

**SOUTHWEST MICHIGAN REGIONAL SANITARY  
SEWER & WATER AUTHORITY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2009**

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# STEPHEN ROSS & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Southwest Michigan Regional Sanitary Sewer & Water Authority  
Saint Joseph, Michigan

We have audited the accompanying basic financial statements of the Southwest Michigan Regional Sanitary Sewer & Water Authority as of June 30, 2009 and for the year then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Southwest Michigan Regional Sanitary Sewer & Water Authority as of June 30, 2009, and the changes in financial position for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information as identified in the table of contents are not a required part of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain procedures, which consisted principally of inquiries of management, regarding methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

STEPHEN ROSS & COMPANY

September 28, 2009

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## Southwest Michigan Regional Sanitary Sewer & Water Authority

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### Management's Discussion and Analysis

As management of Southwest Michigan Regional Sanitary Sewer and Water Authority, we offer readers of the Southwest Michigan Regional Sanitary Sewer & Water Authority's financial statements this narrative overview and analysis of the financial activities of the Southwest Michigan Regional Sanitary Sewer & Water Authority for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the financial information presented in this report. All amounts, unless otherwise indicated, are expressed as actual dollars.

### **About the Authority**

The Southwest Michigan Regional Sanitary Sewer and Water Authority is a joint venture of the Townships of Lincoln Charter, Royalton, and St. Joseph Charter Townships. The Southwest Michigan Regional Sanitary Sewer & Water Authority was incorporated under the provisions of Act 233 of the Public Acts of Michigan of 1955. The purpose of the Authority is to acquire, improve, extend and operate a water supply and sewage disposal system for the benefits of residents of Lincoln Charter Township, Royalton Township, and St Joseph Charter Township.

- On June 29, 2007, the townships of Lincoln Charter Township, Royalton Township, and St. Joseph Charter Township passed resolutions to directly assume the responsibility of the bills of the Lake Michigan Shoreline Water & Sewage Treatment Authority since the Village of Stevensville would not approve an operating budget for the LMSW&STA for the 2007-2008 fiscal year. (Under the bylaws of the LMSW&STA, the budget must be approved by all five municipalities before the Authority can expend funds.)
- On July 19, 2007, the township boards of Lincoln Charter Township, Royalton Township and St. Joseph Charter Township met in special sessions to adopt Articles of Incorporation for a new authority - Southwest Michigan Regional Sanitary Sewer and Water Authority.
- Publication of the new Articles of Incorporation was made in the Herald Palladium on July 20, 2007.
- On July 25, 2007, the Articles of Incorporation were filed with the Michigan Secretary of States office in Lansing, Michigan.
- On July 26, 2007, the first meeting of Southwest Michigan Regional Sanitary Sewer and Water Authority was held to accept the by-laws and to appoint the board of directors.

The governing body of this authority is a board of trustees made up of three representatives from Lincoln Charter Township, three representatives from Royalton Township, and three representatives from St. Joseph Charter Township.

## **Financial Highlights**

- The combined contributions from the three townships for operations were \$385,500.
- Total expenditures were \$375,429.
- \$137,610 was expended for engineering costs associated with the Hickory Creek sewage interceptor line.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Southwest Michigan Regional Sanitary Sewer and Water Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) Government-Wide Financial Statements 2) Fund Financial Statements and 3) Notes to the Financial Statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

## **Governmental Financial Statements**

The government wide financial statements are designed to provide readers with a broad overview of Southwest Michigan Regional Sanitary Sewer & Water Authority's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of Southwest Michigan Regional Sanitary Sewer & Water Authority's assets and liabilities, with the difference between the two reported as net assets. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial portion of Southwest Michigan Regional Sanitary Sewer & Water Authority is improving or deteriorating.

The Statement of Net Assets presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near term financing requirements.

Because the focus of governmental funds is narrower than that of a government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financial decisions. The Governmental Funds

Balance Sheet and the Statement of Governmental Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic Governmental Fund Financial Statements can be found on pages 8 - 9 of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements. The notes of the financial statements can be found on pages 10 - 15 of this report.

### **Other Information**

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes the budgetary comparison scheduled.

