

### 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 Lexington-Worth Townships Utilities Auth.	County Sanilac County
Fiscal Year End February 28, 2007	Opinion Date August 7, 2007	Date Audit Report Submitted to State August 17, 2007		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

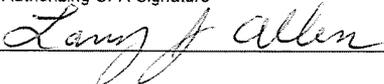
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Control
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple		Telephone Number (810) 984-3829
Street Address 1979 Holland Avenue		City Port Huron
		State MI
		Zip 48060
Authorizing CPA Signature 	Printed Name Larry J. Allen	License Number 1101008117

**LEXINGTON-WORTH TOWNSHIPS  
UTILITIES AUTHORITY**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEARS ENDED  
FEBRUARY 28, 2007 AND 2006**

Stewart,  
Beauvais  
& Whipple P.C.

---

CERTIFIED PUBLIC ACCOUNTANTS



# LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

## TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2
<b>Basic Financial Statements –</b>	
Statement of Net Assets	5
Statement of Revenues, Expenses and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8

## INDEPENDENT AUDITORS' REPORT

To the Lexington-Worth Townships  
Utilities Authority Board

We have audited the accompanying Financial Statements of the Lexington-Worth Townships Utilities Authority as of February 28, 2007 and 2006, and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Authority. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contain in *Government Auditing Standards*, issued by the Comptroller General of the United States. These 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 audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements referred to above presents fairly, in all material respects, the financial position of the Lexington-Worth Townships Utilities Authority as of February 28, 2007 and 2006, and the results of its operation and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 4 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 7, 2007, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

  
Certified Public Accountants

August 7, 2007

# LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

---

## Management's Discussion and Analysis

Our discussion and analysis of the Lexington-Worth Townships Utilities Authority's financial statements provides an overview of the Authority's financial activities for the fiscal years ended February 28, 2007 and 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets provide information about the activities of the Authority and present a long-term view of the Authority's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis (this section), the basic financial statements.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets regardless of when cash is received or paid. The two government-wide statements report the Authority's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities; this is one way to measure the Authority's financial health or position.
- The third statement is the Statement of Cash Flows, which shows the change in cash and cash equivalents presenting all activity of the Authority on a cash basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

#### *Government-wide Financial Statements*

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority, you need to consider additional factors such as changes in the general economy, new DEQ regulations, etc.

#### *Fund Financial Statements*

The Authority has only one fund, the Operating Fund, in which all of the Authority's activities are accounted. The Operating Fund is a business-type fund, which accounts for activities on an accrual basis.

## FINANCIAL OVERVIEW

The Authority had net assets of \$696,501 at February 28, 2007. This is an increase of \$2,169 from fiscal 2006. Of the net assets at February 28, 2007, \$620,190 was a result of capital assets, with the remaining unrestricted. The table below summarizes the net assets at February 28, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current assets	\$ 113,562	\$ 84,258
Capital assets	<u>620,190</u>	<u>637,546</u>
Total assets	<u>733,752</u>	<u>721,804</u>
<b>Liabilities</b>		
Current liabilities	<u>37,251</u>	<u>27,472</u>
<b>Net Assets</b>		
Invested in capital assets - Net	620,190	637,546
Unrestricted	<u>76,311</u>	<u>56,786</u>
Total net assets	<u>\$ 696,501</u>	<u>\$ 694,332</u>

The current assets do not reflect a receivable from a water customer for a billing that resulted from water line leakage between the connection to the main line and the meter. The customer is disputing the entire amount. See Note 3 to the Financial Statements for more detail.

The current liabilities do not reflect a contingent liability to the Village of Lexington because of a disagreement between the Authority and the Village as to the rate per thousand gallons. See Note 5 to the Financial Statements for more detail.

