

Auditing Procedures Report

Issued under P.A. 2 of 1966, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-----------------------------------|--|-----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Gun Lake Area Sewer & Water Authority | County Barry |
| Fiscal Year End December 31, 2007 | Opinion Date February 22, 2008 | Date Audit Report Submitted to State March 21, 2008 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

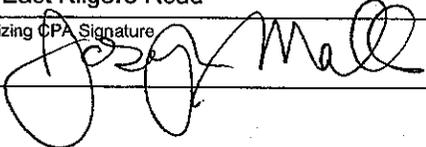
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) |
|--|-------------------------------------|--|
| Financial Statements | <input checked="" type="checkbox"/> | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | Not Required |
| Other (Describe) | <input checked="" type="checkbox"/> | SAS 114 and 112 letter |
| Certified Public Accountant (Firm Name) Siegfried Crandall, PC | | Telephone Number (269)381-4970 |
| Street Address 246 East Kilgore Road | | City Kalamazoo |
| | | State MI |
| | | Zip 49002 |
| Authorizing CPA Signature  | | Printed Name Joseph M. Walls |
| | | License Number 1101013696 |

Gun Lake Area Sewer & Water Authority
Barry County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Years ended December 31, 2007 and 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Gun Lake Area Sewer & Water Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Gun Lake Area Sewer & Water Authority's operations over the fiscal year and its financial condition on December 31, 2007.

FINANCIAL HIGHLIGHTS

- The Authority's total net assets decreased \$280,774 as a result of this year's activities.
- Total net assets, in the amount of \$10,369,432, were reported, of which \$8,053,032 is invested in capital assets. This leaves the Authority with unrestricted net assets of \$2,316,400.

Overview of the financial statements

The Statement of Net Assets reports all of the Authority's assets and liabilities along with the difference between the two, which is identified as the net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the Authority's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position.

The statement of revenues, expenses, and changes in net assets shows how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). This statement should help the reader to answer the question: Is the Authority, better or worse off as a result of this year's activities?

The statement of cash flows presents the Authority's cash receipts and disbursements during the fiscal year, classified by principal sources and uses.

FINANCIAL ANALYSIS

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the Authority's case, assets exceeded liabilities at the end of the fiscal year by \$10,369,432. The Authority's investment in capital assets (e.g., infrastructure, building, and equipment), a component of the total net assets, amounts to \$8,053,032. The Authority uses these capital assets to provide essential services to its customers; consequently, these assets are not available to be liquidated for future spending needs. The remaining net assets, in the amount of \$2,316,400, are unrestricted.

Gun Lake Area Sewer Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed financial information
Net assets

| | <u>2007</u> | <u>2006</u> |
|----------------------------|----------------------------|----------------------------|
| Current assets | \$ 2,555,562 | \$ 2,249,454 |
| Capital assets | 8,053,032 | 8,465,007 |
| Total assets | <u>10,608,594</u> | <u>10,714,461</u> |
| Current liabilities | <u>239,162</u> | <u>64,255</u> |
| Net assets: | | |
| Invested in capital assets | 8,053,032 | 8,465,007 |
| Unrestricted | <u>2,316,400</u> | <u>2,185,199</u> |
| Total net assets | <u>\$10,369,432</u> | <u>\$10,650,206</u> |

Changes in net assets. The Authority experienced a decrease in net assets of \$280,774 during the current fiscal year compared to a decrease of \$383,386 in the prior year. The decreases are attributable to depreciation expense associated with assets acquired through capital contributions. The reduction for 2007 is lower than the prior year as a result of increases during 2007 in the number of customer connections and the amount of revenues received from septic haulers.

The Authority's total revenues were \$1,262,779. Almost all (92%) of the Authority's revenues come from user fees and connection charges. During the current year, the Authority charged \$1,054,205 for its services, received \$119,430 in connection fees, and earned \$82,419 in interest on investments.

The total cost of the Authority's operations amounted to \$1,543,553 in 2007 compared to \$1,509,580 in 2006, or a 2.3 percent increase. More than 34 percent of the costs are personnel costs, while nearly 26 percent represents plant operations and maintenance, excluding depreciation.

