

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 Lake MI Shoreline Water & Sewer Tr. Auth.	County Berrien
Fiscal Year End June 30, 2007	Opinion Date September 25, 2007	Date Audit Report Submitted to State November 9, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan

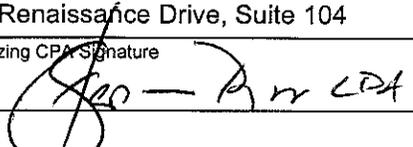
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

 **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"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Barnes & Ross, CPA, PC		Telephone Number 269-983-2851	
Street Address 500 Renaissance Drive, Suite 104		City St. Joseph	State Zip MI 49085
Authorizing CPA Signature 	Printed Name Stephen Ross	License Number 1101014753	

LAKE MICHIGAN SHORELINE WATER &
SEWAGE TREATMENT AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2007

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Lake Michigan Shoreline Water & Sewage Treatment Authority

Management's Discussion and Analysis

As management of Lake Michigan Shoreline Water and Sewage Treatment Authority, we offer readers of the Lake Michigan Shoreline Water and Sewage Treatment Authority's financial statements this narrative overview and analysis of the financial activities of the Lake Michigan Shoreline Water and Sewage Treatment Authority for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the financial information presented in this report. All amounts, unless otherwise indicated, are expressed as actual dollars.

About the Authority

The Lake Michigan Shoreline Water and Sewage Treatment Authority was incorporated under the provisions of Act 233 of the Public Acts of Michigan of 1955. The purpose of the Authority is to acquire, improve, extend and operate a water supply and sewage disposal system for the benefits of residents of Lincoln Charter Township, Royalton Township, St Joseph Charter Township, and the villages of Stevensville and Shoreham.

The Lake Michigan Shoreline Water and Sewage Treatment Authority adopted GASB 34 reporting requirements into its financial statements effective July 1, 2004.

The governing body of this authority is a board of trustees made up of three representatives from Lincoln Charter Township, one representative from Royalton Township, three representatives from St. Joseph Charter Township, one representative from the Village of Stevensville, and one representative from the Village of Shoreham.

The board prepares, adopts and submits to their respective legislative bodies, an annual budget covering the proposed expenditures to be made for organizing and operating the authority, and for the necessary funds required from each municipality for the next fiscal year. Said budget must be approved by resolution of each of its municipal members.

The monies to be contributed by each member municipality, excluding the Villages of Shoreham and Stevensville, are determined by the number of water and/or sewer customers of the townships.

Financial Highlights

- In April, 2007, the Lake Michigan Shoreline Water and Sewage Treatment Authority sold bonds in the amount of \$6,270,000 for the construction of two water towers and two booster stations.
- Land purchases were finalized in July thru November, 2006 for the two water towers and one booster station sites.
- Contracts for the construction were issued in May 2007 and construction began on the booster station on Cleveland Avenue.
- The General Fund assets of Lake Michigan Shoreline Water and Sewage Treatment Authority exceeded its liabilities at the close of the most recent fiscal year by \$528,674.
- For this fiscal year, Lincoln Charter Township contributed 55.38% towards the General Fund operating expenses of the authority, Royalton contributed 9.90%, and St Joseph Charter Township contributed 34.72%.
- Total expenditures of the General Operating Fund exceeded revenues by \$62,534. In addition \$52,370 was transferred out to the Construction Fund.
- Total expenditures in the Construction Fund as of June 30, 2007, were \$663,756, while interest income was \$56,833.

- \$100,000 has been designated in Fund Balance for future improvements for the sewer interceptor lines.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Lake Michigan Shoreline Water & Sewage Treatment Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) Government-Wide Financial Statements 2) Fund Financial Statements and 3) Notes to the Financial Statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Governmental Financial Statements

The government wide financial statements are designed to provide readers with a broad overview of Lake Michigan Shoreline Water and Sewage Treatment Authority's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of Lake Michigan Shoreline Water and Sewage Treatment Authority's assets and liabilities, with the difference between the two reported as net assets. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial portion of Lake Michigan Shoreline Water and Sewage Treatment Authority is improving or deteriorating.

The Statement of Net Assets presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near term financing requirements.

Because the focus of governmental funds is narrower than that of a government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financial decisions. The Governmental Funds Balance Sheet and the Statement of Governmental Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic Governmental Fund Financial Statements can be found on pages 12-15 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements. The notes of the financial statements can be found on pages 16 – 23 of this report.

Other Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes the budgetary comparison scheduled.

