HARBOR SPRINGS AREA
SEWAGE DISPOSAL AUTHORITY

FINANCIAL STATEMENTS
for the years ended December 31, 2007 and 2006

CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
FINANCIAL STATEMENTS:	
STATEMENTS OF NET ASSETS	7
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	10-16
ADDITIONAL INFORMATION:	
SCHEDULE OF OPERATING INCOME BEFORE DEPRECIATION	17-18
SCHEDULES OF REPAIR AND REPLACEMENT RESERVES	19
SCHEDULES OF SYSTEM REPAIR AND REPLACEMENT RESERVE	20-21
SCHEDULES OF INDEBTEDNESS	22-24
SCHEDULE OF ADVANCES	25
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FROM OPERATIONS	26-27

Smolinski & Christman, P.C.
Certified Public Accountants

Janice W. Smolinski, C.P.A.
Kevin R. Christman, C.P.A.
Mona G. O'Neil, C.P.A.
Daniel T. Rasmussen, C.P.A.
Ted H. Tiller, C.P.A.

Adam B. Carson, C.P.A.
Troy A. Slater, C.P.A.

555 Michigan Street
Petoskey, Michigan 49770
(231) 347-5555
Fax (231) 347-5639

June 11, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the

Harbor Springs Area Sewage Disposal Authority:

We have audited the financial statements of the Harbor Springs Area Sewage Disposal Authority as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority'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. Those standards require that we plan and perform an 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 Harbor Springs Area Sewage Disposal Authority as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Smolinski & Christensen, P.C.

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the years ended December 31, 2007 and 2006

This section of the Harbor Springs Area Sewage Disposal Authority's annual financial report presents management's discussion and analysis of the Authority's financial performance during the year ended December 31, 2007 and 2006. It should be read in conjunction with the Authority's financial statements which immediately follow.

FACILITY AND OPERATIONS

The Harbor Springs Area Sewage Disposal Authority serves the southern Emmet County area in a variety of formats. The Authority is made up of four municipalities, those being the City of Harbor Springs, Little Traverse Township, Littlefield Township and the Village of Alanson. The Authority is an incorporated intramunicipality founded in 1969 under the provisions of Act 233, Michigan Public Acts of 1955, as amended. Control of the various operations of the Authority is vested in the Board of Trustees. The board consists of seven members, three from the City of Harbor Springs, two from Little Traverse Township, and one each from Littlefield Township and the Village of Alanson.

The Authority operates and maintains seventy-eight separate wastewater pumping stations, approximately sixty-five miles of gravity sewers and approximately thirty-five miles of force mains in the seven regional and local collection systems which it owns. It also operates a municipal wastewater treatment system which serves all four of the above-mentioned municipalities. The Authority also operates and maintains its water distribution system as required by the State of Michigan.

In addition, the Authority is under contract with the Springvale-Bear Creek Sewer Authority and West Traverse Township to operate and maintain their respective municipal wastewater collection systems. The Authority is also under contract with Little Traverse Township to operate and maintain the township's municipal water distribution system.

In total, the Harbor Springs Area Sewage Disposal Authority operates and maintains twelve separate systems with rate structures to provide funds for those separate systems.

MISSION STATEMENT AND SOURCES OF REVENUE

The Harbor Springs Area Sewage Disposal Authority was incorporated to comply with the Clean Water Act of 1968 and to help improve the water quality of the local lakes, rivers and streams.

In order to comply, the authority charges fixed and flow-related rates to the various municipalities to provide funds to adequately fund the different operations. These funds provide for operations, repair and replacement of pumps, motor, vehicles, etc. as described in the board-approved repair and replacements fund lists.

FINANCIAL STATEMENT OVERVIEW

The Authority's annual report includes three financial statements that provide both long-term and short-term information about the Authority's financial status. These statements are presented using the accrual basis of accounting.

FINANCIAL STATEMENT OVERVIEW (Continued)

The Statements of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the Authority's capital structure and assessing its liquidity and financial flexibility.

The Statements of Revenues, Expenses, and Changes in Net Assets includes all of the current year's revenues and expenses. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final financial statement is the Statements of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing 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.

CONDENSED FINANCIAL INFORMATION

The following table represents condensed information regarding the Authority's financial position at December 31, 2007 and 2006:

	2007	2006
Current assets	$ 383,873	$ 348,581
Restricted and designated assets	5,907,308	6,151,536
Capital assets	7,685,641	8,098,336
Other assets	9,316	15,844
Total assets	$13,986,138	$14,614,297
Current liabilities	$ 18,114	$ 31,411
Current liabilities payable from restricted assets	351,292	348,487
Long-term liability	24,313	31,795
Long-term liability payable from restricted assets	4,659,770	5,064,770
Total liabilities	$ 5,053,489	$ 5,476,463
Invested in capital assets	$ 7,685,641	$ 8,098,336
Restricted for debt retirement	1,795	1,645
Unrestricted	1,245,213	1,037,853
Total net assets	$ 8,932,649	$ 9,137,834

The largest portion of the Authority's net assets at December 31, 2007 (86 percent) reflects its investment in capital assets. The Authority uses these capital assets to provide services to its users and therefore, these assets are not available for future spending.

CONDENSED FINANCIAL INFORMATION (Continued)

A small portion (less than 1 percent) of net assets is restricted for repayment of outstanding bonded debt.

