

GRSD SEWER AUTHORITY

**FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION**

December 31, 2009 and 2008

Michael W. Fayher

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of GRSD Sewer Authority
New Buffalo, Michigan

We have audited the accompanying financial statements of the GRSD Sewer Authority as of December 31, 2009 and 2008, 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 disclosure 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 financial statements referred to above, present fairly, in all material respects, the financial position of the GRSD Sewer Authority as of December 31, 2009 and 2008, and the changes in financial position and cash flows, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Schaffer & Layher
St. Joseph, Michigan
May 24, 2010

About the Facility

The GRSD Sewer Authority (the "Authority") was established by the Townships of New Buffalo, Lake Charter, and Chikaming, and the City of New Buffalo. The City of Bridgman was admitted under a separate agreement in 2004. The Authority was incorporated on October 13, 1971 as the Galien River Sanitary District (the "District"), under the provisions of Act 233, Public Acts of Michigan of 1955, as amended. The Authority is governed by a board comprised of six (6) members, with one (1) representative appointed from each of the five (5) constituent municipalities and one (1) independent member elected by the other five (5) members. 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 the constituent municipalities.

The Authority operates a three (3) million gallon per day sanitary sewage treatment plant for its owner municipalities. The connected service population is approximately 13,500.

Financial Highlights

The Authority's total net assets at December 31, 2009 were \$17,206,265, of which \$14,655,682 was invested in capital assets. At December 31, 2008, net assets were \$17,235,268.

The Authority's total expenses were \$2,111,008, while total revenues were \$2,082,005 (\$2,208,853-operating; \$(126,848)-non-operating.)

Overview of the Financial Statements

This report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *supplemental information*. The basic financial statements include only one kind of statement as the Authority is a special purpose governmental entity and no reconciling items exist between the entity and a government-wide statement.

Government-wide statements and the fund financial statements are presented as one set as they both provide the long-term and short-term information about the Authority's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Authority as a Whole

The following table represents condensed financial information about the Authority's financial position. Total net assets decreased by \$29,003 from 2008 to 2009 with net assets of \$17,206,265 at December 31, 2009 and \$17,235,268 at December 31, 2008.

	<u>2009</u>	<u>2008</u>
Current Assets	\$ 2,466,086	\$ 2,095,408
Restricted Assets	193,612	192,293
Capital Assets	14,655,682	15,062,789
Total Assets	<u>\$ 17,315,380</u>	<u>\$ 17,350,490</u>
Current liabilities	<u>\$ 109,115</u>	<u>\$ 115,222</u>
Net Assets		
Invested in capital assets	\$ 14,655,682	\$ 15,062,789
Restricted for capital purposes	193,612	192,293
Unrestricted	2,356,971	1,980,186
Total Net Assets	<u>\$ 17,206,265</u>	<u>\$ 17,235,268</u>
Total Liabilities and Net Assets	<u>\$ 17,315,380</u>	<u>\$ 17,350,490</u>

The following table represents the condensed financial information about the Authority's revenues and expenses. The change in net assets was \$(29,003) and \$24,196 for the years ended December 31, 2009 and 2008, respectively.

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 2,208,853	\$ 2,248,954
Operating expenses	2,111,008	2,172,347
Operating income	\$ 97,845	\$ 76,607
Non-operating income (expense)	(126,848)	(52,411)
Change in net assets	<u>\$ (29,003)</u>	<u>\$ 24,196</u>

Analysis of Financial Position

The current year net assets decreased \$29,003 with a few significant factors affecting net assets during the year as discussed below:

- 1) Operating revenues exceed operating expenses by \$97,845, with an additional \$(126,848) of net non-operating expense. Of the non-operating expense, \$14,742 was interest income and \$141,590 were debt payments on behalf of the owner municipalities that financed a construction project.
- 2) The Authority's investment in capital assets had a net decrease of \$407,107 from \$43,458 of acquisition and construction of capital assets less \$450,565 of current year depreciation.

Results of Operations

The Authority's change in net assets of \$(29,003) was a result of the following:

- 1) Operating revenues decreased \$40,101 or 1.78% as a result of decreased flows from the tributary governmental units and increased waste hauling and other services.
- 2) Operating expenses decreased \$61,339 or 2.82%.
- 3) Non-operating expense increased due to the increase cost with the debt payments on behalf of contracting municipalities which increased \$63,700.

