENT LIABILITIES	6,265
NET ASSETS:	
Invested in capital assets, net of related debt	23,539
Unrestricted	68,085
TOTAL NET ASSETS	91,624
TOTAL LIABILITIES AND NET ASSETS	$ 97,889

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

For the year ended September 30, 2005

OPERATING EXPENSES (continued):	
Repair and maintenance	$ 861
Miscellaneous	484
TOTAL OPERATING EXPENSES	416,014
OPERATING LOSS	(19,224)
NON-OPERATING INCOME (EXPENSE):	
Interest income	169
NET LOSS	(19,055)
Net assets, beginning of year	110,679
NET ASSETS, END OF YEAR	$ 91,624

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

For the year ended September 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from grant activities	$ 300,724
Cash received from other sources	80,721
Cash payments to employees for services	(73,048)
Cash payments to suppliers for goods and services	(343,424)
NET CASH USED BY OPERATING ACTIVITIES	(35,027)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	169
NET DECREASE IN CASH	(34,858)
Cash and equivalents, beginning of year	93,863
CASH AND EQUIVALENTS, END OF YEAR	$ 59,005

RECONCILITION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	(19,224)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	3,581
(Increase) decrease in receivables	(15,345)
Increase (decrease) in accounts payable	(2,580)
Increase (decrease) in accrued expenses	(1,459)
NET CASH USED BY OPERATING ACTIVITIES	$ (35,027)

See accompanying notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Restricted Resources - When both general purpose and restricted revenues are available for use it is the Corporation's policy to use restricted resources first.

(7) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND EQUIVALENTS

(1) Cash - The composition of cash as reported on the balance sheet is presented below:

Cash items:	
Checking - restricted	$ 45,405
- unrestricted	2,496
Certificate of Deposit	11,104
TOTAL	$ 59,005

(2) Deposits - At year-end, the carrying amount of the Corporation's deposits were $59,005 and the bank balance was $76,713. Of the bank balance, 100 percent is insured by Federal Depository Insurance according to FDIC regulations.

State statues authorize the Corporation to deposit and invest in the following:

a. Bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.

b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.

c. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

d. Repurchase agreements consisting of instruments listed in subdivision (a).

e. Banker's acceptance of Unites States banks.

f. Obligations of this state or any of its political subdivisions that at the time of purchase are related as investment grade by not less than one standard rating service.

NOTE D - NET ASSETS - RESERVED

Of the $68,085 of unrestricted net assets the Board has reserved $17,160 for future asset replacement and $35,715 for future housing projects. The total reservations of $52,875 also show as follows in the Statement of Net Assets:

Cash - restricted	$ 45,405
Accounts receivable - Housing	11,620
Accounts payable - Housing	(4,150)
	$ 52,875

NOTE E - CONTINGENT LIABILITIES

The Economic Development Corporation receives significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds from the various programs generally requires compliance with terms and conditions specified in the applicable grant agreement and is subject to examination by the grantor agency. Any disallowed claims resulting from such examination could become a liability of the Economic Development Corporation. Management is not aware of any such claims as of September 30, 2005.

NOTE F - RISK MANAGEMENT

The Corporation 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. Settled claims resulting from these risks, if any, have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

Board of Directors of the Schoolcraft County
Economic Development Corporation
Manistique, Michigan 49854

We have audited the component unit financial statements of the Schoolcraft County Economic Development Corporation, as of and for the year ended September 30, 2005, and have issued our report thereon dated December 21, 2005. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the component unit 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Corporation, in a separate letter dated December 21, 2005,

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

This report is intended for the information and use of the Corporation Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tackman & Company P.L.C.

Certified Public Accountants

December 21, 2005

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REPORT TO MANAGEMENT

To the Board of Directors and Management of
Schoolcraft County Economic Development Corporation
Manistique, Michigan

Audit Committee Communications

We have audited the component unit financial statements of the Schoolcraft County Economic Development Corporation for the year ended September 30, 2005, and have issued our reports thereon dated December 21, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U. S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Schoolcraft County Economic Development Corporation. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Corporation's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Schoolcraft County Economic Development Corporation are described in Note A of the financial statements.

No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Schoolcraft County Economic Development Corporation during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute or test the estimates. The most sensitive estimate would be the lives of the fixed assets. This estimate has been made using management's experience with past useful lives of similar assets.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do have a significant effect on the financial reporting process.

The audit adjustments made that have a significant effect on the financial reporting process were primarily to record receivables and payables as of year-end. These adjustments were reviewed and approved by management and have been posted to the records of the corporation.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements of the Schoolcraft County Economic Development Corporation, or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant advise us so we may determine if the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

There were no discussions with management regarding any issues that were a condition to our retention as independent auditors.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Suggestions

In planning and performing our audit of component unit financial statements of the Schoolcraft County Economic Development Corporation, for the year ended September 30, 2005, we considered the Corporation's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 21, 2005, on the financial statements of the Schoolcraft County Economic Development Corporation.

We have already discussed many of these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We would like to express our appreciation for the excellent cooperation we received while performing the audit. If we can be of any assistance in implementing the above recommendations, please contact us.

Board of Directors and Management of
Schoolcraft County Economic Development Corporation

This report is intended for the information of the Board, the cognizant audit agency, and other audit agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Board, is a matter of public record.

Anderson, Tackman & Company P.L.C.
Certified Public Accountants

December 21, 2005

SCHOOLCRAFT COUNTY ECONOMIC DEVELOPMENT CORPORATION

COMMENTS AND SUGGESTIONS

September 30, 2005

BOARD OVERSIGHT

Because of the limited number of staff available at the Corporation it is our feeling that board oversight over financial activity is of significant importance. We recommend that the Board consider establishing a finance committee. This committee would be responsible for reviewing all monthly disbursement activity, bank reconciliations and considering on a periodic basis, the review of documentation backing up the disbursement activity. Establishing this committee and these procedures would not only serve to protect the Board, but also the position of the executive director, who presently oversees all of the Board's financial activity.

ITEMS NOTED DURING THE SINGLE AUDIT FOR SCHOOLCRAFT COUNTY RELATING TO THE ECONOMIC DEVELOPMENT CORPORATION

CASH DISBURSEMENTS

We noted during our audit that the cash drawdowns for ongoing projects were not always expended within thirty days as required by state and federal guidelines. We recommend that management make every possible effort to meet this requirement in the future.

LEVERAGE REQUIREMENTS

We noted during our audit that the participant leverage requirements of $61,500 for grant #MSC-2004-0749-HOA were not met. We recommend that management take appropriate steps to correct this circumstance with the state and make an effort to contract for attainable leverage goals with the state in the future.