The remaining 13 percent of net assets is unrestricted and available to be used for operations. However, the Authority's Board of Directors has designated that a portion of the unrestructed net assets at December 31, 2007 ($894,189 of the total $1,245,213) be designated for future system repair and replacement and capital items.

The following table indicates that operating expenses exceeded operating revenues, excluding depreciation for the year. A portion of depreciation expense is funded annually by separate repair and replacement billings. However, it is anticipated that the Authority will continue to show losses in future years because a majority of the depreciation expense relates to the sewer plant facility. The following information does indicate that the rates charged for operations were not sufficient to cover expenses in 2007, as indicated by the loss from operations of $21,329. Fine tuning of the twelve separate systems and the different rates is an annual requirement and is necessary to mandate that each municipality is paying its fair share.

	2007	2006
Operating revenues	$ 867,194	$ 805,143
Operating expenses:		
Pumping	302,424	299,065
Treatment	80,289	66,518
Collection and transmission	62,027	51,797
Administration and general	443,783	368,814
Total operating expenses	888,523	786,194
Operating income (loss) before depreciation	(21,329)	18,949
Depreciation expense	414,387	419,472
Operating loss	(435,716)	(400,523)
Non-operating revenues and expenses (net)	230,531	151,684
Net loss	$(205,185)	$(248,839)

Operating revenues for 2007 increased $62,051 over 2006 due to increases in rates, user consumption and additional billings for work on the West Traverse System. Operating expenses also increased $102,329 in 2007 over 2006. Employee wages, benefits and related payroll taxes increased $70,810, due to an increase in insurance premiums and a full year of expenses for an additional operator added in 2006. Maintenance, supplies and electric utilities increased by $31,519. The majority of these increases is due to repair and maintenance done on the West Traverse System.

CAPITAL IMPROVEMENTS AND FUNDING REQUIREMENTS

The Authority began setting aside funds for repair and replacement purposes approximately ten years ago based on a study of future replacement needs for transportation equipment and operating equipment and parts, including pumps, meters and control panels. Revenues for this purpose are billed annually and totaled $220,914 in 2007 and $216,582 in 2006. The total amount available for repair and replacement at December 31, 2007 and 2006 was $839,587 and $637,866, respectively. Detailed information about the Authority's capital assets is presented in Note F to the financial statements.

DEBT STRUCTURE

The Authority had three outstanding bond issues at December 31, 2007 and 2006. In 2002, a new wastewater treatment facility was financed with a bond issue totaling approximately $5,400,000. Also, the Authority issued bonds in 2004 totaling $710,000, the proceeds of which were used to retire existing bonds. The bond refunding was done to take advantage of lower interest rates for the remainder of the bond repayment term through 2009.

The Authority's contractual agreements with its users require them to reimburse the Authority for all principal and interest costs associated with the bond issues. Detailed information about the Authority's long-term debt is presented in Note G to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager, Harbor Springs Area Sewage Disposal Authority, 709 East Hathaway Road, Harbor Springs, Michigan 49740.

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
STATEMENTS OF NET ASSETS
December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 36,177	$ 49,197
Certificates of deposit	86,142	71,122
Accounts receivable	107,544	94,225
Inventory	134,037	134,037
Due from Springvale-Bear Creek Sewage Disposal Authority	19,973	-
Total current assets	383,873	348,581
RESTRICTED AND DESIGNATED ASSETS:		
Restricted assets, debt retirement	5,013,119	5,461,773
Designated assets	894,189	689,763
Total restricted and designated assets	5,907,308	6,151,536
CAPITAL ASSETS, net of accumulated depreciation	7,685,641	8,098,336
OTHER ASSETS, bond expenses net of accumulated amortization	9,316	15,844
Total assets	$ 13,986,138	$ 14,614,297
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 10,632	$ 4,940
Due to Springvale-Bear Creek Sewage Disposal Authority	-	19,391
Current portion of advances	7,482	7,080
Total current liabilities	18,114	31,411
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	31,292	33,487
Current portion of long-term debt	320,000	315,000
Total current liabilities payable from restricted assets	351,292	348,487
LONG-TERM LIABILITY, Advances, less current portion	24,313	31,795
LONG-TERM LIABILITY PAYABLE FROM RESTRICTED ASSETS,		
Long-term debt, less current portion	4,659,770	5,064,770
Total liabilities	5,053,489	5,476,463
NET ASSETS:		
Investment in capital assets	7,685,641	8,098,336
Restricted for debt retirement	1,795	1,645
Unrestricted	1,245,213	1,037,853
Total net assets	8,932,649	9,137,834
Total liabilities and net assets	$ 13,986,138	$ 14,614,297

The accompanying notes are a part of the financial statements.

