

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

**For the Years Ended March 31, 2004 and 2003**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>South County Sewer &amp; Water Authority</b>	County <b>Kalamazoo</b>
Audit Date <b>3/31/04</b>	Opinion Date <b>8/4/04</b>	Date Accountant Report Submitted to State: <b>9/29/04</b>	

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*, to the report of comments and recommendations



You must check the applicable box for each item below.

- Yes  No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes  No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes  No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes  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.
- Yes  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]).
- Yes  No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes  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).
- Yes  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).
- Yes  No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

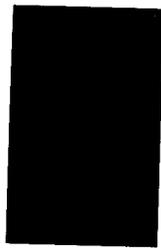
**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Seber Tans Dillenbeck Howard &amp; Craft, PLC</b>			
Street Address <b>555 W. Crosstown Parkway, Suite 304</b>		City <b>Kalamazoo</b>	State <b>MI</b>
Accountant Signature <i>Allen Tans CPA Jr Seber Tans Dillenbeck Howard &amp; Craft PLC</i>		ZIP <b>49008</b>	Date <b>9/29/04</b>

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# Seber, Tans, Dillenbeck, Howard & Craft, PLC

*Consultants & Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
South County Sewer and Water Authority

We have audited the accompanying financial statements of South County Sewer and Water Authority as of and for the years ended March 31, 2004 and 2003 as listed in the table of contents. These financial statements are the responsibility of the South County Sewer and Water 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 financial statements referred to above present fairly, in all material respects, the financial position of South County Sewer and Water Authority at March 31, 2004 and 2003 and the results of its operations and changes in cash flows of its proprietary fund for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the South County Sewer and Water Authority. The supplemental information has been subjected to the auditing procedures applied in the audits of the 2004 and 2003 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2004 and 2003 financial statements taken as a whole.

*Seber Tans Dillenbeck Howard & Craft, PLC*  
Seber Tans Dillenbeck Howard & Craft, PLC  
Kalamazoo, Michigan

August 4, 2004

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**BALANCE SHEETS**  
**March 31, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 126,874	\$ 107,325
Contracts receivable from municipalities, no allowance for doubtful accounts	250,000	367,303
Other contracts receivable, no allowance for doubtful accounts	30,000	15,432
<b>TOTAL CURRENT ASSETS</b>	<b>406,874</b>	<b>490,060</b>
<b>OTHER ASSETS</b>		
Contracts receivable, excluding current portion	2,212,612	2,319,794
Other contracts receivable, excluding current portion	172,570	148,632
Start-up costs, net of amortization	20,709	36,241
Bond issue discount, net of amortization	38,872	41,372
Restricted cash and investments	1,647,611	1,708,474
<b>TOTAL OTHER ASSETS</b>	<b>4,092,374</b>	<b>4,254,513</b>
<b>PROPERTY AND EQUIPMENT</b>		
Fixed assets, net of accumulated depreciation of \$629,866 and \$445,510 for 2004 and 2003, respectively	6,637,216	6,810,675
<b>TOTAL ASSETS</b>	<b>\$ 11,136,464</b>	<b>\$ 11,555,248</b>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Demand obligation payable	\$ 150,000	\$ 150,000
Accounts payable	18,843	18,136
Accrued interest	108,901	103,107
Current portion of contract debt payable	325,000	325,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>602,744</b>	<b>596,243</b>
<b>LONG-TERM LIABILITIES</b>		
Contract debt payable, less current portion	4,820,520	5,145,520
<b>TOTAL LIABILITIES</b>	<b>5,423,264</b>	<b>5,741,763</b>
<b>FUND EQUITY</b>		
Contributed capital	5,042,929	5,070,943
Retained earnings	670,271	742,542
<b>TOTAL FUND EQUITY</b>	<b>5,713,200</b>	<b>5,813,485</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 11,136,464</b>	<b>\$ 11,555,248</b>

