

# 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 type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

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 type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature		Printed Name		License Number

GENOA-OCEOLA SEWER  
& WATER AUTHORITY

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2007

GENOA-OCEOLA SEWER & WATER AUTHORITY

SEWER & WATER AUTHORITY BOARD

Chairman - Gary McCririe  
Vice-Chairman - William Bamber  
Treasurer - Robin Hunt  
Secretary - Lance Schuhmacher

REPRESENTATIVE OF LIVINGSTON COUNTY DRAIN COMMISSION

Robert Demyanovich

UTILITY DIRECTOR

Greg Tatara

SEWER & WATER AUTHORITY ATTORNEY

Neal D. Nielsen

SEWER & WATER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka  
Certified Public Accountants

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**PFEFFER ■ HANNIFORD ■ PALKA**  
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December 15, 2007

Sewer & Water Authority Board  
Genoa-Oceola Sewer & Water Authority  
2911 Dorr Road  
Brighton, Michigan 48116

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Genoa-Oceola Sewer & Water Authority as of and for the year ended September 30, 2007. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Genoa-Oceola Sewer & Water Authority, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Genoa-Oceola Sewer & Water Authority's basic financial statements. The supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, we do not express an opinion on the supplementary information.

*Pfeffer, Hanniford & Palka, P.C.*

**PFEFFER, HANNIFORD & PALKA**  
Certified Public Accountants

MANAGEMENT  
DISCUSSION  
AND  
ANALYSIS

Management Discussion and Analysis  
September 30, 2007

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Within this section of the Genoa-Oceola Sewer & Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2007. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

***Government-wide Financial Statements***

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

***Notes to the financial statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

***Other information***

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

## Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$25,155,717. This is a \$724,564 decrease over last year's net assets of \$25,880,281.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

	<u>9/30/2007</u>	<u>9/30/2006</u>	<u>Increase (Decrease)</u>
<b>ASSETS</b>			
Current and other assets	\$ 690,142	\$ 676,046	\$ 14,096
Restricted/designated assets	5,139,117	5,456,358	(317,241)
Capital assets, net	<u>24,693,933</u>	<u>25,129,843</u>	<u>(435,910)</u>
Total assets	<u>30,523,192</u>	<u>31,262,247</u>	<u>(739,055)</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	111,475	121,966	(10,491)
Bonds and notes payable	<u>5,256,000</u>	<u>5,260,000</u>	<u>(4,000)</u>
Total liabilities	<u>5,367,475</u>	<u>5,381,966</u>	<u>(14,491)</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	19,437,933	20,179,843	(741,910)
Unrestricted	<u>5,717,784</u>	<u>5,700,438</u>	<u>17,346</u>
Total net assets	<u>\$ 25,155,717</u>	<u>\$ 25,880,281</u>	<u>\$ (724,564)</u>

**Summary of Changes in Net Assets**

	Year Ended 9/30/2007	Year Ended 9/30/2006	Increase (Decrease)
Operating revenues	\$ 1,316,460	\$ 1,324,102	\$ (7,642)
Operating expenses	2,110,885	2,302,000	191,115
Operating (loss)	(794,425)	(977,898)	183,473
Non-operating revenues, net	40,161	20,824	19,337
Capital contributions	29,700	1,071,950	(1,042,250)
Net income (loss)	(724,564)	114,876	(839,440)
Beginning net assets	25,880,281	25,765,405	114,876
Ending net assets	\$ 25,155,717	\$ 25,880,281	\$ (724,564)

Revenues from operations remained relatively the same as growth in the district has stalled. Operating expenses also remained relatively constant. Infrastructure contributions (non-cash) to the Authority from developer's construction activities was approximately \$29,700 as compared to \$1,041,950 in the prior year. This amount was estimated by the Authority's engineers.

As a result, net income (loss) decreased from \$114,876 for the year ended September 30, 2006 to a net loss of \$724,564 for the year ended September 30, 2007.

#### Capital and Debt Administration

As of September 30, 2007, the authority had only one set of bonds outstanding for the sewage treatment plant expansion. The outstanding balance for these bonds totaled \$4,725,000 at fiscal year end. Genoa & Oceola townships are paying their portion of this debt for the Authority with their respective new user funds.

The Authority borrowed an additional \$220,000 during the year from Genoa Township to pay for costs incurred to refurbish part of the sewer plant. The additional borrowings bring the outstanding balance due to Genoa Township to \$531,000 as of September 30, 2007. The loan is a verbal, no interest short-term loan. The cost incurred to date to refurbish the batch reactors was just over \$508,000.

