

HOUGHTON LAKE SEWER AUTHORITY
HOUGHTON LAKE, MICHIGAN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007

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INDEPENDENT AUDITOR'S REPORT

January 9, 2009

Board of Commissioners
Houghton Lake Sewer Authority
Houghton Lake, MI

We have audited the accompanying financial statements of the business-type activities, the major fund, and the remaining fund information of the Houghton Lake Sewer Authority as of and for the year ended December 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 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund and the remaining fund information of the Houghton Lake Sewer Authority as of December 31, 2007, and the respective changes in financial position and cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Houghton Lake Sewer Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the financial statements.

Keskin, Cook, Miller & Reppuhn LLP

Keskin, Cook, Miller & Reppuhn LLP
Certified Public Accountants

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

ASSETS

Current Assets

Cash and Cash Equivalents	\$	795,505
Investments		11,420
Accounts Receivable		505,351

		1,312,276
--	--	-----------

Equipment and Improvements (At Cost)

Equipment		32,235,975
Accumulated Depreciation		(12,347,117)

		19,888,858
--	--	------------

		21,201,134
--	--	------------

LIABILITIES

Current Liabilities

AFLAC Payable		917
Accounts Payable Construction		1,197,063
Accrued Interest		22,000

		1,219,980
--	--	-----------

Long Term Liabilities

Notes Payable		1,059,263
Accrued Sick Pay		21,000

		1,080,263
--	--	-----------

		2,300,243
--	--	-----------

NET ASSETS

Invested in Capital Assets, Net of Related Debt and Contributions from Townships		5,117
Contribution from Denton		17,605,415
Unrestricted Net Assets		1,290,359

	\$	18,900,891
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See accompanying notes to the financial statements

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF FUND NET ASSETS
DECEMBER 31, 2007**

	SEWER OPERATING
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 795,505
Investments	11,420
Accounts Receivable	505,351
	1,312,276
Equipment and Improvements (At Cost)	
Equipment	32,235,975
Accumulated Depreciation	(12,347,117)
	19,888,858
	21,201,134
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	917
Accounts Payable Construction	1,197,063
Accrued Interest	22,000
	1,219,980
Long Term Liabilities	
Notes Payable	1,059,263
Accrued Sick Pay	21,000
	1,080,263
	2,300,243
Net Assets	
Invested in Capital Assets, Net of Related Debt and Contributions from Townships	5,117
Contribution from Denton	17,605,415
Fund Net Assets	1,290,359
	18,900,891
	\$ 21,201,134

See accompanying notes to the financial statements

HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED DECEMBER 31, 2007

	SEWER OPERATING
OPERATING REVENUES	
Services	1,673,646
Building Agency Expense Reimbursemen	49,760
	1,723,406
OPERATING EXPENSES	
Salaries	391,813
Employee Benefits	266,064
General Repair and Maintenance	162,469
Utilities	160,617
Depreciation	465,678
Insurance	50,477
Equipment Purchase, Rental and Mainten	6,710
Telephone	8,173
Gas and Oil	27,643
Postage and Office Supplies	16,780
Operating Supplies	2,630
Custodial Supplies	2,977
Professional Services	7,788
Education	1,250
Dues and Subscriptions	1,774
Travel and Mileage	1,301
Clothing Allowance	4,437
Miscellaneous	6,129
	1,584,710
Operating Income	138,696
NON-OPERATING REVENUES	
Interest on Investments	32,683
	171,379
Fund Net Assets - January 1	733,550
Depreciation Charged Against	
Contributions from townships	390,547
	\$ 1,295,476
	\$ 1,295,476

See accompanying notes to the financial statements

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received for Services	\$ 1,255,356
Cash Payments to Vendors for Goods and Services	(453,349)
Cash Payments for Employees and Benefits	(657,877)
	144,130
Net Cash Provided by Operating Activities	144,130

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES**

Acquisition of Capital Assets	(1,080,003)
Principal Paid on Notes	(79,532)
Notes Proceeds	1,059,263
Contribution from Townships	663,144
	562,872
Net Cash From by Capital and Related Financing Activities	562,872

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	31,263
	31,263
Net Increase in Cash and Cash Equivalents	675,739
Cash and Cash Equivalents - January 1	119,766
Cash and Cash Equivalents - December 31	\$ 795,505

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ 171,379
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	465,678
Increase in Accounts Receivable	(468,050)
Decrease in Inventory	(25,000)
Increase in Other Liabilities	123
	144,130
Net Cash Provided by Operating Activities	\$ 144,130

See accompanying notes to the financial statements.