*See Accompanying Notes to the Financial Statements*

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN RETAINED EARNINGS**  
**For the Years Ended March 31, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
<b>REVENUES</b>		
Charges for services	\$ 153,389	\$ 151,416
<b>OPERATING EXPENSES</b>		
Salaries and wages	52,046	46,043
Fringe benefits	7,943	6,150
Contracted services	63,015	67,304
Utilities	12,105	10,842
Supplies	3,483	6,231
Maintenance and repairs	3,747	3,044
Miscellaneous	---	105
Depreciation and amortization	186,857	184,092
<b>TOTAL OPERATING EXPENSES</b>	<b>329,196</b>	<b>323,811</b>
<b>OPERATING LOSS</b>	(175,807)	(172,395)
<b>NON-OPERATING REVENUES</b>		
Debt service fees	12,843	11,513
Interest income on investments	13,912	22,037
Interest income on special assessments	180,924	177,071
Interest income on connection fee contracts	9,053	10,983
Miscellaneous revenue	48	1,253
<b>TOTAL NON-OPERATING REVENUES</b>	<b>216,780</b>	<b>222,857</b>
<b>NON-OPERATING EXPENSES</b>		
Interest expense	(229,725)	(243,494)
Amortization	(15,533)	(18,032)
<b>TOTAL NON-OPERATING EXPENSES</b>	<b>(245,258)</b>	<b>(261,526)</b>
<b>NET LOSS BEFORE DEPRECIATION CREDIT</b>	(204,285)	(211,064)
<b>DEPRECIATION CREDIT</b>		
Transfer of depreciation to contributed capital	132,014	132,014
<b>NET LOSS</b>	(72,271)	(79,050)
Retained earnings at beginning of year	742,542	821,592
<b>RETAINED EARNINGS AT END OF YEAR</b>	<b>\$ 670,271</b>	<b>\$ 742,542</b>

*See Accompanying Notes to the Financial Statements*

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended March 31, 2004 and 2003

	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from users	\$ 153,389	\$ 151,416
Cash payments to suppliers for goods and services	(81,643)	(91,738)
Cash payments to employees for services	(59,989)	(52,193)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>11,757</b>	<b>7,485</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Other non-operating revenues	12,891	12,766
Proceeds from connection fees	65,494	98,020
Proceeds from contracts with municipalities	270,036	507,753
Principal paid on contract debt	(325,000)	(200,000)
Interest paid on contract debt	(223,931)	(235,138)
Acquisition and construction of capital assets	(10,897)	(18,429)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(211,407)</b>	<b>164,972</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned on investments and receivables	158,336	230,272
Proceeds from (investments in) government obligations with maturities greater than 90 days or restricted for capital improvements or debt reduction	60,863	(475,495)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>219,199</b>	<b>(245,223)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>19,549</b>	<b>(72,766)</b>
Cash and cash equivalents at beginning of year (including restricted cash)	107,325	180,091
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (including restricted cash)</b>	<b>\$ 126,874</b>	<b>\$ 107,325</b>

*See Accompanying Notes to the Financial Statements*

	<u>2004</u>	<u>2003</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (175,807)	\$ (172,395)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	186,857	184,092
Increase (decrease) in:		
Accounts payable	707	(4,212)
<b>TOTAL CHANGES IN ASSETS AND LIABILITIES INCLUDED IN OPERATING RESULTS</b>	<u>187,564</u>	<u>179,880</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 11,757</u>	<u>\$ 7,485</u>

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended March 31, 2004 and 2003**

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**NOTE A - Summary of Significant Accounting Policies**

Authority Formation and Mission

The South County Sewer and Water Authority (the Authority) was established by the Townships of Brady and Pavilion and the Township and Village of Schoolcraft, Kalamazoo County, Michigan. The Authority was incorporated in May, 1997, under the provisions of Act 233, Public Acts of 1955, as amended. The Authority is governed by a board composed of representatives of each of the constituent municipalities. 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.

A nineteen-year bond issue totaling \$6,100,000 financed the cost of the sewer collection system and lines. The bonds were issued in December 1998. The \$6,100,000 debt will be repaid with proceeds from a twenty-year special assessment roll on benefiting property owners, revenue from new connection fees, and from debt service fees.

Statement on Accounting Policies

The accounting policies of South County Sewer and Water Authority conform to generally accepted accounting principles as applicable to governments. The Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The Authority has not yet adopted GASB 34, which is effective for fiscal years beginning after June 15, 2003. The Authority intends to adopt GASB 34 for the fiscal year ending March 31, 2005.

Scope of Reporting Entity and Basis of Presentation

The financial statements of South County Sewer and Water Authority contain all the funds that are financially interdependent on the Authority's executive or legislative branches. The most significant manifestation in determining the reporting entity is financial interdependence. Other manifestations to be considered include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Other criteria used to evaluate potential component units for inclusion or exclusion in a reporting entity is the existence of special financing relationships regardless of oversight responsibilities. The Authority does not have any potential component units. Based on these criteria the Authority is considered a reporting unit and is not considered a component unit of the Townships.

