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HARRISVILLE HARBOR COMMISSION  
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2007

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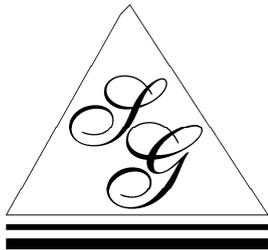
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June 19, 2008

Independent Auditors' Report

Members of the Board  
Harrisville Harbor Commission  
Alcona County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Harrisville Harbor Commission, Alcona County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Harrisville Harbor Commission's basic financial statements, as listed in the index. These financial statements are the responsibility of the Commission'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 *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 the 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 in the first paragraph present fairly, in all material respects, the financial position of the business-type activities of the Harrisville Harbor Commission, Alcona County, Michigan, as of December 31, 2007, and the respective changes in financial position and cash flows thereof 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 June 19, 2008, on our consideration of the Harrisville Harbor Commission's internal control over financial reporting and on 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 important for assessing the results of our audit.

The management's discussion and analysis information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Stephenson, Gracik & Co., P.C.*

# Harrisville Harbor

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Harrisville Harbor Commission**, (the Harbor Commission) we offer readers of the Harbor Commission's financial statements this narrative overview and analysis of the financial activities of the Harbor Commission for the fiscal year ended December 31, 2007.

### Financial Highlights

- The Harbor Commission's assets exceeded its liabilities by \$2,128,142 (*net assets*) for the fiscal year reported. Of this amount, \$120,511 (*unrestricted net, assets*) represents the portion available for spending.
- The Harbor Commission's total net assets decreased by \$49,531 or 2.3% over the course of the year's operations.

### Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the Harbor Commission. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### Required Financial Statements

The financial statements of the Harbor Commission report information of the Harbor Commission using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Harbor Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Harbor Commission creditors (liabilities). It also provides the basis for evaluating the capital structure of the Harbor Commission and assessing the liquidity and financial flexibility of the Harbor Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures the success of the Harbor Commission's operations over the past year and can be used to determine whether the Harbor Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

## Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the financial statements. The notes to financial statements are presented in Exhibit D of this report.

### Analysis of Financial Position:

One of the most important questions asked about the Harbor Commission's finances is "Is the Harbor Commission as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets report information about the Harbor Commission's activities in a way that will help answer this question. These two statements report the net assets of the Harbor Commission and the changes in them. One can think of the Harbor Commission's net assets, the difference between assets and liabilities, as one way to measure financial health or financial position. Over time, increases or decreases in the Harbor Commission's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

### Summary of Net Assets:

The following summarizes the net assets of the Harrisville Harbor Commission at December 31, 2007:

<u>Net Assets Summary</u>	
Current Assets	\$ 121,812
Capital Assets – net	<u>2,056,703</u>
<b>Total Assets</b>	<u>2,178,515</u>
Current Liabilities	11,457
Long-Term Liabilities	<u>38,916</u>
<b>Total Liabilities</b>	<u>50,373</u>
<b>Net Assets</b>	
Invested in Capital Assets, net of related debt	2,007,631
Unrestricted	<u>120,511</u>
<b>Total Net Assets</b>	<u>\$ 2,128,142</u>

### Capital Assets

The Harbor Commission's investment in capital assets as of December 31, 2007, amounted to \$2,056,703 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, improvements and docks, and machinery and equipment. Capital assets for the Harbor Commission decreased by \$167,367 mainly due to the sale of dredging equipment. Total depreciation expense for this year amounts to \$73,125 with ending accumulated depreciation being \$651,869.

**Capital Assets Summary**  
(Net of depreciation)

Land improvements	\$ 63,355
Buildings, improvements and docks	1,943,759
Machinery and equipment	<u>49,589</u>
<b>Capital Assets - net</b>	<b><u>\$ 2,056,703</u></b>

Additional information on capital assets can be found in Note 4 of the audit, notes to financial statements .

**Summary of Revenues and Expenses:**

Operating revenue	\$ 333,070
Non operating revenue	<u>1,935</u>
Total revenue	<u>335,005</u>
Depreciation expense	73,125
Other operating expense	329,889
Nonoperating expense	<u>6,022</u>
Total expenses	<u>409,036</u>
Loss before contributions	(74,031)
Capital contributions – state grants	<u>24,500</u>
Change in net assets	(49,531)
Net assets – beginning of year	<u>2,177,673</u>
Net assets – end of year	<u>\$ 2,128,142</u>

**Economic Factors and Next Year’s Budget and Rates**

The Harrisville Harbor Commission staff works together to maintain revenue sources and control expenditures. The majority of revenues are derived from dockage and fuel fees paid by boating customers of the Harbor Commission .