The supplementary information can be found on page 24 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of Lake Michigan Shoreline Water and Sewage Treatment Authority's financial position, assets exceeded liabilities by \$1,132,166 at the close of the most recent fiscal year.

A portion of Lake Michigan Shoreline Water and Sewage Treatment Authority's net assets - \$635,653 reflects its investment in capital assets (e.g. land, buildings, equipment) less any related debt used to acquire those assets that is still outstanding. The Lake Michigan Shoreline Water and Sewage Treatment Authority uses the capital assets to provide services to customers of the authority; consequently, these assets are not available for future spending. Although Lake Michigan Shoreline Water and Sewage Treatment Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Lake Michigan Shoreline Water and Sewage Treatment Authority Statement of Net Assets

	Governmental Activities	
	<u>FY 2007</u>	<u>FY 2006</u>
Current and other assets	\$6,542,428	\$673,634
Capital Assets	<u>\$1,071,185</u>	<u>181,165</u>
Total Assets	<u>\$7,613,613</u>	<u>\$854,799</u>
Current Liabilities	\$257,595	\$30,056
Non Current Liabilities	<u>\$6,223,852</u>	<u> </u>
Total Liabilities	<u>\$6,481,447</u>	<u>\$30,056</u>
Net Assets:		
Invested in capital assets net of related debt	\$635,653	\$108,077
Unrestricted	<u>496,513</u>	<u>716,666</u>
Total net assets	<u>\$1,132,166</u>	<u>\$824,743</u>

- The substantial increase to current and other assets is due to the proceeds from the sale of the bonds for the water tower construction project. These funds will be used in the next two fiscal years for the completion of the booster stations and water towers. Therefore in future years, this amount will be substantially less than current year.

- The \$ 890,020 increase in capital assets results from the land purchases and donations during the year as well as construction in progress allocations. In addition, the Authority purchased a camera system for use in the sewer lines.
- \$69,965 was contributed by the three Townships for the purchase of the sewer camera system

**Lake Michigan Shoreline Water and Sewage
Treatment Authority
Change in Net Assets**

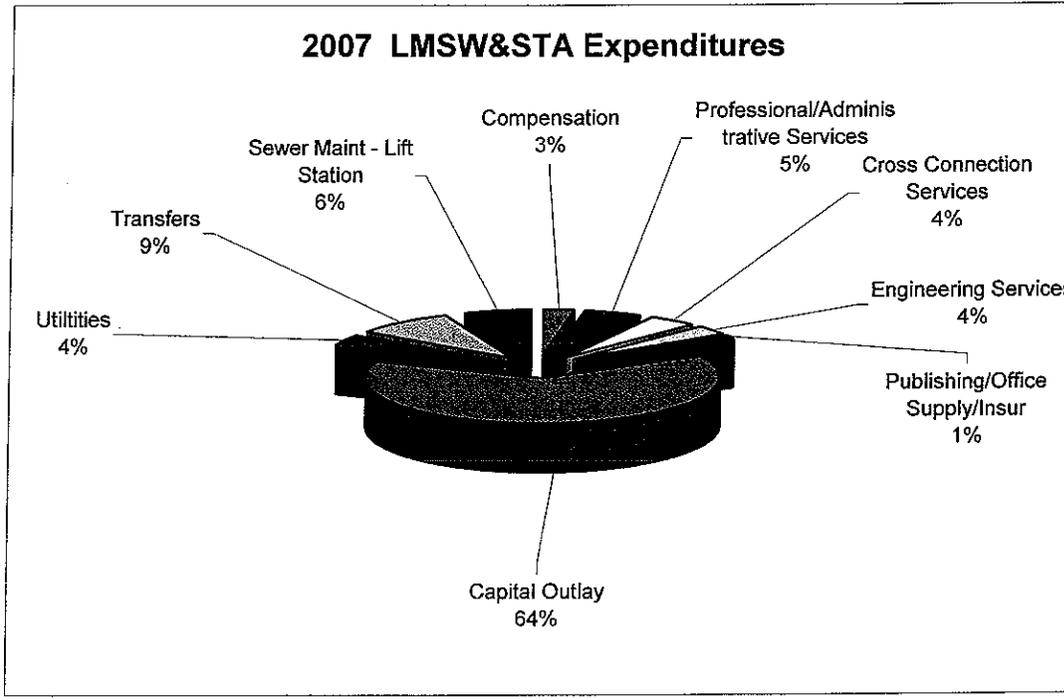
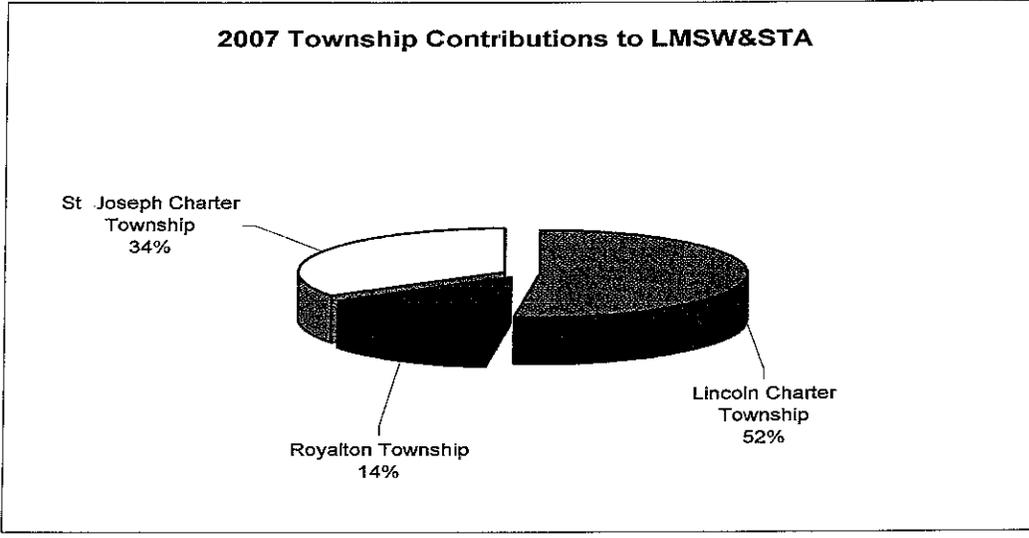
	Governmental Activities	
	FY 2007	FY 2006
Revenues:		
Program Revenue:		
Operating Contributions	\$415,895	\$774,003
General Revenue:		
Interest Income	84,242	\$12,876
Other Revenue	<u>13,100</u>	<u>78,273</u>
Total Revenue	\$513,237	<u>\$865,152</u>
Expenses:		
Public Works	<u>\$205,814</u>	<u>\$162,736</u>
Increase(Decrease) in Net Assets	\$307,423	\$702,416
Net Assets, July 1, 2006	<u>\$824,743</u>	<u>\$122,327</u>
Net Assets, June 30, 2007	<u>\$1,132,166</u>	<u>\$824,743</u>

