

# Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name GRSD SEWER AUTHORITY	County BERRIEN
Fiscal Year End DECEMBER 31, 2007	Opinion Date MAY 23, 2008	Date Audit Report Submitted to State JUNE 25, 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 checked="" type="checkbox"/>	INCLUDED WITH S.A.S. 112 COMMUNICATIONS.		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) SCHAFFER & LAYHER, PLLC		Telephone Number 269-983-0131		
Street Address 805 VAN BRUNT AVE <i>Michael W. Layher</i>		City ST. JOSEPH	State MI	Zip 49085
Authorizing CPA Signature		Printed Name MICHAEL W. LAYHER		License Number 21500

**GRSD SEWER AUTHORITY**

**FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION**

**December 31, 2007 and 2006**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of GRSD Sewer Authority  
New Buffalo, Michigan

We have audited the accompanying financial statements of the GRSD Sewer Authority as of December 31, 2007 and 2006, and for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 disclosure 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 GRSD Sewer Authority as of December 31, 2007 and 2006, and the changes in financial position and cash flows, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 2 through 5 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Schaffer &amp; Layher". The signature is written in a cursive, flowing style.

Schaffer & Layher  
St. Joseph, Michigan  
May 23, 2008

David Schaffer, CPA  
Michael Layher, CPA  
*Founding Partners:*  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA

**About the Facility**

The GRSD Sewer Authority (the "Authority") was established by the Townships of New Buffalo, Lake Charter, and Chikaming, and the City of New Buffalo. The City of Bridgman was admitted under a separate agreement in 2004. The Authority was incorporated on October 13, 1971 as the Galien River Sanitary District (the "District"), under the provisions of Act 233, Public Acts of Michigan of 1955, as amended. The Authority is governed by a board comprised of six (6) members, with one (1) representative appointed from each of the five (5) constituent municipalities and one (1) independent member elected by the other five (5) members. 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 the constituent municipalities.

The Authority operates a three (3) million gallon per day sanitary sewage treatment plant for its owner municipalities. The connected service population is approximately 13,500.

**Financial Highlights**

The Authority's total net assets at December 31, 2007 were \$17,211,072, of which \$15,418,493 was invested in capital assets. At December 31, 2006, net assets were \$15,337,696.

The Authority's total expenses were \$1,825,383, while total revenues were \$3,698,759 (\$1,912,578-operating; \$1,786,181-non-operating.)

**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 basic financial statements include only one kind of statement as the Authority is a special purpose governmental entity and no reconciling items exist between the entity and a government-wide statement.

Government-wide statements and the fund financial statements are presented as one set as they both provide the long-term and short-term information about the Authority's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

**Financial Analysis of the Authority as a Whole**

The following table represents condensed financial information about the Authority's financial position. Total net assets increased by \$1,873,376 from 2006 to 2007 with net assets of \$17,211,072 at December 31, 2007 and \$15,337,696 at December 31, 2006.

	<u>2007</u>	<u>2006</u>
Current Assets	\$ 1,633,710	\$ 1,124,319
Restricted Assets	410,588	-
Capital Assets	15,418,493	14,272,898
Total Assets	<u>\$ 17,462,791</u>	<u>\$ 15,397,217</u>
Current liabilities	<u>\$ 251,719</u>	<u>\$ 59,521</u>
Net Assets		
Invested in capital assets	\$ 15,418,493	\$ 14,272,898
Restricted for capital purposes	410,588	-
Unrestricted	1,381,991	1,064,798
Total Net Assets	<u>\$ 17,211,072</u>	<u>\$ 15,337,696</u>

The following table represents the condensed financial information about the Authority's revenues and expenses. The change in net assets was \$1,873,376 and \$72,395 for the years ended December 31, 2007 and 2006, respectively.

