

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Grand Valley Regional Biosolids Authority	County Kent
Fiscal Year End 6/30/07	Opinion Date 11/16/07	Date Audit Report Submitted to State 12/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

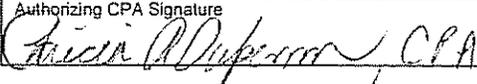
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

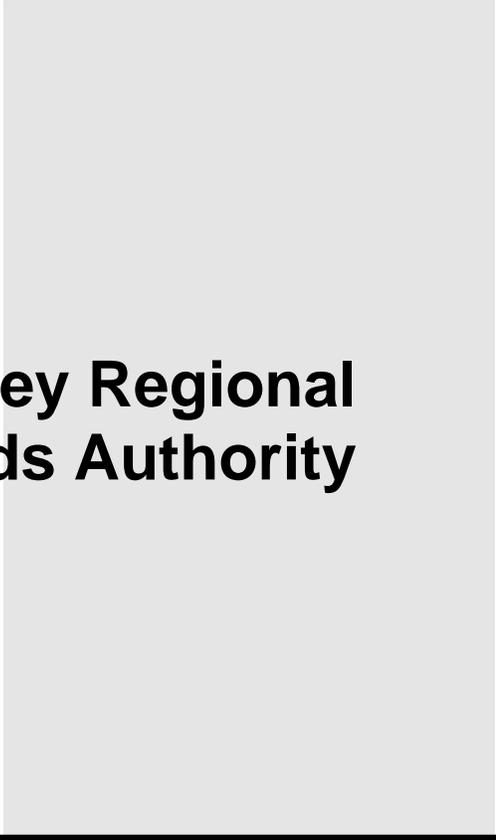
YES  NO  Check each applicable box below. (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	none	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BDO Seidman, LLP		Telephone Number 616.774.7000	
Street Address 99 Monroe Ave NW Suite 800		City Grand Rapids	State MI
		Zip 49503	
Authorizing CPA Signature 	Printed Name Patricia A Duperron	License Number 1101019522	



**Grand Valley Regional  
Biosolids Authority**

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**Financial Statements**  
Years Ended June 30, 2007 and 2006

# Grand Valley Regional Biosolids Authority

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## Independent Auditors' Report

Members of the Grand Valley  
Regional Biosolids Authority  
Grand Rapids, Michigan

We have audited the accompanying financial statements of the Grand Valley Regional Biosolids Authority (the Authority), as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the management of the Authority. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Grand Valley Regional Biosolids Authority at June 30, 2007 and 2006, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Grand Rapids, Michigan  
November 16, 2007

## **Management's Discussion and Analysis**

This section of the Grand Valley Regional Biosolids Authority's (the Authority) financial report presents a discussion and analysis of the Authority's financial performance for the year ended June 30, 2007. The discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes. This discussion and analysis is designed to focus on current activities, resulting changes and currently known facts. This financial report is the second report since the inception of the Authority.

### ***Using the Financial Report***

This financial report consists of three financial statements that focus on the financial condition of the Authority and the results of its operations as a whole.

One of the most important questions asked about governmental finances is whether the unit of government as a whole is better off or worse off as a result of the year's activities. A key to the understanding of this question is the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows which present financial information in a format similar to that used by businesses.

The Statement of Net Assets includes all of the Authority's assets and liabilities. It is prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The Authority's net assets are one indicator of its financial health. Generally, over time, increases or decreases in net assets will indicate the improvement or erosion of the Authority's financial health.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the fiscal year. In general, activities are reported as operating, nonoperating, capital contributions, and transfers. The Authority currently has only minimal operating activities, with the bulk of activities directed to the design and engineering activities of the proposed biosolids capital projects. Future construction activities will diversify this statement in the future. Note that the amount for net assets at end of period on this statement agrees with total net assets on the Statement of Net Assets.

Other important factors to consider when evaluating financial viability is the Authority's ability to meet financial obligations as they are due and its ability to generate future net cash flows. The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital financing and investing activities. In addition to information about cash transactions, the Statement of Cash Flows reconciles operating income on the Statement of Revenues, Expenses and Changes in Net Assets with net cash provided by operating activities on the Statement of Cash Flows.

## Statement of Net Assets

<i>June 30,</i>	<b>2007</b>	2006
<b>Assets</b>		
Cash	<b>\$1,383,621</b>	\$ 518,391
Construction in progress	<b>1,133,551</b>	505,726
<b>Total Assets</b>	<b>\$2,517,172</b>	\$1,024,117
<b>Liabilities</b>		
Advances	<b>\$ -</b>	\$1,000,000
<b>Restricted Net Assets</b>	<b>2,517,172</b>	24,117
<b>Total Liabilities and Net Assets</b>	<b>\$2,517,172</b>	\$1,024,117

### Current Assets

#### *Cash*

Cash of \$1,383,621 consists of cash in the Authority's interest-bearing bank account on June 30, 2007 after payments for supplies and construction in progress. Cash deposits resulted from equal contributions to the joint venture by the City of Grand Rapids, Michigan and the City of Wyoming, Michigan as well as the state grant received in 2007.