Basis of Accounting

All activities of the Authority are accounted for in a single proprietary fund. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheets. Fund equity (i.e., net total assets) is segregated into contributed capital and retained-earnings components.

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended March 31, 2004 and 2003**

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**NOTE A - Summary of Significant Accounting Policies (Continued)**

Basis of Accounting (Continued)

Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Activities of the Authority are accounted for by using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Operating activities include all revenues and expenses associated with sewer activities. Non-operating revenues and expenses relate primarily to financing and investing activities.

Use of Restricted Assets

Certain deposits and investments are restricted by contract and/or Township ordinance for debt service purposes, capital improvements, significant repairs and replacements and by Authority policy for future contingencies. Costs of capital improvements and significant repairs and replacements are funded first from restricted assets.

Fixed Assets

Fixed assets of the Authority are accounted for on a cost of services or "capital maintenance" measurement focus. Fixed assets are valued at cost. Donated fixed assets are stated at their fair market value on the date donated.

Depreciation of all exhaustible fixed assets is charged as an expense against operations, except that depreciation on contributed assets and grant financed projects is used to reduce the amount of contributed capital. Depreciation has been provided by using the straight-line method over the estimated useful lives of the related assets as follows: Sewer Lines - 40 years, Sewer Equipment - 7 years, and Office equipment - 5 years.

Capitalized Interest

Interest costs on debt incurred to finance fixed asset additions is capitalized during the construction period. Interest is capitalized at the rate of the associated debt instrument based on the cost incurred on the related construction until such time as the sewer system is ready for service. The interest capitalized is added to the carrying cost of the sewer system.

Estimates

Preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management. Estimates are subject to change and, accordingly, actual results may differ from the estimates used in preparation of the accompanying financial statements. These financial statements include estimates primarily as to the depreciable lives and salvage values of fixed assets, and the current portion of contracts receivables.

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended March 31, 2004 and 2003**

**NOTE A - Summary of Significant Accounting Policies (Continued)**

Cash and Cash Equivalents

For purposes of the statements of cash flows, all highly liquid investments, with a maturity of three months or less when purchased that are not restricted for capital additions or debt retirement are considered to be cash equivalents.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements in order to conform with the 2004 financial statement presentation.

**NOTE B - Cash, Deposits and Investments**

The State of Michigan allows a political subdivision to authorize its treasurer or other chief financial officer to invest surplus funds belonging to and under the control of the entity into certain instruments described as follows: bonds and other direct obligations of the United States or an agency of the State of Michigan or its political subdivisions, or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or savings and loan, which is a member of the Federal Deposit Insurance Corporation or a credit union which is insured by the National Credit Union. The Authority may invest in commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase; in United States government or federal obligation repurchase agreements; in bankers' acceptances of United States banks; in mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan and SEC regulated; or in surplus funds investment pools.

Depositories actively used by the Authority during each of the years were: Kalamazoo County State Bank and Investment Centers of America, Inc.

Balances at March 31 related to cash and cash equivalents and deposits (including certificates of deposit with greater than 90 day maturities at purchase) are detailed on the balance sheets as follows:

	Totals (Memorandum Only)	
	2004	2003
Cash and cash equivalents	\$ 126,874	\$ 107,325
Restricted assets (See Note D)		
Bank deposits and money market accounts	1,327,583	573,002
United States government obligations	320,028	1,135,472
<b>TOTALS</b>	<b>\$ 1,774,485</b>	<b>\$ 1,815,799</b>

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended March 31, 2004 and 2003**

**NOTE B - Cash, Deposits and Investments (Continued)**

Cash, deposits and United States Government Obligation (including restricted assets) at March 31, 2004 and 2003 as shown by carrying amount and bank balance and classified by categories of credit risk are itemized as follows:

	2004		2003	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash and deposits				
FDIC insured	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
SPIC insured	500,000	500,000	---	---
Uninsured and uncollateralized	854,457	856,094	580,327	587,445
United States government obligations				
SPIC insured	---	---	500,000	500,000
Uninsured	320,028	312,313	635,472	628,974
<b>TOTALS</b>	<b>\$ 1,774,485</b>	<b>\$ 1,773,407</b>	<b>\$ 1,815,799</b>	<b>\$ 1,816,419</b>

