Paw Paw Lake Regional Joint Sewage Disposal Board

Financial Report with Supplemental Information

March 31, 2005

RENDEL ELIE
&
ASSOCIATES PLC
CERTIFIED PUBLIC ACCOUNTANTS

Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Paw Paw Lake Regional Joint Sewage Brd	Berrien

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
3/31/05	4/26/06	5/16/06

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	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
Rendel Elie & Associates PLC	269-983-1069		
Street Address	**City**	**State**	**Zip**
1010 Main Street	Saint Joseph	MI	49085
Authorizing CPA Signature	**Printed Name**	**License Number**	
Lynda Elie, CPA	Lynda Elie, CPA	1101019600	

Paw Paw Lake Regional Joint Sewage Disposal Board

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RENDEL ELIE
&
ASSOCIATES PLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Paw Paw Lake Regional
Joint Sewage Disposal Board
Coloma, Michigan

We have audited the accompanying basic financial statements of the Paw Paw Lake Regional Joint Sewage Disposal Board as of March 31, 2005 and 2004, and for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 financial statements referred to above present fairly, in all material respects, the financial position of the Paw Paw Lake Regional Joint Sewage Disposal Board as of 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's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements. We did not examine this data and, accordingly, do not express an opinion thereon.

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

Rendel Elie & Associates
RENDEL ELIE & ASSOCIATES, PLC April 26, 2006

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Paw Paw Lake Regional Joint Sewage Disposal Board
Management's Discussion and Analysis

About the Facility

The Paw Paw Lake Regional Joint Sewage Disposal Board (the "Joint Board") serves the Coloma and Watervliet regional area with wastewater treatment services. The Joint Board was established in January 1971 as a not-for-profit, tax-exempt organization when the cities and townships of Coloma and Watervliet agreed to jointly acquire, own and operate a sewage treatment and disposal facility. Act 129 of Michigan Public Acts of 1943 is the state legislation authorizing the municipalities to establish the Joint Board. The Joint Board was established to control, manage and operate the joint sewage facility. The Joint Board consists of two appointed representatives from each of the four municipalities. Ownership of the infrastructure passed to the municipalities in May of 1993 when the related construction debt was retired.

The Joint Board provides wastewater treatment services to the cities and townships of Coloma and Watervliet. The connected service population is approximately twelve thousand. Treatment capacity of the facility is 2.5 million gallons per day. For the fiscal year ended June 30, 2005, the Joint Board treated an average flow of 1 million gallons per day.

Usage, listed by gallons processed, by municipalities during the fiscal year, is as follows:

	Year ended March 31	
	2005	2004
• City of Coloma	57,213,900	52,768,000
• Coloma Township	81,374,900	80,985,800
• City of Watervliet	95,194,599	96,246,133
• Watervliet Township	146,011,500	117,264,000
Total	379,794,899	347,263,933

Financial Highlights

The Joint Board's total net assets were $ 932,392 at March 31, 2005, of which $51,841 was invested in capital assets. At March 31, 2004, the Joint Board's total net assets were $ 962,047 of which $66,091 were invested in capital assets.

The Joint Board's total operating and administrative expenses exceeded operating revenues for the fiscal years ended March 31, 2005 and 2004. Total operating expenses were $574,840 and $507,508 for the years ended. March 31, 2005 and 2004. Operating revenues were $530,739 and $467,438 for the years ended March 31, 2005 and 2004.

Overview of the Financial Statements

This report consists of three parts - *Management's discussion and analysis* (this section), the *basic financial statements*, and *supplemental information*. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The following table represents condensed information about the Joint Board's financial position for the past two fiscal years. Total net assets decreased by $29,655.

	Fiscal year ended March 31	
	2005	2004
Current assets	$ 655,912	$ 570,105
Capital assets	51,841	66,091
Long-term investments	345,610	429,370
Total assets	1,053,363	1,065,566
Current liabilities	120,971	103,519
Net assets:		
Invested in capital assets	51,841	66,091
Unrestricted	880,551	895,956
Total net assets	$ 932,392	$ 962,047

Operating Income and Expenses

The following table represents condensed financial information about the Joint Board's revenues and expenses. The net loss was $(29,655) and $(13,200) for the years ended March 31, 2005 and 2004, respectively.

