

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 <i>Sharon L. Vergo</i>	Printed Name		License Number	

Southwest Barry County Sewer and Water Authority

Financial Report

March 31, 2007

Southwest Barry County Sewer and Water Authority

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Independent Auditor's Report

The Board of Directors
Southwest Barry County Sewer
and Water Authority
Delton, Michigan

We have audited the accompanying basic financial statements of Southwest Barry County Sewer and Water Authority as of March 31, 2007 and 2006 and for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Southwest Barry County Sewer and Water Authority at March 31, 2007 and 2006 and the changes in its financial position, including 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 is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Southwest Barry County Sewer and Water Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

May 7, 2007

Southwest Barry County Sewer and Water Authority

Management's Discussion and Analysis

About the Authority

Southwest Barry County Sewer and Water Authority (the "Authority") provides the townships of Prairieville, Barry, Hope, and Johnstown with sewage and disposal services. The Authority also operates and manages a public water system for the unincorporated Village of Delton. The Authority was incorporated in May 1991. The Authority is governed by a board composed of board members from each constituent township.

Condensed Financial Information

The following table represents condensed information about the Authority's financial position for the past two fiscal years.

	March 31	
	2007	2006
Assets		
Current assets	\$ 879,414	\$ 939,748
Restricted assets for debt services	2,517,401	2,830,295
Other assets	264,145	287,066
Capital assets	<u>6,798,432</u>	<u>7,394,702</u>
Total assets	<u>\$ 10,459,392</u>	<u>\$ 11,451,811</u>
Liabilities and Net Assets		
Current liabilities	\$ 896,986	\$ 865,272
Long-term debt	3,064,229	3,863,971
Net assets	<u>6,498,177</u>	<u>6,722,568</u>
Total liabilities and net assets	<u>\$ 10,459,392</u>	<u>\$ 11,451,811</u>

Southwest Barry County Sewer and Water Authority

Management's Discussion and Analysis (Continued)

Revenues and Expenses

The Authority's financial position has improved significantly over the last three years. Revenue continues to outpace expenses. The Authority experienced a net loss of \$224,391, but this is due to depreciation on assets of \$677,509. Without figuring in depreciation, the Authority experienced a net gain for the year of \$453,118.

The following table shows the changes in net assets during the years ended March 31, 2007 and 2006:

	Year Ended March 31	
	2007	2006
Operating revenue	\$ 698,862	\$ 698,312
Operating expenses before depreciation	<u>569,118</u>	<u>494,260</u>
Net operating income before depreciation	129,744	204,052
Depreciation	<u>677,509</u>	<u>679,651</u>
Net loss from operations	(547,765)	(475,599)
Nonoperating revenues	<u>323,374</u>	<u>306,744</u>
Net loss	<u>\$ (224,391)</u>	<u>\$ (168,855)</u>

It appears that the turnaround of the Authority's financial position began approximately three and one-half years ago by refunding of the Authority's primary bond. This action reduces total debt service payments over the next six years beginning in 2006 by approximately \$525,000. Then the Authority hired an administrator in January 2005, which added significantly to the operations of the system by adding another layer of internal controls, by improving communication between operations and the governing board, and by dedicating a new employee to work on long-range planning and goals.

The Authority continues to make significant investments in capital improvements. In previous years, the Authority purchased a pumper truck, a service truck, and a John Deere tractor. With this equipment, plus the use of the Authority's own personnel, a contract to pump the Authority's tanks was no longer needed. Cost savings continue to be realized from those purchases.

The Authority also purchased an injector so that the Authority no longer needs to hire a subcontractor to inject its bio-solids into the Authority's own property. This has created an additional savings of approximately \$30,000-\$50,000 per year.

Southwest Barry County Sewer and Water Authority

Management's Discussion and Analysis (Continued)

This year the Authority finished paying for a 60' by 80' by 14' pole barn, which is located on property owned by the Authority, near the treatment facility. This building allows for storage of the Authority's equipment indoors, which will increase its longevity.

The Authority also purchased a used boring machine. By using the Authority's own personnel, the Authority can now bore sewer pipe under roads, drives, and other obstacles in order to complete new hookups. Prior to this purchase, the Authority would have to subcontract this out, which cost the Authority a significant percentage of the revenue that it gained from the additional hookup.

