

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 WATER DISTRICT #1 OF MIDLAND CO		County MIDLAND	
Fiscal Year End 12-31-07		Opinion Date 4-25-08		Date Audit Report Submitted to State 4-30-08			

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 checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	SAS 114 LETTER	
Certified Public Accountant (Firm Name) WEINLANDER FITZHUGH			Telephone Number 989-386-3481	
Street Address 601 BEECH STREET			City CLARE	State MI
			Zip 48617	
Authorizing CPA Signature 		Printed Name SHANNON WILSON, CPA		License Number 688802



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYSK, CPA

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
SANFORD, MICHIGAN

FINANCIAL STATEMENTS
DECEMBER 31, 2007

601 BEECH STREET
POST OFFICE BOX 297
CLARE, MI 48617
989-386-3481
FAX 989-386-3462
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,
GLADWIN AND WEST BRANCH

RSM McGladrey Network

An Independently Owned Member

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WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

April 25, 2008

Independent Auditors' Report

ROBERT E. LIST, CPA
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Board of Directors
Water District No. 1 of Midland County
Sanford, Michigan

We have audited the accompanying financial statements of the business-type activities and the major fund of the Water District No. 1 of Midland County as of and for the year ended December 31, 2007, which collectively comprise the Water District No. 1 of Midland County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and its major fund of the Water District No. 1 of Midland County as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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WEINLANDER FITZHUGH

Board of Directors
Water District No. 1 of Midland County
April 25, 2008
Page 2

The management's discussion and analysis as identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Weinlander Fitzhugh

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Management's Discussion & Analysis
For the Year Ended December 31, 2007

The Water District No. 1 of Midland County (District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal year ending December 31, 2007. We encourage readers to consider the information presented here in conjunction with the District's financial statements, and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$128,000.
- During the year "operating revenues" increased by \$50,000 and "operating expenses" decreased by less than \$1,000.
- Service connections revenue decreased by \$16,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed government legislation.

The Statement of Activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Management's Discussion & Analysis
For the Year Ended December 31, 2007

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's only fund is a proprietary fund.

Proprietary funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses a proprietary fund to account for its water system.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the only major fund of the District.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

The most common financial question posed to the District is "How did we do financially during the fiscal year?" The statement of net assets and the statement of activities report information about the District's activities in a way that will help answer this question. The two statements report the net assets of the District and the change in them.

Net Assets

The statement of net assets provides the perspective of the District as a whole. Exhibit A provides a summary of the District's net assets as of December 31, 2007 and 2006.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Management's Discussion & Analysis
For the Year Ended December 31, 2007

Exhibit A

	Business-Type Activities	
	2007	2006
Assets		
Current assets	\$ 380,000	\$ 327,000
Capital assets - net of accumulated depreciation	882,000	803,000
Total assets	1,262,000	1,130,000
Liabilities		
Current liabilities	65,000	47,000
Long-term liabilities	72,000	86,000
Total liabilities	137,000	133,000
Net Assets		
Investment in capital assets net of related debt	795,000	706,000
Unrestricted	330,000	291,000
Total net assets	\$ 1,125,000	\$ 997,000

Exhibit A focuses on the net assets of the District. The District's net assets were \$1,125,000 at December 31, 2007. Capital assets, net of related debt, totaling \$795,000 compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets, if any.

The \$330,000 in unrestricted net assets of business-type activities represents the *accumulated* results of all past and current year's operations.

The results of this year's operations for the District as a whole are reported in the statement of activities. Exhibit B provides a summary of the District's operations for 2007 and 2006, which shows the changes in net assets for the year ended December 31, 2007 and 2006.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
 Management's Discussion & Analysis
For the Year Ended December 31, 2007

Exhibit B

	Business-type Activities	
	2007	2006
Revenue		
Program revenue:		
Charges for service	\$ 756,000	\$ 706,000
Capital grants and contributions	52,000	89,000
General revenue:		
Investment earnings	9,000	10,000
Total revenue	817,000	805,000
 Function/Program Expenses		
Water	689,000	675,000
 Increase in Net Assets	 \$ 128,000	 \$ 130,000

While the statement of activities shows the change in financial position of assets, the statement of revenues, expenses and changes in net assets provides answers as to the nature and source of these changes. As can be seen in Exhibit B above, the contribution of water lines of \$52,000 was a major factor in the increase in changes of net assets.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUND

Proprietary fund. The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Management's Discussion & Analysis
For the Year Ended December 31, 2007

	Business-type Activities	
	2007	2006
Gross service charges	\$ 719,000	\$ 654,000
Cost of water	263,000	250,000
Gross profit	456,000	404,000
Operating revenue	36,000	52,000
Operating expenses	(420,000)	(420,000)
Total nonoperating revenue (expenses)	56,000	94,000
Change in net assets	\$ 128,000	\$ 130,000
Total net assets - end of year	\$ 1,125,000	\$ 997,000

Budgetary Highlights

The preparation of budgets is not required for proprietary funds.