**NOTE C - Contracts Receivables and Other Contracts Receivable**

Contracts receivable from municipalities represent balances from the special assessment roll originating in 1996. The roll will be collected over a twenty-year period, plus interest at 1% over the Authority's cost of funds on the unpaid balance. Individual residents and businesses are legally responsible for payment of the fees. This disperses the credit risk over approximately 450 parcels in the geographic area. The assessments become priority liens on each of the assessed parcels. Additionally, unpaid portions of assessments due become tax liens due and payable in the same manner as property taxes. The amount shown under current assets represents the principal portion of special assessments estimated to be collected in the current year.

Contracts receivable at March 31, consists of the following:

	Current Portion		Total	
	2004	2003	2004	2003
Brady Township	\$ 160,000	\$ 290,303	\$ 1,983,149	\$ 2,137,332
Pavilion Township	90,000	77,000	479,463	549,765
	<u>\$ 250,000</u>	<u>\$ 367,303</u>	2,462,612	2,687,097
Less current portion			(250,000)	(367,303)
<b>TOTALS</b>			<b>\$ 2,212,612</b>	<b>\$ 2,319,794</b>

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended March 31, 2004 and 2003**

**NOTE C – Contracts Receivables and Other Contracts Receivable (Continued)**

Other contracts receivable (connection fees) consist of customers hooking up to the system who are not part of the Municipalities' special assessment. Contract terms vary and include interest, primarily at 5.5%. The Authority sets the interest rate annually based on the local interest rate market. Other contracts receivable are secured by property liens on the related parcels. The amount shown under current assets represents the principal portion of other contracts expected to be collected in the current year.

Other contracts receivable at March 31, consists of the following:

	Current Portion		Total	
	2004	2003	2004	2003
Connection fees	\$ 30,000	\$ 15,432	\$ 202,570	\$ 164,064
Less current portion			(30,000)	(15,432)
		<b>TOTALS</b>	<b>\$ 172,570</b>	<b>\$ 148,632</b>

**NOTE D - Restricted Assets**

Deposits and investments at March 31 are restricted for the following purposes:

	2004	2003
Reserved for payment on contract debt issued December 1, 1998	\$ 1,310,669	\$ 1,381,951
Reserved for construction of Sprinkle Road sewer	256,942	246,523
Reserved for capital improvements	80,000	80,000
<b>TOTAL RESTRICTED DEPOSITS AND INVESTMENTS</b>	<b>\$ 1,647,611</b>	<b>\$ 1,708,474</b>

The board determines the reserve for capital improvements annually. Connection fee receipts, to the extent they are not needed for current debt service requirements, are deemed available for capital improvements. The reserve for capital improvements is also provided to cover the Authorities exposure related to the self-insurance against risk of loss from damage that may be incurred by users of the sewer system from sewer operations/ backups and construction. See Note L.

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended March 31, 2004 and 2003**

**NOTE E - Summary of Fixed Assets**

Fixed assets of the Authority, together with changes therein for the year ended March 31, 2004, are detailed as follows:

	Cost			Balances March 31, 2004
	Balances April 1, 2003	Additions	Disposals	
Office equipment	\$ 4,896	\$ 3,025	\$ ---	\$ 7,921
Sewer system	7,248,855	7,872	---	7,256,727
Sewer equipment	2,434	---	---	2,434
	<u>7,256,185</u>	<u>10,897</u>	<u>---</u>	<u>7,267,082</u>
	Accumulated Depreciation			
	Balances April 1, 2003	Additions	Disposals	Balances March 31, 2004
Office equipment	2,370	1,025	---	3,395
Sewer system	442,705	182,983	---	625,688
Sewer equipment	435	348	---	783
	<u>445,510</u>	<u>184,356</u>	<u>---</u>	<u>629,866</u>
	<u>\$ 6,810,675</u>	<u>\$ (173,459)</u>	<u>\$ ---</u>	<u>\$ 6,637,216</u>

Fixed assets of the Authority, together with changes therein for the year ended March 31, 2003, are detailed as follows:

	Cost			Balances March 31, 2003
	Balances April 1, 2002	Additions	Disposals	
Office equipment	\$ 4,896	\$ ---	\$ ---	\$ 4,896
Sewer system	7,244,866	10,621	(6,632)	7,248,855
Sewer equipment	2,434	---	---	2,434
	<u>7,252,196</u>	<u>10,621</u>	<u>(6,632)</u>	<u>7,256,185</u>
	Accumulated Depreciation			
	Balances April 1, 2002	Additions	Disposals	Balances March 31, 2003
Office equipment	1,345	1,025	---	2,370
Sewer system	259,988	182,717	---	442,705
Sewer equipment	87	348	---	435
	<u>261,420</u>	<u>184,090</u>	<u>---</u>	<u>445,510</u>
	<u>\$ 6,990,776</u>	<u>\$ (173,469)</u>	<u>\$ (6,632)</u>	<u>\$ 6,810,675</u>

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended March 31, 2004 and 2003**

**NOTE F – Demand Obligation Payable**

Certain costs were incurred in connection with the start-up of the Authority. These costs, which are standard and typical for the first several years of operation, were financed with bond proceeds that, under certain circumstances, could revert to the respective townships. Effective August 14, 2000, the Authority, pursuant to township resolution, became contractually obligated to Brady and Pavilion Townships in the aggregate amount of \$150,000. The obligations bear interest at 5% annually. At March 31, 2004 and 2003, accrued and unpaid interest on the obligations totaled \$26,835 and \$19,335, respectively, which was reported in accrued interest on the accompanying balance sheets. Interest and principal are payable on demand.

**NOTE G - Changes in Long-term Debt**

The following is a summary of debt transactions of the Authority for the years ended March 31, 2004 and 2003:

	Sewer Contract Debt		
	Kalamazoo County	Other	Total
Debt payable, April 1, 2002	\$ 5,600,000	\$ 70,520	\$ 5,670,520
Debt Issued	---	---	---
Debt retired	(200,000)	---	(200,000)
<b>DEBT PAYABLE, MARCH 31, 2003</b>	<b>5,400,000</b>	<b>70,520</b>	<b>5,470,520</b>
Debt issued	---	---	---
Debt retired	(325,000)	---	(325,000)
<b>DEBT PAYABLE, MARCH 31, 2004</b>	<b>\$ 5,075,000</b>	<b>\$ 70,520</b>	<b>\$ 5,145,520</b>

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended March 31, 2004 and 2003**

**NOTE G - Changes in Long-term Debt (Continued)**

The contract debt payable at March 31, consists of the following issues:

	2004	2003
\$6,100,000 Kalamazoo County General Obligation Bonds dated December 1, 1998, due in annual principal installments ranging from \$325,00 to \$400,000 through June 1, 2017, plus interest payable semi-annually on June 1 and December 1 of each year at 4.30% to 6.00%.	\$ 5,075,000	\$ 5,400,000
\$70,520 Contract payable to City of Portage for excess capacity, interest accrues at 4.4% annually, due in annual installments of \$14,104 plus interest beginning September 1, 2005, final payment is due September 1, 2009.	70,520	70,520
	5,145,520	5,470,520
Less current maturities	(325,000)	(325,000)
	\$ 4,820,520	\$ 5,145,520

The annual minimum debt service requirements, including interest, for the next five years for long-term debt outstanding as of March 31, 2004 are as follows:

Years Ending March 31,	Principal	Interest	Totals
2005	\$ 325,000	\$ 210,200	\$ 535,200
2006	364,104	199,040	563,144
2007	364,104	184,698	548,802
2008	364,104	170,269	534,373
2009	364,104	155,840	519,944
2010-2014	1,839,104	532,347	2,371,451
2015-2018	1,525,000	132,763	1,657,763
	\$ 5,145,520	\$ 1,585,157	\$ 6,730,677

For the years ended March 31, 2004 and 2003, the Authority incurred interest costs of \$229,725 and \$243,494, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2004 and 2003.

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended March 31, 2004 and 2003**

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**NOTE H - Retirement Plan**

The Authority adopted a simple IRA Plan in fiscal year 2003, which allows employees to contribute up to \$6,000 per year to the plan. The Authority is required to make a contribution to the plan annually, as defined in the plan document. Contributions to the plan totaled \$1,203 for each of the years ended March 31, 2004 and 2003.