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2007**

ASSETS	
Cash - Contractor Savings	\$ 10,891
	<u> </u>
LIABILITIES	
Contractors Bonds Payable	\$ 10,891
	<u> </u>

See accompanying notes to the financial statements

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007**

NOTE A: ENTITY

The Authority was created in 1973 by the townships of Denton, Lake and Roscommon of Roscommon County for the purpose of operating, maintaining, administering and managing a sanitary sewage facility for the benefit of the forenamed three townships and for any other township or municipality which hereafter joins in and becomes a part of such sewer system and the related agreement, all for the betterment of the health, safety, economy and general welfare of the participating municipalities.

Beginning January 1, 2007, the Authority took control and ownership of the sewer facilities as allowed for under Act 233 of 1955. The Authority includes sewer systems of Denton, Lake, Roscommon and Markey Townships. The Authority now records the revenue and expenses of the sewer system. The townships contributed all of their assets in cash to the Authority,

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Houghton Lake Sewer Authority are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures, of the Authority's financial activities for the fiscal year ended December 31, 2007.

The accounting policies of the Authority conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On January 1, 2003, the Authority adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Authority's financial statements has shifted from a fund focus to a government-wide focus.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT
PRESENTATION**

Government-Wide 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, including activities such as sewer usage fee collections and disbursements. Due to the nature of the operations of the Authority, there are no governmental activities. It is a single-purpose government engaging in only business-type activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. The Authority engages in one functional activity – sewer operations. Program revenues include: (1) charges for services which report fees and other charges to users of the Authority's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues. At this time, the Authority has no general revenues.

Fund Financial Statements

Fund financial statements are provided for proprietary (sewer operations) and fiduciary funds.

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUNDS

Proprietary Fund

The Authority reports the following major proprietary fund:

Sewer Operations Fund – This fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Other Funds

Fiduciary Fund - This fund is used to account for assets held in trust or as an agent for others. The contractor's bond activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Financial Statements

Operating income reported in proprietary fund financial includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to the users of the sewer system. Principal operating expenses are the costs of providing sewer operation services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

BUDGET

An operating budget is prepared by the Authority annually for use as a management tool and is presented to the three member townships for adoption. The budget is adopted prior to January 1 and is amended if necessary.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

CAPITAL ASSETS AND DEPRECIATION

The Authority's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide and proprietary fund financial statements. The Authority maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The Authority generally capitalizes assets with historical cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Depreciation of all exhaustible fixed assets purchased by the Authority is charged as an expense against operations. Accumulated depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Improvements	25-50 years
Equipment	5-15 years

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide and proprietary fund financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

NOTE C: CASH AND INVESTMENTS

All cash and investments are maintained in financial institutions in the Houghton Lake, Michigan area and are stated at cost, which approximates fair market value. Investments consist of certificates of deposit with original maturities in excess of 90 days. All cash deposits are maintained in accounts as approved by State Statutes.

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at fiscal year-end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2 – Collateralized with securities held by the pledging Financial institution's trust department or agent in the Authority's name.

Category 3 – Uncollateralized.