All equipment that has been purchased in the last three years has already been paid for in full by the cost savings that it has generated.

The Authority's revenue has been significantly increased by the implementation in 2005 of a \$5 per month increase in the user charge, which continues to provide additional revenue that is dedicated to the debt retirement fund. The acceptance of septage from tanker trucks at the rate of 5 cents per gallon continues to generate revenue for the Authority, which has also been dedicated for debt retirement. Septage revenue was \$13,793 in 2005, \$103,113 in 2006, and \$121,093 in the current fiscal year for a grand total of \$237,999, which has been applied to the debt service. The purchase of a flow meter coupled with obtaining permits from the MDEQ, and having this program supervised by our own employees, has created a septage receiving program that is an important new source of revenue that did not previously exist. By having the Authority's administrator draft a septage ordinance, which was then adopted by the County of Barry, to prohibit the spreading of septage on any field or waterway in Barry County and instructing that all said septage must now go to a septage receiving facility in Barry County, (such as the SWBCSWA) helps ensure that this important source of revenue is protected in the future.

The other major source of revenue for the Authority comes from increased hookups to the sewer system. In 2006, the Authority authorized 20 new hookups. This was the highest number of hookups experienced by the Authority since the mandatory hookups from the Fair Lake special assessments, which were completed in 1998. Disregarding special assessment hookups, this was the largest number of hookups ever experienced by the Authority in a single fiscal year. In 2007, the Authority gained 11.6 REUs (residential equivalency units) to the system, which is better than the 10 REUs which were anticipated in order to satisfy our bond payoff projections.

Last year, the Authority also changed its governing ordinance, which was ratified by all four township boards, to increase the distance for a mandatory hookup from the sewer line from 200' to 350' in all areas except those which are zoned agricultural or agricultural/residential. This has already had an effect on gaining additional hookup fees for the Authority that would not have been realized previously. Approximately one-third of the Authority's hookups were generated this year due to this ordinance change.

Southwest Barry County Sewer and Water Authority

Management's Discussion and Analysis (Continued)

The Authority's greatest achievement for 2006 was being successful in receiving a new five-year permit from the Michigan Department of Environmental Quality to operate the treatment facility. The Authority had been operating without a permit for nearly eight years, having missed the renewal deadline. The Authority then had to start from scratch in having to meet new discharge regulations. Negotiations with the MDEQ in setting obtainable discharge limits for sodium chloride and other compounds were very fruitful. Since obtaining this permit, the Authority has not needed to operate its boiler system to heat affluent during the winter months, in order to comply with the new permit limits. By not needing to use the boiler, the Authority has realized an estimated cost savings of \$14,000-\$30,000 per year in reduced gas consumption.

Since obtaining the new five-year operation permit, the Authority has experienced significant decreases in attorney and engineering costs. Some of this decrease in costs may also be attributable to the Authority's decision to hire an administrator who is also a practicing attorney. The policy of having a single person being responsible for communications between the Authority's attorneys, engineers, and the board may have also reduced billable hours to the Authority by eliminating duplication of legal and engineering analysis.

All debt service payments were made by the Authority in a timely manner and debt service revenue exceeded the debt service revenue projections for the second straight year. Total debt service collections for 2007 were \$864,002, including special assessment payments, debt service fees, connect fee and septage revenue, while debt service projections were \$813,912.

Nonoperating Revenue and Expenses

Due to a more aggressive investment policy (i.e., the administrator and treasurer have been given additional flexibility to place larger amounts of monies in higher interest-bearing accounts), coupled with a decrease in banking surcharges (due to searching out better performing account types), the Authority saw significant increases in investment income, up nearly 60 percent from the previous two years.