- Program revenue -- Contributions from the three Townships decreased by \$358,108.
- Interest income increased by approximately \$71,000 due to interest earned on the bond issue. In addition, excess funds were invested in a money market account at Chemical Bank which earned a higher interest rate than the funds in the checking account.
- Expenses increased approximately \$43,000 due to the interest expense as it relates to the bond issue.

Charts

The following charts are graphical explanations of the of the three Townships contributions to the Authority for the current fiscal year and the Authority's categorical expenditures for the current fiscal year,

Lake Michigan Shoreline Water and Sewage Treatment Authority Expenses and Program Revenue for 2006-2007



Financial Analysis of the Government's Funds

As noted earlier, the Lake Michigan Shoreline Water & Sewage Treatment Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the Lake Michigan Shoreline Water & Sewage Treatment Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Lake Michigan Shoreline Water & Sewage Treatment Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Lake Michigan Shoreline Water & Sewage Treatment Authority's governmental funds reported combined ending fund balances of \$6,197,663 an increase of \$5,554,085 in comparison with the prior year. \$6,097,663 constitutes undesignated fund balance which is available for spending at the authority's discretion. Of this amount, \$5,668,989 is in the Construction Fund while \$428,674 is in the General Fund. The remainder of the fund balance - \$100,000 – is designated for future sewer interceptor projects.

The general fund is the chief operating fund of the Lake Michigan Shoreline Water & Sewage Treatment Authority. At the end of the current fiscal year, undesignated fund balance of the general fund was \$428,674, while total fund balance was \$528,674.

In the current fiscal year, a new fund – Construction – was created to record the revenue and expenditures of the water towers and booster stations capital construction project after the bonds were sold. As of June 30, the fund balance of this fund was \$5,668,989. This undesignated fund balance will be reduced in the next fiscal year due to the continued construction of the water towers and booster stations project. It is expected that this project will be completed in September 2008.

Capital Improvements and Funding Requirements

- The purchase of land for the second booster station and the two water towers were concluded in the first half of the fiscal year.
- Each Township contributed \$23,322 towards the purchase of the sewer camera system.
- After the successful sale of the bonds in April, 2007, all expenditures related to the construction of the towers and booster stations were recorded in the Construction Fund, thereby increasing capital assets.

