

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 SIMS-WHITNEY UTILITIES AUTHORITY	County ARENAC
Fiscal Year End 06/30/07	Opinion Date 10/12/07	Date Audit Report Submitted to State 10/30/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

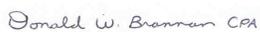
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

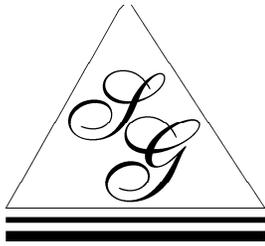
YES NO **Check each applicable box below.** (See instructions for further detail.)

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 checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.		Telephone Number (989) 362-4491	
Street Address 325 NEWMAN STREET, PO BOX 592		City EAST TAWAS	State Zip MI 48730
Authorizing CPA Signature  <small>Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2007.10.20 15:22:09 -0500</small>	Printed Name DONALD W BRANNAN, CPA		License Number 1101021039



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Gerald D Gracik Jr., CPA
James J Gracik, CPA
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SIMS-WHITNEY UTILITIES AUTHORITY
ARENAC COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2007

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AUDITORS' REPORT

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BASIC FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

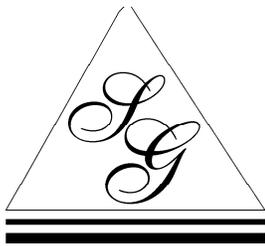
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
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Herman A Bertuleit, CPA

October 12, 2007

Independent Auditors' Report

Members of the Authority Board
Sims-Whitney Utilities Authority
Arenac County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Sims-Whitney Utilities Authority, Arenac County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Utilities Authority's basic financial statements as listed in the index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinion s 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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 s.

In our opinion , the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the business-type activities of the Sims-Whitney Utilities Authority, Arenac County, Michigan, as of June 30, 2007, and the changes in financial position , and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2007, on our consideration of the Sims-Whitney Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Sims-Whitney Utilities Authority, Arenac County, Michigan, has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Stephenson, Gracik & Co., P.C.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

STATEMENT OF NET ASSETS
 June 30, 2007
With Comparative Totals for June 30, 2006

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 127,756	\$ 52,452
Investments (Note 2)	90,874	137,605
Receivables:		
Accounts	8,546	8,790
Contracts (Note 1)	2,469,932	2,878,932
Due from local units	0	20,345
Inventories (Note 1)	<u>25,910</u>	<u>30,431</u>
Total current assets	2,723,018	3,128,555
Capital assets, net (Note 4)	<u>3,389,538</u>	<u>3,484,931</u>
Total Assets	<u>6,112,556</u>	<u>6,613,486</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	12,684	13,013
Due to local units	35,251	6,679
Deferred revenue	1,265	0
Current portion of long-term liabilities (Note 5)	<u>160,000</u>	<u>150,000</u>
Total current liabilities	209,200	169,692
Long-term liabilities:		
Noncurrent portion of long term liabilities (Note 5)	<u>2,308,000</u>	<u>2,727,000</u>
Total Liabilities	<u>2,517,200</u>	<u>2,896,692</u>
<u>Net Assets</u>		
Invested in capital assets	3,389,538	3,484,931
Restricted (Note 1)	130,217	159,769
Unrestricted	<u>75,601</u>	<u>72,094</u>
Total Net Assets	<u>\$ 3,595,356</u>	<u>\$ 3,716,794</u>

The accompanying notes to financial statements are an integral part of this statement.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30,2007

With Comparative Totals for the Year Ended June 30, 2006

	2007	2006
<u>Operating Revenue</u>		
Charges for services	\$ 282,710	\$ 276,113
Rents	15,180	15,180
Other	461	49
Total operating revenue	298,351	291,342
<u>Operating Expenses</u>		
Salaries and wages	60,637	63,217
Payroll taxes	4,286	4,554
Employee benefits	30,684	32,938
Operating supplies	131,223	53,650
Contracted services	4,731	4,601
Purchase of water	40,945	41,231
Insurance	12,195	13,169
Telephone	2,405	2,480
Utilities	14,163	14,038
Vehicle expense	3,247	2,609
Other	12,836	8,804
Depreciation	109,289	105,932
Total operating expenses	426,641	347,223
Operating loss	(128,290)	(55,881)
<u>Non-operating Revenue (Expenses)</u>		
Interest income	6,852	4,471
Local reimbursements	147,743	156,248
Bond interest expense and paying agent fees	(147,743)	(156,248)
Total non-operating revenue	6,852	4,471
Change in net assets	(121,438)	(51,410)
Net assets - beginning of year	3,716,794	3,768,204
Net assets - end of year	\$ 3,595,356	\$ 3,716,794