Capital Assets

The District had \$882,000 (net of accumulated depreciation) invested in capital assets as of December 31, 2007. The investment in capital assets includes land, construction in progress, building, equipment and water distribution system.

	2007	2006
Land	\$ 52,000	\$ 52,000
Construction in progress	43,000	0
Buildings and improvements	157,000	157,000
Equipment and vehicles	97,000	81,000
Distribution system	746,000	694,000
Total capital assets	1,095,000	984,000
Less accumulated depreciation	213,000	181,000
Net capital assets	\$ 882,000	\$ 803,000

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Management's Discussion & Analysis
For the Year Ended December 31, 2007

Capital Assets (Continued)

This year's additions of \$111,000 included a computer, generator, the Black Oak Preserve water lines, which were donated to the District and the costs associated with the 2008 transmission main, which is included in construction in progress. No debt was issued for these additions.

The transmission main is the major capital addition planned in the next fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Depreciation expense has been allocated to water operations.

Long-Term Debt

At the end of this year, the District had \$86,000 in long-term debt outstanding versus \$96,000 in the previous year – a change of 10%. The long-term debt consists of the following:

	<u>2007</u>	<u>2006</u>
Capital lease agreements	<u>\$ 86,000</u>	<u>\$ 96,000</u>

The District's outstanding general obligation debt of \$86,000 is significantly below the statutorily imposed limit.

Factors Expected to have an Effect on Future Operations

We are not aware of any factors that will have a significant impact on future operations.

Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Ms. Alice Sharron Such, Secretary/Treasurer
Water District No. 1 of Midland County
PO Box 320
Sanford, MI 48657

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Statement of Net Assets
December 31, 2007

	Business-type Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 261,244
Accounts receivable	26,331
Inventory	92,445
Capital assets less accumulated depreciation of \$212,962	881,584
Total assets	1,261,604
<u>Liabilities</u>	
Accounts payable	27,450
Escrow	6,250
Accrued wages	10,686
Payroll liabilities	5,866
Lease obligation:	
Due within one year	14,411
Due in more than one year	71,966
Total liabilities	136,629
<u>Net Assets</u>	
Investment in capital assets - net of related debt	795,207
Unrestricted	329,768
Total net assets	\$ 1,124,975

See accompanying notes to financial statements

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Statement of Activities
For the Year Ended December 31, 2007

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Business- Type Activities</u>
		<u>Charges for Service</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Business-type Activities				
Water	<u>\$ 689,091</u>	<u>\$ 755,615</u>	<u>\$ 51,868</u>	\$ 118,392
General revenues:				
Interest earnings				<u>9,330</u>
				127,722
				<u>997,253</u>
				<u>\$ 1,124,975</u>

See accompanying notes to financial statements

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Statement of Net Assets
Proprietary Fund
December 31, 2007

	Business-type Activities Enterprise Fund
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 261,244
Accounts receivable	26,331
Inventory	92,445
	380,020
 <u>Property and Equipment - At Cost</u>	
Land	52,393
Construction in progress	43,004
Building and improvements	156,538
Equipment and vehicles	96,723
Water system	745,889
	1,094,547
Less allowance for depreciation	(212,963)
	881,584
Total assets	1,261,604
 <u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts payable	27,450
Escrow	6,250
Accrued wages	10,686
Payroll liabilities	5,866
Lease obligation, current	14,411
	64,663
 <u>Long-term Liabilities</u>	
Lease obligation	71,966
	136,629
 <u>NET ASSETS</u>	
Investment in capital assets - net of related debt	795,207
Unrestricted	329,768
	\$ 1,124,975

