

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Southwest Barry County Sewer and Water Authority</u>	County Barry
Audit Date March 31, 2005	Opinion Date May 5, 2005	Date Accountant Report Submitted To State: June 23, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 750 Trade Centre Way – Suite 300	City Portage	State MI	ZIP 49002
Accountant Signature <i>Plante & Moran, PLLC</i>			

Southwest Barry County Sewer and Water Authority

**Financial Report
with supplemental information**

March 31, 2005

Southwest Barry County Sewer and Water Authority

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

We have audited the accompanying basic financial statements of Southwest Barry County Sewer and Water Authority as of March 31, 2005 and 2004 and for the years then ended. These financial statements are the responsibility of the Water 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Barry County Sewer and Water Authority at March 31, 2005 and 2004, and the changes in financial position, including cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Southwest Barry County Sewer and Water Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

As discussed in Note 1, the Authority adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present new financial information.

May 5, 2005

Plante & Moran, PLLC

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Southwest Barry County Sewer and Water Authority

Management Discussion and Analysis

About the Authority

Southwest Barry County Sewer and Water Authority provide the townships of Praireville, Barry, Hope and Johnstown with sewage and disposal services. The Authority was incorporated in May 1991. The Authority is governed by a board composed of Supervisors of each constituent Township.

Condensed Financial Information

The following table represents condensed information about the Authority's financial position for the past two (2) fiscal years. Net assets decreased by approximately \$514,000 during the year. Total net assets included the investment in capital assets held by the Authority, net of related accumulated depreciation.

	March 31	
	2005	2004
Assets		
Current assets	\$ 972,050	\$ 1,017,397
Restricted assets for debt Services	3,172,881	4,112,297
Other assets	309,986	332,906
Capital assets	<u>7,973,250</u>	<u>8,520,015</u>
Total assets	<u>\$12,428,167</u>	<u>\$13,982,615</u>
Liabilities and Net Assets		
Current liabilities	\$ 908,031	\$ 960,182
Long-term debt	4,628,713	5,733,323
Net assets	6,891,423	7,405,755
Total liabilities and net assets	<u>\$12,428,167</u>	<u>\$14,099,261</u>

Southwest Barry County Sewer and Water Authority

Management Discussion and Analysis (Continued)

Revenues and Expenses

The Authority's financial position declined slightly during the year ended March 31, 2005. Operating income combined with nonoperating revenue was not sufficient to cover the current operating expenses.

The following table shows the changes in net assets during the years ended March 31, 2005 and 2004;

	Year Ended March 31	
	2005	2004
Operating Revenue	\$ 591,034	\$ 550,565
Operating Expenses Before Depreciation	515,406	498,752
Net Operating Income Before Depreciation	75,628	51,813
Depreciation	668,869	653,065
Net Loss from Operations	(593,241)	(601,252)
Nonoperating Revenues (Expenses)	78,909	79,670
Net Loss	(514,332)	(521,582)

As the data indicates, the Authority's operating income increased during the year related to increases in user fees and a significant amount of growth. Operating revenue increased 7% over 2004. Operating expenses increased approximately \$16,700. The Authority continued its efforts to control expenses and the Authority also hired a new administrator during the year.

Nonoperating Revenues and Expenses

Nonoperating income includes connection fees, debt service fees, interest income on investments and special assessments, and amortization of bond costs and discounts. Nonoperating revenue has decreased slightly in 2005 due to less interest income earned on special assessments.

Capital Improvements

During the year, the Authority purchased a 1994 Ford Pump truck, a 2004 GMC truck, and a John Deere Tractor. These items were purchased using general operating cash.

Southwest Barry County Sewer and Water Authority

Management Discussion and Analysis (Continued)

Future Projections

The Authority is looking for ways to strengthen the position of the Authority. One of the ways the board strengthened the Authority during the year was to hire an administrator to assist in running the day-to-day activities and add another layer of internal controls. The Authority also started accepting septage at the plant as another source of revenue. For the fiscal year beginning April 1, 2005, the Authority has received approval from all the Townships to increase the debt fund payments by \$5 which will help to increase cashflow.

