

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Torch Lake Area Fire Protection Authority	County Houghton
Fiscal Year End 3/31/2007	Opinion Date 9/6/2007	Date Audit Report Submitted to State 9/18/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA		Telephone Number (906) 337-2727	
Street Address 200 Fifth Street, Suite 104		City Calumet	State MI
Zip 49913		Printed Name Jackie A. Aalto	License Number 1101022394
Authorizing CPA Signature <i>Jackie A. Aalto</i>			

**TORCH LAKE AREA FIRE
PROTECTION AUTHORITY
Houghton County**

FINANCIAL REPORT

For the Two Year Period Ended March 31, 2007

TORCH LAKE AREA FIRE PROTECTION AUTHORITY
FINANCIAL REPORT
For the Two Year Period Ended March 31, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Torch Lake Area Fire Protection Authority
Lake Linden, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund information of the Torch Lake Area Fire Protection Authority as of and for the two year period ended March 31, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Torch Lake Area Fire Protection Authority's management. My responsibility is to express opinions 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 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. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note I-C, the Torch Lake Area Fire Protection Authority prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities and the major fund information of the Torch Lake Area Fire Protection Authority as of March 31, 2007, and the respective changes in financial position – modified cash basis thereof for the two year period then ended in conformity with the basis of accounting described in Note I-C.

Torch Lake Area Fire Protection Authority has not presented a management's discussion and analysis which would be an analysis of the financial performance for the year and the budgetary comparison information that accounting principles generally accepted in the United States of America, as applied to the Authority's modified cash basis of accounting, has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Jackie A. Aalto
Jackie A. Aalto, CPA

Calumet, Michigan
September 6, 2007

TORCH LAKE AREA FIRE PROTECTION AUTHORITY

Statement of Net Assets – Modified Cash Basis

March 31, 2007

	<u>Governmental Activities</u>
Assets	
Cash	\$ 5,050
Capital assets being depreciated, net	<u>127,933</u>
Total Assets	<u>132,983</u>
 Liabilities	
 Net Assets	
Invested in capital assets, net of related debt	127,933
Unrestricted	<u>5,050</u>
Total Net Assets	<u>\$ 132,983</u>

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

TORCH LAKE AREA FIRE PROTECTION AUTHORITY

Statement of Activities – Modified Cash Basis

For the Two Year Period Ended March 31, 2007

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Changes in Net Assets</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Governmental</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Activities</u>
Governmental Activities					
Public works	\$ 21,073	\$ 12,500	\$ _____	\$ _____	\$ (8,573)
					(8,573)
					<u>141,556</u>
					<u>\$ 132,983</u>

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

TORCH LAKE AREA FIRE PROTECTION AUTHORITY

**Balance Sheet – Modified Cash Basis
Governmental Fund**

March 31, 2007

Assets	
Cash	<u>\$ 5,050</u>
Liabilities and Fund Balance	
Liabilities	\$
Fund Balance	5,050
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>127,933</u>
Net Assets of Governmental Activities	<u>\$ 132,983</u>

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

TORCH LAKE AREA FIRE PROTECTION AUTHORITY

**Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Governmental Fund**

For the Two Year Period Ended March 31, 2007

Revenues	
Intergovernmental	\$ 7,500
Other	<u>5,000</u>
Total Revenues	<u>12,500</u>
Expenditures	
Public Works	
Administration	755
Insurance	5,636
Maintenance	<u>5,882</u>
Total Expenditures	<u>12,273</u>
Net Change in Fund Balance	227
 Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	<u>(8,800)</u>
Change in Net Assets of Governmental Activities	<u>\$ (8,573)</u>

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

TORCH LAKE AREA FIRE PROTECTION AUTHORITY

Notes to Financial Statements

March 31, 2007

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Torch Lake Area Fire Protection Authority (the “Authority”) was formed in 1995 for the purpose of acquiring, owning, improving, enlarging, extending and operating a water supply system for fire protection within the service area of the Authority. Members of the Authority include the municipalities of the Lake Linden Village, Osceola Township, Schoolcraft Township and Torch Lake Township, all located in Houghton County, Michigan. The Authority operates under a five member board of trustees consisting of one member from each constituent municipality and one at-large voting member selected by the board. The term of office for all members is two years. The accompanying financial statements include only the Torch Lake Area Fire Protection Authority and do not include any other governmental agencies or departments.

B. Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Authority as a whole. The government-wide statement of net assets reports all financial and capital resources of the Authority. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Fund financial statements are provided for the Authority’s governmental fund. The Authority has no proprietary or fiduciary funds. The Authority reports only one fund, the General Fund. The General Fund accounts for all financial resources of the Authority.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the government-wide statement of net assets and the statement of activities the governmental activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

TORCH LAKE AREA FIRE PROTECTION AUTHORITY

Notes to Financial Statements

March 31, 2007

In the governmental fund financial statements, the “current financial resources” measurement focus, as applied to the modified cash basis of accounting, is used. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

In the government-wide statement of net assets and statement of activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Authority utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the government-wide financial statements would be presented on the accrual basis of accounting.

D. Assets and Net Assets or Equity

1. Deposits

The Authority’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Authority had no cash equivalents at March 31, 2007.

2. Capital Assets

The Authority’s modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

TORCH LAKE AREA FIRE PROTECTION AUTHORITY

Notes to Financial Statements

March 31, 2007

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the statement of net assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the assets acquired prior to April 1, 2003.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. In general, a \$5,000 threshold is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Improvements to fire water distribution system	50 years
Supply pumps	25 years

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

3. Fund Equity

The fund financial statements report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. As of March 31, 2007 there were no reserves of the fund balance.

4. Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Authority requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

The Authority is required to follow the budget system provided by Michigan Public Act 621 – Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the modified cash basis of accounting used to reflect actual revenues and expenditures. Budgets are adopted at the activity level. Appropriations lapse at year end.

TORCH LAKE AREA FIRE PROTECTION AUTHORITY

Notes to Financial Statements

March 31, 2007

B. Budget not Adopted

For the two year period ended March 31, 2007 a budget was adopted for the year ended March 31, 2006, but not adopted for the year ended March 31, 2007.

III. Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit 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 local unit 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 has designated one bank for the deposit of Authority funds. The Authority's deposits are in accordance with statutory authority.

At March 31, 2007 the Authority's deposits were \$5,050 which equaled the corresponding bank balance, all of which was insured by the Federal Deposit Insurance Corporation.

IV. Capital Assets

Capital asset activity, resulting from modified cash basis transactions, for the two year period ended March 31, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets being depreciated:				
Fire water distribution system	\$ 140,000	\$	\$	\$ 140,000
Supply pumps	<u>40,000</u>	<u> </u>	<u> </u>	<u>40,000</u>
Subtotal	<u>180,000</u>	<u> </u>	<u> </u>	<u>180,000</u>
Accumulated depreciation:				
Fire water distribution system	(27,533)	(5,600)		(33,133)
Supply pumps	<u>(15,734)</u>	<u>(3,200)</u>	<u> </u>	<u>(18,934)</u>
Subtotal	<u>(43,267)</u>	<u>(8,800)</u>	<u> </u>	<u>(52,067)</u>
Governmental activities net capital assets	<u>\$ 136,733</u>	<u>\$ (8,800)</u>	<u>\$</u>	<u>\$ 127,933</u>

TORCH LAKE AREA FIRE PROTECTION AUTHORITY

Notes to Financial Statements

March 31, 2007

V. Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. All risk of loss is covered by commercial insurance. There have been no claims or settlements in any of the prior three fiscal years.

VI. Related Party Transactions

The Authority contracted with the Village of Lake Linden for maintenance services totaling \$5,639 during the two year period ended March 31, 2007.

VII. Subsequent Event

On June 12, 2007 Lake Linden Village notified the Authority that they were withdrawing from the Authority.

Board of Trustees
Torch Lake Area Fire Protection Authority
Lake Linden, Michigan

In planning and performing my audit of the financial statements of the governmental activities, and the major fund information of Torch Lake Area Fire Protection Authority as of and for the two years ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered Torch Lake Area Fire Protection Authority's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control.

My 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, I identified certain deficiencies in internal control that I consider to be significant deficiencies and one deficiency that I consider to be a material weakness.

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 a 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. I consider the following deficiencies to be significant deficiencies in internal control.

1. The Authority does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenues and expenditures, to track changes in capital assets, and to present required financial statement disclosures. Due principally to the small size of the Authority and the limited funds available to the Authority, the hiring of accounting personnel capable of writing the Authority's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.
2. Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel. As noted above, due to the small size of the Authority and the limited funds of the Authority, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Authority's assets. To the extent possible, duties are allocated between personnel to mitigate risk of material misappropriation of assets.

A material weakness is a significant deficiency, or a 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. I believe that item number 1 above constitutes a material weakness.

Certain other matters related to operational or administrative efficiencies and improvements to internal controls are following.

3. As noted in the financial statements, the Authority did not adopt budgets for its March 31, 2007 year end. Michigan Public Act 621 of 1978, as amended, provides that the Authority adopt a formal budget and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.
4. The financial statements and the governmental fund financial statements of the Authority are prepared on the modified cash basis of accounting. I recommend that the Authority prepare the government-wide financial statements on an accrual basis of accounting and the governmental fund financial statements on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
5. The financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. I recommend that future financial statements of the Authority include a management's discussion and analysis.
6. Currently, the Authority does not annually authorize check signers. A current listing of authorized check signers, which is approved annually by the Authority Board, should be maintained to ensure proper authorization of all disbursements. I recommend the listing be periodically reviewed and updated each time a change in check signers occurs and that the bank be promptly and formally notified of any change.
7. An investment policy has not been adopted by the Authority, as required by Public Act 196 of 1997. It is recommended that a policy be adopted which would identify the types of allowable investments authorized under the Act.

This communication is intended solely for the information and use of the board of trustees, management, federal and state awarding agencies, and if applicable, pass-through entities, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to thank the Authority personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.



Jackie A. Aalto, CPA

Calumet, Michigan
September 6, 2007