<u>BANK BALANCE</u>	<u>1</u>	<u>CATEGORY</u>		<u>CARRYING AMOUNT</u>
		<u>2</u>	<u>3</u>	
<u>\$ 796,505</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 595,505</u>	<u>\$ 795,505</u>

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's investments are as follows:

- (1) Insured or securities held by the Authority or the agent in the Authority's name.
- (2) Uninsured with securities held by the counter party's trust department or its agent in the Authority's name.
- (3) Uninsured with securities held by the counter party's trust department or agent but not in the Authority's name.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007**

NOTE C: CASH AND INVESTMENTS (CONTINUED)

Balances at December 31, 2007 consist of the following:

	<u>1</u>	CATEGORY <u>2</u>	<u>3</u>	CARRYING AMOUNT
Certificate of Deposit	<u>\$11,420</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$11,420</u>

Carrying value approximates fair market value of investments at December 31, 2007.

NOTE D: ACCOUNTS RECEIVABLE

The Authority provides sewer services to residents and is paid for these services quarterly. The amounts due to the Authority for sewer services is \$505,351. The Authority considers these amounts to be fully collectible; accordingly, no allowance for doubtful accounts is recorded in these financial statements.

NOTE E: CAPITAL ASSETS

	CAPITAL ASSETS DEPRECIATED					Totals
	Buildings	Office Equipment	Operating Equipment	Computer Equipment	Sewer System	
Business-Type Activities						
Balance, January 1, 2007	\$ 100,925	\$ 51,643	\$ 1,137,703	\$ 54,940	\$ -	\$ 1,345,211
Increases	17,000	33,564	249,496	-	28,302,731	28,602,791
Decreases	-	-	-	-	-	-
Balances, December 31, 2007	<u>\$ 117,925</u>	<u>\$ 85,207</u>	<u>\$ 1,387,199</u>	<u>\$ 54,940</u>	<u>\$ 28,302,731</u>	<u>\$ 29,948,002</u>
<i>Accumulated Depreciation</i>						
Balance, January 1, 2007					\$ 683,598	
Increases					11,663,519	
Decreases					-	
Balance, December 31, 2007					<u>\$ 12,347,117</u>	
Business-Type Activities						
Capital Assets, Net					\$ 17,600,885	
Construction in Progress					2,287,973	
					<u>\$ 19,888,858</u>	

Depreciation expense for the year ended December 31, 2007 totaled \$465,678 of which \$390,547 is charged against contributions from townships. The townships transferred ownership of their sewer assets having a historical cost of \$28,530,659, accumulated depreciation of \$11,197,841 for a net asset increase of \$17,332,818.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007**

NOTE F: NOTES PAYABLE

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

Description and Purpose	Balance 1/1/07	Issued	Retired	Balance 12/31/07
Business-Type Activities				
2003 Vacuum Truck Note	\$ 44,792	\$ -	\$ 44,792	\$ -
Pond Doctor Note	<u>25,965</u>	<u>-</u>	<u>25,965</u>	<u>-</u>
Total	<u>\$ 70,757</u>	<u>\$ -</u>	<u>\$ 70,757</u>	<u>\$ -</u>

NOTE H: SICK PAY ALLOWANCE

The Authority allows its employees to accumulate unused sick leave to a maximum of thirty days per employee. The estimated liability for all sick leave at December 31, 2007 is approximately 21,000.

NOTE K: PENSION PLAN

The Houghton Lake Sewer Authority contributes to the Houghton Lake Sewer Authority Pension Plan, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amounts of benefits the individual is to receive. Under the Authority's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

Upon the date of hire, all full time and permanent part-time employees are eligible to participate in the plan. Contributions made by both the Authority and employees vest immediately. The participant will receive benefits at age 55 or the tenth anniversary of the date the participant commenced participation of the plan if later. There is no provision for early retirement.

The plan requires the Authority to contribute 10% of the eligible employees wages. Additionally, each participant may make a contribution up to 10% of their salary. During the year the Authority contributed \$45,638 to the plan, which was approximately 10% of its current year covered payroll.

No pension provision changes occurred during the year that affected the required contributions to be made by the Authority or its employees.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007**

NOTE L: INSURANCE

The Authority is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injury to employees; and natural disasters. The Authority participates in the Michigan Township Participating Plan, a self-insured group. The plan is considered a public entity risk pool. The Authority pays annual premiums to the plan for respective insurance coverage. In the event the plan's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the plan may be subject to special assessments to make up the deficiency. The plan maintains reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance.