Fiscal Year 2007 Budget Variances

- The original general operating expenditure budget for 2006-07 was \$345,930. At the February 8, 2007, board meeting, a proposed budget amendment was presented for \$75,000 for the purchase of the sewer camera system. Four of the five Authority member boards passed the revision, however, one member as of this date, has not passed the requested amendment.
- For the revenue budget, the original budget of \$350,930 for general operating budget. In addition \$75,000 was added for the sewer camera system, and to increase the interest income by \$20,000. Four of the five Authority members approved the amendments with one member declining to pass the amendments as of this date.

- The 2007 fiscal year ended with general operating expenditures exceeding contributions by approximately \$103,000.
- The three township Authority members contributed \$69,965 for the purchase of the sewer camera system which was not officially budgeted since one member of the Authority would not pass the amended budget.
- Interest income was approximately \$22,000 greater than the original approved budget of \$5,000.
- Expenditures exceeded the original budget by \$226,378. A portion of the overage was the purchase of the sewer camera system for \$70,365. The remaining overage related to the water tower construction project for land and engineering fees. An amended budget was presented, however, one member of the Authority refused to pass the amended budget. Therefore, the General Operating Fund is showing an over expenditure.

Capital Assets and Debt Administration

Capital Asset - The Lake Michigan Shoreline Water and Sewage Treatment Authority's investment in capital assets for its governmental activities as of June 30, 2007, amount to \$1,071,185 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment. The total increase in the Authority's investment in capital assets for the current fiscal year was 192 percent.

Major capital asset events during the current fiscal year including the following:

- Purchase of land on Hilltop Road, St. Joseph, Michigan for the construction of a water booster station.
- Purchase of land on Jericho Road, Stevensville, Michigan, for the construction of a water tower.
- Purchase of land on Miner's Road, St. Joseph, Michigan, for the construction of a water tower.
- Purchase of a sewer camera system.

**LAKE MICHIGAN SHORELINE WATER AND
SEWAGE TREATMENT AUTHORITY Capital Assets
(Net of depreciation)**

	Governmental Activities	
	2007	2006
Land	\$218,407	\$78,189
Construction in progress	754,911	73,088
Buildings	23,119	23,119
Improvements	7,764	7,764
Equipment	71,165	800
Less: Accumulated depreciation	<u>(4,181)</u>	<u>(1,795)</u>
Net Capital Assets	<u>\$1,071,185</u>	<u>\$181,165</u>

Long-term debt - In April, 2007, the Lake Michigan Shoreline Water and Sewage Treatment Authority sold \$6,270,000 in bonds to be repaid over the next 25 years. These bonds were issued based upon the full faith and credit of Lincoln Charter Township, Royalton Township, and St. Joseph Charter Township. The first interest payment will be due October 1, 2007, and the first principal payment will be due April 1, 2008. The three townships are solely responsible for the repayment of the principal and interest on the bonds.

Next Year's Budget

- The 2007-2008 budget was presented to Lincoln Charter Township, Royalton Township, St. Joseph Charter Township, the Village of Shoreham and the Village of Stevensville in February, 2007. The three township boards and the Village of Shoreham passed the budget. However, as of this date, the Village of Stevensville has not passed the budget.
- As the by-laws of the Authority state that a budget must be approved by all five members of the board prior to June 30, 2007, the status of the Lake Michigan Shoreline Water and Sewage Treatment Authority is in a state of flux.
- On June 29, 2007, the three townships passed resolutions to assume the responsibility of the bills of the LMSW&STA.
- On July 19, 2007, the township boards of Lincoln Charter Township, Royalton Township and St. Joseph Charter Township met in special sessions to adopt Articles of Incorporation for a new authority - Southwest Michigan Regional Sanitary Sewer and Water Authority.
- Publication of the new Articles of Incorporation was made in the Herald Palladium on July 20, 2007.
- On July 25, 2007, the Article of Incorporation was filed with the Michigan Secretary States office in Lansing, Michigan.
- On July 26, 2007, the first meeting of Southwest Michigan Regional Sanitary Sewer and Water Authority was held to accept the by-laws and to appoint the board of directors.

Contacting the Authority's Management

The purpose of this management discussion is to provide an overview of the current and prospective financial condition of the Authority's operations. Questions concerning this report may be directed to Mr. Charles Garlanger, Chairman. He can be contacted at St. Joseph Charter Township at 269-429-7703.