Fund Expenditures Budget vs. Actual

Expenditures

<u>Period</u>	<u>Original and Final Budget</u>	<u>Final Audit</u>	<u>Variance Audit vs. Final Budget</u>
December 31, 2009	\$ <u>2,202,459</u>	\$ <u>2,252,598</u>	\$ <u>(50,139)</u>
December 31, 2008	\$ <u>1,818,272</u>	\$ <u>2,250,237</u>	\$ <u>(431,965)</u>

Fund Revenues Budget vs. Actual

Revenues

<u>Period</u>	<u>Original and Final Budget</u>	<u>Final Audit</u>	<u>Variance Audit vs. Final Budget</u>
December 31, 2009	\$ <u>2,561,908</u>	\$ <u>2,223,595</u>	\$ <u>(338,313)</u>
December 31, 2008	\$ <u>2,593,492</u>	\$ <u>2,274,433</u>	\$ <u>(319,059)</u>

Original versus Final Budget

There were no changes or amendments from the original preliminary budget and the final budget.

Capital Improvements and Funding Requirements

Funding needs for capital improvements is a significant element in the Authority's financial plan. The Authority completed an approximately \$10 million plant expansion, which has been fully funded through contributions from the constituent municipalities contributions and the issuance of conduit bonds. Ongoing funding for capital improvements will be generated from operating revenues and year-end reconciling amounts from the municipalities. The improvements are expected to be less than 2009 levels, but the Authority does continue to expand and improve the total system.

Economic Factors and Next Year's Budget

The funding composition for the treatment, operation, and maintenance for the Authority consists of establishing rates charged to the governmental units and ultimately the ratepayers are customers of the water treatment plant. The separate governmental units are responsible for collecting their own charges from the residents and other users within their district.

The Authority's plan for budget monitoring includes review of the budget vs. actual expenses on a monthly basis to determine if financial goals are being met. If financial expectations are not being met, options to establish alignment include: 1) procedures to establish increased rates to governmental units and charges for certain services so that maintenance and operations can continue uninterrupted; 2) a reduction of certain services performed for the local units and a reduction in capital expenditures on infrastructure needs. With the limiting factor on financial resources being what the ratepayer is able to pay, raising rates needs to be closely monitored throughout the year.

Comparative Information

The financial report shows comparison data. The Authority expects to continue to present full comparative statements.

Contacting the Authority's Management

The financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or additional information, contact the Authority at 10831 Kruger Road, New Buffalo, MI 49117.

GRSD SEWER AUTHORITYSTATEMENTS OF NET ASSETS
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,235,243	\$ 1,482,965
Accounts receivable	230,843	612,443
Total Current Assets	<u>\$ 2,466,086</u>	<u>\$ 2,095,408</u>
Restricted assets:		
Cash and cash equivalents	<u>\$ 193,612</u>	<u>\$ 192,293</u>
Capital Assets	<u>\$ 14,655,682</u>	<u>\$ 15,062,789</u>
Total Assets	<u><u>\$ 17,315,380</u></u>	<u><u>\$ 17,350,490</u></u>
Liabilities:		
Accounts payable	\$ 106,137	\$ 112,643
Payroll taxes payable	2,978	2,579
Total Liabilities	<u>\$ 109,115</u>	<u>\$ 115,222</u>
Net Assets		
Invested in capital assets	\$ 14,655,682	\$ 15,062,789
Restricted for capital purposes	193,612	192,293
Unrestricted	2,356,971	1,980,186
Total Net Assets	<u>\$ 17,206,265</u>	<u>\$ 17,235,268</u>
Total Liabilities and Net Assets	<u><u>\$ 17,315,380</u></u>	<u><u>\$ 17,350,490</u></u>

The notes to the financial statements are an integral part to these financial statements.