### Noncurrent Assets

#### *Construction in Progress*

The balance in Construction in Progress is the sum of all project-related expenses incurred by the Authority related to the future construction of the joint biosolids processing facility. Since the construction project is still in the formative stages, these payments include engineering, design, architectural and legal consulting services.

### Noncurrent Liabilities

#### *Advances*

As of June 30, 2007, the City of Grand Rapids and the City of Wyoming have each advanced \$1,000,000. These contributions were classified as advances pending reimbursement from bond proceeds. During fiscal year 2007, it was determined that the bonds would not be issued within the timeframe required to allow reimbursement of the advances. Accordingly, amounts previously reflected as advances were recognized as contributions in fiscal year 2007.

The Authority expects to issue State of Michigan Revolving Fund (SRF) bonds in support of the engineering and construction phases of the project. As of June 30, 2007, the Authority has commitments totaling \$5,400,000 from the City of Grand Rapids and the City of Wyoming. The Authority's Business Plan continues to assume significant portions of funding provided by the cities will be returned following completion of construction and funding the initial operating working capital requirements.

### *Net Assets*

Net Assets represent the difference between Authority assets and liabilities and are restricted for the project. Total Net Assets at June 30, 2007 were \$2,517,172. The increase of approximately \$2.5 million over fiscal year 2006 is a result of additional contributions from the two cities and a state grant. The Net Assets consist principally of construction in progress and cash committed to pay for engineering contractual obligations.

### **Statement of Revenues, Expenses and Changes in Net Assets**

<i>Year ended June 30,</i>	<b>2007</b>	2006
<b>Revenues</b>		
Contributions and capital grants	<b>\$ 2,472,868</b>	\$ -
Interest income	<b>23,914</b>	21,203
<b>Total revenues</b>	<b>2,496,782</b>	21,203
<b>Expenses</b>	<b>3,727</b>	2,793
Change in net assets	<b>2,493,055</b>	18,410
<b>Net Assets, beginning of period</b>	<b>24,117</b>	5,707
<b>Net Assets, end of period</b>	<b>\$2,517,172</b>	\$24,117

### **Revenues**

#### *Interest Income*

The Authority earned \$23,914 in interest income on cash balances in its interest-bearing checking account during the year ended June 30, 2007.

## **Expenses**

### *Operating Activities*

The Authority incurred \$3,727 in expenses, primarily for professional fees (i.e. legal fees) during the period.

## **Capital and Related Financing Activities**

### *Contributions and Capital Grants*

To fund project-related payments prior to the issuance of revenue bonds, periodically, the City of Grand Rapids and the City of Wyoming contributed to the Authority equal amounts of cash since inception.

### *Construction in Progress*

The cities of Wyoming and Grand Rapids have entered into a Memorandum of Agreement for Joint Regional Biosolids Management Project dated April 22, 2003, where they agreed to jointly proceed in the development, construction, and operation of a regional biosolids management project.

The goals and objectives of the Project are as follows:

- Address the increasing public perception issues with Class B land application of biosolids.
- Position the cities, via the Authority, for Class A/Exceptional Quality (EQ) Biosolids production in the future.
- Position the cities, via the Authority, for flexibility in biosolids disposal/reuse outlets, both in the short and long terms.
- Foster cost stabilization and predictability by reducing dependence on and exposure to economic factors beyond the control of the cities (e.g. fuel costs, etc.).
- Promote sustainability in biosolids reuse.
- Address existing equipment and facility age, capacity, and conditions issues at each treatment facility.
- Coordinate relocation of solids processing facilities at the Grand Rapid Wastewater Treatment Plant to allow for planned expansion of the liquid treatment process.
- Promote regional cooperation, and take advantage of economies of scale that may be afforded by a regional approach.
- Ensure regulatory compliance.
- Minimize user cost impacts.

Since the above identified goals and objectives are both short and long term, it was decided that the Project be staged/partitioned for implementation. The first phase of the Project was approved in November 2005. The current Project consists of the following four phases, three of which were part of a construction contract that was approved subsequent to year end (Note 4):

- Segment 1: Storage at Grand Rapids Wastewater Treatment Plant to accommodate intermittent pumping from Wyoming Clean Water Plant and weekend/holiday storage-storage tanks (approximately 1.6 to 2.0M gallons) to be converted in future to secondary digesters.
- Segment 2: Pumping Station at Wyoming Clean Water Plant for transfer of biosolids to Grand Rapids Wastewater Treatment Plant site.
- Segment 3: Transmission pipelines to transfer biosolids from Wyoming Clean Water Plant to Grand Rapids Wastewater Treatment Plant.
- Segment 4: Mechanical dewatering operation located at Grand Rapids Wastewater Treatment Plant site, with landfill disposal.

The revised budget for this Project is approximately \$35,000,000 and was approved by the Authority.