Southwest Barry County Sewer and Water Authority

Management's Discussion and Analysis (Continued)

Long Lake/Cloverdale Lake Sewer Expansion

The fiscal year ended March 31, 2007 marked the first time in nearly 10 years that the Authority has made plans for a major expansion. Due to positive interest and input from many Hope Township residents regarding the possibility of having the Long Lake and Cloverdale Lake areas serviced by sewer, the Authority authorized that a wastewater study be done on this area. An engineer was hired to do a feasibility study on providing this area with our public sewer and a number of informational meetings were set up to discuss the options with the residents. Petitions under P.A. 188 were circulated along with numerous informational letters from the Authority. A proposed special assessment district was designed and a majority of the residents within this district, as well as a majority of the land mass represented in the district, signed petitions in favor of the proposed sewer expansion. This set the stage for holding the two public hearings which are required by the act. The Barry-Eaton Health Department was also instrumental in providing representation at these hearings as well substantial supporting documentation as to the rather dire environmental conditions and the express need for public sewer service for this area. The two public hearings went well and the Hope Township board voted to adopt the proposed mandatory service district along with an assessment roll containing 307 parcels of land. Approximately 90 of these parcels are vacant lots, which will not be assessed or charged a hookup fee until they are built upon. The remaining parcels will generate approximately 220 additional REUs to the system.

The projects costs are estimated at approximately \$3.5 million. A \$14,000 assessment will be charged per single R.E.U., which can then be paid over a 20-year period. The Authority will receive an indirect hookup charge of \$3,750 for each REU at the time of bonding. The Authority has adopted a resolution to place these funds in the Authority's improvement account along with certain restrictions. It is anticipated that the sewer main extension will be complete within the 2008 fiscal year, with the 220 additional hookups being completed within the 2009 fiscal year.

Future Projections

All in all, the Authority continues to see its financial position improve dramatically. By increasing revenues, decreasing costs, having greater internal controls, doing more work in-house, and having a sharper, clearer vision for the future, the Authority has strengthened both its financial and operational positions and has put itself on solid footing to meet any new additional challenges in the coming years.

Contacting the Authority's Management

This management's discussion and analysis provides an overview of the current and prospective financial condition of the Authority's operations and physical assets. If there are questions concerning this report or if additional information is desired, please contact the Authority at 269-623-3401.

Southwest Barry County Sewer and Water Authority

	March 31	
	2007	2006
Assets		
Current Assets		
Cash and investments (Note 2)	\$ 328,908	\$ 368,176
Accounts receivable	138,952	118,210
Prepays	411,554	453,362
Total current assets	879,414	939,748
Restricted Assets for Debt Services		
Cash and investments (Note 2)	1,211,786	1,146,371
Special assessments receivables from townships (Note 3)	1,185,998	1,527,292
Contract connection fee receivable (Note 5)	119,617	156,632
Total restricted assets for debt services	2,517,401	2,830,295
Other Assets - Bond issue costs - Net of amortization	264,145	287,066
Capital Assets (Note 4)	6,798,432	7,394,702
Total assets	\$ 10,459,392	\$ 11,451,811

Statement of Net Assets

	March 31	
	<u>2007</u>	<u>2006</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 19,277	\$ 12,897
Accrued expenses and other liabilities	67,709	77,375
Current portion of long-term debt (Note 6)	<u>810,000</u>	<u>775,000</u>
Total current liabilities	896,986	865,272
Long-term Debt (Note 6)	<u>3,064,229</u>	<u>3,863,971</u>
Total liabilities	3,961,215	4,729,243
Net Assets		
Investment in capital assets - Net of related debt	2,924,203	2,755,731
Restricted	2,517,401	2,830,295
Unrestricted	<u>1,056,573</u>	<u>1,136,542</u>
Total net assets	<u>6,498,177</u>	<u>6,722,568</u>
Total liabilities and net assets	<u>\$ 10,459,392</u>	<u>\$ 11,451,811</u>

Southwest Barry County Sewer and Water Authority

Statement of Activities

	Year Ended March 31	
	2007	2006
Operating Revenue		
Sewer user fees	\$ 646,262	\$ 635,113
Water user fees	48,217	51,489
Miscellaneous	4,383	11,710
Total operating revenue	698,862	698,312
Operating Expenses Before Depreciation		
Cost of sewer	518,573	450,935
Cost of water	50,545	43,325
Total operating expenses	569,118	494,260
Net Operating Income Before Depreciation	129,744	204,052
Depreciation	677,509	679,651
Net Loss from Operations	(547,765)	(475,599)
Nonoperating Revenues (Expenses)		
Connection fees	90,066	110,491
Debt service fees	298,547	288,008
Investment income	48,413	34,831
Interest income on special assessments	78,918	95,351
Interest expense on bonds	(117,583)	(146,950)
Amortization on bond costs	(22,920)	(22,920)
Amortization of legal costs	(41,809)	(41,809)
Amortization of bond discount	(10,258)	(10,258)
Total nonoperating revenues	323,374	306,744
Net Loss	(224,391)	(168,855)
Net Assets - Beginning of year	6,722,568	6,891,423
Net Assets - End of year	<u>\$ 6,498,177</u>	<u>\$ 6,722,568</u>