The accompanying notes to financial statements are an integral part of this statement.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

STATEMENT OF CASH FLOWS
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u>	<u>2006</u>
<u>Cash Flows From Operating Activities</u>		
Cash received from customers	\$ 348,777	\$ 278,934
Cash paid to suppliers and employees	<u>(313,160)</u>	<u>(283,776)</u>
Net cash provided (used) by operating activities (Note 6)	<u>35,617</u>	<u>(4,842)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Cash purchase of property, plant and equipment	(13,896)	(21,577)
Cash received from contracts receivable	409,000	176,650
Reimbursements from local units	147,743	156,248
Repayment of bonds payable	(409,000)	(177,000)
Interest and paying agent fees paid	<u>(147,743)</u>	<u>(156,248)</u>
Net cash used by capital and related financing activities	<u>(13,896)</u>	<u>(21,927)</u>
<u>Cash Flows From Investing Activities</u>		
Purchase of investment securities	(44,285)	(92,000)
Proceeds from maturity of investment securities	97,005	59,393
Interest on investments	<u>863</u>	<u>1,977</u>
Net cash provided (used) by investing activities	<u>53,583</u>	<u>(30,630)</u>
Net increase (decrease) in cash and cash equivalents	75,304	(57,399)
Cash and cash equivalents at beginning of year (Note 1)	<u>52,452</u>	<u>109,851</u>
Cash and cash equivalents at end of year (Note 1)	<u>\$ 127,756</u>	<u>\$ 52,452</u>

The accompanying notes to financial statements are an integral part of this statement.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Sims-Whitney Utilities Authority conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The following is a summary of the significant accounting policies.

A. Description of Authority's Operations

The Sims-Whitney Utilities Authority (Authority) operates as a joint venture under the supervision and control of an elected Authority Board (four members) and provides water supply and distribution to its residents for Sims Township and Whitney Township. The Authority was incorporated January 18, 1980 as a joint venture among the above-mentioned municipalities for the purpose of acquiring, owning, improving, enlarging, extending and operating water supply and distribution systems and sewage disposal systems in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended.

Each constituent Township, who are parties to the joint authority, operates and administers their own water department providing services to individual customers of the water system. Those activities of Sims Township and Whitney Township are conducted by the separate governmental entities and are not a part of this report.

The accompanying basic financial statements of the Authority have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, that apply to all proprietary fund type activities, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Authority's Enterprise 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.

C. Basis of Presentation

The Authority's basic financial statements consist of fund financial statements which provide a detailed level of financial information.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

Fund Financial Statements

During the year, the Authority segregates transactions related to certain Authority functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Authority at a detailed level.

D. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

G. Other

Contracts Receivable

Contracts receivable consist of monies due to the Authority from Sims Township and Whitney Township for reimbursement of the various bonds payable of the Authority.

Inventories

Inventories are recorded at average cost which approximates market. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Other (Continued)

Capital Assets

Capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Expenditures for maintenance, repairs and renewals are charged to operations as incurred and betterments are capitalized. The Authority eliminates the cost and related allowances from the accounts for assets sold or retired and resulting gains or losses therefrom are included in operations concurrently.

Restricted Net Assets

Restricted net assets represents the assets to be used for future tower, filter and vehicle replacements.

Charges for Services

Revenue from the sale of water services is billed and recognized by each individual municipality. The Authority recognizes revenue for services as charged to each municipality based on an agreement between the Authority and the municipalities. Each municipality will reimburse the Authority their share of the operating and maintenance budget costs. Variable costs are allocated in direct proportion of gallons pumped per municipality to total gallons pumped by the Authority. Fixed costs are shared equally by the Townships.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	\$ 127,756
Investments	<u>90,874</u>
	<u>\$ 218,630</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings accounts, certificates of deposit)	<u>\$ 218,630</u>
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Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2007, \$247,648 of the Authority's bank balance of \$451,389 was exposed to custodial credit risk.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 3 - UNEMPLOYMENT COMPENSATION