The Authority made project-related payments to various engineering, design, architectural and legal firms during the period.

# Grand Valley Regional Biosolids Authority

## Statements of Net Assets

<i>June 30,</i>	<b>2007</b>	2006
<b>Assets</b>		
Cash	\$ 1,383,621	\$ 518,391
Construction in progress (Note 3)	1,133,551	505,726
<b>Total Assets</b>	<b>\$ 2,517,172</b>	<b>\$ 1,024,117</b>
<b>Liabilities</b>		
Advances (Note 4)	\$ -	\$ 1,000,000
<b>Net Assets</b>	<b>2,517,172</b>	<b>24,117</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,517,172</b>	<b>\$ 1,024,117</b>

*See accompanying notes to financial statements.*

# Grand Valley Regional Biosolids Authority

## Statements of Revenues, Expenses and Changes in Net Assets

<i>Year ended June 30,</i>	<b>2007</b>	2006
<b>Operating Expenses</b>		
Professional fees	\$ 2,775	\$ 2,625
Other	952	168
<b>Total operating expenses</b>	<b>3,727</b>	2,793
<b>Operating Loss</b>	<b>(3,727)</b>	(2,793)
<b>Nonoperating Revenues</b>		
Contributions from local governments	2,000,000	-
State grant	472,868	-
Interest income	23,914	21,203
<b>Total nonoperating revenues</b>	<b>2,496,782</b>	21,203
Change in net assets	2,493,055	18,410
<b>Net Assets, beginning of year</b>	<b>24,117</b>	5,707
<b>Net Assets, end of year</b>	<b>\$ 2,517,172</b>	\$24,117

*See accompanying notes to financial statements.*

# Grand Valley Regional Biosolids Authority

## Statements of Cash Flows

<i>Year ended June 30,</i>	<b>2007</b>	2006
<b>Cash Flows for Operating Activities</b>		
Payments to vendors	\$ (3,727)	\$ (2,793)
<b>Cash Flows From (for) Capital and Related Financing Activities</b>		
Contribution from local governments	1,000,000	-
State grant	472,868	-
Construction in process	(627,825)	(140,221)
<b>Net cash from (for) capital and related financing activities</b>	<b>845,043</b>	(140,221)
<b>Cash Flows From Investing Activity</b>		
Interest income	23,914	21,203
<b>Increase (decrease) in cash</b>	<b>865,230</b>	(121,811)
<b>Cash, beginning of year</b>	<b>518,391</b>	640,202
<b>Cash, end of year</b>	<b>\$ 1,383,621</b>	\$ 518,391

*See accompanying notes to financial statements.*

# Grand Valley Regional Biosolids Authority

## Notes to Financial Statements

### 1. Reporting Entity

The Grand Valley Regional Biosolids Authority (the Authority) was created pursuant to Michigan Public Act 233 of 1995. The Authority is a joint venture of the City of Grand Rapids and the City of Wyoming, both located in the County of Kent, State of Michigan. The Authority was created to operate a joint regional biosolids management project and other projects authorized by law.

### 2. Summary of Significant Accounting Policies

#### *Measurement Focus and Basis of Accounting*

The statement of net assets and the statement of revenues, expenses and changes in net assets are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### *Budget*

The budget for the Authority is a project budget which spans several years, rather than an annual budget. Therefore, budget to actual information has not been reflected in the financial statements.

#### *Net Assets*

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or other external restrictions.

#### *Cash Deposits*

Statutes require that certificates of deposit, savings accounts, depository accounts and depository receipts are made with banks doing and having a place of business in the State of Michigan and who are also members of a federal or national insurance corporation.

# Grand Valley Regional Biosolids Authority

## Notes to Financial Statements

### *Custodial Credit Risk Related to Deposits*

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for mitigating custodial credit risk. At June 30, 2007, the Authority's bank balance was \$1,383,531 of which \$1,283,531 was exposed to custodial credit risk since it was uninsured and uncollateralized.

### *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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.

### **3. Construction in Progress**

The initial design study and engineering phase was estimated to cost \$5,530,000. As of June 30, 2007, \$1,133,551 has been expended on this phase leaving \$4,396,449 in estimated costs to be paid. The preliminary cost estimate for the actual public and private facilities is \$12,750,000. The Authority is actively considering alternatives that would achieve the objectives of the joint project at a significantly reduced capital cost. The primary strategy is to phase development of the project over time while preserving the ultimate objective of achieving a Class A biosolids product.

### **4. Commitments**

\$1,000,000 each has been advanced to the Authority by the City of Grand Rapids and the City of Wyoming. The Authority has commitments of \$5,400,000 from both cities combined.

On August 14, 2007, the Authority received funding commitments from the state of Michigan Water Pollution Control Revolving Fund for financing of the facility at an interest rate of 1.625%. The entire approved financing is \$16,224,634. Draws against the approved amount are allowed only for construction expenditures. It is anticipated that construction will begin in 2008 and be complete in 2009.