The supplementary information can be found on page 16 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of Southwest Michigan Regional Sanitary Sewer & Water Authority's financial position, assets exceeded liabilities by \$125,885 at the close of the most recent fiscal year.

As of June 30, 2009, the Southwest Michigan Regional Sanitary Sewer and Water Authority had \$15,858 in capital assets.

**Southwest Michigan Regional Sanitary  
Sewer & Water Authority  
Statement of Net Assets**

|                            |  | <b>Governmental<br/>Activities</b> |                   |
|----------------------------|--|------------------------------------|-------------------|
|                            |  | <u>FY 2009</u>                     | <u>FY 2008</u>    |
| Current and other assets   |  | \$ 244,264                         | \$ 149,640        |
| Capital Assets             |  | <u>15,858</u>                      | <u>0</u>          |
| Total Assets               |  | <u>260,122</u>                     | <u>149,640</u>    |
| Current Liabilities        |  | 118,379                            | 40,075            |
| Non Current Liabilities    |  | <u>0</u>                           | <u>0</u>          |
| Total Liabilities          |  | <u>118,379</u>                     | <u>40,075</u>     |
| <br>Net Assets:            |  |                                    |                   |
| Invested in capital assets |  | 15,858                             | 0                 |
| Unrestricted               |  | <u>125,885</u>                     | <u>109,565</u>    |
| Total net assets           |  | <u>\$ 141,743</u>                  | <u>\$ 109,565</u> |

- Current and other assets increased by \$94,624, and \$15,858 in capital assets were added this year for Total Assets of \$260,122.
- Current liabilities increased in 2009 by \$78,304 as a result of the engineering phase of the Hickory Creek Interceptor Project that began in the last quarter of the fiscal year.
- Unrestricted net assets increased by \$16,320.

**Southwest Michigan Regional Sanitary  
Sewer & Water Authority  
Change in Net Assets**

|                                      | <b>Governmental<br/>Activities</b> |                       |
|--------------------------------------|------------------------------------|-----------------------|
|                                      | <u><b>FY 2009</b></u>              | <u><b>FY 2008</b></u> |
| Revenues:                            |                                    |                       |
| Program Revenue:                     |                                    |                       |
| Operating Contributions              | \$ 385,500                         | \$ 398,300            |
| General Revenue:                     |                                    |                       |
| Interest Income                      | 214                                | 110                   |
| Other Revenue                        | <u>6,035</u>                       | <u>1,850</u>          |
| Total Revenue                        | <u>391,749</u>                     | <u>400,260</u>        |
| <br>Expenses:                        |                                    |                       |
| Public Works                         | <u>375,429</u>                     | <u>290,695</u>        |
| <br>Increase(Decrease) in Net Assets | 16,320                             | 109,565               |
| Net Assets, July 1, 2008             | <u>109,565</u>                     | <u>0</u>              |
| <br>Net Assets, June 30, 2009        | <u>\$ 125,885</u>                  | <u>\$ 109,565</u>     |

**Financial Analysis of the Government's Funds**

As noted earlier, the Southwest Michigan Regional Sanitary Sewer & Water Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - The focus of the Southwest Michigan Regional Sanitary Sewer & Water Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Southwest Michigan Regional Sewer & Water Authority's financing requirements. In particular, unreserved fund balance many serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Southwest Michigan Regional Sanitary Sewer & Water Authority's governmental fund reported an ending fund balance of \$125,885. Of this balance \$63,495 constitutes undesignated fund balance which is available for spending at the authority's discretion with \$62,390 designated for 2009-10 expenditures for the Hickory Creek sewage interceptor line.

### **Capital Improvements and Funding Requirements**

- In the 2009-10 fiscal year work will begin on the Hickory Creek Interceptor Project that will require bonds to be issued to complete the project. At this time, preliminary estimates are that the engineering firm will receive bids by the end of the year and that bonds will be sold by February 2010.

### **Fiscal Year 2009 Budget Variances**

- The revenue budget for the Authority was \$388,500, and the actual collections were \$391,749. Interest income was less than projected.
- The original expenditure budget was \$285,500 and it was amended to \$385,500 due to the engineering fees for the Hickory Creek Interceptor Project. The actual expenditures were \$375,429.
- Overall revenues exceed expenditures by \$16,320.