The Authority is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Authority must reimburse the State for all benefits charged against the Authority. No liabilities were due as of June 30, 2007.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>07/01/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/07</u>
Construction in progress	\$ 104,353	\$ 0	\$ 104,353	\$ 0
Equipment	56,031	2,874	0	58,905
Vehicles	13,972	0	0	13,972
Water system	<u>5,073,122</u>	<u>115,375</u>	<u>0</u>	<u>5,188,497</u>
	5,247,478	118,249	104,353	5,261,374
Less accumulated depreciation	<u>(1,762,547)</u>	<u>(109,289)</u>	<u>0</u>	<u>(1,871,836)</u>
Net property, plant and equipment	<u>\$ 3,484,931</u>	<u>\$ 8,960</u>	<u>\$ 104,353</u>	<u>\$ 3,389,538</u>

The water system is stated at cost. Depreciation is calculated using straight-line basis at the rate of 2% to 20% per year. The estimated useful lives are as follows:

Water system	50 years
Equipment and vehicles	5 years

NOTE 5 - LONG-TERM LIABILITIES

Bonds Payable

\$1,161,000 Water Revenue Bond Issue Dated December 18, 1984 of Sims-Whitney Utilities Authority (Water System Bond)

Said bonds are issued for the purpose of financing the construction of additions, extensions, improvements and related appurtenances to the Sims-Whitney Utilities Authority's water system. The payments of principal and interest are made from the proceeds of contractual payments to be made by Sims Township and Whitney Township. The municipalities have pledged their full faith and credit for the payment of their contractual payments. The Authority has pledged the contractual payments and its full faith and credit for payment.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

\$1,161,000 Water Revenue Bond Issue Dated December 18, 1984 of Sims-Whitney Utilities Authority (Water System Bond) (Continued)

Annual Principal and Interest Requirements

<u>Fiscal Year</u>	<u>July 1 Interest</u>	<u>July 1 Principal</u>	<u>January 1 Interest</u>	<u>Total Future Annual Requirements</u>
2007-08	\$ 0	\$ 0	\$ 8,950	\$ 8,950
2008-09	8,950	30,000	8,200	47,150
2009-10	8,200	31,000	7,425	46,625
2010-11	7,425	33,000	6,600	47,025
2011-12	6,600	35,000	5,725	47,325
2012-13	5,725	37,000	4,800	47,525
2013-14	4,800	38,000	3,850	46,650
2014-15	3,850	40,000	2,850	46,700
2015-16	2,850	42,000	1,800	46,650
2016-17	1,800	44,000	700	46,500
2017	700	28,000	0	28,700
	<u>\$ 50,900</u>	<u>\$ 358,000</u>	<u>\$ 50,900</u>	<u>\$ 459,800</u>

\$815,000 Limited Tax General Obligation Bond Issue Dated March 1, 1999 of Sims-Whitney Utilities Authority (Water Supply System No. 1 Bonds)

Said bonds are issued for the purpose of financing the construction of additions, extensions, improvements and related appurtenances to the Sims-Whitney Utilities Authority's water system. The payments of principal and interest are made from the proceeds of contractual payments to be made by Sims Township and Whitney Township. The municipalities have pledged their full faith and credit for the payment of their contractual payments. The Authority has pledged the contractual payments and its full faith and credit for payment.

Annual Principal and Interest Requirements

<u>Fiscal Year</u>	<u>October 1 Interest</u>	<u>October 1 Principal</u>	<u>April 1 Interest</u>	<u>Total Future Annual Requirements</u>
2007-08	\$ 13,633	\$ 40,000	\$ 12,792	\$ 66,425
2008-09	12,793	40,000	11,932	64,725
2009-10	11,933	40,000	11,052	62,985
2010-11	11,053	40,000	10,152	61,205

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

\$815,000 Limited Tax General Obligation Bond Issue Dated March 1, 1999 of Sims-Whitney Utilities Authority (Water Supply System No. 1 Bonds) (Continued)

