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Independent Auditor's Report

Honorable Mayor and City Council
City of Midland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midland, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Midland, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midland, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and City Council
City of Midland, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Midland, Michigan's basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 31, 2005 on our consideration of the City of Midland, Michigan's internal control over financial reporting and on 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.

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January 31, 2005