### **Capital Assets and Debt Administration**

**Capital Asset** - As of June 30, 2009, the Southwest Michigan Regional Sanitary Sewer & Water Authority added, net of depreciation, \$15,858 in capital assets for the year.

**Long-term debt** - As of June 30 2009, the Authority had no long-term debt.

### **Next Year's Budget**

- The approved budget for 2009-2010 for the Authority is \$372,250 in revenues and \$272,000 in expenditures.
- As in the past year, \$100,000 is being designated for future expenditures on the Hickory Creek sewage interceptor line.
- Contributions by Lincoln Charter Township, Royalton Township and St. Joseph Charter Township for the general operating expenditures were calculated based on the water consumption of each township.
- Contributions by the three townships for the future sewer interceptor project were based on the sewer consumption of each township.

### **Contacting the Authority's Management**

The purpose of this management discussion is to provide an overview of the current and prospective financial condition of the Authority's operations. Questions concerning this report may be directed to Mr. Charles Garlanger, Chairman. He can be contacted at St. Joseph Charter Township at 269-429-7703.

**SOUTHWEST MICHIGAN REGIONAL SANITARY SEWER & WATER AUTHORITY**

**GOVERNMENTAL FUND BALANCE SHEET  
AND STATEMENT OF NET ASSETS  
JUNE 30, 2009**

|                                    | General Fund<br>Balance Sheet             | Adjustments             | Statement of<br>Net Assets |
|------------------------------------|---|-------------------------|----------------------------|
| <b>Assets:</b>                     |   |                         |                            |
| Cash                               | \$ 240,190                                | \$ -                    | \$ 240,190                 |
| Due from other units of government | 499                                       | -                       | 499                        |
| Prepaid expenses                   | 3,575                                     | -                       | 3,575                      |
| Capital assets, net                | -   | 15,858                  | 15,858                     |
|                                    | <b>Total assets</b>                       | <b>\$ 15,858</b>        | <b>\$ 260,122</b>          |
| <b>Liabilities:</b>                |   |                         |                            |
| Accounts payable                   | \$ 118,223                                | \$ -                    | \$ 118,223                 |
| Due to other units of government   | 156                                       | -                       | 156                        |
| Total current liabilities          | 118,379                                   | -                       | 118,379                    |
| <b>Fund balance:</b>               |   |                         |                            |
| Unreserved, undesignated           | 63,495                                    | (63,495)                | -                          |
| Designated                         | 62,390                                    | (62,390)                | -                          |
| Total fund balance                 | 125,885                                   | (125,885)               | -                          |
|                                    | <b>Total liabilities and fund balance</b> | <b>\$ 244,264</b>       |                            |
| <b>Net assets:</b>                 |   |                         |                            |
| Invested in capital assets         |   | 15,858                  | 15,858                     |
| Unrestricted                       |   | 125,885                 | 125,885                    |
|                                    |   | <b>Total net assets</b> | <b>\$ 141,743</b>          |
|                                    |   | <b>\$ 141,743</b>       | <b>\$ 141,743</b>          |

See accompanying notes to financial statements.

**SOUTHWEST MICHIGAN REGIONAL SANITARY SEWER & WATER AUTHORITY**

**STATEMENT OF GOVERNMENTAL REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
AND STATEMENT OF ACTIVITIES  
FOR THE PERIOD ENDED JUNE 30, 2009**