GRSD SEWER AUTHORITYSTATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Sewer User Fees:		
City of New Buffalo	\$ 561,055	\$ 536,296
Chikaming Township	519,062	598,529
New Buffalo Township	252,828	247,128
Lake Charter Township	363,196	344,937
City of Bridgman	280,442	290,007
Weesaw Township	28,072	11,782
Other Fees:		
Waste hauling	93,640	82,349
Services rendered	110,558	137,926
Total operating revenues	<u>\$ 2,208,853</u>	<u>\$ 2,248,954</u>
Operating Expenses		
Salaries and wages	\$ 557,819	\$ 521,432
Payroll taxes	43,843	41,060
Employee benefits	180,181	188,172
Depreciation	450,565	450,763
Office supplies	3,171	1,750
Operating supplies	118,644	127,471
Professional fees	19,312	27,574
Legal	1,714	474
Board fees	3,370	3,760
Sludge disposal	70,320	90,207
Communications	23,458	22,891
Training and transportation	3,210	2,605
Insurance and bonds	65,828	70,862
Utilities	278,158	226,217
Equipment and sewer repairs	258,264	380,486
Vehicle repairs	26,772	9,512
Uniforms	5,557	5,111
Miscellaneous	822	2,000
Total operating expenses	<u>\$ 2,111,008</u>	<u>\$ 2,172,347</u>
Net operating income	<u>\$ 97,845</u>	<u>\$ 76,607</u>
Non-operating income (expenses):		
Debt payments on behalf of contracting municipalities	\$ (141,590)	\$ (77,890)
Interest income	14,742	25,479
Total non-operating income (expenses)	<u>\$ (126,848)</u>	<u>\$ (52,411)</u>
Change in net assets	<u>\$ (29,003)</u>	<u>\$ 24,196</u>
Net Assets, Beginning of Year	<u>17,235,268</u>	<u>17,211,072</u>
Net Assets, End of Year	<u><u>\$ 17,206,265</u></u>	<u><u>\$ 17,235,268</u></u>

The notes to the financial statements are an integral part to these financial statements.

GRSD SEWER AUTHORITYSTATEMENTS OF CASH FLOWS
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,590,453	\$ 2,453,328
Cash payments to suppliers for goods and services	(1,108,731)	(1,336,649)
Cash payments to employees for services	(557,819)	(521,432)
Net cash provided by operating activities	<u>\$ 923,903</u>	<u>\$ 595,247</u>
Cash Flows from Capital and Related Financing Activities		
Payments for acquisition or construction of capital assets	\$ (43,458)	\$ (95,059)
Payments on debt for contracting municipalities	(141,590)	(77,890)
Net cash used in capital and related financing activities	<u>\$ (185,048)</u>	<u>\$ (172,949)</u>
Cash Flows from Investing Activities		
Change in restricted assets	\$ (1,319)	\$ 218,295
Interest received on investments	14,742	25,479
Net cash provided by investing activities	<u>\$ 13,423</u>	<u>\$ 243,774</u>
Net Increase in Cash and Cash Equivalents	\$ 752,278	\$ 666,072
Cash and Cash Equivalents-Beginning of year	1,482,965	816,893
Cash and Cash Equivalents-End of year	<u><u>\$ 2,235,243</u></u>	<u><u>\$ 1,482,965</u></u>
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating income	\$ 97,845	\$ 76,607
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Depreciation	450,565	450,763
<i>Change in assets and liabilities</i>		
Accounts receivable	381,600	204,374
Accounts payable	(6,506)	(137,158)
Payroll taxes payable	399	661
Net Cash Provided by Operating Activities	<u><u>\$ 923,903</u></u>	<u><u>\$ 595,247</u></u>

Noncash operating, capital, and investing activities:

During the year there were no noncash activities.

The notes to the financial statements are an integral part to these financial statements.

NOTE 1. NATURE OF ORGANIZATION

The GRSD Sewer Authority (the "Authority") was established by the Townships of New Buffalo, Lake Charter, and Chikaming, and the City of New Buffalo. The City of Bridgman was admitted under a separate agreement in 2004. The Authority was incorporated on October 13, 1971 as the Galien River Sanitary District (the "District"), under the provisions of Act 233, Public Acts of Michigan of 1955, as amended. The Authority is governed by a board comprised of six (6) members, with one (1) representative appointed from each of the five (5) constituent municipalities and one (1) independent member elected by the other five (5) members. 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 the constituent municipalities.