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 1,912,578	\$ 1,724,310
Operating expenses	1,825,383	1,686,721
Operating income	<u>\$ 87,195</u>	<u>\$ 37,589</u>
Non-operating income	1,786,181	34,806
Change in net assets	<u>\$ 1,873,376</u>	<u>\$ 72,395</u>

**Analysis of Financial Position**

The current year net assets increased \$1,873,376, with a few significant factors affecting net assets during the year as discussed below:

- 1) Operating revenues exceed operating expenses by \$87,195, with an additional \$1,786,181 of non-operating income received. Of the non-operating income, \$1,769,261 were capital contributions from the owner municipalities to finance the construction project.
- 2) The Authority's investment in capital assets had a net increase of \$1,145,595 from \$1,548,439 of acquisition and construction of capital assets less \$402,844 of current year depreciation.

**Results of Operations**

The Authority's change in net assets of \$1,873,376 was a result of the following:

- 1) Operating revenues increased \$188,268 or 10.9% as a result of increased flows from the tributary governmental units and new connection fees from the casino hook-ups.
- 2) Operating expenses increased \$138,662 or 8.2% as the plant continues to manage those costs in the wake of rising natural gas and electrical. Management recognizes that control over year to year operating costs is essential to the long-term financial health of the facility. Efforts to control operating costs are ongoing.
- 3) Non-operating income increased from the contracting municipalities contributing \$1,769,261 to finance a new construction project. The interest income also increased slightly due to the large amount of dollars available from the capital contributions for the project.

**Fund Expenditures Budget vs. Actual**

Expenditures

<u>Period</u>	<u>Original and Final Budget</u>	<u>Final Audit</u>	<u>Variance Audit vs. Final Budget</u>
December 31, 2007	\$ 1,596,453	\$ 1,825,383	\$ (228,930)
December 31, 2006	\$ 1,460,161	\$ 1,686,721	\$ (226,560)

**Fund Revenues Budget vs. Actual**

Revenues

<u>Period</u>	<u>Original and Final Budget</u>	<u>Final Audit</u>	<u>Variance Audit vs. Final Budget</u>
December 31, 2007	\$ 1,926,896	\$ 3,698,759	\$ (1,771,863)
December 31, 2006	\$ 1,460,161	\$ 1,759,116	\$ (298,955)

**Original versus Final Budget**

There were no changes or amendments from the original preliminary budget and the final budget.

**Capital Improvements and Funding Requirements**

Funding needs for capital improvements is a significant element in the Authority's financial plan. The Authority completed an approximately \$10 million plant expansion, which has been fully funded through contributions from the constituent municipalities contributions and the issuance of conduit bonds. Ongoing funding for capital improvements will be generated from operating revenues and year-end reconciling amounts from the municipalities. The improvements are expected to be less than 2007 levels, but the Authority does continue to expand and improve the total system.

**Economic Factors and Next Year's Budget**

The funding composition for the treatment, operation, and maintenance for the Authority consists of establishing rates charged to the governmental units and ultimately the ratepayers are customers of the water treatment plant. The separate governmental units are responsible for collecting their own charges from the residents and other users within their district.

The Authority's plan for budget monitoring includes review of the budget vs. actual expenses on a monthly basis to determine if financial goals are being met. If financial expectations are not being met, options to establish alignment include: 1) procedures to establish increased rates to governmental units and charges for certain services so that maintenance and operations can continue uninterrupted; 2) a reduction of certain services performed for the local units and a reduction in capital expenditures on infrastructure needs. With the limiting factor on financial resources being what the ratepayer is able to pay, raising rates needs to be closely monitored throughout the year.

**Comparative Information**

The financial report shows comparison data. The Authority expects to continue to present full comparative statements.

**Contacting the Authority's Management**

The financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or additional information, contact the Authority at 10831 Kruger Road, New Buffalo, MI 49117.

**GRSD SEWER AUTHORITY**STATEMENTS OF NET ASSETS  
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 816,893	\$ 638,867
Accounts receivable	816,817	482,214
Prepaid insurance	-	3,238
<b>Total Current Assets</b>	<u>\$ 1,633,710</u>	<u>\$ 1,124,319</u>
<b>Restricted assets:</b>		
Cash and cash equivalents	<u>\$ 410,588</u>	<u>\$ -</u>
<b>Capital Assets</b>	<u>\$ 15,418,493</u>	<u>\$ 14,272,898</u>
<b>Total Assets</b>	<u><u>\$ 17,462,791</u></u>	<u><u>\$ 15,397,217</u></u>
<b>Liabilities:</b>		
Accounts payable	\$ 249,801	\$ 57,917
Payroll taxes payable	1,918	1,604
<b>Total Liabilities</b>	<u>\$ 251,719</u>	<u>\$ 59,521</u>
<b>Net Assets</b>		
Invested in capital assets	\$ 15,418,493	\$ 14,272,898
Restricted for capital purposes	410,588	-
Unrestricted	1,381,991	1,064,798
<b>Total Net Assets</b>	<u>\$ 17,211,072</u>	<u>\$ 15,337,696</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 17,462,791</u></u>	<u><u>\$ 15,397,217</u></u>