	Fiscal year ended March 31	
	2005	2004
Operating revenues	$ 530,739	$ 467,438
Operating expenses	574,840	507,508
Operating loss	(44,101)	(40,070)
Investment income	14,446	26,870
Net loss	$ (29,655)	$ (13,200)

Results of Operations

- Operating revenues from the municipalities increased by $41,960, after a credit of $20,310 issued to the City of Coloma.
- Operating expenses increased by $67,332. The joint board is experiencing increasing operating costs with rising operating costs, maintenance, utilities, health insurance, and increasing retirement benefit contributions.

Capital Assets

Ownership of the infrastructure passed to the municipalities in May of 1993 when the related construction debt was retired. Capital assets include the equipment, building, land, and vehicles. The capital plan is directed toward maintaining the existing facilities. The Joint Board is currently debt free.

Budget Variances

The 2005 fiscal year ended with actual operating income higher than budgeted income by $46,459. Operating expenses, however, exceeded budgeted amounts by $94,640. Significant variances include:

- Operating supplies and contracted services of $99,097 exceeded budgeted amounts of $58,500 by $40,597.
- Retirement plan contributions of $14,405 exceeded budgeted amounts of $4,000 by $10,405.
- Group health & life insurance costs of $64,933 exceeded budgeted amounts of $55,000 by $9,933.
- Depreciation expense of $14,250 and bad debt expense of $6,600 were not budgeted.

Contacting the Joint Board's Management

The purpose of this management's discussion and analysis is to provide an overview of the current and prospective financial condition of the Joint Board's operations and physical assets. Questions concerning this report may be directed to Mr. T.C. Melville, Plant Manager.

Paw Paw Lake Regional Joint Sewage Disposal Board
Statement of Net Assets
March 31, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash	$ 33,679	$ 5,935
Short-term investments	566,038	476,410
Accounts receivable, net of allowance of $7,666 for 2005	40,372	79,476
Interest receivable	1,052	1,930
Prepaid insurance	14,771	6,354
Total current assets	655,912	570,105
Capital assets	51,841	66,091
Long-term investments	345,610	429,370
Total assets	1,053,363	1,065,566
Liabilities		
Current liabilities:		
Accounts payable	20,960	15,443
Retirement plan payable	17,040	12,540
Compensated absences and accrued wages	82,971	75,536
Total current liabilities	120,971	103,519
Net assets		
Invested in capital assets	51,841	66,091
Unrestricted	880,551	895,956
Total net assets	$ 932,392	$ 962,047

See auditors' report and notes to financial statements.

Paw Paw Lake Regional Joint Sewage Disposal Board
Statement of Revenue, Expenses and Changes in Net Assets
Years Ended March 31, 2005 and 2004

	2005	2004
Operating revenues:		
Municipal fees and other service fees:		
City of Coloma - net of $20,310 credit	$ 57,158	$ 68,679
Township of Coloma	110,182	105,405
City of Watervliet	128,893	125,267
Township of Watervliet	197,700	152,622
Total municipal fees	493,933	451,973
Miscellaneous	36,806	15,465
Total operating revenues	530,739	467,438
Operating expenses:		
Salaries and wages	194,203	195,379
Payroll taxes, retirement plan, and benefits	30,861	21,400
Group insurance - health & life	64,933	62,677
Operating supplies and services	99,097	74,799
Utilities	54,892	58,260
Depreciation	14,250	15,240
Insurance - liability & workers' compensation	48,561	44,450
Repairs and maintenance	34,186	16,384
Legal, accounting, and audit services	11,543	4,721
Board meeting fees	8,000	8,550
Bad debts	7,666	-
Other operating expenses	6,648	5,648
Total operating expenses	574,840	507,508
Operating loss	(44,101)	(40,070)
Nonoperating income and expenses:		
Investment income	14,446	26,870
Net loss	(29,655)	(13,200)
Net assets, beginning of year	962,047	975,247
Net assets, end of year	$ 932,392	$ 962,047

See auditors' report and notes to financial statements.