|                                     | <u>General Fund</u> | <u>Adjustments</u> | <u>Statement of<br/>Activities</u> |
|-------------------------------------|---------------------|--------------------|------------------------------------|
| Revenue:                            |                     |                    |                                    |
| Contributions from other            |                     |                    |                                    |
| government units                    | \$ 385,500          | \$ -               | \$ 385,500                         |
| Interest income                     | 214                 | -                  | 214                                |
| Other revenue                       | 6,035               | -                  | 6,035                              |
| Total revenue                       | <u>391,749</u>      | <u>-</u>           | <u>391,749</u>                     |
| Expenditures;                       |                     |                    |                                    |
| Legislative:                        |                     |                    |                                    |
| Compensation                        | 16,560              | -                  | 16,560                             |
| Payroll tax                         | 1,267               | -                  | 1,267                              |
| Accounting                          | 3,313               | -                  | 3,313                              |
| Contract services                   | 10,646              | -                  | 10,646                             |
| Office expense                      | 931                 | -                  | 931                                |
| Insurance                           | 9,694               | -                  | 9,694                              |
| Professional fees                   | 58,862              | -                  | 58,862                             |
| Miscellaneous                       | 80                  | -                  | 80                                 |
| Public works - water/sewer system:  |                     |                    |                                    |
| Contract services                   | 395                 | -                  | 395                                |
| Cross connection services           | 12,006              | -                  | 12,006                             |
| Engineering - general               | 28,328              | -                  | 28,328                             |
| Engineering - Hickory Creek         | 137,610             | -                  | 137,610                            |
| Repairs & maintenance               | 49,848              | -                  | 49,848                             |
| Capital outlay                      | 16,705              | (16,705)           | -                                  |
| Depreciation                        | -                   | 847                | 847                                |
| Operating supplies                  | 22                  | -                  | 22                                 |
| Communications                      | 5,423               | -                  | 5,423                              |
| Utilities                           | 23,739              | -                  | 23,739                             |
| Total expenditures                  | <u>375,429</u>      | <u>(15,858)</u>    | <u>359,571</u>                     |
| Change in fund balance/net assets   | 16,320              | 15,858             | 32,178                             |
| Fund balance/net assets - beginning | <u>109,565</u>      | <u>-</u>           | <u>109,565</u>                     |
| Fund balance/net assets - ending    | <u>\$ 125,885</u>   | <u>\$ 15,858</u>   | <u>\$ 141,743</u>                  |

See accompanying notes to financial statements.

**SOUTHWEST MICHIGAN REGIONAL SANITARY SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the 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.

**A. REPORTING ENTITY.**

The Southwest Michigan Regional Sanitary Sewer & Water Authority is a joint venture of the Townships of St. Joseph, Lincoln and Royalton. The Authority was created July 25, 2007 under the provisions of Act 233 of the Public Acts of Michigan of 1955. The purpose of the Authority is to acquire, improve, extend and operate a water supply and sewage disposal system for the benefit of the residents of these communities. The three participating townships fund the operating costs based on their common usage of the water supply and sewage disposal system.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in this reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS.**

The Authority's basic financial statements include both government-wide (reporting on the Authority as a whole) and fund financial statements (reporting on the Authority's major fund). The Authority maintains only one fund, the General Fund, and does not utilize any proprietary or fiduciary funds.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all governmental activities of the Authority.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Governmental activities are supported by intergovernmental revenues and fees. Direct expenses are those that are clearly identifiable with a specific function or segment.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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

SOUTHWEST MICHIGAN REGIONAL SANITARY SEWER & WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations.

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

The Authority reports one major governmental fund, the General Fund. The General Fund is the general operating fund for the Authority and is used to account for all financial resources.

D. ASSETS, LIABILITIES, NET ASSETS AND EQUITY

Bank Deposits and Investments - The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Due From (To) Other Governmental Units - Amounts due from (to) other governmental units are recorded at their gross value, and, where appropriate are reduced by the estimated portion that is expected to be uncollectible/ payable. No amounts were uncollectible at year end.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets are defined by the Authority as assets with an initial cost of more than \$500 and an estimated life of more than one year. Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at the fair market value at the time of contribution. Other costs incurred for repair and maintenance are expenses as incurred. There are no capital assets at year end.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

|              |             |
|--------------|-------------|
| Improvements | 15-20 Years |
| Equipment    | 3-7 Years   |

Fund Balance - In the fund financial statements designations of fund balance represent tentative management plans that are subject to change.

**SOUTHWEST MICHIGAN REGIONAL SANITARY SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. USE OF ESTIMATES**

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

**NOTE 2 - BUDGET & BUDGETARY ACCOUNTING**

The Board prepares and adopts an annual budget for the Authority's proposed revenues and expenditures for the next fiscal year. Budgets are submitted by each member municipality on or before January 1 of each calendar year and must be approved by resolution of each member municipality. For the year ended June 30, 2009 the Authority amended the budget for expected engineering costs on a project.