*The notes to the financial statements are an integral part to these financial statements.*

**GRSD SEWER AUTHORITY**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<b>Operating Revenues</b>		
<b>Sewer User Fees:</b>		
City of New Buffalo	\$ 493,033	\$ 371,815
Chikaming Township	470,323	332,836
New Buffalo Township	184,307	100,379
Lake Charter Township	305,029	297,282
City of Bridgman	283,176	237,749
Weesaw Township	4,375	3,257
<b>Other Fees:</b>		
Waste hauling	68,776	84,435
Services rendered	103,559	296,557
<b>Total operating revenues</b>	<u>\$ 1,912,578</u>	<u>\$ 1,724,310</u>
<b>Operating Expenses</b>		
Salaries and wages	\$ 499,011	\$ 478,508
Payroll taxes	39,302	37,695
Employee benefits	170,399	159,914
Depreciation	402,844	417,389
Office supplies	2,475	1,773
Operating supplies	131,289	104,595
Professional fees	17,222	16,914
Legal	3,617	1,408
Board fees	4,170	4,200
Sludge disposal	57,506	56,556
Communications	13,564	15,594
Training and transportation	2,654	2,371
Insurance and bonds	99,135	84,268
Utilities	244,656	236,781
Equipment and sewer repairs	123,395	55,549
Vehicle repairs	8,581	7,452
Uniforms	5,168	5,725
Miscellaneous	395	29
<b>Total operating expenses</b>	<u>\$ 1,825,383</u>	<u>\$ 1,686,721</u>
<b>Net operating income</b>	<u>\$ 87,195</u>	<u>\$ 37,589</u>
<b>Non-operating income (expenses):</b>		
Capital contributions	\$ 1,769,261	\$ -
Sale of fixed assets	-	2,050
Debt payments on behalf of contracting municipalities	(29,518)	-
Interest income	46,438	32,756
<b>Total non-operating income (expenses)</b>	<u>\$ 1,786,181</u>	<u>\$ 34,806</u>
<b>Change in net assets</b>	<u>\$ 1,873,376</u>	<u>\$ 72,395</u>
<b>Net Assets, Beginning of Year</b>	<u>15,337,696</u>	<u>15,265,301</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 17,211,072</u></u>	<u><u>\$ 15,337,696</u></u>

The notes to the financial statements are an integral part to these financial statements.

	<u>2007</u>	<u>2006</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 1,577,975	\$ 1,437,653
Cash payments to suppliers for goods and services	(728,092)	(826,177)
Cash payments to employees for services	(499,011)	(478,508)
<b>Net cash provided by operating activities</b>	<u>\$ 350,872</u>	<u>\$ 132,968</u>
<b>Cash Flows from Non-Capital Financing Activities</b>		
Contributed capital	<u>\$ 1,769,261</u>	<u>\$ -</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Payments for acquisition or construction of capital assets	\$ (1,548,439)	\$ (918,044)
Proceeds from sale of assets	-	2,050
Payments on debt for contracting municipalities	(29,518)	-
<b>Net cash used in capital and related financing activities</b>	<u>\$ (1,577,957)</u>	<u>\$ (915,994)</u>
<b>Cash Flows from Investing Activities</b>		
Decrease (increase) in certificates of deposit	\$ -	\$ -
Change in restricted assets	(410,588)	500,000
Interest received on investments	46,438	32,756
<b>Net cash provided by (used in) investing activities</b>	<u>\$ (364,150)</u>	<u>\$ 532,756</u>
<b>Net Increase(Decrease) in Cash and Cash Equivalents</b>	\$ 178,026	\$ (250,270)
<b>Cash and Cash Equivalents-Beginning of year</b>	<u>638,867</u>	<u>889,137</u>
<b>Cash and Cash Equivalents-End of year</b>	<u><u>\$ 816,893</u></u>	<u><u>\$ 638,867</u></u>
<b>Reconciliation of Operating Income to</b>		
<b>Net Cash Provided by Operating Activities</b>		
Operating income	\$ 87,195	\$ 37,589
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Depreciation	402,844	417,389
<i>Change in assets and liabilities</i>		
Accounts receivable	(334,603)	(286,657)
Prepaid insurance	3,238	(2)
Accounts payable	191,884	(34,970)
Payroll taxes payable	314	(381)
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 350,872</u>	<u>\$ 132,968</u>