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
for the years ended December 31, 2007 and 2006

	2007	2006
OPERATING REVENUES	$ 867,194	$ 805,143
OPERATING EXPENSES:		
Pumping	302,424	299,065
Treatment	80,289	66,518
Collection and transmission	62,027	51,797
Administrative and general	443,783	368,814
Total operating expenses	888,523	786,194
Operating income (loss) before depreciation	(21,329)	18,949
Depreciation expense	414,387	419,472
Operating loss	(435,716)	(400,523)
NON-OPERATING REVENUES (EXPENSES):		
Contribution by local governmental units to defray interest expense on long-term debt	133,912	144,740
Repair and replacement income	220,914	216,582
Interest income	44,933	32,780
Miscellaneous income	2,421	1,795
Interest expense	(135,873)	(147,226)
Repair and replacement expenses	(51,051)	(92,590)
Amortization of bond expenses	(6,528)	(7,952)
Gain on sale of land and disposal of equipment	21,803	3,555
Total non-operating revenues (expenses)	230,531	151,684
Net loss	(205,185)	(248,839)
NET ASSETS, BEGINNING OF YEAR	9,137,834	9,386,673
NET ASSETS, END OF YEAR	$ 8,932,649	$ 9,137,834

The accompanying notes are a part of the financial statement.

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Fees and services	$ 822,146	$ 815,198
Payments for goods and services	(548,168)	(499,988)
Payments to employees	(334,663)	(302,941)
Net cash provided by (used in) operating activities	(60,685)	12,269
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Additions to repair and replacement reserve	213,279	218,466
Repair and replacement expenses	(51,051)	(92,590)
Springvale Bear-Creek Sewage Disposal Authority repair and replacement (expenses) reimbursement	-	57,695
Other income	2,421	1,795
Net cash provided by noncapital financing activities	164,649	185,366
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Collections from local governments for bond retirement	444,295	364,444
Contribution by local governments to defray interest and bond fee expense	138,421	144,513
Purchase of capital assets	(4,348)	(73,666)
Retirement of advances	(7,080)	(12,062)
Proceeds from sale of capital assets	24,459	3,555
Retirement of long-term debt	(400,000)	(470,000)
Interest and bond fee expense	(138,068)	(155,290)
Net cash provided by (used in) capital and related financing activities	57,679	(198,506)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	44,933	32,780
Proceeds from maturities of certificates of deposit	760,884	722,915
Purchase of certificates of deposit	(980,330)	(812,212)
Net cash used in investing activities	(174,513)	(56,517)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,870)	(57,388)
CASH AND CASH EQUIVALENTS, Beginning of year	50,842	108,230
CASH AND CASH EQUIVALENTS, End of year	$ 37,972	$ 50,842
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Unrestricted and undesignated	$ 36,177	$ 49,197
Restricted for debt retirement	1,795	1,645
Total cash and cash equivalents	$ 37,972	$ 50,842
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (435,716)	$ (400,523)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	414,387	419,472
(Increase) decrease in accounts recievable	(5,684)	12,359
Increase in inventory	-	(3,000)
Increase (decrease) in accounts payable	5,692	(12,185)
Increase in accrued and withheld payroll taxes	-	(1,550)
Increase in due to Springvale-Bear Creek Sewage Disposal Authority	(39,364)	(2,304)
Net cash provided by (used in) operating activities	$ (60,685)	$ 12,269
NON CASH CAPITAL AND FINANCING ACTIVITY.		
Gain on sale of land	$ 21,803	$ -

The accompanying notes are a part of the financial statements.

NOTE A - NATURE OF ENTITY:

The Harbor Springs Area Sewage Disposal Authority (the "Authority") was created as a corporate instrumentality in 1969 under provisions of Act 233, Michigan Public Acts of 1955, as amended. The local governmental units comprising the Authority include the City of Harbor Springs, the Village of Alanson, and Little Traverse and Littlefield Townships. The Authority owns and operates a sewage disposal utility system consisting of a site, a treatment plant, a collection system and a related water system. In addition, the Authority operates sewage disposal utility systems belonging to Springvale-Bear Creek Sewage Disposal Authority and West Traverse Township and a water system belonging to Little Traverse Township under terms of operating contracts.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Authority conform to accounting principles generally accepted in the United State of America as applicable to governmental units. The Authority accounts for operations that are financed and operating in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges. Specific accounting policies are described in the following paragraphs.

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity. In accordance with these guidelines, there are no component units to be included in the financial statements.

Basis of Accounting

The accrual basis of accounting is used to account for the operations of the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989.

Inventory

Inventory is valued at the lower of cost or market. Cost is determined using the first in, first out method.

Operating Revenue

The Authority derives its revenues from charges to local units for sewage and water services. Rates are set at a level to provide for all operating costs, and to provide for an accumulation of funds for repair and replacement of plant and equipment as explained in Note E. Each member entity and contracting entity is charged based on the costs of services utilized, as some entities do not use the full range of services offered.

Capital Assets

Property and equipment are recorded at cost. Depreciation is provided for property and equipment on a straight-line basis over the estimated useful life of the assets.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Capital Assets (Continued)

The following estimated useful lives are used to compute depreciation:

Plant and systems	40 years
Transportation, shop and office equipment	3-20 years
Garage and other buildings	10-40 years

Bank Deposits and Investments

The Authority considered its deposits and restricted deposits held with initial maturities of three months or less to be cash equivalents. Investments are stated at fair value.

Restricted and Designated Assets

Assets restricted by provisions of bond resolutions for the payment of bond interest are recorded as restricted assets while those designated by the Authority's Board of Trustees for repair and replacement are recorded as designated assets. Any investment earnings of the restricted or designated funds are recorded as income and added to the fund. Disbursements are made only for the restricted or designated purposes.

Contributions for Bond Costs

Amounts receivable from participating local governmental units to pay the outstanding bond principal are recorded as contracts receivable and capital contributions. Payments are due at designated dates and amounts over the lives of the bonds and are to be applied against the receivable when received.