The following table summarizes the change in net assets for fiscal 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Operating Revenue	\$ 350,537	\$ 344,652
Operating Expenses	<u>349,174</u>	<u>338,671</u>
Operating Income	1,363	5,981
Non-Operating Revenue (Expenses)	<u>806</u>	<u>236</u>
Change in Net Assets	<u>\$ 2,169</u>	<u>\$ 6,217</u>

## CAPITAL ASSETS

The Lexington-Worth Townships Utilities Authority was established as an operating authority with the water utility distribution lines, belonging to the Townships of Lexington and Worth Townships. Water is purchased through agreement with the Village of Lexington, as the Village owns the Water Utility Plant. The following is a summary of the property and equipment owned by the Lexington-Worth Townships Utilities Authority at February 28, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Land	\$ 13,396	\$ 13,396
Easement	2,500	2,500
Building	133,629	133,629
Water Tower	528,569	528,569
Truck	16,350	16,350
Equipment	<u>14,738</u>	<u>14,738</u>
	709,182	709,182
Less accumulated depreciation	( <u>88,992</u> )	( <u>71,636</u> )
	<u>\$ 620,190</u>	<u>\$ 637,546</u>

## LONG-TERM DEBT

The long-term debt related to the construction of the water distribution lines has been assumed by the Townships of Lexington and Worth. The long-term debt is recorded in the records of the respective townships.

## ECONOMIC FACTORS AND NEXT YEARS OPERATIONS

Along with the anticipated settlement with the Village of Lexington on the cost per 1,000 gallon for water in the next year, to stabilize costs, the Authority has initiated a program to increase the number of customers by waiving the charge for a water meter for new customers during July 2007. This program is to help increase usage and provide a larger base of revenue to cover expenses, thus helping to assist in operating with limited rate increases.

## CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and other interested parties a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Lexington-Worth Townships Utilities Authority, 7265 Lakeshore, Lexington, Michigan 48450.

## **BASIC FINANCIAL STATEMENTS**

**LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY**

**STATEMENT OF NET ASSETS  
FEBRUARY 28, 2007 AND 2006**

	2007	2006
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 74,206	\$ 46,476
Accounts receivable -		
Water service	26,278	25,813
Interest	490	-
Inventory	488	1,948
Prepaid Insurance	12,100	10,021
	113,562	84,258
<b>Capital Assets:</b>		
Land	13,396	13,396
Easement	2,500	2,500
Building	133,629	133,629
Water Tower	528,569	528,569
Vehicles	16,350	16,350
Equipment	14,738	14,738
	709,182	709,182
Less-accumulated depreciation	( 88,992)	( 71,636)
	620,190	637,546
	\$ 733,752	\$ 721,804
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 34,504	\$ 25,128
Accrued Liabilities	2,747	2,344
	37,251	27,472
<b>Net Assets</b>		
Invested in capital assets	620,190	637,546
Unrestricted	76,311	56,786
	696,501	694,332
	\$ 733,752	\$ 721,804

See Notes to  
Financial Statements

**LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS  
FEBRUARY 28, 2007 AND 2006**

	2007	2006
<b>Operating Revenues:</b>		
Sales of services	\$ 347,437	\$ 344,175
Miscellaneous Revenue	3,100	477
	350,537	344,652
 <b>Net Cash Provided By Operating Activities</b>		
Salaries and fringes	94,593	92,239
Operating supplies	19,885	19,893
Contracted services	12,217	10,230
Insurance	16,931	15,574
Utilities and telephone	4,017	4,232
Repairs and maintenance	5,469	5,323
Gas and Oil	1,030	866
Printing and Publishing	183	101
Water purchases	169,812	160,809
Water testing and fees	630	683
Postage	4,780	4,862
Depreciation	17,356	19,346
Other	2,271	4,513
	349,174	338,671
 Operating Income	 1,363	 5,981
 <b>Non-Operating Revenues:</b>		
Interest earned	806	236
 Change in net assets	 2,169	 6,217
 Net asset at beginning of year	 694,332	 688,115
 Net assets at end of year	 \$ 696,501	 \$ 694,332