**Noncash operating, capital, and investing activities:**

During the year there were no noncash activities.

*The notes to the financial statements are an integral part to these financial statements.*

**NOTE 1. NATURE OF ORGANIZATION**

The GRSD Sewer Authority (the "Authority") was established by the Townships of New Buffalo, Lake Charter, and Chikaming, and the City of New Buffalo. The City of Bridgman was admitted under a separate agreement in 2004. The Authority was incorporated on October 13, 1971 as the Galien River Sanitary District (the "District"), under the provisions of Act 233, Public Acts of Michigan of 1955, as amended. The Authority is governed by a board comprised of six (6) members, with one (1) representative appointed from each of the five (5) constituent municipalities and one (1) independent member elected by the other five (5) members. 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 the constituent municipalities.

The GRSD Authority operates a 3 million gallon per day (MGD) sanitary sewage treatment plant and site to serve all of the local units, who have capacity rights and share the cost of the plant. The capacity rights are allocated as follows:

	<b><u>Final Expansion</u></b>
Lake Charter Township	16.6%
City of New Buffalo	21.6%
Chikaming Township	28.6%
New Buffalo Township	16.6%
City of Bridgman	16.6%
	<u>100.0%</u>

The Authority has the power to carry out the purposes of the plant and to acquire private property by purchase, construction, lease, gift, devise or condemnation and may hold, manage, control, sell, exchange or lease such property. The Authority may enter into a contract or contracts providing for the acquisition, purchase, construction, improvement, enlargement, extension, operation and financing of a sewage disposal system. They may issue negotiable bonds, secured by the contractual full faith and credit pledges of each contracting municipality. The Authority is also responsible for establishing rates charged to the governmental units. The separate governments are responsible for establishing and collecting their own charges from the residents and other users within their district.

The Authority's financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in section 2100 of the Governmental Accounting Standards Board's ("GASB") *Codification of Government Accounting and Financial Reporting Standards*, include whether:

**NOTE 1. NATURE OF ORGANIZATION, CONCLUDED**

- The organization is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority.

Based on the aforementioned criteria, the Authority has no component units.

The Authority has implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34"). The Authority's financial statements, as a result of GASB 34 are as follows:

- A Management's Discussion and Analysis ("MD&A") section providing analysis of the Authority's overall financial position and results of operations has been included.
- Basic financial statements prepared using the full accrual accounting for all of the Authority's activities have been provided.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Authority also applies Financial Accounting Standard Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**A. Fund Accounting**

The Authority uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority's functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority has only one fund, a proprietary fund.

***Proprietary (Enterprise) Fund***

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expensing including depreciation) of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

**B. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The proprietary fund uses the accrual basis of accounting.

Revenues-Exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Expenses – Expenses are recognized at the time they are incurred.

**C. Cash and Cash Equivalents**

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments available for current operations with an original maturity of three (3) months or less to be cash equivalents.

**D. Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond the current year, are recorded as prepaid items using the consumption method.

**E. Inventories**

Inventories, not held for resale, are accounted for on a purchase basis. Under the purchase method, inventories are treated as expenditures when acquired. Accordingly, no asset is reflected in the financial statements.