Condensed financial information
Changes in net assets

| | <u>2007</u> | <u>2006</u> |
|-----------------------------|----------------------------|---------------------------|
| Operating revenues: | | |
| Charges for services | \$1,054,205 | \$ 992,046 |
| Other | 6,725 | 5,962 |
| Nonoperating revenues: | | |
| Connection fees | 119,430 | 63,358 |
| Interest income | <u>82,419</u> | <u>64,828</u> |
| Total revenues | 1,262,779 | 1,126,194 |
| Operating expenses | <u>1,543,553</u> | <u>1,509,580</u> |
| Change in net assets | <u>\$ (280,774)</u> | <u>\$(383,386)</u> |

Gun Lake Area Sewer Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital assets

The Authority's investment in capital assets as of December 31, 2007, amounts to \$8,053,032 (net of accumulated depreciation). Capital assets include utility system infrastructure, buildings, land improvements, and shop and office equipment.

More detailed information about the Authority's capital assets is presented in Note 5 of the notes to the financial statements.

Economic condition and outlook

The Authority continues to rely on its collections from usage charges to finance all operating costs and capital acquisitions. Construction of a new septage receiving station with a projected cost of \$440,000 was begun in 2007, and is expected to be completed in 2008. The new station will enhance the collection and monitoring of septage waste received and processed by the Authority, and will be financed completely through the use of available funds.

Contacting the Authority's financial management

This financial report is designed to provide a general overview of the Authority's finances to its customers and creditors, and to demonstrate the Authority's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Robert Monroe, Manager
Gun Lake Area Sewer & Water Authority
12588 Marsh Road
Shelbyville, MI 49344

Phone: (269) 672-5588

INDEPENDENT AUDITORS' REPORT

Members of the Board Gun Lake Area Sewer & Water Authority

We have audited the accompanying basic financial statements of the Gun Lake Area Sewer & Water Authority, as of December 31, 2007 and 2006, and for the years then ended, as listed in the contents. These financial statements are the responsibility of the Gun Lake Area Sewer & 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 U.S. generally accepted auditing standards. 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 Gun Lake Area Sewer & Water Authority at December 31, 2007 and 2006, and the changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, on pages i through iii, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the 2007 financial statements. The accompanying supplementary information on page 11 is presented for the purpose of additional analysis and is not a required part of the 2007 financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the 2007 financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 financial statements taken as a whole.

Siegfried Crandall P.C.

February 22, 2008



1958-2008

BASIC FINANCIAL STATEMENTS

Gun Lake Area Sewer & Water Authority

STATEMENT OF NET ASSETS

December 31, 2007 and 2006

| | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 2,357,818 | \$ 2,095,469 |
| Receivables | 174,044 | 128,285 |
| Prepaid expenses | <u>23,700</u> | <u>25,700</u> |
| Total current assets | 2,555,562 | 2,249,454 |
| Noncurrent assets - capital assets, net of accumulated depreciation | <u>8,053,032</u> | <u>8,465,007</u> |
| Total assets | <u>10,608,594</u> | <u>10,714,461</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 188,162 | 14,666 |
| Accrued expenses | <u>51,000</u> | <u>49,589</u> |
| Total current liabilities | <u>239,162</u> | <u>64,255</u> |
| NET ASSETS | | |
| Invested in capital assets | 8,053,032 | 8,465,007 |
| Unrestricted | <u>2,316,400</u> | <u>2,185,199</u> |
| Total net assets | <u>\$ 10,369,432</u> | <u>\$ 10,650,206</u> |

See notes to financial statements

Gun Lake Area Sewer & Water Authority
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended December 31, 2007 and 2006

| | <u>2007</u> | <u>2006</u> |
|-------------------------------|----------------------|----------------------|
| OPERATING REVENUES | | |
| Charges for services: | | |
| User fees | \$ 1,024,794 | \$ 966,365 |
| Water administration | 29,411 | 25,681 |
| Other | <u>6,725</u> | <u>5,962</u> |
| Total operating revenues | 1,060,930 | 998,008 |
| OPERATING EXPENSES | <u>1,543,553</u> | <u>1,509,580</u> |
| OPERATING LOSS | <u>(482,623)</u> | <u>(511,572)</u> |
| NONOPERATING REVENUES | | |
| Connection fees | 119,430 | 63,358 |
| Interest | <u>82,419</u> | <u>64,828</u> |
| Total nonoperating revenues | <u>201,849</u> | <u>128,186</u> |
| CHANGE IN NET ASSETS | (280,774) | (383,386) |
| NET ASSETS - BEGINNING | <u>10,650,206</u> | <u>11,033,592</u> |
| NET ASSETS - ENDING | <u>\$ 10,369,432</u> | <u>\$ 10,650,206</u> |