Contacting the Authority's Management

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

Southwest Barry County Sewer and Water Authority

	March 31	
	2005	2004
Assets		
Current Assets		
Cash and investments (Note 2)	\$ 383,688	\$ 363,202
Accounts receivable	93,188	91,764
Prepays	<u>495,174</u>	<u>562,431</u>
Total current assets	972,050	1,017,397
Restricted Assets for Debt Services		
Cash and investments (Note 2)	1,109,861	1,623,563
Special assessments receivables from Townships (Note 3)	1,903,017	2,314,532
Contract connection fee receivable (Note 5)	<u>160,004</u>	<u>174,202</u>
Total restricted assets	3,172,881	4,112,297
Other Assets - Bond issue costs - Net of amortization	309,986	332,906
Capital Assets (Note 4)	<u>7,973,250</u>	<u>8,520,015</u>
Total assets	<u>\$12,428,167</u>	<u>\$13,982,615</u>

Statement of Net Assets
March 31, 2005 and 2004

	March 31	
	2005	2004
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 19,860	\$ 11,531
Accrued expenses and other liabilities	78,171	141,923
Current portion of long-term debt (Note 6)	<u>810,000</u>	<u>806,728</u>
Total current liabilities	908,031	960,182
Long-Term Debt (Note 6)	<u>4,628,713</u>	<u>5,733,323</u>
Total liabilities	5,536,744	6,693,505
Net Assets		
Investment in capital assets, net of related debt	2,534,537	1,979,964
Restricted net assets	3,172,881	4,112,297
Unrestricted	<u>1,184,005</u>	<u>1,313,494</u>
Total net assets	<u>6,891,423</u>	<u>7,405,755</u>
Total liabilities and net assets	<u>\$12,428,167</u>	<u>\$14,099,261</u>

Southwest Barry County Sewer and Water Authority

Statement of Activities Years Ended March 31, 2005 and 2004

	Year Ended March 31	
	2005	2004
Operating Revenue		
Sewer user fees	\$ 537,081	\$ 502,953
Water user fees	48,411	44,436
Miscellaneous	5,541	3,176
Total operating revenue	591,034	550,565
Operating Expenses Before Depreciation		
Cost of sewer	470,529	457,626
Cost of water	44,877	41,126
Total operating expense	515,406	498,752
Net Operating Income Before Depreciation	75,628	51,813
Depreciation	668,869	653,065
Net Loss from Operations	(593,241)	(601,252)
Nonoperating Revenues (Expenses)		
Connection fees	115,666	106,905
Debt service fees	186,766	161,983
Investment income	20,799	19,296
Interest income on special assessments	117,326	183,754
Interest expense on bonds	(289,883)	(319,205)
Amortization on bond costs	(22,920)	(22,921)
Amortization of legal costs	(41,809)	(41,809)
Amortization of bond discount	(7,036)	(8,333)
Total nonoperating revenue	78,909	79,670
Net Loss	(514,332)	(521,582)
Net Assets - Beginning of the year	7,405,755	7,927,337
Net Assets - End of the year	\$6,891,423	\$7,405,755

