

CHEBOYGAN AIRPORT AUTHORITY

FINANCIAL REPORT

FOR THE YEAR ENDING DECEMBER 31, 2007

AND

FOR THE YEAR ENDING DECEMBER 31, 2006

NIELAND & KOSANKE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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DANIEL R. NIELAND, C.P.A.
JOSEPH D. KOSANKE, C.P.A.

Members Of The Board
Cheboygan Airport Authority
Cheboygan, Michigan 49721

I have audited the accompanying Statement of Net Assets of the Cheboygan Airport Authority (the Airport) as of December 31, 2007 and 2006, and the related Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows for the period then ended. These financial statements are the responsibility of the management of the Airport. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly in all material respects the financial position of Cheboygan Airport Authority as of December 31, 2007 and 2006, and the results of the activities and its cash flows for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis 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. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Nieland & Kosanke, P. C.
Certified Public Accountants

September 8, 2008
Cheboygan, Michigan 49721

CHEBOYGAN AIRPORT AUTHORITY
MANAGEMENT' S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

The following Management Discussion and Analysis (MD & A) of the Cheboygan Airport Authority's activities is intended to provide an overview of the Authority's financial condition. The information contained in this MD & A should be considered in conjunction with the statement of net assets; the statement of revenue, expenses and changes in net assets; the statement of cash flows and other information contained in this report.

Operational Overview

Our budget for fiscal year 2007 had been approved at \$55,000.00 plus the grant money of \$12,062.50. We had asked for \$60,000.00 for operating; but we were only given \$5,000.00 over the previous year's subsidy of \$50,000.00.

The billings we received from the State for our share of the annual grant ended up being \$1,125.00 which we paid out of our own funds and did not ask the County for any of the grant appropriation.

The grant monies were \$975.00 for an update to the Airport Layout Plan and \$150.00 for wetland delineation. Both amounts were posted to maintenance. It seemed to add no additional value to any of the assets. We had two small refunds from previous grants; one for \$50.00 and the other for \$49.33. These amounts were posted to other income.

The final decision for the grant for next year (2008) is for the design of the crosswind runway and connecting taxiway, permits, approach clearing and pavement marking. Our cost for this project will be \$5,000.00.

We made no major purchases for the year. However, we did sell 440 yards of topsoil which was left over from a previous project. We sold the topsoil for \$550.00 and posted it to other income.

We have discussed many of our needs; such as, hangar repair, maintenance of the drainage for the airport property, approach and landing clearing of property at the west end of the runway. Our goals are to continue to cover as many of these items under the grant program. We realize if this is not possible our financial circumstances limit us to what we can accomplish on our own each year. Our normal day to day operating expenses leave us with very little to expend on extras.

CHEBOYGAN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

Financial Position Summary

A condensed summary of the Authority's statement of net assets for the years ended December 31 is presented below:

	<u>2007</u>	<u>2006</u>
ASSETS:		
Current	\$ 36,028	\$ 43,888
Non-Current	<u>1,599,534</u>	<u>1,686,582</u>
TOTAL ASSETS	<u>1,635,562</u>	<u>1,730,470</u>
LIABILITIES:		
Current	8,288	23,620
Non-Current	<u>38,566</u>	<u>45,520</u>
TOTAL LIABILITIES	<u>46,854</u>	<u>69,140</u>
NET ASSETS	<u>\$1,588,708</u>	<u>\$1,661,330</u>

Summary of Changes in Net Assets

A condensed summary of the Authority's changes in net assets for the years ended December 31 is presented below:

	<u>2007</u>	<u>2006</u>
Operating Revenue	\$ 118,984	\$ 136,150
Cost of Sales	<u>50,224</u>	<u>71,194</u>
Operating Expense	<u>197,714</u>	<u>197,426</u>
Operating Loss	(128,954)	(132,470)

CHEBOYGAN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

Summary of Changes in Net Assets (Continued)

	<u>2007</u>	<u>2006</u>
Non-Operating Revenue:		
Federal Grants	\$ 0	\$ 47,510
State Grants	0	(824)
Interest Income	207	128
Municipal Appropriations	<u>56,125</u>	<u>61,250</u>
 Total Non-Operating Revenue	 <u>56,332</u>	 <u>108,064</u>
 NET INCREASE (DECREASE) IN NET ASSETS	 <u><u>\$(72,622)</u></u>	 <u><u>\$(24,406)</u></u>

Financial Statements

Cheboygan Airport Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Authority accounts for its activity in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are depreciated (except land and construction -in-progress) over their useful lives. Construction -in-progress projects are closed and transferred to their respective capital accounts upon completion.