The GRSD Authority operates a 3 million gallon per day (MGD) sanitary sewage treatment plant and site to serve all of the local units, who have capacity rights and share the cost of the plant. The capacity rights are allocated as follows:

	<u>Final</u> <u>Expansion</u>
Lake Charter Township	16.6%
City of New Buffalo	21.6%
Chikaming Township	28.6%
New Buffalo Township	16.6%
City of Bridgman	16.6%
	<u>100.0%</u>

The Authority has the power to carry out the purposes of the plant and to acquire private property by purchase, construction, lease, gift, devise or condemnation and may hold, manage, control, sell, exchange or lease such property. The Authority may enter into a contract or contracts providing for the acquisition, purchase, construction, improvement, enlargement, extension, operation and financing of a sewage disposal system. They may issue negotiable bonds, secured by the contractual full faith and credit pledges of each contracting municipality. The Authority is also responsible for establishing rates charged to the governmental units. The separate governments are responsible for establishing and collecting their own charges from the residents and other users within their district.

The Authority's financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in section 2100 of the Governmental Accounting Standards Board's ("GASB") *Codification of Government Accounting and Financial Reporting Standards*, include whether:

NOTE 1. NATURE OF ORGANIZATION, CONCLUDED

- The Authority is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority.

Based on the aforementioned criteria, the Authority has no component units.

The Authority has implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34"). The Authority's financial statements, as a result of GASB 34 are as follows:

- A Management's Discussion and Analysis ("MD&A") section providing analysis of the Authority's overall financial position and results of operations has been included.
- Basic financial statements prepared using the full accrual accounting for all of the Authority's activities have been provided.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Authority also applies Financial Accounting Standard Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

A. Fund Accounting

The Authority uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority's functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority has only one fund, a proprietary fund.

Proprietary (Enterprise) Fund

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expensing including depreciation) of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The proprietary fund uses the accrual basis of accounting.

Revenues-Exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Expenses – Expenses are recognized at the time they are incurred.

C. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments available for current operations with an original maturity of three (3) months or less to be cash equivalents.

D. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current year, are recorded as prepaid items using the consumption method.

E. Inventories

Inventories, not held for resale, are accounted for on a purchase basis. Under the purchase method, inventories are treated as expenditures when acquired. Accordingly, no asset is reflected in the financial statements.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Costs relating to maintenance and repairs are charged to expense when they do not add value to the assets or materially extend the life, whereas those for renewals and betterments, when significant in amount, are capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Equipment	5 – 20 Years
Vehicles	7 – 10 Years
System Improvements	20 – 40 Years

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of (capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets). Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the activity of the proprietary fund. The Authority's operating revenues are sewer usage fees, waste hauling, and services rendered.

I. Contributions of Capital

Contributions of capital in the proprietary fund arise from outside contributions of capital assets, or from grants, or outside contributions of resources restricted to capital acquisition and construction.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

K. Liability for Compensated Absences

The Board does not record a liability for compensated absences. The amount which may be accrued is undeterminable at the date of the balance sheets. It is estimated the amount would be immaterial to the presentation of the financial statements as a whole.

L. Budget

The Authority's annual budget is required to be adopted at least thirty days before the beginning of each fiscal year. Certified copies of the budget are submitted to each of the contracting governments. The annual budget includes estimated revenues and costs of operations, maintenance, and repairs of the plant, and development of the municipalities' interceptors for the fiscal year.

NOTE 3. DEFINED CONTRIBUTION PLAN

The Authority has established a Money Purchase Pension Plan (the "Plan") under Section 457 of the Internal Revenue Code. The plan allows all non-union employees to make volunteer contributions to the plan up to 15% of eligible compensation.

The Authority contributes 7% - 9% of an eligible employee's compensation to be divided between the plan and an individual life insurance policy. All non-union employees who are employed for at least 1,000 hours during a plan year, have at least one year of service, and are twenty-one years of age are eligible to participate. For 2009 and 2008, total contributions were \$13,660 and \$13,844, respectively.

NOTE 4. DEPOSITS AND INVESTMENTS

The Authority's deposits and investments at December 31, 2009 and 2008, are included on the balance sheet under the following classifications:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 2,235,243	\$ 1,482,965
Restricted cash and cash equivalents	193,612	192,293
	<u>\$ 2,428,855</u>	<u>\$ 1,675,258</u>

The Authority has adopted GASB No. 40, *Deposits and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

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 rate within the two highest classifications, which mature 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 Authority has designated several banks for the deposit of its funds. The board follows policies in accordance with Public Act 196 of 1997, and has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investments are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year-end, the Authority had its money deposited in two local bank financial institutions. One of the financial institutions participates in a program called the Federal Deposit Insurance Corporation's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all of the noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to separate from the coverage available under the FDIC'S general deposit insurance rules, which is \$250,000. The other bank is insured up to the FDIC general deposit rules of \$250,000. As of December 31, 2009, 100% of the Authority's deposits were insured.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270 day maturity. At year-end, the Authority had no such investments.