**NOTE I - Contributed Capital**

Changes in contributed capital for the years ended March 31, 2004 and 2003 are comprised of the following:

	<u>2004</u>	<u>2003</u>
Contributed capital, beginning of year	\$ 5,070,943	\$ 5,119,758
Additions - Connection fee revenue	104,000	83,199
Deductions - Depreciation transfer	<u>(132,014)</u>	<u>(132,014)</u>
<b>CONTRIBUTED CAPITAL END OF YEAR</b>	<b><u>\$ 5,042,929</u></b>	<b><u>\$ 5,070,943</u></b>

Connection fees earned prior to April 1, 2001 totaling approximately \$88,000 were credited to non-operating income and are included in retained earnings. Approximately \$8,000 and \$6,000 of depreciation on assets acquired with these funds have been charged to retained earnings at March 31, 2004 and 2003, respectively. Subsequent to April 1, 2001, connection fees have been credited to fund equity as contributed capital and the use of proceeds has been limited to capital projects and debt reduction.

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended March 31, 2004 and 2003**

**NOTE J - Segment Information for Enterprise Funds**

The Authority maintains one Enterprise Fund, which provides sewer services to residents of the five constituent Townships and the Village of Richland (contract customer). The Authority maintains all sewer lines and bills all customers directly. Segment information for the years ended March 31, was as follows:

	2004	2003
Operating revenue	\$ 153,389	\$ 151,416
Depreciation	186,857	184,092
Operating loss	175,807	172,395
Net loss	72,270	79,050
Fixed asset additions	10,897	10,621
Net working capital	(195,870)	(106,183)
Total assets	11,136,464	11,555,248
Contract debt payable:		
Current portion	325,000	325,000
Long-term	4,820,520	5,145,520
Total equity	5,713,200	5,813,485

**NOTE K - Non-cash Activities**

For the years ended March 31, the Authority had the following non-cash activity:

	2004	2003
Assessment rolls added	\$ 35,080	\$ ---
Connection fee contracts added	\$ 104,000	\$ 83,199

A review of Brady Township's assessment rolls was made and it was determined that principal and interest may not have been properly charged on a specific parcel of property in a prior period. In fiscal 2004 the Authority, Brady Township, and the parcel owner reached agreement as to the amount under review and \$35,080 was added to the assessment roll and interest earned on assessments was increased in 2004 by the \$35,080.

**NOTE L - Commitments and Contingencies**

The Authority in the normal operation of its activities has exposure for damage to residential and commercial property and personal injury resulting from the operation or construction of its sewer system. The Authority's Board has elected to self-insure against this risk. The Authority's board believes that funds accumulated and restricted for significant replacements, as disclosed in Note D, are adequate to cover the associated risk.

**SUPPLEMENTAL INFORMATION**

**SOUTH COUNTY SEWER AND WATER AUTHORITY**  
**SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET**  
**For the Year Ended March 31, 2004**  
**(comparative actual amounts for the year ended March 31, 2003)**

	2004		Variance – Favorable (Unfavorable)	2003 Actual
	Budget	Actual		
Salaries and wages	\$ 48,105	\$ 52,046	\$ (3,941)	\$ 46,043
Fringe benefits:				
Social security	3,786	3,684	102	1,771
Insurance	3,840	3,056	784	3,176
Retirement	1,205	1,203	2	1,203
	<u>8,831</u>	<u>7,943</u>	<u>888</u>	<u>6,150</u>
Contracted services:				
Insurance/workman's compensation	5,350	5,965	(615)	5,001
Contracted services	23,780	17,368	6,412	23,466
Treatment charges	30,500	28,725	1,775	27,777
Engineering	1,500	---	1,500	3,728
Publications/ printing	200	98	102	200
Audit	3,500	3,500	---	3,250
Legal	3,000	4,510	(1,510)	3,025
Mileage/travel/ entertainment	1,000	418	582	857
Miss dig fees	400	---	400	---
Rent	2,400	2,400	---	---
Bank fees	200	31	169	---
Alarm system	500	---	500	---
Education and subscriptions	500	---	500	---
	<u>72,830</u>	<u>63,015</u>	<u>9,815</u>	<u>67,304</u>
Utilities:				
Electric and gas	9,500	10,019	(519)	8,685
Telephone	2,200	2,086	114	2,157
	<u>11,700</u>	<u>12,105</u>	<u>(405)</u>	<u>10,842</u>
Supplies:				
Postage	1,200	1,180	20	1,165
Office	2,750	2,303	447	5,066
	<u>3,950</u>	<u>3,483</u>	<u>467</u>	<u>6,231</u>
Maintenance and repairs:				
General maintenance	1,000	2,964	(1,964)	1,071
Repairs and maintenance reimbursement	2,750	783	1,967	1,973
	<u>3,750</u>	<u>3,747</u>	<u>3</u>	<u>3,044</u>
Miscellaneous	---	---	---	105
<b>TOTALS, EXCLUDING DEPRECIATION</b>	<u><b>\$ 149,166</b></u>	<u><b>\$ 142,339</b></u>	<u><b>\$ 6,827</b></u>	<u><b>\$ 139,719</b></u>