**F. Capital Assets and Depreciation**

All capital assets are capitalized at cost using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Costs relating to maintenance and repairs are charged to expense when they do not add value to the assets or materially extend the life, whereas those for renewals and betterments, when significant in amount, are capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Equipment	5 – 20 Years
System Improvements	20 – 40 Years
Vehicles	7 – 10 Years

**G. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of (capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets). Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED****H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the activity of the proprietary fund. The Authority's operating revenues are sewer usage fees, waste hauling, and services rendered.

**I. Contributions of Capital**

Contributions of capital in the proprietary fund arise from outside contributions of capital assets, or from grants, or outside contributions of resources restricted to capital acquisition and construction.

**J. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

**K. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**L. Liability for Compensated Absences**

The Board does not record a liability for compensated absences. The amount which may be accrued is undeterminable at the date of the balance sheets. It is estimated the amount would be immaterial to the presentation of the financial statements as a whole.

**M. Budget**

The Authority's annual budget is required to be adopted at least thirty days before the beginning of each fiscal year. Certified copies of the budget are submitted to each of the contracting governments. The annual budget includes estimated revenues and costs of operations, maintenance, and repairs of the plant, and development of the municipalities' interceptors for the fiscal year.

**NOTE 3. DEFINED CONTRIBUTION PLAN**

The Authority has established a Money Purchase Pension Plan (the "Plan") under Section 457 of the Internal Revenue Code. The plan allows all non-union employees to make volunteer contributions to the plan up to 15% of eligible compensation. This plan was dissolved effective January 1, 2007.

The Authority contributes 7% - 9% of an eligible employee's compensation to be divided between the plan and an individual life insurance policy. All non-union employees who are employed for at least 1,000 hours during a plan year, have at least one year of service, and are twenty-one years of age are eligible to participate. For 2007 and 2006, total contributions were \$9,834 and \$9,337, respectively.

**NOTE 4. DEPOSITS AND INVESTMENTS**

The Authority's deposits and investments at December 31, 2007 and 2006, are included on the balance sheet under the following classifications:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 816,893	\$ 638,867
Certificates of deposits	-	-
Restricted cash and cash equivalents	410,588	-
	<u>\$ 1,227,481</u>	<u>\$ 638,867</u>

The Authority has adopted GASB No. 40, *Deposits and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rate 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 that are legal for direct investment by local units of government in Michigan.

The Authority has designated several banks for the deposit of its funds. The board follows policies in accordance with Public Act 196 of 1997, and has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investments are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined 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 government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year-end, the Authority had \$1,276,002 of bank deposits (checking) that were uninsured and uncollateralized. The Authority believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority 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.

**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 Authority'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 Authority had no such investments.

**Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices, and had no investments at year-end.

**NOTE 5. RECEIVABLES AND PAYABLES**

Receivables consist of accounts (fees) and are considered collectible in full, while payables are for normal trade expense. Both are summarized as follows:

	<u>2007</u>	<u>2006</u>
Accounts Receivable:		
Charges for services	\$ 816,817	\$ 482,214
Accounts Payable:		
Trade	\$ 249,801	\$ 57,917

**NOTE 6. CAPITAL ASSETS**

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

	Balance at <u>1/1/2007</u>	<u>Additions</u>	Disposals/ <u>Reclass</u>	Balance at <u>12/31/2007</u>
Assets not being depreciated:				
Construction-in-progress	\$ 220,904	\$ 1,548,439	\$ -	\$ 1,769,343
Capital assets being depreciated:				
Equipment	\$ 619,168	\$ -	\$ -	\$ 619,168
System Improvements	14,763,892	-	-	14,763,892
Vehicles	122,866	-	-	122,866
Subtotal	<u>\$ 15,505,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,505,926</u>
Accumulated Depreciation:				
Equipment	\$ 272,282	\$ 18,364	\$ -	\$ 290,646
System Improvements	1,104,461	374,111	-	1,478,572
Vehicles	77,189	10,369	-	87,558
	<u>\$ 1,453,932</u>	<u>\$ 402,844</u>	<u>\$ -</u>	<u>\$ 1,856,776</u>
Net capital assets being depreciated	<u>\$ 14,051,994</u>			<u>\$ 13,649,150</u>
Net capital assets	<u>\$ 14,272,898</u>			<u>\$ 15,418,493</u>

Depreciation expense of \$402,844 was charged directly to operations.