See Notes to  
Financial Statements

**LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY**

**STATEMENT OF CASH FLOWS  
FEBRUARY 28, 2007 AND 2006**

	2007	2006
<b>Cash Flows From Operating Activities:</b>		
Receipts from customers	\$ 349,582	\$ 345,156
Purchase of water	( 163,056)	( 161,163)
Payments to suppliers	( 65,412)	( 71,345)
Payments to employees, board and payroll benefits	( 94,190)	( 91,913)
Net Cash Provided By Operating Activities	26,924	20,735
<b>Cash Flow From Capital and Related Financing Activities</b>		
Acquisition of Fixed Assets	-	( 1,150)
Net Cash Used by Capital and Related Financing Activities	-	( 1,150)
<b>Cash Flows From Investing Activities:</b>		
Interest Earned	806	236
Net Cash Provided by Investing Activities	806	236
Net Increase in cash	27,730	19,821
Cash at beginning of year	46,476	26,655
Cash at end of year	\$ 74,206	\$ 46,476
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>		
Operating income for the year	\$ 1,363	\$ 5,981
Adjustments to reconcile operating loss to net cash used by operating activities -		
Depreciation	17,356	19,346
Changes in assets and liabilities -		
Accounts receivable	( 955)	504
Inventory	1,460	( 1,544)
Prepaid expenses	( 2,079)	( 535)
Accounts payable	9,376	( 3,343)
Accrued liabilities	403	326
	\$ 26,924	\$ 20,735

See Notes to  
Financial Statements

# LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2007 AND 2006

The accounting methods adopted by the Lexington-Worth Township Utilities conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are an integral part of the Authority's financial statements:

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### **A. Reporting Entity –**

The Lexington-Worth Townships Utilities Authority was created under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, by the Townships of Lexington and Worth, both located in the County of Sanilac, Michigan. The purpose of this Authority is to acquire, own, improve, enlarge, extend and operate a water supply system and/or wastewater collection and treatment system in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended.

The governing body of the Authority is a six (6) member Board of Trustees made up of three voting representatives for each Township.

#### **B. Government-Wide and Fund Financial Statements –**

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Authority. The Lexington-Worth Township Utilities Authority is accounted for in one business-type fund.

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

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed 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 this business-type activity, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted first, then unrestricted resources as they are needed.

#### **D. Assets, Liabilities, and Net Assets –**

##### **Cash and Cash Equivalent –**

The Authority's cash and cash equivalent are savings accounts, demand deposits, and short-term investments with original maturities of three months or less for the date of acquisition.

**LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007 AND 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):**

**Receivable –**

The Authority bills customers for water usage in both Lexington and Worth Townships. The receivable at year-end represents billing for February usage and delinquencies from prior months. Due to past experience, no allowance has been made for uncollectible accounts.

**Inventory –**

Represents meters that are held for sale to new customers, which are recorded at the lower of cost or market on the first in first out basis.

**Prepaid Items –**

Certain payments to vendors reflect cost applicable to future fiscal years and are recorded as prepaid expenses.

**Capital Assets –**

The Lexington-Worth Townships Utilities Authority was established as an operating authority with the water utility distribution lines, belonging to the Townships of Lexington and Worth Townships. Water is purchased through agreement with the Village of Lexington, as the Village of Lexington owns the Water Utility Plant.

**Estimates –**

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – CASH:**

The Lexington-Worth Township Utilities Authority's deposits consist of a checking account, saving account and a certificate of deposit. At February 28, 2007 and 2006 the carrying amounts are \$74,264 and \$46,476, respectively, and the bank balances are \$74,264 and \$45,634, respectively. The bank balances are insured by the FDIC.

**NOTE 3 – ACCOUNTS RECEIVABLE – WATER SERVICE:**

The Accounts Receivable – Water service of \$26,278 at February 28, 2007 and \$25,813 at February 28, 2006, represents billed user charges due at the end of the year. All water charges shall be deemed delinquent if not paid prior to the last day herein provided for payment of the same, and penalty of 5% shall be charged for each month, or fraction thereof, that the same shall remain delinquent. Provided further, that the water supply to any premises where the charges have been delinquent for a period of one (1) month or more may be shut off and withheld until payment of such delinquent charges is made to the Authority.

**LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007 AND 2006**

**NOTE 3 – ACCOUNTS RECEIVABLE – WATER SERVICE – (cont'd):**

All water charges shall be a lien upon the premises from and after their due date, and shall be assessed against said premises. All unpaid water charges which from the first day of June of each year have remained delinquent for a period of one (1) month shall be reported by the Authority and may require such charges to be transferred and reassessed upon the Township tax rolls in the same manner that unpaid special assessments are transferred and reassessed upon said tax roll. Delinquent water taxes may also be collected by suit brought in the name of the Lexington-Worth Townships Utilities Authority against the owner of the premises.