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Lake Michigan Shoreline Water & Sewage Treatment Authority
Saint Joseph, Michigan

We have audited the accompanying basic financial statements of the Lake Michigan Shoreline Water & Sewage Treatment Authority as of and for the year ended June 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lake Michigan Shoreline Water & Sewage Treatment Authority as of June 30, 2007, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information as identified in the table of contents are not a required part of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain procedures, which consisted principally of inquiries of management, regarding methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.


BARNES & ROSS

September 25, 2007

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

GOVERNMENTAL FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets:	
Cash	\$ 4,372,661
Certificate of deposit	2,000,000
Accounts receivable	405
Interest receivable	33,644
Prepaid expenses	1,824
Bond issuance cost, net	133,894
Capital assets, net of depreciation	<u>1,071,185</u>
Total assets	<u>7,613,613</u>
Liabilities:	
Accounts payable	210,871
Accrued interest payable	46,724
Noncurrent liabilities:	
Due within one year	163,142
Due in more than one year	<u>6,060,710</u>
Total liabilities	<u>6,481,447</u>
Net assets:	
Invested in capital assets, net of related debt	635,653
Unrestricted	<u>496,513</u>
Total net assets	<u>\$ 1,132,166</u>

The accompanying notes are an integral part of these financial statements.

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

<u>Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net(Expense) Revenue & Change in Net Assets</u>
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
Public works	\$ 158,780	\$ -	\$ 415,895	\$ -	\$ 257,115
Interest on long term debt	47,034	-	-	-	(47,034)
Total on governmental activities	<u>\$ 205,814</u>	<u>\$ -</u>	<u>\$ 415,895</u>	<u>\$ -</u>	<u>\$ 210,081</u>
General revenues:					
					84,242
					13,100
					<u>97,342</u>
					307,423
					<u>824,743</u>
					<u>\$ 1,132,166</u>

The accompanying notes are an integral part of the financial statements.

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007

	<u>General</u>	<u>Construction</u>	<u>Non-major Debt Service</u>	<u>Total Governmental Funds</u>
Assets:				
Current assets:				
Cash	\$ 538,193	\$ 3,834,468	\$ -	\$ 4,372,661
Certificate of deposit	-	2,000,000	-	2,000,000
Due from other funds	-	8,614	-	8,614
Accounts receivable	405	-	-	405
Interest receivable	-	33,644	-	33,644
Prepaid expenses	1,824	-	-	1,824
	<u>1,824</u>	<u>-</u>	<u>-</u>	<u>1,824</u>
Total assets	<u>\$ 540,422</u>	<u>\$ 5,876,726</u>	<u>\$ -</u>	<u>\$ 6,417,148</u>
Liabilities:				
Accounts payable	\$ 3,134	\$ 207,737	\$ -	\$ 210,871
Due to other funds	8,614	-	-	8,614
	<u>8,614</u>	<u>-</u>	<u>-</u>	<u>8,614</u>
Total liabilities	<u>11,748</u>	<u>207,737</u>	<u>-</u>	<u>219,485</u>
Fund balances:				
Unreserved:				
Designated	100,000	-	-	100,000
Undesignated	428,674	5,668,989	-	6,097,663
	<u>428,674</u>	<u>5,668,989</u>	<u>-</u>	<u>6,097,663</u>
Total fund balances	<u>528,674</u>	<u>5,668,989</u>	<u>-</u>	<u>6,197,663</u>
Total liabilities and fund balances	<u>\$ 540,422</u>	<u>\$ 5,876,726</u>	<u>\$ -</u>	<u>\$ 6,417,148</u>

The accompanying notes are an integral part of these financial statements.

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Fund balance of the governmental funds	\$6,197,663
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and therefore are not reported in the funds	1,071,185
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet	(46,724)
Long term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet	
Due within one year	(165,000)
Due in more than one year	(6,105,000)
Deferred charges, net	133,894
Bond issue discount, net	<u>46,148</u>
Net assets of governmental activities	<u>\$1,132,166</u>