Various developers directly spent approximately \$29,700 for additions to the collection system (sewer lines, pumps, etc.). This amount is recorded as capital contributions or income in the statement of revenues and expenses since the infrastructure is added to the Authority's fixed assets and will be depreciated over future years.

#### Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The population in the service area is expected to grow with new users being regularly added to the system. However, due to the downturn in the economy the number of new users will grow at a much slower pace compared to prior years.

The Authority faces challenges in the future, as well. Rising energy and fuel costs pose challenges to both the Authority and its customers.

#### Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 2911 Dorr Road, Brighton, Michigan, 48116.

GOVERNMENT-WIDE  
FINANCIAL  
STATEMENTS

GENOA-OCEOLA SEWER & WATER AUTHORITY  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007

ASSETS

CURRENT ASSETS

Cash	\$ 111,594	
Accounts receivable - sewer	535,650	
Due from other governments	30,848	
Inventory - parts	12,050	
Total current assets		\$ 690,142

RESTRICTED ASSETS

Cash - sewer equipment and future improvements	390,021	
Cash - expansion	894	
Cash - debt service	23,202	
Notes receivable - member townships	4,725,000	
Total restricted/designated assets		5,139,117

CAPITAL ASSETS

Land	290,720	
Sewer system	38,008,036	
Software, equipment and furniture	231,261	
Construction in progress	221,858	
Less accumulated depreciation	14,057,942	
Capital assets		24,693,933
Total assets		\$ 30,523,192

LIABILITIES

CURRENT LIABILITIES

Accounts payable (includes \$26,911 due to related parties)	\$ 90,692	
Due to other governments	20,783	
Total current liabilities		\$ 111,475

CURRENT LIABILITIES (from restricted/designated assets)

Bonds payable - expansion	240,000	
Note payable - Genoa Township	531,000	
Total current liabilities (from restricted/designated assets)		771,000
Total current liabilities		882,475

LONG-TERM LIABILITY (from restricted assets)

Bonds payable - expansion		4,485,000
Total liabilities		5,367,475

NET ASSETS

NET ASSETS

Investment in capital assets, net of related debt	19,437,933	
Unrestricted	5,717,784	
Total net assets		\$ 25,155,717

The accompanying notes are an integral part of these financial statements

GENOA-OCEOLA SEWER & WATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

OPERATING REVENUES		
Billings		\$ 1,316,460
OPERATING EXPENSES		
Accounting and auditing	\$ 18,475	
Administrative - billing preparation	81,718	
Administrative - occupancy	6,780	
Board per diems	8,750	
Bookkeeping	5,700	
Chemicals and supplies	37,824	
Contracted labor	328,890	
Depreciation	963,596	
Director fees	29,486	
Engineering	54,800	
Groundwater discharge	13,809	
Inspections	1,029	
Insurance	23,603	
Licenses and permits	6,081	
Miscellaneous	273	
Office expense	3,551	
Repairs and maintenance	226,829	
Sludge disposal	94,010	
Telephone	22,539	
Utilities	<u>183,142</u>	
Total operating expenses		<u>2,110,885</u>
OPERATING (LOSS)		(794,425)
NON-OPERATING REVENUES		
Interest	16,457	
Miscellaneous	<u>23,704</u>	
Total other income		<u>40,161</u>
Net (loss) before capital contributions		(754,264)
CAPITAL CONTRIBUTIONS		
Developer contributions - additions to system		<u>29,700</u>
Net income (loss)		(724,564)
NET ASSETS, OCTOBER 1, 2006		<u>25,880,281</u>
NET ASSETS, SEPTEMBER 30, 2007		<u><u>\$ 25,155,717</u></u>

The accompanying notes are an integral part of these financial statements

GENOA-OCEOLA SEWER & WATER AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	
Receipts from customers	\$ 1,257,255
Receipts from others	23,704
Payments to vendors	<u>(1,157,780)</u>
Net cash from operating activities	\$ 123,179
CASH FLOWS FROM (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	
Received from member townships	225,000
Payment of principal on bonds	(225,000)
Acquisition of property, plant and equipment	(497,986)
Proceeds from member loan	<u>221,000</u>
Net cash (used in) capital and related financing activities	(276,986)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>16,457</u>
(Decrease) in cash	(137,350)
CASH AT OCTOBER 1, 2006	<u>663,061</u>
CASH AT SEPTEMBER 30, 2007	<u><u>\$ 525,711</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM (USED IN) OPERATING ACTIVITIES	
Operating (loss)	\$ (794,425)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities	
Miscellaneous income	23,704
Depreciation expense	963,596
Changes in assets and liabilities	
Receivables, net	(59,205)
Accounts and other payables	<u>(10,491)</u>
Net cash from operating activities	<u><u>\$ 123,179</u></u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES	
System contributions from developers	<u><u>\$ 29,700</u></u>