Contacting the Authority's Financial Management

This financial report is intended to provide a general overview of the Authority's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Cheboygan Airport Authority at 1520 Levering Road, Cheboygan, Michigan.

CHEBOYGAN AIRPORT AUTHORITY
STATEMENT OF NET ASSETS

	<u>ASSETS</u>	
	<u>For The Years Ending</u>	
	December 31	December 31
	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 15,826	\$ 23,928
Accounts Receivable	2,240	3,911
Inventory	14,476	15,855
Prepaid Insurance	<u>3,486</u>	<u>194</u>
TOTAL CURRENT ASSETS	36,028	43,888
CAPITAL ASSETS	<u>1,599,534</u>	<u>1,686,582</u>
TOTAL ASSETS	<u>\$1,635,562</u>	<u>\$1,730,470</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts Payable	\$ 0	\$ 13,462
Payroll and Sales Tax Payable	1,211	2,772
Deferred Revenue	852	1,161
Note Payable – Current	<u>6,225</u>	<u>6,225</u>
TOTAL CURRENT LIABILITIES	8,288	23,620
NOTE PAYABLE – LONG-TERM	<u>38,566</u>	<u>45,520</u>
TOTAL LIABILITIES	46,854	69,140
NET ASSETS	<u>1,588,708</u>	<u>1,661,330</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,635,562</u>	<u>\$1,730,470</u>

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN AIRPORT AUTHORITY
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

	<u>For The Years Ending</u>	
	December 31 <u>2007</u>	December 31 <u>2006</u>
OPERATING REVENUE:		
Fuel and Oil Sales	\$ 68,978	\$ 89,650
Lease and Contracts	16,586	11,757
Hangar Rent and Tie Down Fees	32,401	32,586
Miscellaneous	<u>1,019</u>	<u>2,157</u>
TOTAL OPERATING REVENUE	118,984	136,150
COST OF SALES		
	<u>50,224</u>	<u>71,194</u>
	68,760	64,956
OPERATING EXPENSES:		
Advertising	0	277
Credit Card Fees	1,760	2,092
Fuel & Oil	3,640	3,472
Depreciation	87,062	87,141
Insurance	13,724	14,760
Interest	0	45
Professional Fees	7,750	10,450
Licenses	260	250
Maintenance	14,921	13,208
Miscellaneous	33	859
Salaries & Wages	49,395	45,878
Payroll Taxes	6,731	6,485
Subscriptions & Memberships	372	494
Office Supplies	2,151	2,137
Supplies	660	613
Telephone	2,154	2,454
Utilities	<u>7,101</u>	<u>6,811</u>
TOTAL OPERATING EXPENSES	<u>197,714</u>	<u>197,426</u>
OPERATING LOSS	(128,954)	(132,470)

The accompanying notes are integral part of these financial statements.

CHEBOYGAN AIRPORT AUTHORITY
 STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 (CONTINUED)

	<u>For The Years Ending</u>	
	December 31 <u>2007</u>	December 31 <u>2006</u>
NON-OPERATING REVENUE:		
Federal Grants	\$ 0	\$ 47,510
State Grants	0	(824)
Interest Income	207	128
Municipal Appropriations	<u>56,125</u>	<u>61,250</u>
TOTAL NON-OPERATING REVENUE	<u>56,332</u>	<u>108,064</u>
INCREASE (DECREASE) IN NET ASSETS	(72,622)	(24,406)
NET ASSETS – BEGINNING	<u>1,661,330</u>	<u>1,685,736</u>
NET ASSETS – ENDING	<u>\$1,588,708</u>	<u>\$1,661,330</u>

The accompanying notes are integral part
of these financial statements.