The most significant expense is fuel costs followed by employee related costs. The remaining portion of the budget is prioritized and divided into the operating expense categories such as supplies and services, maintenance, and capital improvements. Depreciation continues to be the Harbor Commission’s largest non-monetary operating expense.

The Harrisville Harbor Commission staff will continue to monitor revenues and expenditures due to ongoing economic conditions.

The state of the economy and the increase in the price of fuel will be the major deciding factor in the success or failure of the Harrisville Harbor Commission in fiscal year 2008.

### **Requests for Information**

This financial report is designed to provide a general overview of the Harrisville Harbor Commission 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 Harbor Master, 1 Harbor Drive, P.O. Box 331, Harrisville, Michigan 48740.

HARRISVILLE HARBOR COMMISSION  
Alcona County, Michigan

STATEMENT OF NET ASSETS  
December 31, 2007

Assets

Current assets:	
Cash and cash equivalents (Note 2)	\$ 13,827
Inventory (Note 1)	24,442
Prepaid expenses (Note 3)	83,543
Total current assets	<u>121,812</u>
Noncurrent assets:	
Capital assets, net (Note 4)	<u>2,056,703</u>
Total Assets	<u>2,178,515</u>

Liabilities

Current liabilities:	
Accrued liabilities	1,301
Due to primary government (Note 5)	10,156
Total current liabilities	<u>11,457</u>
Noncurrent liabilities:	
Due to primary government (Note 5)	<u>38,916</u>
Total Liabilities	<u>50,373</u>

Net Assets

Invested in capital assets, net of related debt	2,007,631
Unrestricted	<u>120,511</u>
Total Net Assets	<u>\$ 2,128,142</u>

The accompanying notes to financial statements are an integral part of this statement.

HARRISVILLE HARBOR COMMISSION  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENSES AND  
 CHANGES IN NET ASSETS  
For the Year Ended December 31, 2007

<u>Operating Revenue</u>	
Dockage fees	\$ 122,967
Fuel fees	204,057
Miscellaneous	6,046
Total operating revenue	<u>333,070</u>
<u>Operating Expenses</u>	
Salaries and wages	86,353
Payroll taxes	12,527
Advertising	254
Legal and accounting	2,455
Professional services	3,866
Bank charges and fees	5,073
Fuel and other costs	161,027
Insurance	21,534
Licenses and permits	280
Office expense	4,364
Operating supplies	1,102
Repairs and maintenance	3,606
Telephone	3,372
Travel	18
Utilities	12,182
Taxes:	
Sales	6,222
Fuel	4,552
Refuse service	1,056
Depreciation	73,125
Other	46
Total operating expenses	<u>403,014</u>
Operating loss	<u>(69,944)</u>
<u>Non-operating Revenue (Expenses)</u>	
Interest income	1,935
Interest expense	<u>(6,022)</u>
Total non-operating revenue (expenses)	<u>(4,087)</u>
Loss before contributions	(74,031)
Capital contributions - state grants	<u>24,500</u>
Change in net assets	(49,531)
Net assets - beginning of year	<u>2,177,673</u>
Net assets - end of year	<u>\$ 2,128,142</u>

The accompanying notes to financial statements are an integral part of this statement.

HARRISVILLE HARBOR COMMISSION  
Alcona County, Michigan

STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2007

Cash Flows From Operating Activities

Cash received from customers	\$ 333,070
Payments to suppliers for goods and services	(249,134)
Payments to employees for services	(86,353)
Interest received	1,935
Net cash used by operating activities (Note 6)	<u>(482)</u>

Cash Flows From Capital and Related Financing Activities

State grants received	186,027
Acquisition and construction of capital assets	(72,616)
Net cash paid to primary government on loan payable	(50,928)
Principal paid on notes payable	(43,749)
Interest paid on notes payable	(6,022)
Net cash provided by capital and related financing activities	<u>12,712</u>

Net increase in cash and cash equivalents 12,230

Cash and cash equivalents at beginning of year (Note 1) 1,597

Cash and cash equivalents at end of year (Note 1) \$ 13,827

Non-Cash Capital and Related Financing Activities

During 2007, dredging equipment capital assets with a book value of \$83,543, were given to Alcona Dredge, LLC in turn for future dredging services at no additional cost. See Note 3 for further disclosure related to this issue.