The Authority has not been informed of any potential assessments being required at this time. There were no significant changes in coverage, nor were there any significant claims. The Authority also carries commercial insurance for other types of losses.

NOTE M: BOND AND CONSTRUCTION IN PROGRESS

The Authority will issue a limited tax general obligation bond for \$10,500,000 for the construction of waste water treatments and improvements. The bond is to be repaid out of sewer user revenues but will be guaranteed by the full faith and credit of the member townships. The funding for this bond is issued through the Michigan Municipal Bond Authority's Clean Water Revolving Fund Program (also known as State Revolving Fund, SRF). The bond is estimated to bear interest at 1.625%. Principal payments are scheduled to begin in 2010 and continue through 2019. As of December 31, 2007, the Authority has completed approximately \$2.3 million in new construction. The Authority has borrowed \$1.05 million from SRF and has accounts payable regarding this construction of approximately \$1.2 million.



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January 9, 2009

Board of Commissioners
Houghton Lake Sewer Authority
Houghton Lake, MI

In planning and performing our audit of the financial statements of the business type activity of the Houghton Lake Sewer 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit'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 a combination of control deficiencies, that adversely affects the Township'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 Authority'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.

Segregation of Duties

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the Authority's staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected during normal activities.

Preparation of Financial Statements

The above definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Authority has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a

consequence, the Authority has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. IN 2008, the Authority has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other Governmental Units of its size.

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

Respectfully submitted,

Keskine, Cook, Miller & Reppuhn LLP

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January 9, 2009

Board of Commissioners
Houghton Lake Sewer Authority
Houghton Lake, MI

We have audited the financial statements of the business type activity of the Houghton Lake Sewer Authority (the Authority) for the year ended December 31, 2007, and have issued our report thereon dated January 9, 2009. 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, 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 previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 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. 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 accumulated depreciation is based on the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop the useful life 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. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the Authority's Measurement Focus and Basis of Accounting policy in Note 2 to the financial statements. We evaluated standard governmental accounting policies and procedures in determining the adequacy of the disclosure from a neutral, consistent and clear perspective for the end user.

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 January 9, 2008

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 Authority'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Timing of Audit

The Authority contacted us on June 23, 2008, to complete an audit due June 30, 2008. This occurred after repeated communications from us beginning in February of 2008 to schedule field work sooner. We were contacted on June 9, 2007, to complete the audit for December 31, 2006, by June 30, 2007, which we did. The compressed time frame creates issues unnecessary for an audit. We recommend you schedule your audits at a reasonable time.

General ledger/Cash reconciliations

The general ledger we received on June 23 for the year ended December 31, 2007, was created in 2008. General ledgers should be maintained regularly. Additionally, the cash accounts were not reconciled in a timely manner and in fact did not agree to the general ledger. The authority subsequently made attempts to reconcile cash and created new general ledgers when corrections were made. We were dealing with new numbers in the accounts several times during the audit. We recommend cash accounts be reconciled monthly in a timely manner and reconciled to the general ledger (not just the checkbook). The general ledger should be done in a timely manner, i.e. deposits entered timely with sufficient detail, checks

entered timely, etc. In 2008, we understand the Authority has begun to keep a general ledger and reconcile cash in a timely manner

Activity Not Recorded

All financial activity must be recorded in the general ledger. We noted construction activity was not recorded in the books of the Authority. Additionally, since the Authority has become an autonomous entity and assumed ownership of the sewer system, it failed to record these assets in its books and records until the audit. The Authority also continued to collect and keep receivables due to the member Townships with out an understanding of this transaction. If the Authority has accounting questions, it should seek appropriate consultation.

Segregation of Duties

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the Authority's staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected during normal activities.

Preparation of Financial Statements

The definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles (GAAP). As a matter of convenience, the Authority has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Authority has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. Beginning in 2008 we understand the Authority has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other Governmental Units of its size.

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

Respectfully submitted,

Keskine, Cook, Miller & Reppuhn LLP

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