See accompanying notes to financial statements

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended December 31, 2007

	Business-type Activities <u>Enterprise Fund</u>
Gross service charges	\$ 719,372
Water cost	<u>264,571</u>
Gross profit	<u>454,801</u>
Operating revenues:	
Service connections	<u>36,243</u>
Total operating revenues	<u>36,243</u>
<u>Operating Expenses</u>	
Wages	166,803
Supplies and materials	67,981
Repairs and maintenance	58,420
Insurance	38,040
Depreciation	32,221
Office expense	17,908
Payroll taxes	12,736
Pension expense	6,579
Legal and accounting	5,660
Dues and licenses	5,259
Utilities	3,811
Telephone and pager	3,552
Meetings	<u>694</u>
Total operating expenses	<u>419,664</u>
Operating income	<u>71,380</u>
<u>Nonoperating revenues (expenses)</u>	
Interest income	9,330
Water line contributions	51,868
Interest expense	<u>(4,856)</u>
Total nonoperating revenues (expenses)	<u>56,342</u>
Change in net assets	127,722
Net assets - beginning of year	<u>997,253</u>
Net assets - end of year	<u><u>\$ 1,124,975</u></u>

See accompanying notes to financial statements

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2007

	Business-type Activities <u>Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 749,999
Cash payments to suppliers for goods and services	(493,293)
Cash payments to employees for services	<u>(178,439)</u>
Net cash provided by operating activities	<u>78,267</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(59,207)
Principal paid on capital debt	(9,986)
Interest paid on capital debt	<u>(4,856)</u>
Net cash (used) by capital and related financing activities	<u>(74,049)</u>
Cash flows from investing activities	
Interest	<u>9,330</u>
Net increase in cash and cash equivalents	13,548
Cash and cash equivalents, at beginning of year	<u>247,696</u>
Cash and cash equivalents, at end of year	<u><u>\$ 261,244</u></u>

See accompanying notes to financial statements

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of District's Operations

Water District No. 1 of Midland County (District) is a water district that falls under the provisions of Act #233 of the Public Acts of 1955, as amended. The District was established to service and collect water charges as an agent for six communities – Lincoln Township, Jerome Township, Edenville Township, Hope Township, Lee Township and the Village of Sanford (Communities). The District services approximately 2,700 customers. A twelve-member board consisting of two members appointed by each community manages the District.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Government activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate fund financial statements are provided for the major enterprise fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District reports the following major proprietary fund.

- The Water Fund accounts for activities of the water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989, for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water services. The water fund also recognizes the portion of tap fees intended to cover current costs (e.g., labor and material to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables – Accounts receivable consist of utility charges to the District’s customers. No allowance for doubtful accounts has been included in these statements because most delinquent receivables can be added to the tax roll if they remain unpaid and become a lien against the property.

Inventory - Inventory is valued at the lower of cost (first-in, first-out) or market and is comprised of various water connection materials.

Capital Assets – Capital assets, which include property, plant and equipment are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$0 of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Building and improvements	20 years
Equipment and vehicles	5-15 years
Distribution system	30-50 years

Long-Term Obligations – Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets and the balance sheet.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 2 - DEPOSITS AND INVESTEMENTS

State statutes and the District’s investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers’ acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District’s deposits are in accordance with statutory authority.

At year-end, the District’s deposits were reported in the basic financial statements as follows.

	<u>Business-type Activities</u>
Deposits (checking and savings accounts, certificates of deposit)	\$ 261,244

The breakdown between deposits and investments for the District is as follows:

Deposits (checking and savings accounts)	\$ 261,044
Petty cash and cash on hand	200
Total	\$ 261,244

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of December 31, 2007, \$177,349 of the District’s bank balance of \$277,349 was exposed to custodial credit risk because it was uninsured and collateralized.

The District’s investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 3 – CAPITAL ASSETS

Capital asset activity of the District for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 52,393	\$ 0	\$ 0	\$ 52,393
Construction in progress	0	43,003	0	43,003
Subtotal	<u>52,393</u>	<u>43,003</u>	<u>0</u>	<u>95,396</u>
Capital assets being depreciated:				
Building and improvements	156,538	0	0	156,538
Equipment and vehicles	80,520	16,203	0	96,723
Distribution system	694,021	51,868	0	745,889
Subtotal	<u>931,079</u>	<u>68,071</u>	<u>0</u>	<u>999,150</u>
Less accumulated depreciation for:				
Building and improvements	30,192	4,434	0	34,626
Equipment and vehicles	56,073	10,723	0	66,796
Distribution system	94,476	17,064	0	111,540
Subtotal	<u>180,741</u>	<u>32,221</u>	<u>0</u>	<u>212,962</u>
Net capital assets being depreciated	<u>750,338</u>	<u>35,850</u>	<u>0</u>	<u>786,188</u>
Net capital assets	<u>\$ 802,731</u>	<u>\$ 111,074</u>	<u>\$ 0</u>	<u>\$ 881,584</u>

Depreciation expense has been allocated to water operations.