**NOTE 7. BRIDGMAN AGREEMENT**

The City of Bridgman, an existing customer of the Authority, was admitted as a fifth constituent member of the Authority. As part of the buy in agreement, the City of Bridgman agreed to the following contributions:

- One half the estimated cost of expansion (\$3,068,461)
- \$75,000 contribution for administration
- \$45,450 contribution to the main plant
- \$1,004,550 contribution for interceptors

In 2007, the Authority declared the agreement was paid in full.

**NOTE 8. CONDUIT DEBT****Project #1:**

On September 24, 2004, the Authority issued General Obligation Limited Tax Bonds for the design, acquisition, construction, and equipment improvements for expansion of the plant.

The Authority has contracted with the Cities of Bridgman and New Buffalo and the Township of New Buffalo to finance their respective portions of the project. Chikaming and Lake Charter Townships used funds on hand to pay their respective portions of the project.

**Project #2:**

On June 14, 2007, the Authority issued General Obligation Limited Tax Bonds, Series 2007 to (i) finance the acquisition, construction and equipping of improvements to the system, including but not limited to the acquisition, construction and installation of additional siphon lines, an additional force main, improvements to the Franklin Street Pump Station and new electrical building and (ii) pay the expenses relating to the issuance of the bonds.

The Authority has contracted with the cities of Bridgman and New Buffalo, the Townships of New Buffalo and Chikaming, and the Charter Township of Lake to finance the project, collectively referred to as "Contracting Municipalities." The Authority anticipates to make the debt payments on these bonds with excess reserves on behalf of the contracting municipalities, but the ultimate responsibility lies with the municipalities.

The proceeds for each project's debt were allocated in the following proportions:

	<u>Project #1</u>	<u>Project #2</u>
Bridgman City	41.10%	20.00%
New Buffalo City	19.38%	20.00%
New Buffalo Township	39.52%	20.00%
Lake Charter Township	0.00%	20.00%
Chikaming Township	0.00%	20.00%

**NOTE 8. CONDUIT DEBT, CONCLUDED**

The bonds are being issued pursuant to the provisions of Act 233 and resolutions adopted by the Authority and the Contracting Municipalities. The Bonds are issued in anticipation of and are payable solely from certain contractual payments to be made by the Contracting Municipalities to the Authority. The municipalities have pledged their limited tax, full faith, and credit for the payment of their respective proportion. The Authority has irrevocably pledged such payment against the principal and interest on the Bonds. The Bonds are not general obligations of the Authority and the Authority has no taxing power.

As of December 31, 2007, the total amount of outstanding conduit debt is \$9,425,000 (\$7,625,000 - project #1 and \$1,800,000 – project #2).

**NOTE 9. WEESAW TOWNSHIP AGREEMENT**

The Authority entered into a twenty year agreement with Weesaw Township (the “Township”) to provide sewage treatment services for wastewater originating in the Township. The Authority agreed to provide up to a maximum amount of 100,000 gallons per day. The Township shall, at its own expense, construct, establish, maintain, repair and own a sewer main including lift stations or other equipment connecting into the Chikaming Township system. The agreement may be terminated after two years or more with a written notice, and at any time after the first fifteen years of the agreement term. The agreement only applies to the phase 1 of the construction regarding the tie-in by the Township into the system. Any additional sewer construction shall require an amendment to the agreement. At December 31, 2007, \$4,375 of fees was received.

**NOTE 10. UNION**

The full and part-time Operators, Maintenance Mechanics, Laborers, and Helpers of the Authority are members of Operating Engineers Local No. 324, and are currently under a signed three (3) year agreement with the Authority. The current agreement expires December 31, 2008.

**NOTE 11. DEFINED BENEFIT PENSION PLAN**

The Authority contributes to the Operating Engineers’ Local 324 Pension Fund (the “Plan”), a multiemployer defined benefit pension plan administered by the Central Pension Fund of the International Union of Operating Engineers and Participating Employers. The plan issues a publicly available financial report. The report may be obtained by writing to the Central Pension Fund, 4115 Chesapeake Street NW, Washington, D.C. 20016.