NOTE 4. DEPOSITS AND INVESTMENTS, CONCLUDED**Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices, and had no investments at year-end.

NOTE 5. RECEIVABLES AND PAYABLES

Receivables consist of accounts (fees) and are considered collectible in full, while payables are for normal trade expense. Both are summarized as follows:

	<u>2009</u>	<u>2008</u>
Accounts Receivable:		
Charges for services	\$ 230,843	\$ 612,443
Accounts Payable:		
Trade	\$ 106,137	\$ 112,643

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	<u>Balance at</u> <u>1/1/2009</u>	<u>Additions</u>	<u>Disposals/</u> <u>Reclass</u>	<u>Balance at</u> <u>12/31/2009</u>
Capital assets being depreciated:				
Equipment	\$ 619,168	\$ -	\$ (157,704)	\$ 461,464
System Improvements	16,615,179	43,458	-	16,658,637
Vehicles	135,981	-	(14,752)	121,229
Subtotal	<u>\$ 17,370,328</u>	<u>\$ 43,458</u>	<u>\$ (172,456)</u>	<u>\$ 17,241,330</u>
Accumulated Depreciation:				
Equipment	\$ 308,772	\$ 17,929	\$ (157,704)	\$ 168,997
System Improvements	1,898,965	420,393	-	2,319,358
Vehicles	99,802	12,243	(14,752)	97,293
	<u>\$ 2,307,539</u>	<u>\$ 450,565</u>	<u>\$ (172,456)</u>	<u>\$ 2,585,648</u>
Net capital assets being depreciated	<u>\$ 15,062,789</u>			<u>\$ 14,655,682</u>

Depreciation expense of \$450,565 was charged directly to operations.

NOTE 7. CONDUIT DEBT**Project #1:**

On September 24, 2004, the Authority issued General Obligation Limited Tax Bonds for the design, acquisition, construction, and equipment improvements for expansion of the plant.

The Authority has contracted with the Cities of Bridgman and New Buffalo and the Township of New Buffalo to finance their respective portions of the project. Chikaming and Lake Charter Townships used funds on hand to pay their respective portions of the project.

Project #2:

On June 14, 2007, the Authority issued General Obligation Limited Tax Bonds, Series 2007 to (i) finance the acquisition, construction and equipping of improvements to the system, including but not limited to the acquisition, construction and installation of additional siphon lines, an additional force main, improvements to the Franklin Street Pump Station and new electrical building and (ii) pay the expenses relating to the issuance of the bonds.

The Authority has contracted with the cities of Bridgman and New Buffalo, the Townships of New Buffalo and Chikaming, and the Charter Township of Lake to finance the project, collectively referred to as "Contracting Municipalities." The Authority anticipates to make the debt payments on these bonds with excess reserves on behalf of the contracting municipalities, but the ultimate responsibility lies with the municipalities.

The proceeds for each project's debt were allocated in the following proportions:

	<u>Project #1</u>	<u>Project #2</u>
Bridgman City	41.10%	20.00%
New Buffalo City	19.38%	20.00%
New Buffalo Township	39.52%	20.00%
Lake Charter Township	0.00%	20.00%
Chikaming Township	0.00%	20.00%

NOTE 7. CONDUIT DEBT, CONCLUDED

The bonds are being issued pursuant to the provisions of Act 233 and resolutions adopted by the Authority and the Contracting Municipalities. The Bonds are issued in anticipation of and are payable solely from certain contractual payments to be made by the Contracting Municipalities to the Authority. The municipalities have pledged their limited tax, full faith, and credit for the payment of their respective proportion. The Authority has irrevocably pledged such payment against the principal and interest on the Bonds. The Bonds are not general obligations of the Authority and the Authority has no taxing power.

As of December 31, 2009, the total amount of outstanding conduit debt is \$8,865,000 (\$7,130,000 - project #1 and \$1,735,000 – project #2).