Southwest Barry County Sewer and Water Authority

Statement of Cash Flows

	Year Ended March 31	
	2007	2006
Cash Flows from Operating Activities		
Receipts from customers	\$ 678,120	\$ 673,290
Payments to suppliers	(207,469)	(194,070)
Payments to employees	(351,484)	(307,949)
Net cash provided by operating activities	119,167	171,271
Cash Flows from Capital and Related Financing Activities		
Collections on special assessments	341,294	375,724
Interest earned on special assessments	78,918	95,351
Collections on connection fees	127,081	113,866
Debt service fees collected	298,547	288,008
Purchase of capital assets	(81,239)	(101,103)
Principal and interest paid on capital debt	(906,034)	(956,950)
Net cash used in capital and related financing activities	(141,433)	(185,104)
Cash Flows from Investing Activities - Interest received on investments	48,413	34,831
Net Increase in Cash and Cash Equivalents	26,147	20,998
Cash and Cash Equivalents - Beginning of year	1,514,547	1,493,549
Cash and Cash Equivalents - End of year	\$ 1,540,694	\$ 1,514,547
Balance Sheet Classification of Cash and Cash Equivalents		
Unrestricted cash	\$ 328,908	\$ 368,176
Restricted cash and cash equivalents	1,211,786	1,146,371
Total cash and cash equivalents	\$ 1,540,694	\$ 1,514,547

There were no noncash transactions during the years ended March 31, 2007 and 2006.

Southwest Barry County Sewer and Water Authority

Statement of Cash Flows (Continued)

	Year Ended March 31	
	2007	2006
Reconciliation of Net Loss from Operations to Net Cash from Operating Activities		
Net loss from operations	\$ (547,765)	\$ (475,599)
Adjustments to reconcile net loss from operations to net cash from operating activities:		
Depreciation and amortization	677,509	679,651
Changes in assets and liabilities:		
Receivables	(20,742)	(25,022)
Accounts payable	6,380	(6,963)
Accrued and other liabilities	3,785	(796)
Net cash provided by operating activities	<u>\$ 119,167</u>	<u>\$ 171,271</u>

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies

Southwest Barry County Sewer and Water Authority (the "Authority") was established by the townships of Prairieville, Barry, Hope, and Johnstown. The Authority was incorporated in May 1991, under the provisions of Act 233, Public Acts of 1955, as amended. The Authority is governed by a board composed of a board member from each of the constituent townships. The Authority was formed to operate, maintain, administer, and manage a sewage collection and disposal system pursuant to Act 185 Public Acts of 1957, as amended, for the benefit of constituent municipalities. The Authority is under a five-year permit from the Michigan Department of Environmental Quality to operate the treatment facility.

The accounting policies of Southwest Barry County Sewer and Water Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Measurement Focus and Basis of Accounting - The financial statements 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 activities distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The Authority's principal operating revenue relates to charges for sewage collection and water services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fund Accounting - The accounts of Southwest Barry County Sewer and Water Authority are organized as an Enterprise Fund, which is used to account for its operations as a provider of sewer and water services. These services are financed primarily through user charges.

Cash and Cash Equivalents - The Authority considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

Investments - Investments are recorded at fair value, based on quoted market prices.

Accounts Receivable - Accounts receivable are stated at invoice cost. All delinquent accounts receivable are sent to the County for collection through the property tax rolls.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Property, plant, and equipment are recorded at cost. Depreciation is computed by the straight-line method based on the estimated useful lives, which range from 5 to 40 years.

Bond Issuance Costs and Discounts - Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 significant estimates and assumptions that affect the report amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

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 local unit 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 investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs. The Authority has designated one bank for the deposit of its funds, excluding those funds held by the County.

