

AUDIT COMMUNICATION LETTER

May 28, 2009

To the Members of the Board
Charter Township of Harrison
Harrison Township, Michigan

We have audited the financial statement of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Harrison for the year ended December 31, 2008, and have issued our report thereon dated May 28, 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 and *Government Auditing Standards*

As stated in our engagement letter dated January 29, 2009, 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.

As part of our audit, we considered the internal control of the Charter Township of Harrison. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Charter Township of Harrison's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our Preliminary Audit Communication Letter, and discussions with the Clerk and the Finance Director.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Charter Township of Harrison are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transaction 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

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 the estimate for unbilled water and sewer services. The estimate is based on subsequent billings and historical data. We evaluated the key factors and assumptions used to develop the unbilled water and sewer services 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 user. The most sensitive disclosure affecting the financial statements was:

The disclosure of the custodial credit risk of deposits in Note 3 of the financial statements indicates the Township holds \$576,353 of total deposits of which \$126,661 is insured with the remaining \$449,692 uninsured/uncollateralized, is particularly sensitive to the financial users given the risk of a bank failure, the Townships deposit may not be returned.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements indentified 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, the following material misstatements detected as a result of audit procedures were corrected by management (we also proposed and management corrected a number of immaterial misstatements):

- Adjustment in the classification of the Employee Health Care Fund from a Fiduciary to a Special Revenue Fund
- To reclassify a drain project from the Water and Sewer Fund to the General Fund and to capitalize the project in the GASB No. 34 Fund.
- Recording of taxes receivable and related deferred revenue at year end
- Recording of the post employment obligation liability in the GASB No. 34 Fund and the Water and Sewer Fund.
- Record the forfeiture of building bonds in the Building Inspection Fund
- Record allowance for uncollectible advance expenses recorded in the Special Assessment Revolving Fund

Management Consultations with Other Independent Accountants

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

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.

Difficulties Encountered in Performing the Audit

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 28, 2009.

Other

In the Report on Internal Control Over Financial Reporting and On Compliance and Other Matters, we noted one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

In addition to the Report on Internal Control, we noted a few other items that, although are not considered significant deficiencies, could improve controls, the operational efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.

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.

This information is intended solely for the use of the Township Board and management of the Charter Township of Harrison and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Attachment A

The following is a list of items that we discussed with administration that are not considered significant deficiencies, however, are items that could improve controls, the operational efficiency of the accounting department and/or compliance with laws and regulations:

Accounts receivable should be reconciled to the general ledger on a periodic basis.

At year-end, the Township's accounts receivables for various ordinance violations did not reconcile to the general ledger. It was our understanding that the current accounting software has a subledger to maintain a listing of the receivables; however, it is not integrated with the general ledger or reconciled on a periodic basis. We recommend that procedures be implemented to reconcile the subledger to the general ledger on a periodic basis.

A formal review of the "forfeitable" building bonds should be made on a scheduled periodic basis.

Subsequent to year-end it was noted that there was a large transfer of forfeited building bonds to the Building Inspection fund that related to bonds obtained in prior years. (We proposed an audit adjustment to record the activity in 2008 and management agreed). It is our understanding that the transfer was made in 2009 because of time constraints within the building department to perform a review of the outstanding bonds and determine which bonds should be forfeited. In the future we recommend that there be a set schedule (preferably a couple times a year, with one at or near the end of the year) to identify any bonds, which may be forfeited, and have the forfeitures approved by the Board.

The Board should consider establishing an "irrevocable trust fund" for funding of post retirement benefits.

For the year ended December 31, 2008 the Retiree Health Care Fund was reclassified from a fiduciary fund to a special revenue fund since the fund was not legally established as an "irrevocable trust fund" in which the assets are dedicated to providing plan benefits and are legally protected from creditors of the employer or plan administrator. We recommend that the Board consider the pros and cons of establishing an "irrevocable" trust fund for the funding of post retirement benefits.