Southwest Barry County Sewer and Water Authority

Statement of Cash Flows Years Ended March 31, 2005 and 2004

	March 31	
	2005	2004
Cash Flows from Operating Activities		
Receipts from customers	\$ 589,610	\$ 542,884
Payments to suppliers	(268,718)	(277,431)
Payments to employees	(273,442)	(245,064)
Net cash provided by operating activities	47,450	20,389
Cash Flows from Capital and Related Financing Activities		
Collections on special assessments	411,515	448,051
Interest earned on special assessments	117,326	183,754
Collections on connection fees	126,642	123,666
Debt service fees collected	186,766	161,983
Purchase of capital assets	(122,104)	(4,460)
Proceeds from advance refunding	4,665,000	-
Principal and interest paid on capital debt	(5,946,611)	(1,125,927)
Net cash used in capital and related financing activities	(561,466)	(212,933)
Cash Flows from Investing Activities		
Interest received on investments	20,799	19,296
Net Decrease in Cash and Cash Equivalents	(493,217)	(173,248)
Cash and Cash Equivalents - Beginning of year	<u>1,986,765</u>	<u>2,160,013</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,493,548</u>	<u>\$ 1,986,765</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Unrestricted cash	\$ 383,688	\$ 363,202
Restricted cash and cash equivalents	<u>1,109,861</u>	<u>1,623,563</u>
Total cash and cash equivalents	<u>\$ 1,493,548</u>	<u>\$ 1,986,765</u>

Southwest Barry County Sewer and Water Authority

Statement of Cash Flows (Continued) Years Ended March 31, 2005 and 2004

Reconciliation of Operating Income to Net Cash from Operating		
Activities		
Operating loss	\$ (593,241)	\$ (601,252)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	668,869	653,065
Changes in assets and liabilities:		
Receivables	(1,424)	(7,681)
Inventory	25,449	-
Accounts payable	8,327	(7,603)
Accrued and other liabilities	<u>(63,752)</u>	<u>(16,140)</u>
Net cash provided by operating activities	<u>\$ 44,228</u>	<u>\$ 20,389</u>

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2005 and 2004

Note 1 - Summary of Significant Accounting Policies

Southwest Barry County Sewer and Water Authority (the " Authority) was established by the Townships of Prairieville, Barry, Hope and Johnstown. The Authority was incorporated in May 1991, under the provisions of Act 233, Public Acts of 1955, as amended. The Authority is governed by a board composed of the Supervisors of each of the constituent Townships. The Authority was formed to operate, maintain, administer and manage a sewage collection and disposal system pursuant to Act 185 Public Acts of 1957, as amended, for the benefit of constituent municipalities.

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

Measurement Focus and Basis of Accounting - The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

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

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

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

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2005 and 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Change in Accounting - During the year ended March 31, 2005, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments. These significant changes are as follows:

- These statements now include a Management's Discussion and Analysis section;
- The equity section is now reported as Net Assets (in its three components), rather than contributed capital and retained earnings.

The implementation of GASB Statement No. 34 had no effect on reported net income.

Use of Estimates - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the report amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Reclassifications - Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2005 and 2004

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Authority has designated one bank for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs.

The Authority investment policy is in accordance with statutory authority.

The Authority's deposits and investments at March 31, 2005 and 2004, are included on the balance sheet under the following classifications:

	2005	2004
Cash and cash equivalents	\$ 383,688	\$ 363,202
Restricted assets for debt service	<u>1,109,861</u>	<u>1,623,563</u>
Total	<u>\$ 1,493,548</u>	<u>\$ 1,986,765</u>
The above amounts are classified by Government Accounting Standards Board Statement Number 3 in the following categories:		
Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 605,531	\$ 1,019,254
Amounts held by the County	887,867	967,361
Cash on hand and petty cash	<u>150</u>	<u>150</u>
Total	<u>\$ 1,493,548</u>	<u>\$ 1,986,765</u>

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

Deposits - The above deposits were reflected in the accounts of the bank of the Authority (without recognition of checks written but not yet cleared or of deposits-in-transit) at \$611,160 and \$788,266 on March 31, 2005 and 2004, respectively. Of these amounts, \$200,000 and \$200,000 was covered by federal depository insurance at March 31, 2005 and 2004, respectively, and \$411,160 and \$588,266 were uninsured and uncollateralized at March 31, 2005 and 2004, respectively. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution it deposits Authority funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Amounts held by the County - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the amount covered by federal depository insurance as these funds are only a portion of the entire County deposits.

