

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 type="checkbox"/> Other				Local Unit Name		County	
Fiscal Year End		Opinion Date		Date Audit Report Submitted to State			

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 type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 		Printed Name		License Number

Chelsea Area Construction Agency

**Financial Report
with Supplemental Information
February 28, 2007**

Chelsea Area Construction Agency

Contents

Report Letter	1-2
Basic Financial Statements	
General Fund Balance Sheet/Statement of Net Assets	3
Statement of General Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities	4
Notes to Financial Statements	5-11
Required Supplemental Information	12
Budgetary Comparison Schedule - General Fund	13
Budgetary Comparison Schedule - Soil Erosion Fund	14

Independent Auditor's Report

To the Board of Directors
Chelsea Area Construction Agency

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chelsea Area Construction Agency as of and for the year ended February 28, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Chelsea Area Construction Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Chelsea Area Construction Agency as of February 28, 2007 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The budgetary comparison schedules (identified in the table of contents as required supplemental information) are not a required part of the basic financial statements but are supplemental information required by 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.

To the Board of Directors
Chelsea Area Construction Agency

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

August 3, 2007

Chelsea Area Construction Agency

General Fund Balance Sheet/Statement of Net Assets February 28, 2007

	General Fund	Soil Erosion Fund	Balance Sheet - Modified Accrual	Adjustments (Note 7)	Statement of Net Assets - Full Accrual Basis
Assets					
Cash and cash equivalents (Note 2)	\$ 279,202	\$ 111,379	\$ 390,581	\$ -	\$ 390,581
Due from Soil Erosion Fund	31,943	-	31,943	(31,943)	-
Other current assets	13,740	-	13,740	-	13,740
Capital assets being depreciated (Note 3)	-	-	-	12,710	12,710
Capital assets not being depreciated (Note 3)	-	-	-	480,450	480,450
Total assets	<u>\$ 324,885</u>	<u>\$ 111,379</u>	<u>\$ 436,264</u>	461,217	897,481
Liabilities					
Deposits	\$ -	\$ 56,200	\$ 56,200	-	56,200
Accrued liabilities	1,403	-	1,403	-	1,403
Due to General Fund	-	31,943	31,943	(31,943)	-
Compensated absences	-	-	-	28,144	28,144
Total liabilities	1,403	88,143	89,546	(3,799)	85,747
Fund Balance					
Designated for construction (Note 1)	300,000	-	300,000	(300,000)	-
Unreserved and undesignated	23,482	23,236	46,718	(46,718)	-
Total fund balance	<u>323,482</u>	<u>23,236</u>	<u>346,718</u>	<u>(346,718)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 324,885</u>	<u>\$ 111,379</u>	<u>\$ 436,264</u>		
Net Assets					
Invested in capital assets - Net of related debt				493,160	493,160
Unrestricted				318,574	318,574
Total net assets				<u>\$ 811,734</u>	<u>\$ 811,734</u>

Chelsea Area Construction Agency

Statement of General Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended February 28, 2007

	General Fund	Soil Erosion Fund	Revenues and Expenditures - Modified Accrual	Adjustments (Note 7)	Statement of Activities, Full Accrual Basis
Operating Revenue					
Permits	\$ 489,393	\$ 17,780	\$ 507,173	\$ -	\$ 507,173
Miscellaneous	19,275	-	19,275	-	19,275
Interest income	8,667	1,556	10,223	-	10,223
Total operating revenue	517,335	19,336	536,671	-	536,671
Operating Expenditures					
Salaries	119,819	-	119,819	(4,212)	115,607
Payroll taxes	9,202	-	9,202	-	9,202
Workers' compensation	4,887	-	4,887	-	4,887
Medical expense	37,455	-	37,455	-	37,455
Pension	8,128	-	8,128	-	8,128
Vehicle expense	8,202	-	8,202	-	8,202
Equipment rental	2,431	-	2,431	-	2,431
Insurance	4,883	-	4,883	-	4,883
Professional services	19,797	-	19,797	-	19,797
Telephone	10,793	-	10,793	-	10,793
Miscellaneous	2,822	5,668	8,490	-	8,490
Inspections	203,980	12,600	216,580	-	216,580
Dues and subscriptions	2,635	-	2,635	-	2,635
Education and training	2,557	-	2,557	-	2,557
Office rent	9,231	-	9,231	-	9,231
Office expense	13,121	-	13,121	-	13,121
Capital outlay	73,198	-	73,198	(72,757)	441
Legal settlement	72,000	8,000	80,000	-	80,000
Depreciation	-	-	-	2,739	2,739
Total operating expenditures	605,141	26,268	631,409	(74,230)	557,179
Excess of Expenditures Over Revenue	(87,806)	(6,932)	(94,738)	74,230	(20,508)
Fund Balance/Net Assets - March 1, 2006	411,288	30,168	441,456	390,786	832,242
Fund Balance/Net Assets - February 28, 2007	<u>\$ 323,482</u>	<u>\$ 23,236</u>	<u>\$ 346,718</u>	<u>\$ 465,016</u>	<u>\$ 811,734</u>