Budget amounts were adopted at the department/activity level and are reported in the financial statements as originally adopted and amended.

**NOTE 3 - DEPOSITS**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office 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 government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated 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 which are legal for direct investment by local units of government in Michigan.

Southwest Michigan Regional Sanitary Sewer & Water Authority has designated one bank for the deposit of the Authority's funds. The investment policy adopted by the Authority in accordance with Public Act 196 of 1997 has authorized investments in instruments authorized by Public Act 20.

**SOUTHWEST MICHIGAN REGIONAL SANITARY SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 3 - DEPOSITS (Continued)**

The Authority's deposits and investments policy are in accordance with statutory authority.

Deposits at June 30, 2009 did not exceed FDIC bank coverage limits.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity of the Authority's governmental activities was as follows:

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|------------------|---------------------------|
| Governmental activities:                  |                              |                  |                           |
| Capital assets being depreciated:         |                              |                  |                           |
| Improvements                              | \$ -                         | \$ 8,188         | \$ 8,188                  |
| Equipment                                 | -                            | 8,517            | 8,517                     |
| Subtotal                                  | -                            | 16,705           | 16,705                    |
| Accumulated Depreciation                  | -                            | ( 847)           | ( 847)                    |
| Total capital assets, net of depreciation | <u>\$ -</u>                  | <u>\$ 15,858</u> | <u>\$ 15,858</u>          |

**NOTE 5 - OPERATING & MAINTENANCE SERVICE AGREEMENT**

On July 24, 2007 the Lake Michigan Shoreline Water & Sewage Treatment Authority executed an agreement with the Southwest Michigan Regional Sanitary Sewer & Water Authority to operate, maintain and repair the sewage disposal and water supply systems for the Lake Michigan Shoreline Authority. The Lake Michigan Shoreline Authority will continue to account for the water tower construction project as well as service the debt related to the water supply bonds issued in 2007.

**SOUTHWEST MICHIGAN REGIONAL SANITARY SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 6 - RELATED PARTY TRANSACTIONS**

Contributions from other governmental units represent billings to the member Townships for their respective share of the Authority's budgeted expenditures. Contributions for the year ended June 30, 2009 were as follows:

|                             |    |                       |
|-----------------------------|----|-----------------------|
| Lincoln Charter Township    | \$ | 223,464               |
| St. Joseph Charter Township |    | 119,503               |
| Royalton Township           |    | <u>42,533</u>         |
| Total                       | \$ | <u><u>385,500</u></u> |

**NOTE 8 - RECONCILIATION**

The General Fund's fund balance and the net change in fund balance differ from net assets and change in net assets reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the balance sheet and statement of revenue, expenditures and changes in fund balances.

|   |    |                       |
|---|----|-----------------------|
| Fund Balance  | \$ | 125,885               |
| Amounts reported in the statement of net assets are different because:              |    |                       |
| Capital assets are not financial resources and are not reported in the funds        |    | <u>15,858</u>         |
| Total net assets  | \$ | <u><u>141,743</u></u> |
| <br>  |    |                       |
| Net change in fund balances   | \$ | 16,320                |
| Amounts reported in the statement of activities are different because:              |    |                       |
| General fund reports capital outlay as expenditures in the statement of activities: |    |                       |
| Equipment & land improvements   |    | 16,705                |
| Depreciation expense  |    | <u>(847)</u>          |
| Change in net assets  | \$ | <u><u>32,178</u></u>  |

**SOUTHWEST MICHIGAN REGIONAL SANITARY SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 9 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property, loss, torts, errors and omissions and employee injuries (workers' compensation). The Authority has purchased commercial insurance to provide coverage for such claims.