CHEBOYGAN AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS

For The Years Ending

	December 31 <u>2007</u>	December 31 <u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ (72,622)	\$(24,406)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	87,062	87,141
Changes in Operating Assets and Liabilities Which (Used) Provided Cash:		
Accounts Receivable	1,657	(1,699)
Inventory	1,379	1,390
Prepaid Expenses	(3,292)	4,242
Accounts Payable	(13,462)	3,478
Accrued Expense	(1,561)	583
Deferred Revenue	<u>(309)</u>	<u>497</u>
 NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	 <u>(1,148)</u>	 <u>71,226</u>
 CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Capital Assets	<u>0</u>	<u>(48,553)</u>
 NET CASH USED BY INVESTING ACTIVITIES	 <u>0</u>	 <u>(48,553)</u>
 CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of Long-Term Debt	<u>(6,954)</u>	<u>(7,713)</u>
 NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	 <u>(6,954)</u>	 <u>(7,713)</u>
 NET (DECREASE) INCREASE IN CASH	 (8,102)	 14,960
 CASH BALANCE – BEGINNING	 <u>23,928</u>	 <u>8,968</u>
 CASH BALANCE – ENDING	 <u>\$ 15,826</u>	 <u>\$ 23,928</u>

The accompanying notes are integral part
of these financial statements.

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Government*. In accordance with Statement No. 34, the Authority is considered to be a Special Purpose Government due to engaging in only one business type of activity. To conform to the Statement, the Authority has included a Management's Discussion and Analysis section.

The financial statements of the Cheboygan Airport Authority (Authority) are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

The Cheboygan Airport Authority (the Airport) was created by Public Act 206 as amended by Public Act 153, in July 1997, under an agreement between and through the transfer of various assets from the County of Cheboygan (the County) and the City of Cheboygan and began operations effective November 24, 1997. The Airport was formed for the purpose of promoting, improving, maintaining and operating the land, navigational and building facilities at the Cheboygan County Airport.

The Airport receives significant appropriations from the County although it is not a component unit of the County.

The following is a summary of the Airport's significant accounting policies:

FUND ACCOUNTING

The accounts of the Airport are organized on the basis of a single enterprise fund. The operations of this fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses. Government resources are allocated for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. An enterprise fund is used to account for those operations that are financed and operated in a manner similar to private business or where the Airport has decided that the determination of revenues earned, costs incurred, or net income is necessary for management accountability.

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Airport uses the accrual basis of accounting; accordingly, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The enterprise fund is accounted for on a cost of services or “economic resources” measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with its activity are included on the statement of net assets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits.

INVENTORY

Inventory consists of airplane fuel and is reported at the lower of cost or market on a first-in, first-out basis.

PREPAID EXPENSES

Prepaid expenses consist of payments made to vendors for services that will benefit future periods.

FIXED ASSETS

All purchased fixed assets are recorded at cost. Donated fixed assets, if any, are valued at their estimated fair value on the date received. Fixed assets are being depreciated on a straight-line basis over estimated useful lives, which range from five to forty years.

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

NOTE B – CASH AND CASH EQUIVALENTS

The caption on the accompanying statement of net assets related to cash and cash equivalents are as follows:

	December 31 <u>2007</u>	December 31 <u>2006</u>
Checking	\$ 5,925	\$ 5,175
Savings	9,797	18,653
Cash on Hand	<u>100</u>	<u>100</u>
	<u>\$ 15,822</u>	<u>\$ 23,928</u>

At December 31, 2007, and December 31, 2006, bank balances were fully insured (FDIC).

Statutory Authority

The Airport is authorized by Michigan law to invest surplus funds in the following way:

- a. Bonds, security, other obligations and repurchase agreements 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 qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and maturing not more than 270 days after the date of purchase.
- d. Bankers' acceptance of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, is rated as investment grade by at least one standard rating service.
- f. Mutual funds, registered under the Investment Company Act of 1940, with the Airport to purchase only investment vehicles that are legal for direct investment by a public corporation.

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

NOTE C – CAPITAL ASSETS

The Airport's fixed assets consist of the following as of

December 31, 2007:

	<u>Cost</u>	Net <u>Accumulated Depreciation</u>	<u>Book Value</u>	<u>Useful Life</u>
Land	\$ 89,086	\$ 0	\$ 89,086	-
Runways	1,648,375	440,449	1,207,926	25-40 years
Machinery & Equipment	29,082	26,275	2,807	10 years
Office Equipment	5,836	5,336	500	5-10 years
Vehicles	197,277	104,616	92,661	7-10 years
Buildings	311,454	206,311	105,143	10-40 years
Fuel Systems	<u>149,025</u>	<u>47,614</u>	<u>101,411</u>	25 years
	<u>\$2,430,135</u>	<u>\$830,601</u>	<u>\$1,599,534</u>	

December 31, 2006:

Land	\$ 89,086	\$ 0	\$ 89,086	-
Runways	1,648,375	389,885	1,258,490	25-40 years
Machinery & Equipment	29,082	23,330	5,752	10 years
Office Equipment	5,822	4,846	976	5-10 years
Vehicles	197,277	86,926	110,351	7-10 years
Buildings	311,454	196,899	114,555	10-40 years
Fuel Systems	<u>149,025</u>	<u>41,653</u>	<u>107,372</u>	25 years
	<u>\$2,430,121</u>	<u>\$743,539</u>	<u>\$1,686,582</u>	

CHEBOYGAN AIRPORT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

NOTE D – LONG-TERM DEBT

The Airport’s long-term debt consists of the following:

	December 31 <u>2007</u>	December 31 <u>2006</u>
Loan payable to Arrow Energy, Inc. for a fuel system. Repayment of principal at the rate of .13 cents per gallon of fuel purchased. Interest rate of 0% through maturity date, which is July 31, 2013. After maturity, the interest rate shall be 5.0% on the outstanding balance.	<u>\$ 44,791</u>	<u>\$ 51,745</u>
TOTAL LONG-TERM DEBT	<u>\$ 44,791</u>	<u>\$ 51,745</u>

The amount of principal due within one year is \$6,225.

NOTE E – LEASES AND RELATED PARTY TRANSACTIONS

The Airport leased office and parking space on a month-to-month basis to Straits Area Regional Ride, for a monthly lease amount of \$1,200.00.

The Airport leases land for farming to Inverness Dairy Farms and property to the Cheboygan Golf and Country Club.

The Airport leases hangars to various individuals on a contract basis. Rents are to be paid monthly.

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

NOTE F – RISK MANAGEMENT

The Airport is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The Airport has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

NIELAND & KOSANKE, P.C.

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

September 8, 2008

Members Of The Board
Cheboygan Airport Authority
Cheboygan, Michigan 49721

I have audited the general-purpose financial statements of the Cheboygan Airport Authority (the Airport), as of and for the year ended December 31, 2007, and have issued my report thereon dated September 8, 2008. I conducted my 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.

Compliance

As part of obtaining reasonable assurance about whether the Airport's general purpose financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express an opinion. These results of my 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 audits, I consider the Airport's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain

matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Airport's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

The reportable condition is described as follows:

Due to staff size, there is limited segregation of duties over cash receipts and the recording of these transactions. The Airport recognizes this risk, but no change will be implemented because the costs would exceed the benefits, except as noted in the comments letter that two signatures will be required on all checks.

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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management, others within the Airport, and the Airport's Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Nieland & Kosanke, P.C.
Certified Public Accountants

Cheboygan, Michigan 49721

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DANIEL R. NIELAND, C.P.A.
JOSEPH D. KOSANKE, C.P.A.

September 8, 2008

Board of Directors
Cheboygan Airport Authority
Cheboygan, Michigan 49721

Re: Comments and Recommendations

I have examined the general purpose financial statements of the Cheboygan Airport Authority for the year ended December 31, 2007, and have issued my report thereon dated September 8, 2008.

I would like to make the following comment:

As noted in my report on compliance and internal control due to staff size limitations, there is limited segregation of duties. For this reason, I would recommend two authorized signatures on all checks. At present, there are no indications of any problems, but in the future current personnel will turn over and this is a good procedure to have in place.

I would like to thank Marcia Rocheleau for her assistance. I look forward to working with you in the future.

Sincerely,

Daniel R. Nieland, C.P.A.
Nieland & Kosanke, P. C.

DRN/jb