The accompanying notes are an integral part of these financial statements

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Construction</u>	<u>Non-major Debt Service</u>	<u>Total Governmental Funds</u>
Revenue:				
Contributions from other governmental units	\$ 415,895	\$ -	\$ -	\$ 415,895
Interest income	27,409	56,833	-	84,242
Other revenue	13,100	-	-	13,100
Total revenue	456,404	56,833	-	513,237
Expenditures:				
Compensation	15,660	-	-	15,660
Outside services	25,385	-	-	25,385
Engineering	20,363	-	-	20,363
Insurance	4,604	-	-	4,604
Professional fees	29,641	-	-	29,641
Publishing	413	-	-	413
Repairs - general	24,176	-	-	24,176
Repairs - mowing	10,145	-	-	10,145
Office supplies	1,093	167	-	1,260
Capital outlay	363,610	528,795	-	892,405
Bond issuance costs	-	134,794	-	134,794
Utilities	19,451	-	-	19,451
Telephone	3,869	-	-	3,869
Miscellaneous	528	-	-	528
Total expenditures	518,938	663,756	-	1,182,694
Excess of revenue over (under) expenditures	(62,534)	(606,923)	-	(669,457)
Other financing sources (uses):				
Bond proceeds	-	6,270,000	-	6,270,000
Bond discount	-	(46,458)	-	(46,458)
Transfers in	-	52,370	-	52,370
Transfers out	(52,370)	-	-	(52,370)
Total other financing sources (uses)	(52,370)	6,275,912	-	6,223,542
Excess of revenue and other sources over (under) expenditures and other uses	(114,904)	5,668,989	-	5,554,085
Fund balance-beginning	643,578	-	-	643,578
Fund balance-ending	\$ 528,674	\$ 5,668,989	\$ -	\$ 6,197,663

The accompanying notes are an integral part of these financial statements.

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30,2007

Net change in fund balances - Total governmental funds	\$5,554,085
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Depreciation expense	(2,386)
Capital outlay	892,405
Expenses are recorded when incurred in the statement of activities	
Accrued interest	(46,724)
Bond proceeds are reported as other financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Debt issued	(6,270,000)
Payment of bond issuance costs and discount	181,251
Repayments of long-term debt	-
Amortization of issuance costs, discounts, and similar items	<u>(1,208)</u>
Net assets of governmental activities	<u>\$ 307,423</u>

The accompanying notes are an integral part of these financial statements

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY.

The Lake Michigan Shoreline Water & Sewage Treatment Authority is a joint venture of the Townships of St. Joseph, Lincoln, Royalton and the Villages of Stevensville and Shoreham. The Authority was created under the provisions of Act 233 of the Public Acts of Michigan of 1955. The purpose of the Authority is to acquire, improve, extend and operate a water supply and sewage disposal system for the benefit of the residents of these communities.

The three participating townships fund the operating and debt service costs based on their common usage of the water supply and sewage disposal system.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in this reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by intergovernmental revenues, are reported separately from business type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government (Authority) is reported separately from certain legally separate component units for which the primary government is financially accountable. The Authority does not have any business type activities or a component unit.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary fund and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Authority does not have proprietary funds or fiduciary funds.

The accounts of the Authority are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operation of each fund or account group is summarized by providing a separate set of self-balancing accounts, which includes their assets, liabilities, fund balance, revenues and expenditures.

C MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The Authority's basic financial statements include both government-wide (reporting on the Authority as a whole) and fund financial statements (reporting on the Authority's major funds).

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using economic resources measurement focus as the basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the cash flows.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded with a liability is incurred, as under accrual accounting. Exceptions to this rule include principal and interest on long-term debt, which are recognized when due.

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Authority reports two major governmental funds, the General Fund and the Construction Fund. The Debt Retirement Fund is a non-major fund. The General Fund is the general operating fund for the Authority and is used to account for all financial resources. The Construction Fund is used to account for expenditures relating to the construction of two water towers and booster stations financed by bond proceeds. The Debt Service Fund will be used in future years when principal and interest payments are required.

D. ASSETS, LIABILITIES, NET ASSETS AND EQUITY

Bank Deposits and Investments – The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds”

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets are defined by the Authority as assets with an initial cost of more than \$500 and an estimated life of more than one year. Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at the fair market value at the time of contribution. Other costs incurred for repair and maintenance are expenses as incurred. The Authority elected to account for infrastructure assets prospectively, beginning July 1, 2004.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Improvements	15-20 years
Equipment	3-7 years

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as public works expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. BUDGET AND BUDGETARY ACCOUNTING

The Board prepares and adopts an annual budget for the Authority's proposed revenues and expenditures for the next fiscal year. Budgets are submitted by each member municipality on or before January 1 of each calendar year and must be approved by resolution of each member municipality.

Budget amounts are reported in the financial statements as originally adopted. Amendments to the original budget were proposed but not approved by all of the Authority's members.

The Authority's actual expenditures exceed appropriations by \$226,378 for the general fund activity (public works) as a result of not amending the budget.