Chelsea Area Construction Agency

**Notes to Financial Statements
February 28, 2007**

Note I - Nature of Organization and Summary of Significant Accounting Policies

Reporting Entity

The Chelsea Area Construction Agency (the "Agency") is governed by a board of directors that is appointed by participating municipalities. The Agency was formed effective February 8, 2000 through a cooperative interlocal agreement between the City of Chelsea, Dexter Township, Lima Township, Lyndon Township, Sharon Township, and Sylvan Township. The Agency provides building, electrical, mechanical, and plumbing permits, along with other related services, to residents of these communities.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Agency, there are no component units to be included in these financial statements.

The accounting policies of the Chelsea Area Construction Agency conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Chelsea Area Construction Agency:

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Agency's basic financial statements included both government-wide (reporting the Agency as a whole) and fund financial statements (reporting the Agency's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Agency's net assets are reported in two parts: invested in capital assets and net of related debt and unrestricted net assets.

Chelsea Area Construction Agency

**Notes to Financial Statements
February 28, 2007**

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Agency. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to first apply restricted resources.

The Agency reports the following major governmental funds:

General Fund - The General Fund is the Agency's primary operating fund. It accounts for all financial resources of the Agency, except those related to soil erosion inspections.

Soil Erosion Fund - The Soil Erosion Fund accounts for the activity associated with soil erosion inspections.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Chelsea Area Construction Agency

Notes to Financial Statements February 28, 2007

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and money market accounts.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to General Fund" and "due from Soil Erosion Fund."

Fixed Assets - Generally, capital assets are defined by the Agency as assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. 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.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5-10 years
Leasehold improvements	15 years
Software	3 years

Compensated Absences (Vacation and Sick Leave) - It is the Agency's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

The following is a summary of the changes to accrued compensated absences during the year ended February 28, 2007:

Balance March 1, 2006	Deductions	Balance February 28, 2007
\$ 32,356	\$ (4,212)	\$ 28,144

Chelsea Area Construction Agency

**Notes to Financial Statements
February 28, 2007**

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Designated Fund Balance - Designations of fund balance represent tentative management plans that are subject to change. The designated fund balance at February 28, 2007 has been designated by the board of directors for the eventual construction of an office facility for the Agency.

Related Parties - The Agency rents its office space from Sylvan Township for a total of \$850 per month.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Cash

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Agency is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Agency has designated one bank for the deposit of its funds. The Agency has not adopted an official investment policy for unrestricted funds. The Agency's investments are in accordance with the Uniform Management of Institutional Funds Act, Public Act 157 of 1976.

Chelsea Area Construction Agency

Notes to Financial Statements February 28, 2007

Note 2 - Cash (Continued)

The Agency's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a deposit policy for custodial credit risk. At year end, the Agency had \$284,405 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Agency believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Agency evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk levels are used as depositories.

Note 3 - Capital Assets

Capital asset activity of the Agency is as follows:

	Balance March 1, 2006	Additions	Disposals and Adjustments	Balance February 28, 2007
Capital assets not being depreciated:				
Land	\$ 343,724	\$ -	\$ -	\$ 343,724
Construction in progress	65,106	71,620	-	136,726
Subtotal	408,830	71,620	-	480,450
Capital assets being depreciated:				
Office furniture and equipment	19,507	1,137	-	20,644
Leasehold improvements	12,225	-	-	12,225
Software	8,035	-	-	8,035
Subtotal	39,767	1,137	-	40,904
Accumulated depreciation:				
Office furniture and equipment	(12,530)	(1,924)	-	(14,454)
Leasehold improvements	(4,890)	(815)	-	(5,705)
Software	(8,035)	-	-	(8,035)
Total accumulated depreciation	(25,455)	(2,739)	-	(28,194)
Net capital assets being depreciated	14,312	(1,602)	-	12,710
Net capital assets	<u>\$ 423,142</u>	<u>\$ 70,018</u>	<u>\$ -</u>	<u>\$ 493,160</u>

Depreciation expense was \$2,739 for the year ended February 28, 2007.