The Authority's investment policy is in accordance with statutory authority.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2007 and 2006

Note 2 - Deposits and Investments (Continued)

The Authority's deposits and investments at March 31, 2007 and 2006 are included on the statement of net assets under the following classifications:

	2007		2006	
	Cash and Cash Equivalents	Restricted Assets for Debt Service	Cash and Cash Equivalents	Restricted Assets for Debt Service
Deposits:				
County treasurer	\$ -	\$ 876,085	\$ -	\$ 845,887
Bank	328,758	335,701	368,026	300,484
Petty cash	150	-	150	-
Total	<u>\$ 328,908</u>	<u>\$ 1,211,786</u>	<u>\$ 368,176</u>	<u>\$ 1,146,371</u>

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had approximately \$565,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority 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 Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Amounts Held by the County - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the custodial credit risk as these funds are only a portion of the entire County deposits.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2007 and 2006

Note 3 - Contracts with Townships

Contracts with townships represent the remaining amount due to the Authority from the original special assessment roll in 1990, and the Fair Lake Project special assessment roll in 1998. Both are expected to be collected over a 20-year period. Details of the township contracts are as follows:

	Balance April 1, 2006	Principal Collected	Balance March 31, 2007
Original assessment:			
Barry Township	\$ 184,618	\$ (48,729)	\$ 135,889
Hope Township	223,971	(57,867)	166,104
Johnstown Township	214,142	(56,359)	157,783
Prairieville Township	<u>474,552</u>	<u>(130,303)</u>	<u>344,249</u>
Total original assessment	1,097,283	(293,258)	804,025
Fair Lake project - Barry Township	<u>430,009</u>	<u>(48,036)</u>	<u>381,973</u>
Total contracts due from townships	<u>\$ 1,527,292</u>	<u>\$ (341,294)</u>	<u>\$ 1,185,998</u>

Total interest collected was \$78,918 and \$95,351 in 2007 and 2006, respectively.

Note 4 - Capital Assets

The cost of property, plant, and equipment is summarized as follows:

	Balance April 1, 2006	Additions	Balance March 31, 2007
Capital assets not being depreciated - Land and easements	\$ 486,830	\$ -	\$ 486,830
Capital assets being depreciated:			
Treatment plant	2,910,825	61,166	2,971,991
Wells, mains, and equipment	9,857,021	4,921	9,861,942
Construction in progress	<u>34,484</u>	<u>15,152</u>	<u>49,636</u>
Subtotal	12,802,330	81,239	12,883,569
Less accumulated depreciation	<u>5,894,458</u>	<u>677,509</u>	<u>6,571,967</u>
Net capital assets being depreciated	<u>6,907,872</u>	<u>(596,270)</u>	<u>6,311,602</u>
Net capital assets	<u>\$ 7,394,702</u>	<u>\$ (596,270)</u>	<u>\$ 6,798,432</u>

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2007 and 2006

Note 4 - Capital Assets (Continued)

	Balance April 1, 2005	Additions	Balance March 31, 2006
Capital assets not being depreciated - Land and easements	\$ 486,830	\$ -	\$ 486,830
Capital assets being depreciated:			
Treatment plant	2,883,922	26,903	2,910,825
Wells, mains, and equipment	9,817,305	39,716	9,857,021
Construction in progress	-	34,484	34,484
Subtotal	12,701,227	101,103	12,802,330
Less accumulated depreciation	5,214,807	679,651	5,894,458
Net capital assets being depreciated	7,486,420	(578,548)	6,907,872
Net capital assets	<u>\$ 7,973,250</u>	<u>\$ (578,548)</u>	<u>\$ 7,394,702</u>

Depreciation expense was \$677,509 and \$679,651 for the years ended March 31, 2007 and 2006, respectively.

Note 5 - Contract Connection Fees

Contract connection fees represent the balance due from customers who have elected to hook up to the system, but were not on the original assessment roll with any of the townships. The Authority is collecting the receivables directly from the customers.