The accompanying notes to financial statements are an integral part of this statement.

HARRISVILLE HARBOR COMMISSION  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Harrisville Harbor Commission conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The following is a summary of the significant accounting policies.

A. Description of Fund Type

The Harrisville Harbor Commission operates as an enterprise fund and is shown as a discretely presented component unit in the City of Harrisville's financial statements. The financial statements of the Harrisville Harbor Commission have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Commission applies all relevant Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, that apply to all proprietary fund type activities, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Harrisville Harbor Commission exercises oversight responsibility have been included in the reporting entity.

Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Harbor Commission uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

**Proprietary Fund**

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Harbor Commission's Enterprise Fund reports operations that provide services which are financed primarily by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

C. Basis of Presentation

The Harbor Commission's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows. Government wide financial statements report information about the Harrisville Harbor Commission as a whole. The Harbor Commission has only one fund which is business-type in nature, so the financial statements present one set of statements that meets both the government-wide and fund requirements.

A statement of net assets provides information about the assets, liabilities, and net assets of the Harbor Commission at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy Harbor Commission obligations. Invested in capital assets net of related debt represents the value of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operation purposes.

HARRISVILLE HARBOR COMMISSION  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

A statement of revenue, expenses and changes in net assets provides information about the Harbor Commission's financial activities during the year ended December 31, 2007. Revenue and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions. Operating revenue and expenses generally result from providing the use of recreational boat docking and the sale of fuel. Other revenues, such as state grants designated for specific projects, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of maintaining dock facilities, cost of fuel, administrative expenses, and depreciation on capital assets.

A statement of cash flows provides information about the Harbor Commission's sources and uses of cash and cash equivalents during the year ended December 31, 2007. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

D. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Harbor Commission's operating statement. The Harbor Commission is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Harbor Commission is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Harbor Commission's operating statement. The Harbor Commission uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Harbor Commission are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

G. Inventories

Inventories consisting entirely of gasoline and diesel fuel are valued at the lower of cost or market, with cost determined on a first-in, first-out basis.

HARRISVILLE HARBOR COMMISSION  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

I. Capital Assets

Capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Expenditures for maintenance, repairs and renewals are charged to operations as incurred and betterments are capitalized. The Harbor Commission eliminates the cost and related allowances from the accounts for assets sold or retired and resulting gains or losses there from are included in operations concurrently. Donated fixed assets are recorded at their fair market values as of the date received.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Harbor Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Harbor Commission's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Capital Contributions

Capital contributions consist of state grants received to fund construction and acquisition of capital assets.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Harbor Commission, these revenues are charges for services for dockage and fuel fees. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

HARRISVILLE HARBOR COMMISSION  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Harbor Commission's deposits were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	<u>\$ 13,827</u>
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The breakdown between deposits is as follows:

Bank Deposits (checking and savings accounts)	\$ 13,627
Petty Cash	<u>200</u>
Total	<u>\$ 13,827</u>

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Harbor Commission's deposits may not be returned to it. As of December 31, 2007, \$0 of the Harbor Commission's bank balance of \$13,642 was exposed to custodial credit risk.

Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk

The Harbor Commission's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

Investments:

The Harbor Commission has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Harbor Commission to deposit and invest in the following:

- \* Accounts of federally insured banks, credit unions and savings and loan associations
- \* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- \* United States government or federal agency obligation repurchase agreements
- \* Banker's acceptances of United States banks
- \* Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- \* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Harbor Commission's deposits and investments are in accordance with statutory authority.

HARRISVILLE HARBOR COMMISSION  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 3 - PREPAID EXPENSES

During 2007, the Harbor Commission transferred ownership of its dredging equipment with a book value of \$83,543 to Alcona Dredge, LLC in exchange for six future dredging services at no additional cost. Alcona Dredge, LLC agreed to complete six maintenance dredges to the Harrisville Harbor Commission in accordance with the terms and conditions of the current permit issued by the Corp. of Engineers to be completed over the next twelve years at the discretion of the Harbor Commission. These services are being carried as a prepaid item on the Harbor Commission's balance sheet and will be expensed as dredging services are performed.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital asset activity follows:

	Balance 01/01/07	Additions	Deletions	Balance 12/31/07
Land improvements	\$ 175,804	\$ 0	\$ 0	\$ 175,804
Buildings, improvements and docks	2,309,878	24,500	0	2,334,378
Machinery and equipment	<u>390,257</u>	<u>40</u>	<u>191,907</u>	<u>198,390</u>
	2,875,939	24,540	191,907	2,708,572
Less accumulated depreciation	<u>(687,108)</u>	<u>(73,125)</u>	<u>(108,364)</u>	<u>(651,869)</u>
Net property, plant and equipment	<u>\$ 2,188,831</u>	<u>\$ (48,585)</u>	<u>\$ 83,543</u>	<u>\$ 2,056,703</u>

The Harbor Commission's fixed assets are stated at cost. Depreciation is calculated using the straight line basis at rates ranging from 1.3% to 20% per year. The estimated useful lives are as follows:

Land improvements	20 years
Building, improvements and docks	10 - 75 years
Machinery and equipment	5 - 20 years

NOTE 5 - INTERGOVERNMENT ACTIVITY

The due to primary government amount represents a loan from the City of Harrisville to help pay for the construction of the new harbor building project. The amount due to the City of Harrisville at December 31, 2007 was \$49,072 of which \$10,156 was the estimated current portion.

NOTE 6 - RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

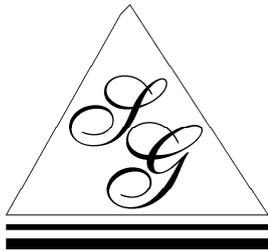
Operating loss	\$ (69,944)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	73,125
Interest income on cash accounts	1,935
Changes in assets and liabilities:	
Increase in inventory	(5,812)
Increase in accrued liabilities	<u>214</u>
Net cash used by operating activities	<u>\$ (482)</u>

HARRISVILLE HARBOR COMMISSION  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 7 - RISK MANAGEMENT

The Harbor Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Harbor Commission continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.



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June 19, 2008

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*

Members of the Board  
Harrisville Harbor Commission  
Alcona County, Michigan

We have audited the financial statements of the business-type activities of the Harrisville Harbor Commission, as of and for the year ended December 31, 2007, which collectively comprise the Harrisville Harbor Commission's basic financial statements and have issued our report thereon dated June 19, 2008. 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 Harrisville Harbor Commission's internal control over financial reporting 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 the Harrisville Harbor Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Harrisville Harbor Commission's internal control over financial reporting.

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 the Harrisville Harbor Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Harrisville Harbor Commission's financial statements that is more than inconsequential will not be prevented or detected by the Harrisville Harbor Commission'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 the Harrisville Harbor Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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 over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

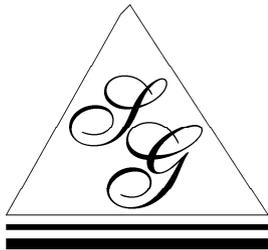
As part of obtaining reasonable assurance about whether the Harrisville Harbor Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a 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 or other matters that are required to be reported under *Government Auditing Standards*.

Members of the Board  
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We noted one matter that we reported to management of the Harrisville Harbor Commission in a separate letter dated June 19, 2008.

This report is intended solely for the information and use of management, the Board of Commissioners and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

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June 19, 2008

Members of the Board  
Harrisville Harbor Commission  
Alcona County, Michigan

Dear Board Members :

We have audited the financial statements of the business-type activities of the Harrisville Harbor Commission for the year ended December 31, 2007, and have issued our report thereon dated June 19, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 11, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Harrisville Harbor Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Harrisville Harbor Commission'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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 6, 2008.

Significant Audit Findings

**Qualitative Aspects of Accounting Practice**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Harrisville Harbor Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Harrisville Harbor Commission during the year for which there is a lack of authoritative guidance for consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the 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. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

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### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The audit adjustments, which include material misstatements detected as a result of audit procedures, were provided to and corrected by management.

### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated June 19, 2008.

### **Management Consultations with Other Independent Accountants**

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

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Harrisville Harbor Commission for the year ended December 31, 2007, we considered its internal control in order to determine or auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. As a result of our consideration of the internal controls and tests of compliance as described in the third and fourth paragraphs, we offer the following recommendation for consideration.

#### **Investment Policy**

The Commission's policy had not been updated for Governmental Accounting Standards (GASB Statements) No. 40-Deposit and Investment Risk Disclosures. We recommend that the Commission update their investment policy to comply with GASB No. 40.

We wish to express our appreciation for the cooperation and courtesies extended to our staff by management and employees of the Harbor Commission.

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This information is intended solely for the use of management, the Board of Commissioners and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grubb & Co., P.C.*