<u>Fiscal Year</u>	<u>Annual Principal and Interest Requirements</u>			<u>Total Future Annual Requirements</u>
	<u>October 1 Interest</u>	<u>October 1 Principal</u>	<u>April 1 Interest</u>	
2011-12	\$ 10,153	\$ 40,000	\$ 9,232	\$ 59,385
2012-13	9,233	45,000	8,175	62,408
2013-14	8,175	50,000	6,975	65,150
2014-15	6,975	50,000	5,750	62,725
2015-16	5,750	50,000	4,500	60,250
2016-17	4,500	60,000	3,000	67,500
2017-18	3,000	60,000	1,500	64,500
2018-19	<u>1,500</u>	<u>60,000</u>	<u>0</u>	<u>61,500</u>
	<u>\$ 98,698</u>	<u>\$ 575,000</u>	<u>\$ 85,060</u>	<u>\$ 758,758</u>

\$2,265,000 Limited Tax General Obligation Bond Issue Dated December 13, 1999 of Sims-Whitney Utilities Authority (Water Supply System No. 1 Bonds)

Said bonds are issued for the purpose of financing the construction of additions, extensions, improvements and related appurtenances to the Sims-Whitney Utilities Authority's water system. The payments of principal and interest are made from the proceeds of contractual payments to be made by Sims Township. The municipality has pledged their full faith and credit for the payment of their contractual payments. The Authority has pledged the contractual payments and its full faith and credit for payment.

<u>Fiscal Year</u>	<u>Annual Principal and Interest Requirements</u>			<u>Total Future Annual Requirements</u>
	<u>August 1 Interest</u>	<u>August 1 Principal</u>	<u>February 1 Interest</u>	
2007-08	\$ 43,006	\$ 120,000	\$ 39,946	\$ 202,952
2008-09	39,946	120,000	36,826	196,772
2009-10	36,826	120,000	33,646	190,472
2010-11	33,646	120,000	30,406	184,052
2011-12	30,406	120,000	27,106	177,512
2012-13	27,106	120,000	23,746	170,852
2013-14	23,746	120,000	20,326	164,072
2014-15	20,326	120,000	16,876	157,202
2015-16	16,876	115,000	13,541	145,417
2016-17	13,541	115,000	10,178	138,719
2017-18	10,178	115,000	6,785	131,963
2017-18	6,785	115,000	3,393	125,178
2019-20	<u>3,393</u>	<u>115,000</u>	<u>0</u>	<u>118,393</u>
	<u>\$ 305,781</u>	<u>\$ 1,535,000</u>	<u>\$ 262,775</u>	<u>\$ 2,103,556</u>

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of long-term liability transactions of the Authority:

	<u>Balance</u> <u>07/01/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/07</u>	<u>Amount Due</u> <u>in One Year</u>
General Obligation Bonds	\$ 2,260,000	\$ 0	\$ 150,000	\$ 2,110,000	\$ 160,000
Revenue Bonds	<u>617,000</u>	<u>0</u>	<u>259,000</u>	<u>358,000</u>	<u>0</u>
	<u>\$ 2,877,000</u>	<u>\$ 0</u>	<u>\$ 409,000</u>	<u>\$ 2,468,000</u>	<u>\$ 160,000</u>

The interest expense on long-term obligations for the year was \$147,743.

NOTE 6 - RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (128,290)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	109,289
Changes in assets and liabilities:	
Decrease in accounts receivable	244
Decrease in due from local units	20,345
Decrease in inventory	4,521
Increase in deferred revenue	1,265
Decrease in accounts payable	(329)
Increase in due to local units	<u>28,572</u>
Net cash provided by operating activities	<u>\$ 35,617</u>

NOTE 7 - RETIREMENT SYSTEM – MERS OPERATED

Plan Description

The Authority's defined benefit pension plan, covering its employees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple - employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Authority is required to contribute at an actuarially determined rate. The current rate is 12.97% of annual covered payroll for all employees. If a member leaves the employ of the Authority, or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (plus interest at a rate determined by MERS) will be refunded to the member, if living, or to the member's beneficiary.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 7 - RETIREMENT SYSTEM – MERS OPERATED (CONTINUED)

Annual Pension Cost

For 2007, the Authority's annual pension cost of \$6,564 was equal to the Authority's and employees required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, (c) additional projected salary increases of 0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component. The Authority's unfunded actuarial accrued liability has been calculated and accrued at June 30, 2007.