NOTE 8. WEESAW TOWNSHIP AGREEMENT

The Authority entered into a twenty year agreement with Weesaw Township (the “Township”) to provide sewage treatment services for wastewater originating in the Township. The Authority agreed to provide up to a maximum amount of 100,000 gallons per day. The Township shall, at its own expense, construct, establish, maintain, repair and own a sewer main including lift stations or other equipment connecting into the Chikaming Township system. The agreement may be terminated after two years or more with a written notice, and at any time after the first fifteen years of the agreement term. The agreement only applies to the phase 1 of the construction regarding the tie-in by the Township into the system. Any additional sewer construction shall require an amendment to the agreement. At December 31, 2009, \$28,072 of fees was received.

NOTE 9. UNION

The full and part-time Operators, Maintenance Mechanics, Laborers, and Helpers of the Authority are members of Operating Engineers Local No. 324, and are currently under a signed three (3) year agreement with the Authority. Approximately 99% of the workforce is covered under the collective bargaining agreement which ends December 31, 2011.

NOTE 10. DEFINED BENEFIT PENSION PLAN

The Authority contributes to the Operating Engineers’ Local 324 Pension Fund (the “Plan”), a multiemployer defined benefit pension plan administered by the Central Pension Fund of the International Union of Operating Engineers and Participating Employers. The plan issues a publicly available financial report. The report may be obtained by writing to the Central Pension Fund, 4115 Chesapeake Street NW, Washington, D.C. 20016.

The obligation to contribute to and maintain the plan for these employees was established through the union contract between the Authority’s board of directors and union employees, and requires the Authority to contribute \$1.72 per hour for all hours paid each employee. This resulted in a contribution of \$36,391 for the year ended December 31, 2009. The contribution for the year ending December 31, 2010 will be \$1.79 per hour worked.

NOTE 11. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, unemployment claims, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance to minimize its exposure to loss in these areas.

NOTE 12. REPORTING CHANGES

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for governmental entities in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2010.

The Governmental Accounting Standards has recently released Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements in this statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. This new statement is effective for periods beginning after June 15, 2010, with early adoption permitted. The Authority is planning to adopt this new pronouncement for the fiscal year beginning January 1, 2010.

NOTE 13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 24, 2010 which is the date the financial statements were ready to be issued.



ACCOUNTANT'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
GRSD Sewer Authority

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the GRSD Sewer Authority financial statements as a whole. The following schedules are presented for purposes of additional analysis and are not required part of the financial statements. The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Schaffer & Layher".

Schaffer & Layher
May 24, 2010

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

GRSD SEWER AUTHORITY**SCHEDULE OF NET ASSETS FOR OPERATIONS AND CAPITAL ACTIVITY**
DECEMBER 31, 2009
(with comparative totals for 2008)

	Operations	Capital Projects	2009	2008
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,011,159	\$ 1,224,084	\$ 2,235,243	\$ 1,482,965
Accounts receivable	139,714	91,129	230,843	612,443
Total current assets	\$ 1,150,873	\$ 1,315,213	\$ 2,466,086	\$ 2,095,408
Restricted assets:				
Cash and cash equivalents	\$ -	\$ 193,612	\$ 193,612	\$ 192,293
Capital Assets	\$ -	\$ 14,655,682	\$ 14,655,682	\$ 15,062,789
Total Assets	\$ 1,150,873	\$ 16,164,507	\$ 17,315,380	\$ 17,350,490
Liabilities:				
Accounts payable	\$ 90,626	\$ 15,511	\$ 106,137	\$ 112,643
Payroll taxes payable	2,978	-	2,978	2,579
Total Liabilities	\$ 93,604	\$ 15,511	\$ 109,115	\$ 115,222
Net Assets				
Invested in capital assets	\$ -	\$ 14,655,682	\$ 14,655,682	\$ 15,062,789
Restricted for capital purposes	-	193,612	193,612	192,293
Unrestricted	1,057,269	1,299,702	2,356,971	1,980,186
Total Net Assets	\$ 1,057,269	\$ 16,148,996	\$ 17,206,265	\$ 17,235,268
Total Liabilities and Net Assets	\$ 1,150,873	\$ 16,164,507	\$ 17,315,380	\$ 17,350,490

See accompanying notes and auditor's report on supplementary information.