See Accompanying Independent Auditors' Report

**SOUTH COUNTY SEWER AND WATER AUTHORITY  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
\$6,100,000 KALAMAZOO COUNTY GENERAL OBLIGATION BONDS  
DATED DECEMBER 1, 1998  
For the Years Ended March 31, 2004 and 2003**

Years Ending March 31,	Rate	Principal June 1	Interest		Totals
			June 1	December 1	
2005	4.20%	\$ 325,000	\$ 108,512	\$ 101,688	\$ 535,200
2006	4.25	350,000	101,687	94,250	545,937
2007	4.30	350,000	94,250	86,725	530,975
2008	4.30	350,000	86,725	79,200	515,925
2009	4.30	350,000	79,200	71,675	500,875
2010	4.15	350,000	71,675	64,412	486,087
2011	4.25	350,000	64,412	56,975	471,387
2012	4.30	375,000	56,975	48,913	480,888
2013	4.30	375,000	48,912	40,850	464,762
2014	4.30	375,000	40,850	32,788	448,638
2015	4.30	375,000	32,788	24,725	432,513
2016	4.30	375,000	24,725	16,662	416,387
2017	4.30	375,000	16,663	8,600	400,263
2018	4.30	400,000	8,600	---	408,600
		<b>\$ 5,075,000</b>	<b>\$ 835,974</b>	<b>\$ 727,463</b>	<b>\$ 6,638,437</b>

*See Accompanying Independent Auditors' Report.*



# Seber, Tans, Dillenbeck, Howard & Craft, PLC

*Consultants & Certified Public Accountants*

To the Board of Commissioners and  
General Manager of South County  
Sewer and Water Authority



In planning and performing the audit of the financial statements of South County Sewer & Water Authority for the years ended March 31, 2004 and 2003, we considered the Authority's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving 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 involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect South County Sewer & Water Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

#### Separation of duties

Due to the small size of the Authority's office staff (two personnel), separation of duties is limited. The office manager has access to assets, recording of the assets and reconciliation functions. The general manager initiates and authorizes all significant transactions. As a result, the risk of loss, error, or irregularities of assets increases. We recommend that the Authority Supervisors review key financial reports and reconciliations periodically for unusual matters. In addition, fidelity bonds as discussed below should adequately cover all personnel with access to accounting records and assets of the Authority.

#### Employee bonding

The Authority has bonded its employees and Board members for \$10,000. The Authority has cash and highly liquid assets well in excess of \$1,000,000. We recommend that the Authority increase its bond coverage.

To the Board of Commissioners and  
General Manager of South County Sewer  
and Water Authority  
August 4, 2004  
Page 2

We also noted the following reportable conditions that are not believed to be material weaknesses.

Collateralizing bank balances in excess of \$100,000

The Authority maintains several cash accounts with a bank. The balances exceed the FDIC insurance limit of \$100,000. Should the bank fail, the Authority may incur a loss if the cash invested at the bank exceeds the insurance limits. We recommend that the Authority monitor the financial condition of the bank and that it continue its efforts to obtain collateral for balances in excess of FDIC insurance limits. The Authority may request banks to pledge securities for payment of any uninsured losses or it may consider investing in other insured financial instruments.

Evaluation of debt repayment

The assessment receivable balance is considerably less than the bond payable balance. Additionally, interest rates on investments are at a historically low rate. These conditions may result in early payoffs of assessments receivable and add to the difficulty of repaying the bonds. We recommend that the Authority continue their annual evaluation of the bond repayment schedule and take all necessary steps to provide for the payment of its long-term debt, including increasing debt service payments.

This report is intended solely for the information and use of the Board of Supervisors of South County Sewer & Water Authority's Management, and others within the organization.

*Seber Tans Dillenbeck Howard & Craft, PLC*

Seber Tans Dillenbeck Howard & Craft, PLC  
August 4, 2004