In addition to the principal payments, governmental units are to provide for the interest expense and bond costs incurred on long-term debt. Amounts to defray such costs are recorded as other income. Any accrued interest payable on bonds is also recorded as an asset due from the governmental units.

Other Assets

Deferred bond expense is being amortized over the term of the bonds. The statements of revenues, expenses and changes in net assets reflects $6,528 and $7,952 for amortization of bond expenses in 2007 and 2006, respectively.

Use of Estimates

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

NOTE C - DEPOSITS AND INVESTMENTS:

The following is a summary of the Authority's deposits (including cash, cash equivalents and certificates of deposit) at December 31, 2007 and 2006:

	2007	2006
Bank balance	$1,045,367	$846,706
Insured by Federal Deposit Insurance Corporation	200,000	100,000
Uninsured and uncollateralized balance	$ 845,367	$746,706

Michigan Compiled Laws, Section 129.91, authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's deposits are in accordance with statutory authority.

NOTE D - RESTRICTED ASSETS:

Under terms of contractual agreements between the Authority, the City of Harbor Springs, Village of Alanson, and Littlefield and Little Traverse Townships executed in conjunction with the sale of various bonds, the participating governmental units have agreed to pay the Authority all debt service costs associated with the bond issues and the bonds are payable solely from such payments. These payments are required annually at amounts equal to the bond interest, principal and service charges payable within the ensuing year. The following is a summary of percentages due from each governmental unit for the bond issues outstanding at December 31, 2007 and 2006:

	Series 2004, Project No. 1 Refunding	Series 2004, Project No. 2 Refunding	Series 2002
Littlefield Township	-	53.17	23.29
Little Traverse Township	36.16	20.24	27.06
Village of Alanson	-	26.59	10.37
City of Harbor Springs	63.84	-	39.28
Total	100.00	100.00	100.00

NOTE D - RESTRICTED ASSETS (Continued):

Under the terms of the agreements, the City, Village and Townships have pledged their full faith and credit for payment of their respective share of debt service costs. In addition, each governmental unit has agreed to include a sufficient amount in its annual property tax levy to make the required payments.

The following is a summary of assets that are restricted for debt retirement at December 31, 2007 and 2006:

	2007	2006
Cash	$ 1,795	$ 1,645
Accrued interest receivable	31,554	36,062
Due from local governmental units for bond retirement	4,979,770	5,424,066
Total	$5,013,119	$5,461,773

NOTE E - DESIGNATED ASSETS:

The Authority's repair and replacement reserve was established to accumulate funds for replacement of plant and equipment. The fund is to be used for plant repair or replacements costing more than an amount established by formula, approximately $79,000 at December 31, 2007, and equipment repair or replacements costing more than $10,000 or for specific capital items or expenses as designated by the Board of Trustees.

Annual operating revenues specified for repair and replacement and earnings from reserve investments are to be added to the reserve until it accumulates to five percent of plant cost, exclusive of land cost. After that only earnings from reserve investments are to be added to the reserve.

The Authority has also designated an investment account, which consists of proceeds from timber sales and other miscellaneous proceeds, for specific capital items and expenses as determined by the Board of Trustees.

The Authority's cash and certificates of deposit balances are designated as follows as of December 31, 2007 and 2006:

	2007	2006
Repair and replacement and equipment fund	$839,587	$637,866
Designated timber funds	54,602	51,897
Total	$894,189	$689,763

NOTE F - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2007, is as follows:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
Undepreciable capital asset:				
Land	$ 356,372	$ -	$ 2,656	$ 353,716
Depreciable capital assets:				
Sewage utility plant and collection system	14,119,356	3,053	-	14,122,409
Waterwell and distribution system	195,666	-	-	195,666
Garage and other buildings	97,870	-	-	97,870
Transportation, shop and office equipment	390,105	1,295	-	391,400
Total	15,159,369	4,348	2,656	15,161,061
Accumulated depreciation	7,061,033	414,387	-	7,475,420
Capital assets, net	$ 8,098,336	$(410,039)	$ 2,656	$ 7,685,641

Total depreciation expense for the years ended December 31, 2007 and 2006 was $414,387 and $419,472, respectively.

NOTE G - LONG-TERM DEBT:

The following is a summary of long-term debt transactions for the year ended December 31, 2007:

	Balance January 1, 2007	Additions	Retirements	Balance December 31, 2007
Series 2002 Wastewater Treatment Facility Bonds	$4,979,770	$ -	$ 240,000	$4,739,770
Series 2004 Project No. 1 Refunding Bonds	230,000	-	75,000	155,000
Series 2004 Project No. 2 Refunding Bonds	170,000	-	85,000	85,000
	$5,379,770	$ -	$ 400,000	$4,979,770

Long-term debt consists of the following at December 31, 2007 and 2006:

	2007	2006
$5,664,770 Series 2002 Wastewater Treatment Facility Bonds due in annual installments of $225,000 to $360,000 plus interest at 2.50 percent; maturing in April, 2023	$4,739,770	$4,979,770
$370,000 Series 2004 Project No. 1 Refunding Bonds due in annual installments of $70,000 to $80,000 plus interest of 3.125 to 3.750 percent; maturing in September, 2009	155,000	230,000