Paw Paw Lake Regional Joint Sewage Disposal Board
Statement of Cash Flows
Years Ended March 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	$ 569,843	$ 449,432
Cash payments to suppliers for goods and services	(360,962)	(305,906)
Cash payments to employees for services	(189,715)	(190,878)
Net cash provided by operating activities	19,166	(47,352)
Cash flow from investing activities:		
Investment income	23,920	21,933
Purchase of investments	(176,375)	(70,923)
Proceeds from investments	146,587	58,264
Net cash provided by investing activities	(5,868)	9,274
Cash flow (used in) capital activities:		
Cash payments for the purchase of equipment	-	(2,039)
Net (decrease) in cash and equivalents	13,298	(40,117)
Cash and equivalents, begining of year	5,935	46,052
Cash and equivalents, end of year	$ 19,233	$ 5,935
Reconciliation of Operating income to cash flows from Operating activities:		
Operating loss	$ (44,101)	$ (40,070)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,250	15,240
(Increase) decrease in accounts receivable	39,104	(18,006)
(Increase) decrease in prepaid expenses	(8,417)	(934)
(Increase) decrease in interest receivable	878	356
Increase (decrease) in accounts payable	5,517	(4,381)
Increase (decrease) in accrued liabilities	11,935	443
Net cash provided (used) by operating activities	$ 19,166	$ (47,352)

See auditors' report and notes to financial statements.

Nature of Entity and Accounting Policies

Nature of Entity - The Paw Paw Lake Regional Joint Sewage Disposal Board is a joint venture of the municipalities of Coloma and Watervliet, Michigan and was created pursuant to Public Act 129, Michigan Public Acts of 1943. Its allowed purpose is to acquire and operate a sewage disposal system.

The accounting policies of the Paw Paw Lake Regional Joint Sewage Disposal Board conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of significant accounting policies:

Accrual Basis of Accounting - The organization recognizes revenues when earned. Expenses are recorded when incurred.

Capital Assets - Properties and equipment are stated at cost. Depreciation is recorded on the straight-line method over the estimated service lives of the assets. Expenditures for repairs and maintenance are charged to operations as incurred and major renewals and betterments are capitalized.

Operating Revenue - Operating revenue represents billings to municipalities based on flow rates metered by the Joint Board as well as charges to local businesses for industrial processing.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Joint Board considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification - Certain items from the 2004 financial statements have been reclassified to conform to the presentation used in 2005.

Deposits & Investments

Michigan Compiled laws authorizes the Joint Board to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Joint Board is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Joint Board has designated a local bank for the deposit of its funds. The investment policy adopted by the Joint 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, repurchase agreements, and banker's acceptances. The Joint Board's deposits and investment policy are in accordance with statutory authority.

Investments are presented in the financial statements at fair market value. All investments are considered temporary. Premiums and discounts are not amortized. Interest is accrued on investments.

For the year ended March 31, 2005 and 2004, investment income and losses consisted of interest income of $31,750 and $21,933, and unrealized gains (losses) of $(17,304) and $4,937 respectively.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Joint Board's deposits may not be returned to it. The Joint Board does not have a deposit policy for custodial credit risk. At year-end, the Joint Board had approximately $150,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Joint Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Joint Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Deposits & Investments (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Joint Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Joint Board does not have a policy for custodial credit risk. At year-end, approximately $411,648 of investment securities were held by an investment company.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Joint Board's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased, with a 270-day maturity. At year-end, the maturities of investments are as follows:

Investment:	Fair Value	Maturity Less than 1 Year	1-5 Years
Federal Home Loan Mortgage	$ 116,218		$ 116,218
GNMA Guaranteed Pass Through Certificates	95,827		95,827
Governmental and agency securities	120,619	$ 120,619	
Certificates of deposit	133,565		133,565
Certificates of deposit & money market	445,419	445,419	-
Total investments	$ 911,648	$ 566,038	$ 345,610

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Joint Board has no investment policy that would further limit its investment choices. At year-end, the Joint Board held no debt securities other than U.S. government or U.S. government agency securities.