Note 3 - Contracts with Townships

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

	Balance April 1, 2004	Principal Collected	Balance March 31, 2005
Original assessment			
Barry Township	\$ 279,973	\$ (46,377)	\$ 233,596
Hope Township	354,741	(69,517)	285,224
Johnstown Township	343,344	(63,316)	280,028
Prairieville Township	<u>769,052</u>	<u>(153,876)</u>	<u>615,176</u>
Total original assessment	1,747,110	(333,086)	1,414,024
Fair Lake project			
Barry Township	<u>567,422</u>	<u>(78,429)</u>	<u>488,993</u>
Total contracts due from townships	<u>\$ 2,314,532</u>	<u>\$ (411,515)</u>	<u>\$ 1,903,017</u>

Total interest collected was \$117,326 and \$183,754 in 2005 and 2004, respectively.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2005 and 2004

Note 4 - Capital Assets

Cost of property, plant and equipment and depreciable lives are summarized as follows:

	Balance April 1, 2004	Additions	Balance March 31, 2005
Capital assets not being depreciated:			
Land and easements	\$ 486,830	\$ -	\$ 486,830
Capital assets being depreciated:			
Treatment plant	2,863,571	20,351	2,883,922
Wells, mains, and equipment	<u>9,715,551</u>	<u>101,754</u>	<u>9,817,305</u>
Subtotal	12,579,122	122,105	12,701,227
Less accumulated depreciation	<u>4,545,937</u>	<u>668,870</u>	<u>5,214,807</u>
Net capital assets being depreciated	<u>8,033,185</u>	<u>(546,765)</u>	<u>7,486,420</u>
Net capital assets	<u>\$ 8,520,015</u>	<u>\$ (546,765)</u>	<u>\$ 7,973,250</u>

	Balance April 1, 2003	Additions	Balance March 31, 2004
Capital assets not being depreciated:			
Land and easements	\$ 486,830	\$ -	\$ 486,830
Capital assets being depreciated:			
Treatment plant	2,860,516	3,055	2,863,571
Wells, mains and equipment	<u>9,714,146</u>	<u>1,405</u>	<u>9,715,551</u>
Subtotal	12,574,662	4,460	12,579,122
Less accumulated depreciation	<u>3,896,112</u>	<u>649,825</u>	<u>4,545,937</u>
Net capital assets being depreciated	<u>8,678,550</u>	<u>(645,365)</u>	<u>8,033,185</u>
Net capital assets	<u>\$ 9,165,380</u>	<u>\$ (645,365)</u>	<u>\$ 8,520,015</u>

Depreciation expense was \$668,869 and \$653,065 for the years ended March 31, 2005 and 2004, respectively.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2005 and 2004

Note 5 - Contract Connection Fees

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

Balance April 1, 2004	New Hook-Ups	Amounts Paid	Balance March 31, 2005
\$ 174,202	\$ 82,460	\$ (96,658)	\$ 160,004

Note 6 - Long-Term Debt

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

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Southwest Barry County Sewage						
Disposal refunding bonds, series 2004	1.65%-3.15%		\$ -	\$4,665,000	\$4,665,000	\$ 750,000
Amounts of issue:	4,665,000	\$750,000- \$850,000				
Maturing through:	2010					
Southwest Barry County Sewage						
Disposal system bonds			5,600,000	(5,600,000)	-	-
Amounts of issue:	12,000,000					
Maturing through:	2010					
Fair Lake Extension Sewage						
Disposal bonds	4.35%-4.90%					
Amounts of issue:	1,110,000	\$60,000- \$65,000	880,000	(55,000)	825,000	60,000
Maturing through:	2017					
Installment note payable						
Amounts of issue:						
Maturing through:	2004		1,728	(1,728)	-	-
Subtotal			6,481,728	(991,728)	5,490,000	810,000
Less deferred amount on refunding			(58,323)	7,036	(51,287)	-
Total long-term debt			\$6,540,051	\$ (984,692)	\$5,438,713	\$ 810,000

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2005 and 2004

Note 6 - Long-Term Debt (Continued)

Debt Service Requirements - The annual requirements to amortize all long-term debt outstanding as of March 31, 2005, including both principal and interest, are as follows:

	Principal	Interest	Total
2006	\$ 810,000	\$ 146,650	\$ 956,650
2007	775,000	130,509	905,509
2008	810,000	111,713	921,713
2009	860,000	89,615	949,615
2010	865,000	64,586	929,586
2011-2015	1,175,000	85,882	1,274,270
2016-2020	195,000	14,299	<u>209,299</u>
Total			<u>\$ 6,146,642</u>

Interest - Total interest incurred for the Authority was \$289,883 and \$319,205 for the years ended March 31, 2005 and 2004, respectively.