NOTE G - LONG-TERM DEBT (Continued):

	2007	2006
$340,000 Series 2004 Project No. 2 Refunding Bonds due in annual installments of $85,000 plus interest of 3.125 to 3.750 percent; maturing in January, 2009	$ 85,000	$ 170,000
	4,979,770	5,379,770
Less current portion	320,000	315,000
Total	$4,659,770	$5,064,770

The annual requirements to amortize all debt outstanding as of December 31, 2007, including interest payments of $1,022,225 are as follows:

Year Ending December 31,	
2008	$ 442,651
2009	528,838
2010	357,932
2011	361,432
2012	359,744
2013 - 2017	1,797,784
2018 - 2022	1,789,347
2023	364,267
Total	$6,001,995

Payment of bond principal, interest and service costs are provided under the terms of contractual agreements with local governmental units as explained in Note D.

NOTE H - ADVANCES:

Under terms of agreements between the Authority and Littlefield Township, the Township made a long-term advance in December, 1996 to the Authority's repair/replacement reserve. The advance is to be repaid by the Authority over 15 years.

NOTE I - UNRESTRICTED NET ASSETS:

The Authority, through Board action, has designated the use of December 31, 2007 and 2006 unrestricted net assets as follows:

	2007	2006
Designated for future repair and replacement	$ 839,587	$ 637,866
Designated for future capital items and expenses	54,602	51,897
Total designated net assets	894,189	689,763
Undesignated and unallocated	351,024	348,090
Total unrestricted net assets	$1,245,213	$1,037,853

NOTE J - PENSION PLAN:

The Authority sponsors the Harbor Springs Area Sewage Disposal Authority Money Purchase Pension Plan which covers all regular full-time and part-time employees. The plan is administered by the International City Management Association Retirement Corporation. Employees are eligible to participate after one year of service and upon reaching the age of 21. The Authority is required to contribute 8 percent of eligible compensation to the plan. Employees may also contribute to their individual accounts. Employer contributions and earnings of each individual employee fully vest after five years of credited service. Contributions and earnings not vested with employees who leave employment are used to offset the future costs of the plan. The Authority's contributions to the plan for the years ended December 31, 2007 and 2006 was $24,161 and $12,037, respectively. Employee contributions to the plan for the years ended December 31, 2007 and 2006 were $23,683 and $20,742, respectively.

NOTE K - RISK MANAGEMENT:

The Authority 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 Authority belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Authority pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for 100 percent of its claims.

The Authority also belongs to the Michigan Municipal Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and worker's compensation insurance program for various municipalities throughout the state. The Authority pays an annual premium for its worker's compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of $500,000 for each insured event.

The Authority also carries commercial insurance for all other risks of loss including property and employee health insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L - SUBSEQUENT EVENTS:

Subsequent to year end the Authority approved a change in their pension plan to a defined benefit plan effective for the 2008 calendar year. The Authority is required to contribute 8 percent of eligible compensation to the plan. Employees may also be required to contribute to the plan.

The Authority also purchased a sewer cleaning truck in June, 2008 at a cost of approximately $130,000.

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
SCHEDULE OF OPERATING INCOME BEFORE DEPRECIATION
for the years ended December 31, 2007
(with comparative totals for the year ended December 31, 2006)

	Harbor Springs Area Sewage Disposal Authority Treatment	Harbor Springs Area Sewage Disposal System West	Harbor Springs Area Sewage Disposal System East	Harbor Springs Area Sewage Disposal Authority Water System	Little Traverse Township Sewage Collection System West	Little Traverse Township Sewage Collection System East
Operating revenues	$ 215,504	$ 76,418	$ 64,654	$ 33,187	$ 58,569	$ 30,933
Pumping expenses:						
Labor	-	11,923	6,722	6,464	-	-
Power	35,680	14,871	14,083	3,949	2,219	2,537
Maintenance	19,540	6,913	5,350	5,224	5,444	7,650
Supplies and expenses	14,330	558	2,397	927	446	329
Total	69,550	34,265	28,552	16,564	8,109	10,516
Treatment expenses:						
Labor	49,967	-	-	-	-	-
Maintenance	30,104	218	-	-	-	-
Total	80,071	218	-	-	-	-
Collection and transmission expenses						
Labor	-	-	-	-	6,670	7,569
Maintenance of mains	285	-	-	-	82	202
Total	285	-	-	-	6,752	7,771
Administrative and general expenses:						
Salaries	29,007	7,553	8,062	2,553	5,811	4,643
Office supplies and expenses	5,872	1,627	1,577	519	1,242	911
Outside services	3,024	736	758	247	592	432
Insurance	8,675	2,328	2,396	781	1,872	1,366
Employee benefits	51,500	13,790	14,551	4,661	10,991	8,212
Vacation, holidays and sick leave	23,826	6,533	6,750	2,135	5,045	3,769
Payroll taxes	8,638	2,199	1,881	997	1,490	1,354
Transportation expense	7,597	2,029	2,109	684	1,640	1,197
Maintenance	1,411	374	490	129	315	250
Miscellaneous	(33)	1	(9)	(3)	(7)	(5)
Total	139,517	37,170	38,565	12,703	28,991	22,129
Total operating expenses	289,423	71,653	67,117	29,267	43,852	40,416
Operating income (loss) before expense allocation	(73,919)	4,765	(2,463)	3,920	14,717	(9,483)
Springvale - Bear Creek surcharge	33,014	-	-	-	-	-
Operating income (loss) before depreciation	$ (40,905)	$ 4,765	$ (2,463)	$ 3,920	$ 14,717	$ (9,483)