The Authority has adopted GASB 27 *Accounting for Pensions by State and Local Governmental Employer*. The following pension information is presented in accordance with GASB 27:

Actuarial Accrued Liability from December 31, 2006

Actuarial Valuation

Retirees and beneficiaries currently receiving benefits	\$ 0
Terminated employees (vested former members) not yet receiving benefits	18,296
Current employees -	
Accumulated employee contributions including allocated investment income	0
Employer financed	<u>125,601</u>
 Total Actuarial Accrued Liability	 143,897

Net assets available for benefits, at actuarial value (Market value is \$117,043)	<u>115,428</u>
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Unfunded Actuarial Accrued Liability	<u>\$ 28,469</u>
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Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
06/30/05	\$ 6,672	100%	\$ 0
06/30/06	\$ 7,124	100%	\$ 0
06/30/07	\$ 6,564	100%	\$ 0

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial Accrued</u> <u>Liability (AAL)</u> <u>-Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
12/31/04	\$ 86,350	\$ 111,949	\$ 25,599	77%	\$ 56,273	45%
12/31/05	\$ 99,324	\$ 125,873	\$ 26,549	79%	\$ 57,712	46%
12/31/06	\$ 115,428	\$ 143,897	\$ 28,469	80%	\$ 60,128	47%

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

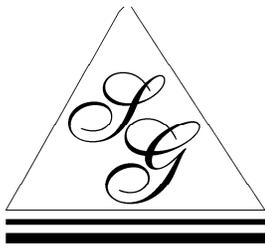
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 9 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Some prior year balances have been reclassified to conform with the current year presentation.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

October 12, 2007

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*

Members of the Authority Board
Sims-Whitney Utilities Authority
Arenac County, Michigan

We have audited the financial statements of the business-type activities of the Sims-Whitney Utilities Authority as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 12, 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 Sims-Whitney Utilities 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 Sims-Whitney Utilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sims-Whitney Utilities Authority'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 in 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 a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Sims-Whitney Utilities Authority'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 Sims-Whitney Utilities Authority's financial statements that is more than inconsequential will not be prevented or detected by the Sims-Whitney Utilities Authority's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting:

Financial Statement Preparation

The Sims-Whitney Utilities Authority prepares various financial information throughout the year to assess operations and the financial condition of the Authority. The Authority relies on our firm to assist in preparing the annual financial report in accordance with generally accepted accounting principles.

The Sims-Whitney Utilities Authority has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with generally accepted accounting principles. As a result, the Authority is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from generally accepted accounting principles and the Authority would not be in a position to detect the errors or omissions.

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 Sims-Whitney 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 deficiency described above to be a material weakness.

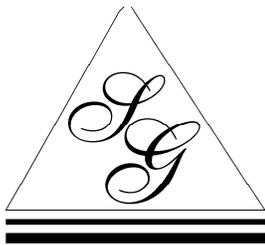
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sims-Whitney 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated October 12, 2007.

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

Stephenson, Grubb & Co., P.C.



Stephenson Gracik & Co., P.C.

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October 12, 2007

Members of the Authority Board
Sims-Whitney Utilities Authority
Arenac County, Michigan

Dear Board Members:

We have audited the financial statements of the business-type activities of the Sims-Whitney Utilities Authority for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. 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 June 27, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Sims-Whitney Utilities Authority. 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 Sims-Whitney Utilities Authority'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.

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 Sims-Whitney Utilities Authority 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 the year. We noted no transactions entered into by the Sims-Whitney Utilities Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Sims-Whitney Utilities Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Sims-Whitney Utilities Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Sims-Whitney Utilities Authority's financial reporting process.

Disagreements with Management

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

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 auditors' 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.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

Additional Information

As a result of our study and evaluation of the internal controls and tests of compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendations:

Financial Statement Preparation

The Sims-Whitney Utilities Authority prepares various financial information throughout the year to assess operations and the financial condition of the Authority. The Authority relies on our firm to assist in preparing the annual financial report in accordance with generally accepted accounting principles.

The Sims-Whitney Utilities Authority has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with generally accepted accounting principles. As a result, the Authority is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from generally accepted accounting principles and the Authority would not be in a position to detect the errors or omissions.

Cash Receipt System

During our audit fieldwork, we noted that the total cash and check breakdown was not noted on the cash receipt. This information must be detailed on each receipt to ensure that all cash and checks received were deposited properly into the bank account.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Authority.

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

Stephenson, Gratch & Co., P.C.