GRSD SEWER AUTHORITY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR OPERATIONS AND CAPITAL ACTIVITY

DECEMBER 31, 2009

(with comparative totals for 2008)

	Operations	Capital Projects	Actual		Budget 2009
			2009	2008	
Operating Revenues					
Sewer User Fees:					
City of New Buffalo	\$ 446,825	\$ 114,230	\$ 561,055	\$ 536,296	\$ 488,658
Chikaming Township	440,285	78,777	519,062	598,529	500,592
New Buffalo Township	203,002	49,826	252,828	247,128	199,119
Lake Charter Township	288,650	74,546	363,196	344,937	354,135
City of Bridgman	238,460	41,982	280,442	290,007	282,545
Weesaw Township	28,072	-	28,072	11,782	4,460
Other Fees:					
Waste hauling	93,640	-	93,640	82,349	65,000
Services rendered	49,045	61,513	110,558	137,926	689,983
Total operating revenues	\$ 1,787,979	\$ 420,874	\$ 2,208,853	\$ 2,248,954	\$ 2,584,492
Operating Expenses					
Salaries and wages	\$ 557,819	\$ -	\$ 557,819	\$ 521,432	\$ 525,243
Payroll taxes	43,843	-	43,843	41,060	41,275
Employee benefits	180,181	-	180,181	188,172	172,898
Depreciation	-	450,565	450,565	450,763	-
Office supplies	3,171	-	3,171	1,750	3,000
Operating supplies	118,644	-	118,644	127,471	131,000
Professional fees	19,312	-	19,312	27,574	46,100
Legal	1,714	-	1,714	474	7,600
Board fees	3,370	-	3,370	3,760	4,600
Sludge disposal	70,320	-	70,320	90,207	77,000
Communications	23,458	-	23,458	22,891	18,600
Training and transportation	3,210	-	3,210	2,605	4,400
Insurance and bonds	65,828	-	65,828	70,862	116,750
Utilities	278,158	-	278,158	226,217	240,500
Equipment and sewer repairs	198,414	59,850	258,264	380,486	414,306
Vehicle repairs	26,772	-	26,772	9,512	9,500
Uniforms	5,557	-	5,557	5,111	5,500
Miscellaneous	822	-	822	2,000	-
Total operating expenses	\$ 1,600,593	\$ 510,415	\$ 2,111,008	\$ 2,172,347	\$ 1,818,272
Net operating income (loss)	\$ 187,386	\$ (89,541)	\$ 97,845	\$ 76,607	\$ 766,220
Non-operating income (expenses):					
Transfer between activity	\$ (300,350)	\$ 300,350	\$ -	\$ -	\$ -
Debt payments on behalf of contracting municipalities	-	(141,590)	(141,590)	(77,890)	-
Sale of fixed assets	-	-	-	-	-
Interest income	5,651	9,091	14,742	25,479	9,000
Total non-operating income (expenses)	\$ (294,699)	\$ 167,851	\$ (126,848)	\$ (52,411)	\$ 9,000
Change in net assets	\$ (107,313)	\$ 78,310	\$ (29,003)	\$ 24,196	\$ 775,220
Net Assets, Beginning of Year	1,164,582	16,070,686	17,235,268	17,211,072	-
Net Assets, End of Year	\$ 1,057,269	\$ 16,148,996	\$ 17,206,265	\$ 17,235,268	\$ 775,220

See accompanying notes and auditor's report on supplementary information.



To the Board of Directors of GRSD Sewer Authority
New Buffalo, Michigan

In planning and performing our audit of the financial statements of the GRSD Sewer Authority (the "Authority") as of and for the year ended December 31, 2009, 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 opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Authority'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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Authority's internal control to be a material weakness:

During the course of our engagement, we have been asked to prepare drafts of the Authority's financial statements in accordance with generally accepted accounting principles. The employees and management responsible for reviewing those financial statements lack the skill and knowledge to properly apply generally accepted accounting principles.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency to be a significant deficiency:

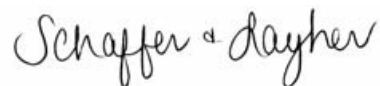
Management is responsible for establishing effective internal controls to safeguard the Authority's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the Authority's unique circumstances.

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

As is the case with many entities of similar size, the Authority lacks a sufficient number of accounting personnel in order to ensure a complete segregation of incompatible duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. Events of recent year have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of a government's internal control carries with it a greater risk of fraud and abuse.

This condition is a result of the Authority's limited resources, and the small size of its accounting staff.

This communication is intended solely for the information and use of management, the Authority's Board and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Schaffer & Layher".

Schaffer & Layher, PLLC
St. Joseph, MI
May 24, 2010