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Note 3 DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit 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 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 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.

Lake Michigan Shoreline Water & Sewage Treatment Authority has designated two banks for the deposit of the Authority's funds. The investment policy adopted by the Authority in accordance with Public Act 196 of 1997 has authorized investments in instruments authorized by Public Act 20.

The Authority's deposits and investments policy are in accordance with statutory authority.

The carrying amount of the Authority's deposits with financial institutions was \$6,372,661 and the actual balance in the bank was \$6,413,017. The custodial credit risk at June 30, 2007 was \$6,213,017, the amount that exceeded FDIC bank coverage limits. The bank balance is categorized as follows:

Amount insured by FDIC	\$ 200,000
Amount in excess of FDIC	<u>6,213,017</u>
Total deposits	<u>\$6,413,017</u>

Note 4 WATER SERVICE AGREEMENT

The Lake Michigan Shoreline Water & Sewage Treatment Authority executed an agreement to provide water from the City of St. Joseph for sale to users located within the corporate limits of the Authority's members. The agreement also provides for a surcharge to be collected on the gross revenue and is retained by the Authority's members.

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Note 5. CAPITAL ASSETS

Capital asset activity of the Authority's governmental activities was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental activities:			
Capital assets not being depreciated:			
Land	\$ 78,189	\$140,218	\$ 218,407
Construction in progress	<u>73,088</u>	<u>681,823</u>	<u>754,911</u>
Subtotal	<u>151,277</u>	<u>822,041</u>	<u>973,318</u>
Capital assets being depreciated:			
Buildings	23,119	-	23,119
Improvements	7,764	-	7,764
Equipment	<u>800</u>	<u>70,365</u>	<u>71,165</u>
Subtotal	31,683	70,365	102,048
Accumulated depreciation	<u>1,795</u>	<u>2,386</u>	<u>4,181</u>
Net assets being depreciated	<u>29,888</u>	<u>67,979</u>	<u>97,867</u>
Total capital assets, net of depreciation	<u>\$181,165</u>	<u>\$890,020</u>	<u>\$1,071,185</u>

Note 6. INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of inter-fund balances is as follows:

Due From/To:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Construction Fund	General Fund	\$8,614

Inter-fund Transfers:

Transfer (Out)

Transfers in: Construction Fund	General Fund \$52,370
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LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Note 7. LONG-TERM DEBT

The following is a summary of debt transactions of the Authority for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water System Supply Bonds, Series 2007 due in annual installments of \$165,000 to \$380,000 through April 2032; interest at 4.00% to 4.15%	\$ -	\$ 6,270,000	\$ -	\$6,270,000	\$ 165,000
Less:					
Unamortized discount	<u>-</u>	<u>46,458</u>	<u>(310)</u>	<u>46,148</u>	<u>1,858</u>
Total installment debt	<u>\$ -</u>	<u>\$ 6,223,542</u>	<u>\$ (310)</u>	<u>\$ 6,223,852</u>	<u>\$ 163,142</u>

The annual principal and interest requirements to service the installment debt as of June 30, 2007 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 165,000	\$ 237,486	\$ 402,486
2009	155,000	247,095	402,095
2010	165,000	240,895	405,895
2011	170,000	234,295	404,295
2012	175,000	227,495	402,495
2013-2017	995,000	1,025,875	2,020,875
2018-2022	1,200,000	811,475	2,011,475
2023-2027	1,465,000	550,875	2,015,875
2028-2032	<u>1,780,000</u>	<u>226,543</u>	<u>2,006,543</u>
Total	<u>\$ 6,270,000</u>	<u>\$ 3,802,034</u>	<u>\$ 10,072,034</u>

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2007

Note 8 PROGRAM REVENUE

Contributions from other governmental units represent billings to the member Townships for their respective share of the Authority's budgeted expenditures. Contributions for the year ended June 30, 2007 were as follows:

Lincoln Charter Township	\$ 216,478
St. Joseph Charter Township	142,667
Royalton Township	<u>56,750</u>
Total program revenue	<u>\$ 415,895</u>

Note 9. COMMITMENTS

The Authority had outstanding commitments of approximately \$5,400,000 related to the construction of the two water towers and booster stations.

Note 10 RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property, loss, torts, errors and omissions and employee injuries (workers' compensation). The Authority has purchased commercial insurance to provide coverage for such claims.