See notes to financial statements

Gun Lake Area Sewer & Water Authority

STATEMENT OF CASH FLOWS

Years ended December 31, 2007 and 2006

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers and users | \$ 1,015,171 | \$ 967,935 |
| Payments to suppliers | (564,918) | (546,621) |
| Payments to employees | (345,217) | (328,394) |
| | <u>105,036</u> | <u>92,920</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Connection fees | 119,430 | 61,997 |
| Purchase of capital assets | (44,536) | - |
| | <u>74,894</u> | <u>61,997</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 82,419 | 64,828 |
| NET INCREASE IN CASH | 262,349 | 219,745 |
| CASH - BEGINNING | <u>2,095,469</u> | <u>1,875,724</u> |
| CASH - ENDING | <u>\$ 2,357,818</u> | <u>\$ 2,095,469</u> |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (482,623) | \$ (511,572) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | 619,196 | 621,500 |
| (Increase) decrease in: | | |
| Accounts receivable | (45,759) | (30,073) |
| Prepaid expenses | 2,000 | 1,800 |
| Inventory | - | 9,900 |
| Increase (decrease) in: | | |
| Accounts payable | 10,811 | (8,091) |
| Accrued expenses | 1,411 | 9,456 |
| | <u>\$ 105,036</u> | <u>\$ 92,920</u> |
| SUPPLEMENTAL INFORMATION | | |
| Acquisition of capital assets | \$ (207,221) | \$ - |
| Increase in accounts payable | <u>162,685</u> | <u>-</u> |
| Net cash used | <u>\$ (44,536)</u> | <u>\$ -</u> |

See notes to financial statements

Gun Lake Area Sewer & Water Authority
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Gun Lake Area Sewer Authority (the Authority) was established June 21, 1977, by the Townships of Orangeville and Yankee Springs, in Barry County, and the Townships of Martin and Wayland, in Allegan County, and incorporated under provisions of Act 233, Public Act of 1955, as amended. The Authority is governed by a board comprised of the supervisors of the townships. The Authority was formed to operate, maintain, administer, and manage sewage disposal system, pursuant to Act 185, Public Acts of 1957, as amended, for the benefit of each municipality.

The accounting policies of the Authority conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

b) Basis of accounting:

The Authority uses the accrual basis of accounting to account for its operations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector standards.

c) Operating revenues and expenses:

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to the constituent municipalities for operating and maintaining the utility systems located in and owned by the constituent municipalities. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets and liabilities:

i) Cash - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - All receivables are considered to be fully collectible.

Gun Lake Area Sewer & Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

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

d) *Assets and liabilities (continued):*

iii) *Capital assets* - Capital assets, which include property, equipment, and vehicles, are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | |
|--------------------|--------------|
| Treatment plant | 5 - 40 years |
| Building equipment | 20 years |
| Sewer lines | 40 years |
| Equipment | 3 - 7 years |

iv) *Compensated absences (vacation and sick leave)* - The amount attributed to the Authority is charged to expense and a corresponding liability. Employees may accumulate unused sick leave up to a maximum of 120 days. Employees with ten or more years of service shall receive one-half of accumulated sick leave and all accumulated vacation days upon retirement.

NOTE 2 - CASH:

Cash, as presented in the accompanying financial statements, consists of the following:

| | |
|--------------|---------------------|
| Deposits | \$ 2,357,352 |
| Cash on hand | <u>466</u> |
| Totals | <u>\$ 2,357,818</u> |

Deposits with financial institutions - State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Authority will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. As of December 31, 2007, \$2,053,361 of the Authority's bank balances of \$2,362,733 was exposed to custodial credit risk, because it was uninsured and uncollateralized. The Authority believes that it is impractical to insure all bank deposits. The Authority evaluates each financial institution with which it deposits funds and assesses the risk level of each financial institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Gun Lake Area Sewer & Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - RECEIVABLES:

Receivables (all of which are due within one year) as of year end for the Authority, in the aggregate, are as follows:

| | <u>2007</u> | <u>2006</u> |
|----------------------|------------------|------------------|
| Charges for services | \$ 93,102 | \$ 80,303 |
| Intergovernmental | <u>80,942</u> | <u>47,982</u> |
| Net receivables | <u>\$174,044</u> | <u>\$128,285</u> |

NOTE 4 - CAPITAL ASSETS:

Capital asset activity of the Authority for the year ended December 31, 2007, was as follows:

| | <u>Beginning balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending balance</u> |
|---|------------------------------|---------------------|------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ - | \$ 207,221 | \$ - | \$ 207,221 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 119,219 | - | - | 119,219 |
| Collection and interceptor sewers | 15,769,379 | - | - | 15,769,379 |
| Lift stations | 4,764,209 | - | - | 4,764,209 |
| Tele-metering system | 303,362 | - | - | 303,362 |
| Treatment facility | 5,444,384 | - | - | 5,444,384 |
| Machinery and equipment | <u>268,819</u> | <u>-</u> | <u>-</u> | <u>268,819</u> |
| Subtotal | <u>26,669,372</u> | <u>-</u> | <u>-</u> | <u>26,669,372</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (4,922) | (543) | - | (5,465) |
| Collection and interceptor sewers | (10,291,773) | (395,118) | - | (10,686,891) |
| Lift stations | (3,773,966) | (72,247) | - | (3,846,213) |
| Tele-metering system | (303,362) | - | - | (303,362) |
| Treatment facility | (3,583,464) | (141,040) | - | (3,724,504) |
| Machinery and equipment | <u>(246,878)</u> | <u>(10,248)</u> | <u>-</u> | <u>(257,126)</u> |
| Subtotal | <u>(18,204,365)</u> | <u>(619,196)</u> | <u>-</u> | <u>(18,823,561)</u> |
| Total capital assets being depreciated, net | <u>8,465,007</u> | <u>(619,196)</u> | <u>-</u> | <u>7,845,811</u> |
| Total capital assets, net | <u>\$ 8,465,007</u> | <u>\$ (411,975)</u> | <u>\$ -</u> | <u>\$ 8,053,032</u> |

Gun Lake Area Sewer & Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - CAPITAL ASSETS (Continued):

Capital asset activity of the Authority for the year ended December 31, 2006, was as follows:

| | <u>Beginning balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending balance</u> |
|------------------------------------|------------------------------|---------------------|------------------|---------------------------|
| Capital assets, being depreciated: | | | | |
| Land improvements | \$ 119,219 | \$ - | \$ - | \$ 119,219 |
| Collection and interceptor sewers | 15,769,379 | - | - | 15,769,379 |
| Lift stations | 4,764,209 | - | - | 4,764,209 |
| Tele-metering system | 303,362 | - | - | 303,362 |
| Treatment facility | 5,444,384 | - | - | 5,444,384 |
| Machinery and equipment | <u>268,819</u> | <u>-</u> | <u>-</u> | <u>268,819</u> |
| Subtotal | <u>26,669,372</u> | <u>-</u> | <u>-</u> | <u>26,669,372</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (4,253) | (669) | - | (4,922) |
| Collection and interceptor sewers | (9,896,403) | (395,370) | - | (10,291,773) |
| Lift stations | (3,701,719) | (72,247) | - | (3,773,966) |
| Tele-metering system | (303,362) | - | - | (303,362) |
| Treatment facility | (3,440,592) | (142,872) | - | (3,583,464) |
| Machinery and equipment | <u>(236,537)</u> | <u>(10,341)</u> | <u>-</u> | <u>(246,878)</u> |
| Subtotal | <u>(17,582,866)</u> | <u>(621,499)</u> | <u>-</u> | <u>(18,204,365)</u> |
| Net capital assets | <u>\$ 9,086,506</u> | <u>\$ (621,499)</u> | <u>\$ -</u> | <u>\$ 8,465,007</u> |

NOTE 5 - DEFINED CONTRIBUTION PLAN:

The Authority contributes to a defined contribution pension plan covering substantially all of its employees. The Authority contributes 6.5% of annual employee compensation to the plan and the employees can voluntarily contribute up to 20% of their annual compensation. The Authority made the required contributions of \$21,471 and \$20,563 and the employees made their voluntary contributions of \$19,959 and \$17,004 for 2007 and 2006, respectively.