Capital Assets

Capital asset activity for the year ended March 31, 2005 was as follows:

	2004	Additions	Disposals	2005	Depreciable Life-Years
Land	$ 23,408	$ -	$ -	$ 23,408	-
Building	103,235			103,235	20
Equipment	549,625			549,625	5-10
Vehicles	37,065			37,065	5
Office equip	31,589	-	-	31,589	5
Total	744,922	-	-	744,922	
Accumulated Depreciation	678,830	14,250	-	693,080	
Net	$ 66,092	$ 14,250	$ -	$ 51,842	

Compensated Absences & Accrued Wages

Compensated absences & accrued wages consists of:

	2005	2004
Accrued wages & payroll taxes	$ 6,783	$ 6,773
Vacation pay vested	8,240	8,311
Sick leave accumulated	67,948	60,452
Total	$ 82,971	$ 75,536

Vacation pay is earned depending upon years of service and is payable upon termination. Sick leave benefits represent only that amount that would be payable should the employees use the benefit. Unused sick pay will not be reimbursed upon termination.

Retirement Plan

Plan description - Substantially all employees of the Joint Board are covered under the contributory defined benefit Municipal Employees' Retirement System ("MERS"), a cost sharing, multiple employer public employee retirement system. MERS provides retirement, survivor and disability benefits to municipal employees under the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220, as embodied in the MERS Plan Document (as revised). MERS issues annually a publicly available actuarial valuation. The report includes the determination of liabilities and contribution rates resulting from the participation of the Joint Board in MERS. The report may be obtained by writing to MERS, 447 N. Canal Rd., Lansing, Michigan 48917, or by calling (517) 622-4401.

All full-time permanent employees are eligible to participate in MERS. Participants who retire at or after age 60 with 10 years of credited service, age 55 with 15 years of credited service, or age 50 with 25 years of credited service are entitled to a retirement benefit equal to the participant's final average compensation, as defined, multiplied by 2.5% for each year of credited service.

Funding policy - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The Joint Board has authorized any required employer contributions.

Annual pension costs - For the year ended March 31, 2005 and 2004, the annual required contributions were $17,040 and $12,540, respectively. Under the program, participants contribute 3% of their first $4,200 of annual compensation and 5% of portions over $4,200.

The total actuarial accrued liability at December 31, 2004 and 2003 for the Joint Board's share of MERS, determined through an actuarial valuation performed was $832,082 and $731,330, respectively. The net assets available for benefits were $767,687 and $718,442, resulting in unfunded positions of $64,395 and $12,888, respectively.

Retirement Plan (Continued)

Significant actuarial assumptions - To calculate the contribution requirements, assumptions are made about future events that could affect the amount and timing of benefits to be paid and the assets to be accumulated. Significant actuarial assumptions used include: an 8% net long-term investment yield, projected salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

Amortization of unfunded actuarial accrued liability - Unfunded actuarial accrued liability is amortized by level percent of payroll contributions over a period of years. Active member payroll is assumed to increase 4.5% a year for the purpose of determining the level percent contributions. The standard amortization period to fund the unfunded liability is 30 years for positive unfunded liabilities, and 10 years for negative unfunded liabilities, with these time periods reestablished with each annual actuarial valuation. The amortization factor used for underfunded liabilities (30 years) is .053632.

Risk Management

Insurance - The Joint Board is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. The Joint Board has purchased commercial insurance for employee health, property, liability and workers' compensation.

Industrial Waste Pretreatment Program Regulations - The Joint Board's sewage treatment and disposal operations are subject to regulations and governmental authorities. The complexity of these regulations results in many areas of uncertainty and requires interpretation. The regulatory agencies may question Joint Board interpretations. If the Joint Board's interpretations do not prevail, remedial actions and/or civil penalties could be assessed that could have an adverse effect on the Joint Board's operations.

Availability on Line of Credit

The Joint Board has a line of credit available from its investment broker at a variable interest rate, secured by the amount in its investment account. During the year the Joint Board took no advances on its line of credit. The balance at March 31, 2005 and 2004 on the line of credit was zero.

Paw Paw Lake Regional Joint Sewage Disposal Board
Statement of Revenue, Expenses and Changes in Net Assets - Budget to Actual
Year Ended March 31, 2005