**SOUTHWEST MICHIGAN REGIONAL SANITARY SEWER & WATER AUTHORITY**

**REQUIRED SUPPLEMENTAL INFORMATION  
GENERAL FUND - BUDGETARY COMPARISON SCHEDULE  
FOR THE PERIOD ENDED JUNE 30, 2009**

|  | <u>Original<br/>Budget</u> | <u>Amended<br/>Budget</u> | <u>Actual</u>     | <u>Budget<br/>Variance</u> |
|--|----------------------------|---------------------------|-------------------|----------------------------|
| Revenue:                                     |                            |                           |                   |                            |
| Contributions from other<br>government units | \$ 385,500                 | \$ 385,500                | \$ 385,500        | \$ -                       |
| Interest income                              | 3,000                      | 3,000                     | 214               | (2,786)                    |
| Other revenue                                | -                          | -                         | 6,035             | 6,035                      |
| Total revenue                                | <u>388,500</u>             | <u>388,500</u>            | <u>391,749</u>    | <u>3,249</u>               |
| Expenditures:                                |                            |                           |                   |                            |
| Legislative:                                 |                            |                           |                   |                            |
| Compensation                                 | 20,000                     | 20,000                    | 16,560            | (3,440)                    |
| Payroll tax                                  | -                          | -                         | 1,267             | 1,267                      |
| Accounting                                   | 3,500                      | 3,500                     | 3,313             | (187)                      |
| Contract services                            | 5,000                      | 5,000                     | 10,646            | 5,646                      |
| Office supplies                              | 2,000                      | 2,000                     | 931               | (1,069)                    |
| Insurance                                    | 30,000                     | 30,000                    | 9,694             | (20,306)                   |
| Professional fees                            | 75,000                     | 75,000                    | 58,862            | (16,138)                   |
| Publishing                                   | 3,500                      | 3,500                     | -                 | (3,500)                    |
| Miscellaneous                                | 1,000                      | 1,000                     | 80                | (920)                      |
| Public works - water/sewer system:           |                            |                           |                   |                            |
| Contract services                            | 25,000                     | 25,000                    | 395               | (24,605)                   |
| Cross connection services                    | 25,000                     | 25,000                    | 12,006            | (12,994)                   |
| Engineering - general                        | 20,000                     | 20,000                    | 28,328            | 8,328                      |
| Engineering - Hickory Creek                  | -                          | 100,000                   | 137,610           | 37,610                     |
| Repairs & maintenance:                       | 40,000                     | 40,000                    | 49,848            | 9,848                      |
| Capital outlay                               | -                          | -                         | 16,705            | 16,705                     |
| Operating supplies                           | 3,000                      | 3,000                     | 22                | (2,978)                    |
| Communications                               | 4,000                      | 4,000                     | 5,423             | 1,423                      |
| Education & training                         | 2,500                      | 2,500                     | -                 | (2,500)                    |
| Utilities                                    | 26,000                     | 26,000                    | 23,739            | (2,261)                    |
| Total expenditures                           | <u>285,500</u>             | <u>385,500</u>            | <u>375,429</u>    | <u>(10,071)</u>            |
| Change in fund balance/net assets            | 103,000                    | 3,000                     | 16,320            | 13,320                     |
| Fund balance/net assets - beginning          | <u>109,565</u>             | <u>109,565</u>            | <u>109,565</u>    | <u>-</u>                   |
| Fund balance/net assets - ending             | <u>\$ 212,565</u>          | <u>\$ 112,565</u>         | <u>\$ 125,885</u> | <u>\$ 13,320</u>           |

# STEPHEN ROSS & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2009

To the Members of the Authority Board  
Southwest Michigan Regional Sanitary  
Sewer & Water Authority  
Saint Joseph, Michigan

In planning and performing our audit of the financial statements of Southwest Michigan Regional Sanitary Sewer & Water Authority as of June 30, 2009 and for the year then ended, 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 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as described below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency, is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

1. The size of the Authority's accounting and administrative staff limits the segregation of duties that would be preferred to provide adequate internal controls. As a result, this presents a need for the Authority's Board to provide oversight and independent review of finances to enhance internal control over the Authority's financial affairs, as it would not be cost effective to add administrative staff.

**STEPHEN ROSS & COMPANY, PC**  
3055 West John Beers Road  
Stevensville, MI 49127  
Telephone: 269-428-7155  
Fax: 269-428-7157

We would like to thank the Authority members for the courtesy and cooperation extended to us by the officials and representatives of the Authority during the course of our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and would be pleased to assist you in implementing them in the future.

This letter is based on Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, and is intended solely for the information and use of management, the Finance Committee, the Board of Trustees, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Stephen Ross & Company