The accompanying notes are an integral part of these financial statements

NOTES  
TO  
FINANCIAL  
STATEMENTS

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Genoa-Oceola Sewer & Water Authority was established on November 1, 1990, under Act No. 233, Public Acts of Michigan, 1955 as amended. The purpose of this Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The sewer system is located in both Genoa and Oceola Townships.

The financing of the sewer system has taken place at the township level (Genoa and Oceola) and the county level (Livingston County Drain Commission). The related debt service funds and construction funds (capital project) are maintained in the financial statements of those aforementioned entities.

Based on the criteria established by Government Accounting Standards Board (GASB) Statement Number 39, all funds, activities and agencies are included in the Authority's reporting entity.

The Authority board is composed of three members appointed by the Genoa Township Board, three members appointed by the Oceola Township Board and one representative from the Livingston County Drain Commission. One of the three members appointed by the township boards serve as alternates in the event one of the two regular members is absent from an Authority board meeting.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar items; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

The Authority follows all pronouncements of the Governmental Accounting Standards Board and has elected not to follow the Financial Accounting Standards Board pronouncements after November 30, 1989.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. INVENTORY

Inventory consists of extra repair parts for the sewer system and is stated at cost. Materials and supplies are not included in inventory, but rather expensed as incurred.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 10 years for equipment and 5 to 40 years for buildings, structures, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended September 30, 2007.

H. REVENUES AND EXPENSES

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sewage disposal. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

I. CAPITAL CONTRIBUTIONS

Cash and capital assets are contributed to the Authority from developers, member municipalities, or other external parties. The value of property contributed to the Authority is reported as revenue on the Statement of Revenues, Expenses and Changes in Net Assets.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 2 - MANAGEMENT'S 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies 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 investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the investments mentioned in the proceeding paragraph.

The Authority's deposits are exposed to various risks as explained in greater detail to follow:

Custodial Credit Risk

The Authority's custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to the Authority.

As of September 30, 2007, deposits in banks totaled \$533,512 which was exposed to custodial credit risk as follows:

Insured by FDIC	\$ 100,000
Uninsured and Uncollateralized	<u>433,512</u>
	<u><u>\$ 533,512</u></u>

The Authority's investment policy does not address this risk.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll for the applicable township. As of September 30, 2007, approximately \$116,679 of the outstanding \$535,650 accounts receivable went on the tax roll for collection. The Authority will receive the \$116,679 by March of 2008 through the tax collection process. The remaining accounts receivable of \$418,971 (\$535,650 - \$116,679) were under 90 days old as of September 30, 2007.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 5 - CAPITAL ASSETS

	<u>Balance 10/1/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2007</u>
Software, office equipment and furniture	\$ 231,261	\$	\$	\$ 231,261
Sewer System	37,469,474	538,562		\$ 38,008,036
Land	290,720			290,720
Construction in progress	<u>232,734</u>	<u>497,986</u>	<u>508,862</u>	<u>221,858</u>
 Total	 38,224,189	 1,036,548	 508,862	 38,751,875
 Accumulated depreciation	 <u>13,094,346</u>	 <u>963,596</u>	 <u></u>	 <u>14,057,942</u>
 Capital assets, net	 <u>\$ 25,129,843</u>	 <u>\$ 72,952</u>	 <u>\$ 508,862</u>	 <u>\$ 24,693,933</u>
 Net capital assets				 \$ 24,693,933
 Bonds payable				 (4,725,000)
 Note payable - Genoa Township				 <u>(531,000)</u>
 Capital assets, net of related debt				 <u>\$ 19,437,933</u>

NOTE 6 - LONG-TERM DEBT

On September 19, 2001, the Authority sold \$5,750,000 in bonds (Oceola's portion - \$4m and Genoa's portion \$1.75m) to finance a portion of the construction costs in expanding the wastewater treatment plant. Principal is payable in annual installments of \$215,000 to \$460,000 until its maturity in June 2021. Interest is charged at 4.0% to 4.8% payable semi-annually.