Chelsea Area Construction Agency

Notes to Financial Statements February 28, 2007

Note 4 - Budget Information

The annual budget is prepared and adopted by the Agency board. Subsequent amendments are also approved by the Agency board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at February 28, 2007 has not been calculated. The budget is prepared by the Agency board and is ratified at the last meeting of the previous fiscal year. Amendments to the budget are made by the Agency board during the year. The budget may be amended up to the last day of the current fiscal year. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget for both the General Fund and Soil Erosion Fund have been adopted on a total fund basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A line item comparison of actual results of operations to the budget (for internal use only) can be seen by examining the totals in the budgetary comparison schedule - General Fund in the required supplemental information section. All expenditures were approved by the board.

Note 5 - Risk Management

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Agency has purchased commercial insurance for all such claims.

Note 6 - Defined Contribution Retirement Plan

The Agency provides pension benefits for all its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees become participants in the plan immediately. Employees may make voluntary contributions totaling 4 percent of the employee's includable compensation. The Agency has committed to and is currently making contributions totaling 3 percent of includable compensation. Also, the Agency will make a matching contribution totaling 100 percent of the employee's own contribution. Full vesting takes place immediately for all contributions and related account earnings. The Agency contributed \$8,128 during the current year and employees contributed \$4,645.

Chelsea Area Construction Agency

Notes to Financial Statements
February 28, 2007

Note 7 - Reconciliation of General Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Agency's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the General Fund balance sheet and statement of revenue, expenditures, and changes in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified accrual basis	\$ 346,718
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	493,160
Compensated absences are included as a liability	<u>(28,144)</u>
Net Assets of General Fund - Full accrual basis	<u>\$ 811,734</u>
Net Change in Fund Balances - Modified accrual basis	\$ (94,738)
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	72,757
Depreciation	(2,739)
Decrease in accrual for long-term compensated absences reported as a decrease in expenditure in the statement of activities, but not in the fund statements	<u>4,212</u>
Change in Net Assets of General Fund - Full accrual basis	<u>\$ (20,508)</u>

Required Supplemental Information

Chelsea Area Construction Agency

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended February 28, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Permits	\$ 624,000	\$ 547,045	\$ 489,393	\$ (57,652)
Miscellaneous	10,500	8,676	19,275	10,599
Interest income	6,000	8,986	8,667	(319)
Total revenue	640,500	564,707	517,335	(47,372)
Expenditures				
Salaries	122,000	121,734	119,819	1,915
Payroll taxes	10,000	9,300	9,202	98
Workers' compensation	8,200	4,700	4,887	(187)
Medical expense	33,000	38,700	37,455	1,245
Pension	11,000	8,400	8,128	272
Vehicle expense	7,000	7,700	8,202	(502)
Equipment rental	2,000	2,800	2,431	369
Insurance	4,500	4,900	4,883	17
Professional services	16,000	22,200	19,797	2,403
Telephone	10,000	11,000	10,793	207
Miscellaneous	2,500	4,100	2,822	1,278
Inspections	270,000	215,000	203,980	11,020
Dues and subscriptions	1,400	3,050	2,635	415
Education and training	1,500	400	2,557	(2,157)
Office rent	9,000	9,300	9,231	69
Office expense	29,900	15,555	13,121	2,434
Legal settlement	-	80,000	72,000	8,000
Capital outlay	502,500	90,525	73,198	17,327
Total expenditures	1,040,500	649,364	605,141	44,223
Excess of Expenditures Over Revenue	(400,000)	(84,657)	(87,806)	(3,149)
Fund Balance - March 1, 2006	411,288	411,288	411,288	-
Fund Balance - February 28, 2007	<u>\$ 11,288</u>	<u>\$ 326,631</u>	<u>\$ 323,482</u>	<u>\$ (3,149)</u>