	Actual	Original & Final Budget	Variance	%
Operating revenues:				
Municipal fees	$ 493,933	$ 484,280	$ (9,651)	1.99
Miscellaneous	36,806	-	(36,806)	*****
Total operating revenues	530,739	484,280	(46,459)	9.59
Operating expenses:				
Salaries and wages	194,203	200,000	(5,797)	(2.90)
Payroll taxes, retirement plan, and benefits	30,861	19,100	11,761	61.58
Group insurance - health & life	64,933	55,000	9,933	18.06
Operating supplies and services	99,097	58,500	40,597	69.40
Utilities	54,892	45,000	9,892	21.98
Depreciation	14,250	-	14,250	*****
Insurance - liability & workers' compensation	48,561	53,500	(4,939)	(9.23)
Repairs and maintenance	34,186	27,500	6,686	24.31
Legal, accounting, and audit services	11,543	5,000	6,543	130.86
Board meeting fees	8,000	10,000	(2,000)	(20.00)
Bad debts	7,666	-	7,666	*****
Other operating expenses	6,648	6,600	47	0.71
Total operating expenses	574,840	480,200	94,640	19.71
Operating income (loss)	(44,101)	4,080	48,181	(1180.91)
Nonoperating income and expenses:				
Investment income	14,446	16,000	(1,554)	(9.71)
Net income (loss)	(29,655)	20,080	(49,735)	(247.68)
Net assets, beginning of year	962,047	962,047	-	0.00
Net assets, end of year	$ 932,392	$ 982,127	$ (49,735)	(5.06)

See auditors' report and notes to financial statements.

RENDEL ELIE
&
ASSOCIATES PLC
CERTIFIED PUBLIC ACCOUNTANTS

April 26, 2006

Paw Paw Lake Regional
Joint Sewage Disposal Board
Coloma, Michigan

Report of Comments and Recommendations

In planning and performing our audit of the financial statements of the Paw Paw Lake Regional Joint Sewage Disposal Board, for the year ended March 31, 2005, we considered its internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the internal control structure. However, we noted certain matters involving the internal control structure 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 structure that, in our judgment, could adversely affect the Paw Paw Lake Regional Joint Sewage Disposal Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of the internal control structure was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in any control structure, errors or irregularities may occur and not be detected by such control structure.

This report contains items considered to be reportable conditions, as defined above, as well as other items.

Continuing Recommendations:

Financial Reports: According to the Michigan Department of Treasury Uniform Accounting Procedures, the board "must be provided periodic financial reports". The reports will assist the board in determining whether the financial activity of the various funds is within the adopted budgets, the sufficiency of the cash balances to meet the needs of the current period, and whether there is sufficient cash available to cover unforeseen expenditures, etc.

Financial reports assist management in reviewing internal controls. Management is responsible for establishing and maintaining a system of internal controls over the accounting procedures as well as over all assets belonging to the governmental unit.

Internal controls are policies and procedures designed to provide reasonable assurance that assets are safeguarded against unauthorized use and disposition.

Management may be the administrative officials. "However, the governing body (board) is still responsible to assure that adequate internal controls are in place and should be receiving reports from management that will assist in that determination." (Michigan Uniform Accounting Procedures Manual). The board should document its acceptance of financial reports in the minutes, along with financial decisions made by the board.

These reports include:	*Suggested frequency*
Summary report of cash activity	Monthly
Summary report of cash activity by bank account and investment account	Monthly & Annual
Balance sheet	Monthly
Detail revenue - budget to actual	Monthly
Detail expenditures - budget to actual	Monthly
List of bills to be approved for payment	Each meeting
Separate list of bills paid prior to approval, pursuant to a board approved policy	Each meeting

Tax reporting - The Board should issue 1099 Forms to individuals who serve as independent contractors to provide services of more than $600 in a calendar year. Governmental agencies are not exempt from this reporting requirement.

Accrual accounting -The accounts receivable and accounts payable feature of QuickBooks, the organization's accounting software, are not being utilized. The internal reports generated do not include detail accounts receivable and payable reports, and therefore the reports are on the cash basis of accounting instead of the accrual basis. We would recommend that these features of the organization's software be utilized to provide these valuable reports.

Additional Comments:
Budget amendments - As part of the budgetary process, interim financial reports should be reviewed regularly to monitor actual results compared to budget. The original adopted budget should be updated as the Board approves amendments. Retain a hard copy of the original adopted budget, as well as the amendments and the final amended budget.

Investment policy updates - Effective December 31, 2006, governmental entities will be required to expand their current financial statement disclosure requirements addressing common risks of deposits and investments. The disclosure requirements relate to custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. You may want to review your investment policy and update it where required.

We appreciate the opportunity to present these recommendations for your consideration and we are available to discuss them further with you.

Rendel Elie & Associates

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