The Authority will be making all debt service payments. However, all amounts are to be repaid by Genoa Township and Oceola Township for their portion of sewer expansion costs. Therefore, the interest expense is recorded by the member townships.

The following is a schedule of principal and interest payments to service the long-term debt:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007 - 2008	\$ 240,000	\$ 210,086	\$ 450,086
2008 - 2009	250,000	200,486	450,486
2009 - 2010	265,000	190,486	455,486
2010 - 2011	275,000	179,486	454,486
2011 - 2012	290,000	168,611	458,611
2012 - 2017	1,700,000	642,781	2,342,781
2017 - 2021	<u>1,705,000</u>	<u>207,882</u>	<u>1,912,882</u>
	<u>\$ 4,725,000</u>	<u>\$ 1,799,818</u>	<u>\$ 6,524,818</u>

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 6 - LONG-TERM DEBT- continued

As of September 30, 2007 the Authority has borrowed \$531,000 from a member township to pay for the cost to refurbish a capital asset. The loan is verbal with no interest. Management expects the loan to be repaid in the next year.

NOTE 7 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	<u>10-01-06</u>	<u>9-30-07</u>
Current assets		
Cash	\$ 156,703	\$ 111,594
Restricted/designated assets		
Cash	<u>506,358</u>	<u>414,117</u>
Total cash	<u>\$ 663,061</u>	<u>\$ 525,711</u>

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 9 - CONTINGENT LIABILITY - EXCESSIVE SODIUM AND CHLORIDE

The Authority entered into a Consent Order with the Michigan Department of Environmental Quality (MDEQ) on December 10, 1999, to address excessive sodium and chloride concentrations being discharged to the local groundwater at the Genoa Oceola Wastewater Treatment Plant (WWTP).

The Authority has successfully eliminated the source of the sodium and chloride discharging to the local groundwater. The Genoa Oceola WWTP was expanded and converted to surface water discharge. The WWTP began discharging to surface water in fiscal year 2002.

The Authority's engineering consultants have prepared an interim response designed to meet criteria (IRDC) report for this site. The MDEQ approved the IRDC on October 4, 2006. The approved IRDC requires annual groundwater monitoring.

In the year ending September 30, 2007, the Authority spent approximately \$13,809 to comply with the Consent Order. On a cumulative basis, since June 1999 through September 30, 2007 the Authority has spent approximately \$623,630 to comply with the consent order. This fee has been recorded as an expense under operations. The amount of additional costs for the next fiscal year ending September 30, 2008 is estimated to be approximately \$20,000.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 10 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$ 1,316,460
Depreciation	\$ 963,596
Total assets	\$ 30,523,192
Total net assets	\$ 25,155,717
Net (loss)	\$ (724,564)

NOTE 11 - RELATED PARTY TRANSACTIONS

Genoa Township, an Authority member, performs billing, collection and management services for the Authority. During the year ended September 30, 2007 the total cost incurred for these services amounted to \$111,204. As of September 30, 2007 the Authority owed Genoa Township \$26,911.

NOTE 12 - CONCENTRATIONS

The Authority pays Severn Trent for system operation services. The cost of such services amounted to approximately \$328,890 for the year ended September 30, 2007 and is included as an operating expense in the Statement of Revenues, Expenses and Changes in Net Assets.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 13 - BUDGET INFORMATION

The Authority adopts an annual budget for operations of the sewer system prior to the fiscal year. The budget is amended from time to time to reflect economic reality.

The Authority excludes from the annual operating budget such items as:

- Depreciation
- Contributions from developers and members
- Major purchases from its reserve cash account

The Authority includes in the annual operating budget such items as:

- Major capital asset purchases from its Operations and Maintenance cash account
- Transfers to reserves from Operations and Maintenance cash account

The following schedule is a reconciliation between the Statement of Revenues, Expenses and Changes in Net Assets (GAAP) and the Schedule of Revenues, Expenses and Transfers - Budget to Actual (Non-GAAP, supplementary information).