Note 11. SUBSEQUENT EVENT

Subsequent to the fiscal year end June 30, 2007, the Authority members could not reach an agreement on a budget for the general fund for the Authority's fiscal year end June 30, 2008. In accordance with the Authority's charter, budget approval requires unanimous consent of the members. The Village of Stevensville would not provide consent to approve the budget. As a result, the three township members of the Authority formed a new authority to take responsibility for the day to day activities (general fund operations). The new authority is called the "Southwest Michigan Regional Sanitary Sewer & Water Authority".

The Lake Michigan Shoreline Water & Sewage Treatment Authority will continue to exist in its current form, with the exception of the responsibility for the day to day activities. The Authority will continue to account for the construction of the two water tower projects and satisfy all future debt service requirements for the bonds issued in 2007.

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

REQUIRED SUPPLEMENTAL INFORMATION
 GENERAL FUND - BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenue:				
Contributions from other governmental units	\$ 345,930	\$ 345,930	\$ 415,895	\$ 69,965
Interest income	5,000	5,000	27,409	22,409
Other revenue	-	-	13,100	13,100
	<u>350,930</u>	<u>350,930</u>	<u>456,404</u>	<u>105,474</u>
Total revenue				
Expenditures (Public works):				
Compensation	13,680	13,680	15,660	1,980
Administrative services	1,000	1,000		
Outside services	25,000	25,000	25,385	385
Engineering	87,000	87,000	20,363	(66,637)
Insurance	8,500	8,500	4,604	(3,896)
Professional fees	30,000	30,000	29,641	(359)
Publishing	5,000	5,000	413	(4,587)
Repairs - general	32,500	32,500	24,176	(8,324)
Repairs - mowing	12,000	12,000	10,145	(1,855)
Office supplies	3,000	3,000	1,093	(1,907)
Capital outlay	101,000	101,000	363,610	262,610
Utilities	21,000	21,000	19,451	(1,549)
Telephone	3,750	3,750	3,869	119
Transfers out	-	-	52,370	52,370
Miscellaneous	2,500	2,500	528	(1,972)
	<u>345,930</u>	<u>345,930</u>	<u>571,308</u>	<u>226,378</u>
Total expenditures				
Excess of revenue over (under) expenditures	5,000	5,000	(114,904)	(120,904)
Fund balance-beginning	<u>643,578</u>	<u>643,578</u>	<u>643,578</u>	<u>-</u>
Fund balance-ending	<u>\$ 648,578</u>	<u>\$ 648,578</u>	<u>\$ 528,674</u>	<u>\$ (120,904)</u>



September 25, 2007

Board of Trustees
Lake Michigan Shoreline Water & Sewage Treatment Authority
Saint Joseph, Michigan

In planning and performing our audit of the financial statements of Lake Michigan Shoreline Water & Sewage Treatment Authority as of and for the year ended June 30, 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 described 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 deficiency to be a significant deficiency in internal control:

1. The size of the Authority's accounting and administrative staff limits the segregation of duties that would be preferred to provide adequate internals. This results in the need for the Authority's Board to provide oversight and independent review of the finances to enhance internal control over the Authority's financial affairs, as it is would not be cost effective to add administrative staff.

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 the following deficiencies constitute material weaknesses:

1. Material adjustments were proposed by the auditors during the audit that affected the financial statements of Authority Management is responsible for establishing and maintaining internal controls that result in the fair presentation of the financial statements. The independent auditor cannot be part of the internal controls

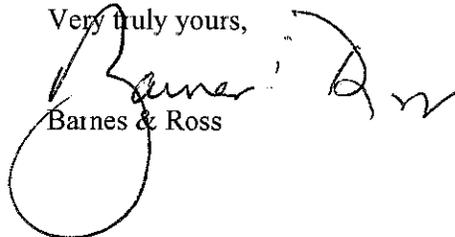
In addition to the above, we offer the following comments and recommendations noted during our audit which are not considered significant or material weaknesses:

1. Michigan Public Act 621 of 1978, as amended, prohibits governmental units from incurring expenditures in excess of amounts appropriated. The Act also requires a unit to amend its budget prior to exceeding appropriated amounts. The Authority's expenditures exceeded amounts appropriated in the General Fund.
2. The Accounting Standards Board "ASB" has issued a series of new audit standards which are referred to as the Risk Assessment Standards. They are intended to provide more definitive audit standards and improve audit effectiveness. The eight new standards are effective for audits of periods beginning on or after December 15, 2006 (next year's audit).

We would like to thank the Authority members for the courtesy and cooperation extended to us by the officials and representatives of the Authority during the course of our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and would be pleased to assist you in implementing them in the future.

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

Very truly yours,


Barnes & Ross