Chelsea Area Construction Agency

Required Supplemental Information Budgetary Comparison Schedule - Soil Erosion Fund Year Ended February 28, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Permits	\$ 25,000	\$ 25,000	\$ 17,780	\$ (7,220)
Interest income	1,500	1,500	1,556	56
Total revenue	26,500	26,500	19,336	(7,164)
Expenditures				
Inspector	10,000	10,000	12,600	(2,600)
Clerical	2,080	2,080	2,080	-
Office expenses	1,000	1,000	1,688	(688)
Printing	600	600	-	600
Bank charges	250	250	-	250
Miscellaneous charges	1,000	1,000	1,000	-
Rent	900	900	900	-
Legal settlement	-	-	8,000	(8,000)
Capital outlay	10,670	10,670	-	10,670
Total expenditures	26,500	26,500	26,268	232
Excess of Expenditures Over Revenue	-	-	(6,932)	(6,932)
Fund Balance - March 1, 2006	30,168	30,168	30,168	-
Fund Balance - February 28, 2007	<u>\$ 30,168</u>	<u>\$ 30,168</u>	<u>\$ 23,236</u>	<u>\$ (6,932)</u>

August 3, 2007

To the Members of the Agency Board
Chelsea Area Construction Agency
18027 Old U.S. 12, Suite 100
Chelsea, Michigan 48118

Dear Board Members:

We have recently completed our audit of the financial statements of the Chelsea Area Construction Agency for the year ended February 28, 2007. As a result of our engagement, we offer the following comments and recommendations for your consideration.

Significant Deficiencies

New auditing rules effective December 15, 2006 have resulted in some changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standards (Statement on Auditing Standards Number 112, referred to as SAS 112) require us to inform you about any matters noted in your accounting procedures or internal controls that the new auditing standards define as a significant deficiency. The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency. For example, the requirements of SAS 112 go so far as to classify certain journal entries proposed by your auditor as a significant deficiency.

We are also required to communicate these matters to more people. In the past, we have provided our comments and observations as part of a meeting or discussion at the end of our work directly to management. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the board of directors, in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit of the financial statements of the Chelsea Area Construction Agency (the "Agency") as of and for the year ended February 28, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 a deficiency in internal control that we consider to be a significant deficiency.

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 accounting principles generally accepted in the United States of America 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:

- A more than inconsequential audit adjustment was required related to insurance proceeds in order for the financial statements to be in accordance with GAAP.
- Plante & Moran, PLLC has been tracking and depreciating the capital assets for the Agency since GASB No. 34 was implemented several years ago. The Agency does identify capital assets in the general ledger; however, there is not a system in place to record the assets and track the depreciation. It is our understanding that the bookkeeper will maintain these records and record depreciation going forward.
- The cash receipts are not being tracked on prenumbered receipts, nor are there receipts being reconciled to the bank deposits or general ledger. The Agency could improve the cash receipting system to include prenumbered receipts, and to reconcile receipts to the bank deposits and to the general ledger. This will provide a stronger control environment for cash receipts.
- Overall, there is a general lack of segregation of duties. The same individual has the ability to make electronic bank transfers, record manual journal entries, has sole access to the general ledger, and reconciles the bank statements. The Agency should consider having the building official or a member of the board review the manual journal entries and the bank reconciliations on a monthly basis.
- The management's discussion and analysis has been excluded from the financial statements.

Additionally, we offer the following comments and recommendations for your consideration:

Formalization of Various Policies

As the Agency continues to grow and as board membership may change over time, it is important that the various Agency policies are written and formally adopted by the board to ensure continuity and consistency. We commend the Agency for officially adopting a record retention policy and a personnel manual. We recommend that the Agency continue to formalize and adopt written policies such as for allowable investments (as required by Michigan Public Act 196 of 1997) and a wire transfer policy that outlines who is responsible and allowed to perform transfers.


We would like to thank the board of directors and staff for the courtesy and cooperation extended to us during the audit. We appreciate the continued opportunity to serve as your auditors for the Agency. We would be happy to answer any questions you have regarding the annual financial report, or the above comments and recommendations at your convenience.

Very truly yours,

Plante & Moran, PLLC



David H. Helisek



Brian J. Camiller