Per statement of Revenues, Expenses and Changes in Net Assets Net (loss)		\$ (724,564)
Reconciling items:		
Additions		
Depreciation expense	\$ 963,596	
Agent fees paid from debt service reserve fund	<u>270</u>	
Total additions		963,866
Deductions		
Transfers to reserves and expansion funds	(139,876)	
Contributions from developers	(29,700)	
Engineering fees - fuel delivery capital project	(9,643)	
Other income earned in reserve funds	(2,517)	
Interest income from reserve funds	<u>(15,496)</u>	
Total deductions		<u>(197,232)</u>
Net revenues over under expenses and transfers per budget to actual report		<u>\$ 42,070</u>

SUPPLEMENTARY  
INFORMATION

GENOA-OCEOLA SEWER AND WATER AUTHORITY  
SCHEDULE OF REVENUES, EXPENSES AND TRANSFERS – BUDGET TO ACTUAL  
OPERATIONS ONLY  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Final Budget for the Year End 9/30/2007	Actual for the Year End 9/30/2007	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Billings	\$ 1,335,000	\$ 1,316,460	\$ (18,540)
Income - other/reimbursements	15,000	21,185	6,185
Interest income	400	961	561
Total revenues	<u>1,350,400</u>	<u>1,338,606</u>	<u>(11,794)</u>
<b>EXPENSES</b>			
Accounting/audit fees	18,500	18,475	25
Administration - Genoa Township	105,000	88,498	16,502
Bookkeeping fees	5,700	5,700	
Chemicals	16,000	15,572	428
Consent order - groundwater discharge	20,000	13,809	6,191
Director's fees	31,000	29,486	1,514
Engineering fees - separate projects	40,000	45,233	(5,233)
Engineering fees - general	17,000	19,210	(2,210)
Inspections	1,000	1,029	(29)
Insurance	30,000	23,603	6,397
Labor - fixed	335,000	328,890	6,110
Laboratory supplies	12,000	11,830	170
Laboratory water	3,000	2,514	486
Legal fees	500		500
Licenses, fees, permits	7,000	6,081	919
Miss Dig - expenses	700		700
Office expenses/publishing	5,000	3,551	1,449
Per diem - board members	10,000	8,750	1,250
Refunds and adjustments	500		500
R & M - building	1,500	1,059	441
R & M - generator	25,000	25,519	(519)
R & M - grounds	12,000	11,256	744
R & M - other	11,000	7,529	3,471
R & M - plant equipment	50,000	55,221	(5,221)
R & M - pump stations	100,000	96,081	3,919
R & M - sewer lines	20,000	17,287	2,713
R & M - sewer lines cleaning	10,000	1,964	8,036
R & M - snow plowing/lawn maintenace	13,000	10,912	2,088
Sludge disposal	93,000	94,010	(1,010)
Telephone	23,000	22,539	461
Tools/supplies	10,000	7,908	2,092
Transfer out - capital improvements	25,000	25,000	
Transfer out - capital reserve	110,000	110,000	
Transfer out - expansion (reimburse)		4,876	(4,876)
Utilities - electric	175,000	175,263	(263)
Utilities - gas	10,000	7,881	2,119
Total expenses	<u>1,346,400</u>	<u>1,296,536</u>	<u>49,864</u>
Net revenues/expenses	<u>\$ 4,000</u>	<u>\$ 42,070</u>	<u>\$ 38,070</u>

This schedule is prepared to present revenues and expenses related to current operations only and includes capital purchases and transfers to reserves and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information. See footnote for reconciliation of Budget to Actual report and Statement of Revenues, Expenses and Changes in Net Assets.



**PFEFFER ■ HANNIFORD ■ PALKA**  
*Certified Public Accountants*

**John M. Pfeffer, C.P.A.**  
**Patrick M. Hanniford, C.P.A.**  
**Kenneth J. Palka, C.P.A.**

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December 15, 2007

Honorable Board of Trustees  
Genoa-Oceola SWATH  
2911 Dorr Road  
Brighton, Michigan 48116

Dear Honorable Board of Trustees:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Genoa-Oceola Sewer and Water Authority as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Genoa-Oceola Sewer and Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 one deficiency in internal control that we consider to be a significant deficiency or material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

We consider the following to be a material weakness of the Authority:

- Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principals. It should be noted the entries include those required for the full-accrual presentation of the financial statements.

We would like to thank Robin, Greg and staff that assisted us during the audit process for their cooperation.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Board of Trustees and management of Genoa-Oceola SWATH and is not intended to be and should not be used by anyone other than the specified parties.

*Pfeffer, Hanniford & Palka, P.C.*

**PFEFFER, HANNIFORD & PALKA**  
Certified Public Accountants

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