Littlefield Township Sewage Collection System	Alanson Sewage Collection System	Harbor Springs Sewage Collection System	Springvale-Bear Creek Sewage Disposal System	West Traverse Township Sewage Disposal System	Little Traverse Township Water System	Total	2006 Total
$ 47,508	$ 39,428	$ 39,281	$ 165,041	$ 35,373	$ 61,298	$ 867,194	$ 805,143
-	-	-	26,610	5,239	13,172	70,130	74,071
4,623	4,176	5,742	14,979	-	16,016	118,875	111,831
2,596	2,861	5,617	14,655	7,173	7,193	90,216	86,221
381	759	305	1,017	26	1,728	23,203	26,942
7,600	7,796	11,664	57,261	12,438	38,109	302,424	299,065
-	-	-	-	-	-	49,967	50,010
-	-	-	-	-	-	30,322	16,508
-	-	-	-	-	-	80,289	66,518
6,573	6,515	14,411	-	-	-	41,738	46,516
329	77	263	5,868	13,169	14	20,289	5,281
6,902	6,592	14,674	5,868	13,169	14	62,027	51,797
5,326	4,717	4,641	13,487	462	4,673	90,935	78,849
1,066	975	857	3,048	62	917	18,673	17,472
501	460	396	2,235	33	731	10,145	18,193
1,583	1,455	1,253	4,220	106	1,441	27,476	27,598
9,403	8,561	7,742	24,902	696	8,558	163,567	121,349
4,354	4,031	3,475	11,727	294	3,877	75,816	52,409
1,402	1,303	1,941	4,928	568	1,864	28,565	26,704
1,387	1,276	1,096	3,696	92	1,262	24,065	21,975
259	228	233	671	37	239	4,636	4,265
(6)	(6)	(5)	(16)	-	(6)	(95)	-
25,275	23,000	21,629	68,898	2,350	23,556	443,783	368,814
39,777	37,388	47,967	132,027	27,957	61,679	888,523	786,194
7,731	2,040	(8,686)	33,014	7,416	(381)	(21,329)	18,949
-	-	-	(33,014)	-	-	-	-
$ 7,731	$ 2,040	$ (8,686)	$ -	$ 7,416	$ (381)	$ (21,329)	$ 18,949

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
SCHEDULES OF REPAIR AND REPLACEMENT RESERVES
for the years ended December 31, 2007 and 2006

	System Repair and Replacement	Equipment Replacement	Total
Balance, December 31, 2005	$ 396,111	$ 161,574	$ 557,685
Additions:			
Monthly billings	117,400	99,182	216,582
Sale of equipment	-	3,555	3,555
Transfer from undesignated assets for sludge removal	10,000	-	10,000
Interest income	14,394	9,267	23,661
Total additions	141,794	112,004	253,798
Reductions:			
Repairs	88,767	3,823	92,590
Capital acquisitions	55,609	10,840	66,449
Repayment of long-term advances	14,578	-	14,578
Total reductions	158,954	14,663	173,617
Balance, December 31, 2006	378,951	258,915	637,866
Additions:			
Monthly billings	120,942	99,972	220,914
Transfer from undesignated assets for sludge removal	10,000	-	10,000
Interest income	20,495	14,753	35,248
Total additions	151,437	114,725	266,162
Reductions:			
Repairs	51,051	-	51,051
Capital acquisitions	3,053	1,295	4,348
Repayment of long-term advances	9,042	-	9,042
Total reductions	63,146	1,295	64,441
Balance, December 31, 2007	$ 467,242	$ 372,345	$ 839,587

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
SCHEDULES OF SYSTEM REPAIR AND REPLACEMENT RESERVE
for the years ended December 31, 2007 and 2006

	Harbor Springs Area Sewage Disposal Authority Treatment	Harbor Springs Area Sewage Disposal System West	Harbor Springs Area Sewage Disposal System East	Harbor Springs Area Sewage Disposal Authority Water System	Little Traverse Township Sewage Collection System West
Balance, December 31, 2005	$ 160,797	$ 2,058	$ 53,386	$ 2,346	$ 64,390
Additions:					
Monthly billings	31,500	11,712	26,288	600	11,100
Transfer from undesignated funds for sludge removal	10,000	-	-	-	-
Interest income	7,691	338	2,144	15	554
Total additions	49,191	12,050	28,432	615	11,654
Reductions:					
Repairs	-	3,716	8,912	2,839	42,372
Capital acquisitions	-	-	-	-	23,480
Repayment of long-term advances	-	-	14,578	-	-
Balance, December 31, 2006	209,988	10,392	58,328	122	10,192
Additions:					
Monthly billings	31,500	11,712	29,802	600	11,100
Transfer from undesignated funds for sludge removal	10,000	-	-	-	-
Interest income	11,234	682	3,271	14	664
Total additions	52,734	12,394	33,073	614	11,764
Reductions:					
Repairs	1,936	17,216	-	-	10,900
Capital acquisitions	-	-	-	-	-
Repayment of long-term advances	-	-	9,042	-	-
Total reductions	1,936	17,216	9,042	-	10,900
Balance, December 31, 2007	$ 260,786	$ 5,570	$ 82,359	$ 736	$ 11,056

Little Traverse Township Sewage Collection System West	Littlefield Township Sewage Collection System	Alanson Sewage Collection System	Harbor Springs Sewage Collection System	Total
$ 51,472	$ 5,071	$ 13,216	$ 43,375	$ 396,111
13,600	7,500	7,500	7,600	117,400
-	-	-	-	10,000
2,051	238	572	791	14,394
15,651	7,738	8,072	8,391	141,794
28,453	1,423	918	134	88,767
-	-	-	32,129	55,609
-	-	-	-	14,578
38,670	11,386	20,370	19,503	378,951
13,632	7,500	7,500	7,596	120,942
-	-	-	-	10,000
2,189	438	902	1,101	20,495
15,821	7,938	8,402	8,697	151,437
5,387	8,602	7,010	-	51,051
3,053	-	-	-	3,053
-	-	-	-	9,042
8,440	8,602	7,010	-	63,146
$ 46,051	$ 10,722	$ 21,762	$ 28,200	$ 467,242

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
SCHEDULE OF INDEBTEDNESS
December 31, 2007

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity April 1	Outstanding December 31, 2007	Total Interest Payable
2002 Wastewater Treatment Facility Bonds	April 1, 2002	$5,664,770	2.50	2008	$ 245,000	$ 115,432
			2.50	2009	250,000	109,244
			2.50	2010	255,000	102,932
			2.50	2011	265,000	96,432
			2.50	2012	270,000	89,744
			2.50	2013	275,000	82,932
			2.50	2014	285,000	75,932
			2.50	2015	290,000	68,744
			2.50	2016	300,000	61,369
			2.50	2017	305,000	53,807
			2.50	2018	315,000	46,057
			2.50	2019	320,000	38,119
			2.50	2020	325,000	30,057
			2.50	2021	335,000	21,807
			2.50	2022	345,000	13,307
			2.50	2023	359,770	4,497
					$ 4,739,770	$ 1,010,412

NOTE: Bonds are subject to redemption at par prior to maturity at the option of the Authority, in the amount of $5,000 or any multiple of $5,000.

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
SCHEDULE OF INDEBTEDNESS
December 31, 2007

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity September 1	Outstanding December 31, 2007	Total Interest Payable
Revenue Bonds, Project No. 1 Refunding Bonds, Series 2004	Oct. 7, 2004	$370,000	3.125	2008	$ 75,000	$ 5,625
			3.500	2009	80,000	3,000
					$ 155,000	$ 8,625

NOTE: The prior bond issue, Revenue Bonds, Series1989, was refinanced during 2004 with the Project No.1 Refunding Bonds, Series 2004. These bonds are not subject to redemption prior to maturity.

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
SCHEDULE OF INDEBTEDNESS
December 31, 2007

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity January 1	Outstanding December 31, 2007	Total Interest Payable
Revenue Bonds, Project No. 2 Refunding Bonds, Series 2004	Oct. 7, 2004	$340,000	3.125	2008	$ -	$ 1,594
			3.500	2009	85,000	1,594
					$ 85,000	$ 3,188

NOTE: The prior bond issue, Revenue Bonds Project No. 2 Refunding Bonds, Series 1988, was refinanced during 2004 with the Project No. 2 Refunding Bonds, Series 2004. These bonds are not subject to redemption prior to maturity.

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
SCHEDULE OF ADVANCES
December 31, 2007

	Orignal Amount	Repayment Term	Interest Rate	Year Due	Principal Due	Interest Due
Littlefield Township	$ 92,819	15 Years	5.50%	2008	$ 7,482	$ 1,561
				2009	7,902	1,140
				2010	8,348	694
				2011	8,063	223
					$ 31,795	$ 3,618

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS FROM OPERATIONS
for the year ended December 31, 2007

	Harbor Springs Area Sewage Disposal Authority Treatment	Harbor Springs Area Sewage Disposal System West	Harbor Springs Area Sewage Disposal System East	Harbor Springs Area Sewage Disposal Authority Water System	Little Traverse Township Sewage Collection System West	Little Traverse Township Sewage Collection System East
Cash receipts	$ 289,638	$ 77,015	$ 65,364	$ 33,354	$ 50,515	$ 31,178
Cash disbursements:						
Pumping expenses	67,320	34,159	27,947	16,375	8,022	9,474
Treatment expenses	80,071	218	-	-	-	-
Collection and transmission expenses	285	-	-	-	6,752	7,771
Administrative and general expenses	139,486	37,172	38,577	12,707	28,981	22,132
Repayment for overage	-	-	-	-	-	-
Total cash disbursements	287,162	71,549	66,524	29,082	43,755	39,377
Transfers:						
(To) from designated funds	2,887	(5,000)	(5,000)	-	-	-
Certificates of deposit	(20,000)	10,000	10,000	-	-	-
Total transfers	(17,113)	5,000	5,000	-	-	-
Net change in cash	(14,637)	10,466	3,840	4,272	6,760	(8,199)
Cash, cash equivalents and certificates of deposit, December 31, 2006	(60,306)	32,484	148,073	(16,412)	20,658	7,690
Cash, cash equivalents and certificates of deposit, December 31, 2007	$ (74,943)	$ 42,950	$ 151,913	$ (12,140)	$ 27,418	$ (509)

Littlefield Township Sewage Collection System	Alanson Sewage Collection System	Harbor Springs Sewage Collection System	Springvale-Bear Creek Sewage Disposal System	West Traverse Township Sewage Disposal System	Little Traverse Township Water System	Total
$ 47,461	$ 35,923	$ 39,094	$ 145,314	$ 35,289	$ 61,185	$ 911,330
7,402	7,604	11,607	56,758	12,432	37,611	296,711
-	-	-	-	-	-	80,289
6,902	6,592	14,674	5,868	13,169	14	62,027
25,276	23,000	21,630	68,885	2,354	23,599	443,799
-	-	-	19,391	-	-	19,391
39,580	37,196	47,911	150,902	27,955	61,224	902,217
-	-	-	-	-	-	(7,113)
-	-	-	-	-	-	-
-	-	-	-	-	-	(7,113)
7,881	(1,273)	(8,817)	(5,588)	7,334	(39)	2,000
(1,289)	(15,295)	18,834	(11,777)	(4,779)	2,438	120,319
$ 6,592	$ (16,568)	$ 10,017	$ (17,365)	$ 2,555	$ 2,399	$ 122,319

Smolinski & Christman, P.C.
Certified Public Accountants

Janice W. Smolinski, C.P.A.
Kevin R. Christman, C.P.A.
Mona C. O'Neil, C.P.A.
David D. Rasmussen, C.P.A.
Ted M. Teller, C.P.A.

Adam B. Caron, C.P.A.
Troy A. Slater, C.P.A.

555 Michigan Street
Petoskey, Michigan 49770
(231) 347-5555
Fax (231) 347-5639

June 11, 2008

To the Board of Trustees of the

Harbor Springs Area Sewage Disposal Authority:

We have completed our audit of the financial statements of the Harbor Springs Area Sewage Disposal Authority for the year ended December 31, 2007, and have issued our report thereon dated June 11, 2008. In planning and performing our audit, of the financial statements, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of the following matters that represent an opportunity for strengthening operating controls and efficiencies. This letter does not affect our report dated June 11, 2008, on the financial statements of Harbor Springs Area Sewage Disposal Authority. Our comments are summarized below.

The following comment was included in last year's letter and is being repeated:

Accounting Procedures and Reporting

The Authority's bookkeeper has the responsibilities of maintaining the checking account, including preparation of bank reconciliations, and mailing of checks. We would recommend that the Authority implement additional procedures to strengthen internal controls. The Authority's manager would review all unopened bank statements before the bookkeeper has access to the statements. He would also review the bank reconciliation on a surprise basis. The implementation of these procedures would help to protect the Authority against any unauthorized disbursements.

The following comments are being reported for the first time:

Accounting Procedures and Reporting

The Authority's chart of accounts does not conform with the Michigan Department of Treasury uniform chart of accounts for local units of government. We recommend the Authority follow the prescribed chart of accounts. We understand that the Authority plans to implement the chart of accounts in 2008 when it begins to use its new accounting software.

It was noted that the Authority no longer received their bank statements in the mail, but had to print them off from the bank's website. We would recommend that the Authority request paper copies of their bank statements be mailed to the Authority along with copies of cancelled checks. We understand that the Authority is now receiving bank statements and copies of cancelled checks, after changing its banking relationship.

The Board had passed a resolution several years ago creating a designated repair and replacement reserve. Once the reserve fund accumulated to five percent of plant costs, exclusive of land cost, only earnings were to be added to the fund. The fund has exceeded the approved percentage and continues to build. We recommend that the Board amend the resolution if they are going to continue funding this reserve.

We would like to acknowledge the courtesy and assistance extended to us by the Authority's personnel during our audit. Should you have any questions with respect to the above comments, we would be pleased to discuss them with you at your convenience.

Very truly yours,

Smolinski & Christman, P.C.

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Certified Public Accountants

Janice W. Smolinski, C.P.A.
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Adam B. Caron, C.P.A.
Troy A. Slater, C.P.A.

555 Michigan Street
Petoskey, Michigan 49770
(231) 347-5555
Fax (231) 347-5639

June 11, 2008

To the Board of Trustees of the

Harbor Springs Area Sewage Disposal Authority:

In planning and performing our audit of the financial statements of Harbor Springs Area Sewage Disposal Authority (the Authority) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity's internal control. The material weaknesses listed below are being repeated from our communication dated June 11, 2007 for the December 31, 2006 audit. We believe the following constitute material weaknesses:

- The personnel of the Authority have the capability to perform monthly internal accounting functions and reports as required by management. However, Authority personnel do not have the internal expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report.

- Currently, the majority of accounting functions at the Authority are performed by one person. As a result, the internal control system lacks certain checks and balances which are necessary to ensure that material errors or fraud do not occur without being detected on a timely basis. However, the cost of implementing an optimum segregation of duties environment at the Harbor Springs Area Sewage Disposal Authority is currently prohibitive. The accounting records and supporting information of the Authority are very well organized, documented, and maintained.

This communication is intended solely for the use of the Board of Trustees and management of the Harbor Springs Area Sewage Disposal Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Smolinski & Christman, P.C.

Smolinski & Christman, P.C.