Advance and Current Refundings - During the year, the Authority issued \$4.6 million in general obligation bonds with an average interest rate of 2.46 percent. The proceeds of these bonds were used to advance refund \$5.6 million of outstanding Southwest Barry County Sewage Disposal System Bonds with an average interest rate of 4.94 percent. The net proceeds of \$4,598,500 million (after payment of \$66,500 in underwriting fees, insurance, and other issuance costs) plus an additional \$300,000 of Authority monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Authority's statement of net assets. The advance refunding reduced total debt service payments over the next six years by approximately \$524,730, which represents an economic gain of approximately \$195,400.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2005 and 2004

Note 7 - Defined Contribution Pension Plan

The authority provides pension benefits to all employees through a defined contribution plan by adopting the MTA Master Compensation plan for the benefit of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Authority contributes 8 percent of base compensation for participating employees. Employees are able to defer compensation into the plan up to the limits governing IRS section 457 retirement plans. Total contributions of the plan for the year ending March 31, 2005 and 2004 were \$11,389 and \$11,138, respectively.

Note 8 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits for the employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

May 5, 2005

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

Dear Board Members:

In planning and performing our audit of the financial statements of the Southwest Barry County Sewer and Water Authority for the year ended March 31, 2005, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control that have come to our attention and, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements.

The following item is considered to be a reportable condition and not a material weakness.

Segregation of Duties

The Bookkeeper is currently responsible for preparing the deposits, and reconciling the bank statements. We understand that complete segregation of duties would be very difficult due to the small numbers of employees; however, the Authority could mitigate some of the risk related to cash collections by having monthly bank reconciliations reviewed and approved by the Administrator or Treasurer. This would help facilitate adequate segregation of duties without requiring additional employees.

We would like to commend the Authority's finance staff on implementing a number of our recommendations. We noted a number of additional procedures have been implemented to strengthen overall internal control related to cash receipts and disbursements.

We also noted the following items which are not reportable conditions, but we feel warrant your consideration.

Wire Transfers

The Authority currently does not have an approval process or a policy for wire transfers. The State of Michigan mandates governmental entities have a wire transfer policy. We recommend that the Authority develop a wire transfer policy that should include various approvals. Plante and Moran would be able to provide a sample wire transfer policy, if needed.

Accounts Receivable Balances

The Authority currently has Special Assessment receivables from each of the constituent Townships that the Authority provides services to. The audit documentation received from Praireville and Barry Townships indicated the amounts owed to the Authority were different than what the Authority has recorded as receivables. Praireville Township showed a balance that was \$8,300 greater than what the Authority had recorded. Barry Township showed a balance that was \$3,200 less than what the Authority had recorded. We recommend the Authority reconciles these differences with the Townships by comparing a listing of the Authority's outstanding receivables to the Townships' listings of the outstanding payables. Reconciling with the Townships will assure the Authority of the amounts they can expect to receive from the Townships.

Journal Entries

The Authority currently does not have a policy requiring approval of all journal entries. We recommend that the Administrator review and initial all journal entries before they are posted in order to provide additional internal controls in the day-to-day operation of the Authority. Through discussions with the Administrator, we understand this process has been implemented during the new fiscal year.

Billing Adjustments

During our audit, we noted the Authority does not keep supporting documentation or require approval for billing adjustments that are made. We recommend that the Administrator approve any adjustments made to customers' bills and that documentation be attached to the adjustments. This will increase the internal controls over the billing system.

We would like to thank the Authority personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC

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