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions and workplace injuries (workers compensation). The District purchases commercial insurance to cover the risks of these losses. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 5 – LEASE OBLIGATION

The District has entered into a lease purchase contract for \$150,000 with the Village of Sanford for the purchase of its building. The lease is being paid in quarterly installments of \$3,710, including interest at 5.25%, and matures in 2014.

The future minimum lease payments under the capital lease and present value of the net minimum lease payments are as follows:

2008	\$	14,842
2009		14,842
2010		14,842
2011		14,842
2012		14,842
Thereafter		29,579
Total future minimum lease payments		103,789
Less amount representing interest		17,412
Present value of future minimum lease payments		\$ 86,377

NOTE 6 – PENSION PLAN

The District sponsors a defined contribution 457 (b) pension plan that covers all eligible employees. Employer contributions to the plan 457 (b) plan up to a maximum percentage of 5% for each participating employee's compensation. Total pension expense was \$6,579 for 2007.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY
Notes to Financial Statements
For the Year Ended December 31, 2007

**NOTE 7 - RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY
OPERATING ACTIVITIES**

Operating income	\$ 71,380
Adjustments to reconcile operating income to net cash (used) by operating activities:	
Depreciation	32,221
Change in assets and liabilities	
Accounts receivable	(5,616)
Inventory	(33,143)
Current liabilities	<u>13,425</u>
Net cash provided by operating activities	<u><u>\$ 78,267</u></u>



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
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SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

April 25, 2008

Board of Directors
Water District No. 1 of Midland County
Sanford, Michigan

Dear Board of Directors:

In planning and performing our audit of the financial statements of Water District #1 of Midland County 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 Water District #1 of Midland County'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 significant deficiencies.

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. We consider the following deficiencies to be significant deficiencies in internal control:

601 BEECH STREET
POST OFFICE BOX 297
CLARE, MI 48617
989-386-3481
FAX 989-386-3462
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,
GLADWIN AND WEST BRANCH

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Board of Directors
Water District No. 1 of Midland County
April 25, 2008
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Segregation of Duties

One of the strongest controls in an internal control system is known as “segregation of duties”. This means that there are different individuals performing different duties within a specific accounting function. Having multiple individuals performing duties in the same accounting function acts as a check and balance.

As is common in many small organizations, there is often only a few people, sometimes only one person, performing the accounting and financial functions and it is also common to have these individuals concentrate their efforts in one area. For example, one person does all the payroll, one person does all the disbursing, and one person does all the billing and receipting.

While this is usually more efficient, it is a weak internal control system. There are generally insufficient checks and balances in place.

This is the situation with the District. Due to a limited staff size, the District has a lack of segregation of duties with respect to the following accounting functions because the duties are centralized with two individuals:

- Utility billing and collection

Financial Reporting

As part of our consideration of the internal control over financial reporting, we as auditors are not allowed to be considered to be part of Water District #1 of Midland County’s internal controls. In taking this required position, we must consider whether the District has the ability, on its own, to monitor and report financial activity in accordance with our professional standards without auditor intervention.



WEINLANDER FITZHUGH

Board of Directors
Water District No. 1 of Midland County
April 25, 2008
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The District uses accounting software as a management tool to monitor the financial status of the District, to facilitate the preparation and amendment of budgets and to compare budgeted amounts to actual results. In addition, the District demonstrates the ability to report propriety type activities and report on certain fund level note disclosures. Due to the complexity of the required government wide financial statements, proprietary fund statements and related note disclosures in accordance with GASB 34, the District does not maintain personnel who can properly report in accordance with U.S. generally accepted accounting principles without auditor intervention.

The above comments are not intended to reflect on the performance or capability of any employee.

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

Weinlander Fitzhugh



WEINLANDER FITZHUGH

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April 25, 2008

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Board of Directors
Water District No. 1 of Midland County
Sanford, Michigan

We have audited the financial statements of the business-type activities of the Water District No. 1 of Midland County (District) for the year ended December 31, 2007, and have issued our report thereon dated April 25, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 7, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on January 7, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus.

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WEINLANDER FITZHUGH

Board of Directors
Water District No. 1 of Midland County
April 25, 2008
Page 2

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful life of fixed assets is based on estimated life of the fixed assets. We evaluated the key factors and assumptions used to develop the useful life of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.



WEINLANDER FITZHUGH

Board of Directors
Water District No. 1 of Midland County
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Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated Date.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Weinlander Fitzhugh