The obligation to contribute to and maintain the plan for these employees was established through the union contract between the Authority’s board of directors and union employees, and requires the Authority to contribute \$1.60 per hour for all hours paid each employee. This resulted in a contribution of \$30,402 for the year ended December 31, 2007. The contribution for the year ending December 31, 2008 will be \$1.65 per hour worked.

**NOTE 12. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, unemployment claims, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance to minimize its exposure to loss in these areas.

**NOTE 13. REPORTING CHANGE**

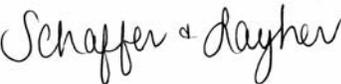
The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for governmental entities in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2010.



### ACCOUNTANT'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors  
GRSD Sewer Authority

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the GRSD Sewer Authority's basic financial statements. The following schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Schaffer & Layher  
May 23, 2008

David Schaffer, CPA  
Michael Layher, CPA  
*Founding Partners:*  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA

**GRSD SEWER AUTHORITY****SCHEDULE OF NET ASSETS FOR OPERATIONS AND CAPITAL ACTIVITY**  
**DECEMBER 31, 2007**  
**(with comparative totals for 2006)**

	<b>Operations</b>	<b>Capital Projects</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 564,114	\$ 252,779	\$ 816,893	\$ 638,867
Accounts receivable	198,299	618,518	816,817	482,214
Prepaid insurance	-	-	-	3,238
<b>Total current assets</b>	<b>\$ 762,413</b>	<b>\$ 871,297</b>	<b>\$ 1,633,710</b>	<b>\$ 1,124,319</b>
<b>Restricted assets:</b>				
Cash and cash equivalents	\$ -	\$ 410,588	\$ 410,588	\$ -
<b>Capital Assets</b>	<b>\$ -</b>	<b>\$ 15,418,493</b>	<b>\$ 15,418,493</b>	<b>\$ 14,272,898</b>
<b>Total Assets</b>	<b>\$ 762,413</b>	<b>\$ 16,700,378</b>	<b>\$ 17,462,791</b>	<b>\$ 15,397,217</b>
<b>Liabilities:</b>				
Accounts payable	\$ 65,831	\$ 183,970	\$ 249,801	\$ 57,917
Payroll taxes payable	1,918	-	1,918	1,604
<b>Total Liabilities</b>	<b>\$ 67,749</b>	<b>\$ 183,970</b>	<b>\$ 251,719</b>	<b>\$ 59,521</b>
<b>Net Assets</b>				
Invested in capital assets	\$ -	\$ 15,418,493	\$ 15,418,493	\$ 14,272,898
Restricted for capital purposes	-	410,588	410,588	-
Unrestricted	694,664	687,327	1,381,991	1,064,798
<b>Total Net Assets</b>	<b>\$ 694,664</b>	<b>\$ 16,516,408</b>	<b>\$ 17,211,072</b>	<b>\$ 15,337,696</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 762,413</b>	<b>\$ 16,700,378</b>	<b>\$ 17,462,791</b>	<b>\$ 15,397,217</b>

See accompanying notes and auditor's report on supplementary information.

**GRSD SEWER AUTHORITY**

## SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR OPERATIONS AND CAPITAL ACTIVITY

DECEMBER 31, 2007

(with comparative totals for 2006)