Balance April 1, 2006	New Hook-ups	Amounts Paid	Balance March 31, 2007
<u>\$ 156,632</u>	<u>\$ 68,505</u>	<u>\$ (105,520)</u>	<u>\$ 119,617</u>

Note 6 - Long-term Debt

The Authority issues bonds to provide for the cost of constructing sewer and water lines. General obligation bonds are direct obligations and pledge the full faith and credit of the participating townships. Installment purchase agreements are also general obligations of the Authority.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2007 and 2006

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows for the year ended March 31, 2007:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Southwest Barry County Sewage						
Disposal refunding bonds, Series 2004:	2.35%-3.15%		\$ 3,915,000	\$ (715,000)	\$ 3,200,000	\$ 750,000
Amount of issue	\$4,665,000	\$750,000- \$850,000				
Maturing through	2010					
Fair Lake Extension Sewage						
Disposal bonds:	4.45%-4.90%					
Amount of issue	\$1,110,000	\$60,000- \$65,000	765,000	(60,000)	705,000	60,000
Maturing through	2017					
Subtotal			4,680,000	(775,000)	3,905,000	810,000
Less deferred amount on refunding			(41,029)	10,258	(30,771)	-
Total long-term debt			\$ 4,638,971	\$ (764,742)	\$ 3,874,229	\$ 810,000

Debt Service Requirements - The annual requirements to amortize all long-term debt outstanding as of March 31, 2007, including both principal and interest, are as follows:

	Principal	Interest	Total
2008	\$ 810,000	\$ 111,713	\$ 921,713
2009	860,000	89,615	949,615
2010	865,000	64,586	929,586
2011	915,000	36,642	951,642
2012	65,000	20,248	85,248
2013-2017	325,000	55,087	380,087
2018-2021	65,000	1,592	66,592
Total	\$ 3,905,000	\$ 379,483	\$ 4,284,483

Interest - Total interest incurred for the Authority was \$117,583 and \$146,950 for the years ended March 31, 2007 and 2006, respectively.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2007 and 2006

Note 7 - Defined Contribution Pension Plan

The Authority provides pension benefits to all full-time and salaried employees through a defined contribution plan by adopting the MTA Master Compensation Plan for the benefit of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Authority contributes 8 percent of base compensation for participating employees, except for the manager and administrator, for whom 11 percent is contributed. Employees are able to defer compensation into the plan up to the limits governing IRS Section 457 retirement plans. Total contributions to the plan for the years ended March 31, 2007 and 2006 were \$14,814 and \$11,955, respectively.

Note 8 - Risk Management

The Authority 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 for the employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.



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May 7, 2007

To the Board of Directors
Southwest Barry County Sewer
and Water Authority
Barry County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Southwest Barry County Sewer and Water Authority (the "Authority") as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (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 Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be control 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. We consider the following deficiencies to be control deficiencies in internal control:

Responsibilities of Governance

During our inquiries regarding the risks of fraud and the controls in place to mitigate fraud, Plante & Moran, PLLC was mentioned as one of the controls in place at the Authority. It is the responsibility of the board and management to design controls that provide adequate segregation of duties and reviews and to make sure these controls and reviews are in place. We test these controls during the audit; however, the controls need to be monitored throughout the year by management and the board.

Septage Collection

During the past year, the Authority began invoicing for most of the septage received at the plant. One hauler remains who has continued to pay cash at the time the septage is brought to the plant. During our audit, we discussed the procedures and controls in place at the plant regarding collection of septage and cash received. With a limited number of staff, we understand that it may be difficult to have adequate segregation of duties. We recommend that the Authority require all haulers to be invoiced by the business office for septage brought to the plant.

May 7, 2007

Other Matters

In addition to the control deficiencies noted above, we offer the following observations which are not deemed to be internal control deficiencies:

Miscellaneous

During 2006, the federal courts deemed the federal excise tax on phone bills to be unconstitutional. They passed a ruling that all entities that paid the excise tax would be eligible for a refund of taxes paid between 2003 and 2006. We have communicated the reporting requirements with management and they are currently assessing the amounts of tax paid to determine the amount of refund.

In reviewing the State of Michigan's website, it came to our attention that the State is holding Authority money in the Unclaimed Property Fund. We recommend the Authority apply to receive these funds and continue to periodically visit the site to identify future funds submitted to the State.

We would like to thank the Authority personnel for their courtesy and assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



Sharon Vargo, CPA
Partner