The Authority is not a trustee of these plans, nor is it responsible for investment management of plan assets.

NOTE 6 - CLAIMS ARISING FROM RISKS OF LOSS:

The Authority is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability up to \$7,000,000, building contents, workers' compensation, and casualty are managed through purchased commercial insurance. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Authority is self-insured for any liability associated with its underground fuel storage tanks and has pledged the assets owned by the Authority in conjunction with the self-insurance certification.

Gun Lake Area Sewer & Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - CONSTRUCTION COMMITMENTS:

At December 31, 2007, the Authority has authorized a contract totaling \$440,000 for septage receiving station. The receiving station is being funded by available funds held by the Authority. Costs incurred on the contract through December 31, 2007, totaled \$156,599, leaving a commitment of \$283,401.

SUPPLEMENTAL INFORMATION

Gun Lake Area Sewer & Water Authority

STATEMENT OF OPERATING EXPENSES BEFORE DEPRECIATION - budget to actual

Year ended December 31, 2007

| | <u>Amended budget</u> | <u>Actual</u> | <u>Variance favorable (unfavorable)</u> |
|----------------------------------|---------------------------|-------------------|---|
| Salaries and wages | \$ 343,500 | \$ 348,217 | \$ (4,717) |
| Payroll taxes | 26,500 | 26,410 | 90 |
| Insurance: | | | |
| Health | 130,500 | 129,716 | 784 |
| Life | 2,900 | 2,983 | (83) |
| Liability | 35,000 | 27,304 | 7,696 |
| Pension contribution | 21,500 | 21,471 | 29 |
| Postage | 3,200 | 2,870 | 330 |
| Office supplies | 1,800 | 1,588 | 212 |
| Software support | 2,500 | 2,830 | (330) |
| Lab testing | 12,000 | 11,180 | 820 |
| Clothing allowance | 3,000 | 2,629 | 371 |
| Lab supplies | 4,000 | 5,946 | (1,946) |
| Collection system | 50,000 | 45,576 | 4,424 |
| Plant operations | 25,000 | 38,062 | (13,062) |
| Chemicals | 21,500 | 16,969 | 4,531 |
| Biosolid disposal | 15,000 | 25,014 | (10,014) |
| Repairs and maintenance: | | | |
| Collection | 15,000 | 6,202 | 8,798 |
| Plant | 15,000 | 28,318 | (13,318) |
| Radio | 1,000 | 179 | 821 |
| Audit | 5,500 | 4,600 | 900 |
| Legal | 3,000 | - | 3,000 |
| Professional services | 13,500 | - | 13,500 |
| Telephone | 5,000 | 4,341 | 659 |
| Gasoline | 9,000 | 6,959 | 2,041 |
| Diesel fuel | 9,000 | 10,721 | (1,721) |
| Shipping | 100 | 302 | (202) |
| Printing | 1,200 | 610 | 590 |
| Utilities | 145,150 | 145,623 | (473) |
| Garbage service | 650 | 678 | (28) |
| Contracted services | 6,000 | 3,640 | 2,360 |
| Dues, memberships, and education | 3,000 | 3,036 | (36) |
| Other | - | 383 | (383) |
| | <u>\$ 930,000</u> | <u>\$ 924,357</u> | <u>\$ 5,643</u> |

February 22, 2008

To the Board of Trustees
Gun Lake Area Water and Sewer Authority

We have audited the financial statements of the Gun Lake Area Water and Sewer Authority for the year ended December 31, 2007, and have issued our report thereon dated February 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 27, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Gun Lake Area Water and Sewer Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Gun Lake Area Water and Sewer Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

We noted no transactions entered into by Gun Lake Area Water and Sewer Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.



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Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Authority's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the years ended December 31, 2007 and 2006.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Gun Lake Area Water and Sewer Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Gun Lake Area Water and Sewer Authority as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered

To the Board of Trustees
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February 22, 2008

the Gun Lake Area Water and Sewer Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Authority has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles and the presentation of financial statement disclosures. This is a recurring comment. The Authority has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Trustees of the Gun Lake Area Water and Sewer Authority and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.