During the year a customer had a break in the water line between the connection to the main distribution line and the meter. An estimate was made of the water lost after the resulting leak was discovered, and the customer was billed approximately \$19,000 for the use of water. The customer has disputed the entire amount, and unless a settlement can be made, the authority will have to seek collection through legal proceedings. At present time the amount of collection is not determinable, and thus an amount has not been recorded as a receivable on the Statement of Net Assets of the Authority at February 28, 2007.

**NOTE 4 – CAPITAL ASSETS:**

The Lexington-Worth Townships Utilities Authority was established as an operating authority with the water utility distribution line, belonging to the Townships of Lexington and Worth Townships. Water is purchased through agreement with the Village of Lexington, as the Village owns the Water Utility Plant. The following is a summary of the property and equipment owned by the Lexington-Worth Townships Utilities Authority:

<u>Description</u>	<u>February 28, 2007</u>		
	<u>Original Costs</u>	<u>Accumulated Depreciation</u>	<u>Book Value (Net)</u>
Land	\$ 13,396	\$ -	\$ 13,396
Easement	2,500	-	2,500
Building	133,629	12,027	121,602
Water Tower	528,569	47,571	480,998
Truck	16,350	16,350	0
Equipment	<u>14,738</u>	<u>13,044</u>	<u>1,694</u>
Total	<u>\$ 709,182</u>	<u>\$ 88,992</u>	<u>\$ 620,190</u>

Depreciation expense for the year ended February 28, 2007 is \$17,356.

**LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007 AND 2006**

**NOTE 4 – CAPITAL ASSETS – (cont'd):**

Description	February 28, 2006		
	Original Costs	Accumulated Depreciation	Book Value (Net)
Land	\$ 13,396	\$ -	\$ 13,396
Easement	2,500	-	2,500
Building	133,629	9,354	124,275
Water Tower	528,569	37,000	491,569
Truck	16,350	14,715	1,635
Equipment	14,738	10,567	4,171
Total	\$ 709,182	\$ 71,636	\$ 637,546

Depreciation expense for the year ended February 28, 2006 is \$19,346.

**NOTE 5 – CONTINGENT LIABILITY:**

The Lexington-Worth Township Utilities Authority, through an agreement, purchases water from the Village of Lexington. Effective with the October 25, 2005 to November 29, 2005 billing, the Village of Lexington raised the rate from \$4.75 per 1,000 gallons to \$5.15 per 1,000 gallons. The Lexington-Worth Township Utilities Authority disputed the increase and has continued to pay all water purchases from the Village of Lexington at the \$4.75 per 1,000 gallons rate. The Lexington-Worth Township Utilities Authority and the Village of Lexington are negotiating language within the agreement and a revised rate per 1,000 gallons. As of February 28, 2007, the disputed amount unpaid is \$18,397, which has not been recorded as a liability.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

To the Lexington-Worth Townships  
Utilities Authority Board

We have audited the financial statements of the Lexington-Worth Townships Utilities Authority as of and for the year ended December 31, 2007, and have issued our report thereon, dated August 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Lexington-Worth Townships Utilities Authority's internal control over financial reporting 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 Lexington-Worth Townships Utilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting 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 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 Lexington-Worth Townships Utilities Authority's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

**Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.**

Management routinely prepares internal financial information to assess operations and the financial position of the Authority on an ongoing basis. Although the internal financial information is sufficient to operate the Authority, it is not presented in accordance with generally accepted accounting principles. The Authority contracts with us, the auditors, to draft the financial statements, including all necessary notes, in accordance with generally accepted accounting principles, since it does retain staffing that currently have the expertise.

This is considered to be a control deficiency since errors could occur in the preparation of the financial statements that would result in material deviations from generally accepted accounting principles and the Authority would not be in a position to detect them.

**Control over Financial Recordkeeping and Segregation Of Duties.**

The relative size of the Authority limits the extent to which the office staff can segregate duties and responsibilities which impairs the basic premise that no one individual should have access to both the physical assets and the related accounting records (or all recording tasks of a transaction from inception to completion).

The Authority has implemented mitigating controls to strengthen internal controls and the segregation of duties; however, it must be recognized that the risk of intentional or unintentional errors could be made and not detected in a timely manner.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lexington-Worth Townships Utilities Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lexington-Worth Townships Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

This report is intended solely for the information and use of management and the Board of the Lexington-Worth Townships Utilities Authority and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

August 7, 2007