	<u>Operations</u>	<u>Capital Projects</u>	<u>Actual</u>		<u>Budget 2007</u>
			<u>2007</u>	<u>2006</u>	
<b>Operating Revenues</b>					
<b>Sewer User Fees:</b>					
City of New Buffalo	\$ 359,520	\$ 133,513	\$ 493,033	\$ 371,815	\$ 389,034
Chikaming Township	345,627	124,696	470,323	332,836	374,676
New Buffalo Township	100,789	83,518	184,307	100,379	121,716
Lake Charter Township	287,034	17,995	305,029	297,282	314,139
City of Bridgman	229,686	53,490	283,176	237,749	254,889
Weesaw Township	4,375	-	4,375	3,257	3,242
<b>Other Fees:</b>					
Waste hauling	68,776	-	68,776	84,435	66,500
Services rendered	64,452	39,107	103,559	296,557	386,700
<b>Total operating revenues</b>	<u>\$ 1,460,259</u>	<u>\$ 452,319</u>	<u>\$ 1,912,578</u>	<u>\$ 1,724,310</u>	<u>\$ 1,910,896</u>
<b>Operating Expenses</b>					
Salaries and wages	\$ 499,011	\$ -	\$ 499,011	\$ 478,508	\$ 505,643
Payroll taxes	39,302	-	39,302	37,695	39,800
Employee benefits	170,399	-	170,399	159,914	181,010
Depreciation	-	402,844	402,844	417,389	235,500
Office supplies	2,475	-	2,475	1,773	3,000
Operating supplies	131,289	-	131,289	104,595	96,500
Professional fees	17,222	-	17,222	16,914	45,800
Legal	3,617	-	3,617	1,408	7,500
Board fees	4,170	-	4,170	4,200	4,600
Sludge disposal	57,506	-	57,506	56,556	57,000
Communications	13,564	-	13,564	15,594	18,600
Training and transportation	2,654	-	2,654	2,371	4,400
Insurance and bonds	99,135	-	99,135	84,268	86,100
Utilities	244,656	-	244,656	236,781	220,500
Equipment and sewer repairs	60,341	63,054	123,395	55,549	78,000
Vehicle repairs	8,581	-	8,581	7,452	7,000
Uniforms	5,168	-	5,168	5,725	5,500
Miscellaneous	70	325	395	29	-
<b>Total operating expenses</b>	<u>\$ 1,359,160</u>	<u>\$ 466,223</u>	<u>\$ 1,825,383</u>	<u>\$ 1,686,721</u>	<u>\$ 1,596,453</u>
<b>Net operating income (loss)</b>	<u>\$ 101,099</u>	<u>\$ (13,904)</u>	<u>\$ 87,195</u>	<u>\$ 37,589</u>	<u>\$ 314,443</u>
<b>Non-operating income (expenses):</b>					
Capital contributions	\$ -	\$ 1,769,261	\$ 1,769,261	\$ -	\$ -
Debt payments on behalf of contracting municipalities	-	(29,518)	\$ (29,518)	-	-
Sale of fixed assets	-	-	-	2,050	-
Interest income	16,512	29,926	46,438	32,756	16,000
<b>Total non-operating income (expenses)</b>	<u>\$ 16,512</u>	<u>\$ 1,769,669</u>	<u>\$ 1,786,181</u>	<u>\$ 34,806</u>	<u>\$ 16,000</u>
<b>Change in net assets</b>	<u>\$ 117,611</u>	<u>\$ 1,755,765</u>	<u>\$ 1,873,376</u>	<u>\$ 72,395</u>	<u>\$ 330,443</u>
<b>Net Assets, Beginning of Year</b>	577,053	14,760,643	15,337,696	15,265,301	15,337,696
<b>Net Assets, End of Year</b>	<u>\$ 694,664</u>	<u>\$16,516,408</u>	<u>\$17,211,072</u>	<u>\$15,337,696</u>	<u>\$15,668,139</u>

See accompanying notes and auditor's report on supplementary information.



To the Board of Directors  
GRSD Sewer Authority

In planning and performing our audit of the financial statements of the GRSD Sewer Authority (the "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 the 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. 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 certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

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. We consider the following deficiencies to be significant deficiencies in internal control:

During the course of our engagement, we have been asked to prepare drafts of the Authority's financial statements in accordance with generally accepted accounting principles. The employees and management responsible for reviewing those financial statements lack the skill and knowledge to properly apply generally accepted accounting principles.

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. We believe that there were no deficiencies that constitute material weaknesses.

We would like offer the following recommendations:

1. During our audit, we noted certain employees were allowed to carry-over vacation time that was in excess of current policies. We recommend that all board documented policies be consistently and properly applied to all employees by management.

This communication is intended solely for the information and use of management, the Authority Board, others within the organization, and the local owner municipalities and is not intended to be, and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in blue ink that reads "Schaffer &amp; Layher". The signature is written in a cursive, flowing style.

Schaffer & Layher  
May 23, 2008

David Schaffer, CPA  
Michael Layher, CPA  
*Founding Partners:*  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA