

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 Round/Farwell Lakes Sewer Common Fund		County JACKSON	
Fiscal Year End 3/31/2007		Opinion Date 8/27/2007		Date Audit Report Submitted to State 9/11/07			

We affirm that:

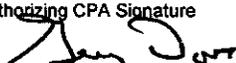
We are certified public accountants licensed to practice in Michigan.

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.)
- 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.
 - 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.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - 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.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - 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).
 - 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.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - 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 type="checkbox"/>	NO ITEMS NOTED		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) DOVE & HICKEY, P.L.C.		Telephone Number (517)796-8880		
Street Address 209 E. WASHINGTON AVE., SUITE 255		City JACKSON	State MI	Zip 49201
Authorizing CPA Signature 		Printed Name GEORGE DOVE		License Number 1101011397

ROUND/FARWELL LAKES SEWER COMMON FUND

JACKSON COUNTY - MICHIGAN

FINANCIAL STATEMENTS

Year Ended March 31, 2007

TABLE OF CONTENTS

	<u>PAGE</u>
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS	1
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets	2
Statement of Revenues, Expenses and Changes in Net Assets	3
Statement of Cash Flows	4
Statement of Assets and Liabilities - Agency Fund	5
Notes to Financial Statements	6 - 9

Dove & Hickey, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

209 E. Washington Ave., Suite 255 • Jackson, Michigan 49201
Phone (517) 796-8880 • Fax (517) 796-8777

MEMBERS:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

GEORGE DOVE, C.P.A.
PAUL T. HICKEY, C.P.A.
NANNETTE M. SPONSLER, C.P.A.
ALLISON I. COLE, C.P.A.

INDEPENDENT AUDITOR'S REPORT

Sewer Committee
Round/Farwell Lakes Sewer Common Fund
Jackson County, Michigan

We have audited the accompanying basic financial statements of Round/Farwell Lakes Sewer Common Fund as of and for the year ended March 31, 2007, as listed in the table of contents. These financial statements are the responsibility of Round/Farwell Lakes Sewer Common Fund'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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Round/Farwell Lakes Sewer Common Fund as of March 31, 2007, and the respective changes in financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Common Fund has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the financial statements.

Dove & Hickey, P.L.C.

August 27, 2007

ROUND/FARWELL LAKES SEWER COMMON FUND
STATEMENT OF NET ASSETS
Year Ended March 31, 2007

ASSETS

Cash and cash equivalents	\$ 28,106
Receivables:	
Customers	<u>264</u>
Total assets	<u>28,370</u>

LIABILITIES:

Accounts payable	6,479
Deferred revenue	<u>20,997</u>
Total liabilities	<u>27,476</u>

NET ASSETS

Unrestricted	<u>894</u>
Total net assets	\$ <u><u>894</u></u>

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

ROUND/FARWELL LAKES SEWER COMMON FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Year Ended March 31, 2007

OPERATING REVENUES:	
Charges for services	\$ 32,348
Miscellaneous	<u>14</u>
Total operating revenues	<u>32,362</u>
OPERATING EXPENSES:	
Treatment fees	10,690
Operation and maintenance	20,532
General and administrative	<u>415</u>
Total operating expenses	<u>31,637</u>
OPERATING INCOME	<u>725</u>
NON-OPERATING REVENUES:	
Interest income	<u>169</u>
Total non-operating revenues	<u>169</u>
CHANGES IN NET ASSETS	894
NET ASSETS, BEGINNING OF YEAR	<u>-0-</u>
NET ASSETS, END OF YEAR	<u>\$ 894</u>

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

ROUND/FARWELL LAKES SEWER COMMON FUND
STATEMENT OF CASH FLOWS
Year Ended March 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 25,945
Payments to suppliers	<u>(25,158)</u>
Net cash provided (used) by operating activities	<u>787</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	<u>148</u>
Net cash provided (used) by investing activities	<u>148</u>
INCREASE IN CASH AND CASH EQUIVALENTS	935
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>27,171</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 28,106</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income	\$ 725
Changes in assets and liabilities:	
Accounts receivable	(264)
Accounts payable	6,479
Deferred revenue	<u>(6,153)</u>
Net cash provided (used) by operating activities	<u>\$ 787</u>

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

ROUND/FARWELL LAKES SEWER COMMON FUND
STATEMENT OF ASSETS AND LIABILITIES -
AGENCY FUND
March 31, 2007

ASSETS:

Cash and cash equivalents	\$ <u>419,478</u>
Total assets	\$ <u>419,478</u>

LIABILITIES:

Due to other governments	\$ <u>419,478</u>
Total liabilities	\$ <u>419,478</u>

See accompanying notes to financial statements.

ROUND/FARWELL LAKES SEWER COMMON FUND
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Round/Farwell Lakes Sewer Common Fund (the “Common Fund”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Round/Farwell Lakes Sewer Common Fund.

Reporting Entity

The Common Fund was established under the provisions of Act 35, Public Acts of 1951. An agreement between Jackson County and the Townships of Hanover and Liberty was entered into to operate and maintain a sewer enterprise fund for the Jackson County Wastewater Disposal Facility (Round/Farwell Lakes Section). A non-binding advisory sewer committee, which is composed of the Hanover Township Treasurer, an elected official from Hanover Township, and two elected officials from Liberty Township was formed. The Township Boards retain the power to approve the Common Fund’s budgets, sewer rates and charges.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of Presentation

The financial statements include the accounts of the Common Fund and have been prepared on the accrual basis. The significant account policies of the Common Fund, as summarized below, conform with proprietary fund accounting.

Basis of Accounting

The Common Fund utilizes the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Common Fund has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

ROUND/FARWELL LAKES SEWER COMMON FUND
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Basis of Accounting (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for sales and services. The fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Agency Funds account for assets held by the Common Fund in a trustee capacity or as an agent for other governments.

Assets, Liabilities, and Net Assets

Cash and Cash Equivalents

The Common Fund considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Receivables

All receivables from customers are considered to be fully collectible.

Net Assets

Net assets represent the Township's equity interest from the accumulated profits generated by the Common Fund joint venture.

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 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.

ROUND/FARWELL LAKES SEWER COMMON FUND
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

2. DEPOSITS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices 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; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures 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 that are legal for direct investment by local units of government in Michigan.

The Townships have designated two banks for the deposit of the funds. The Common Fund's deposits are in accordance with statutory authority.

The Common Fund's cash is subject to risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Common Fund's deposits may not be returned to it. The Common Fund does not have a deposit policy for custodial credit risk. The bank balance of the Common Fund's deposits is \$450,629, of which \$159,764 is covered by Federal depository insurance. The Common Fund believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Common Fund evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

3. DEFERRED REVENUE

The Common Fund records deferred revenue for service charges prepaid as of March 31, that are earned in the next fiscal year.

4. NET ASSETS

The Common Fund's net assets represent Hanover Township's and Liberty Township's equity interest in the joint venture. Allocations are based upon each Township's share of the profits. As of March 31, 2007, Hanover Township's and Liberty Township's share of the net assets was \$454 and \$440, respectively.

ROUND/FARWELL LAKES SEWER COMMON FUND
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

5. AGENCY FUND

The Common Fund has an Agency Fund to hold the special assessment collections from Hanover and Liberty Townships and then makes the semi-annual bond payments to Jackson County on behalf of the Townships.

The Agency Fund activity for the year ended March 31, 2007, was as follows:

	<u>Balance at March 31, 2006</u>	<u>Special Assessment Collections Received</u>	<u>Interest Earned on Debt Service Account</u>	<u>Bond Payments to Jackson County</u>	<u>Balance at March 31, 2007</u>
Due to:					
Hanover Township	\$313,977	\$342,376	\$ 16,453	(\$293,014)	\$379,792
Liberty Township	<u>38,621</u>	<u>83,674</u>	<u>4,915</u>	<u>(87,524)</u>	<u>39,686</u>
Total	<u>\$352,598</u>	<u>\$426,050</u>	<u>\$ 21,368</u>	<u>(\$380,538)</u>	<u>\$419,478</u>