

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 S.E Oakland Cnty Water Authority	County Oakland
Fiscal Year End June 30, 2007	Opinion Date December 10, 2007	Date Audit Report Submitted to State December 28, 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).

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 248-952-5000		
Street Address 5750 New King Street, Ste. 200		City Troy	State MI	Zip 48098
Authorizing CPA Signature Thomas Darling, CPA <small>Digitally signed by Thomas Darling, CPA DN: cn=Thomas Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2007.12.26 13:49:58 -0500</small>		Printed Name Thomas E. Darling, CPA		License Number A246550



**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**For the Year Ended
June 30, 2007**



**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**For the Year Ended
June 30, 2007**

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**
Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2007

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

December 10, 2007

Members of the Board
Southeastern Oakland County
Water Authority
Oakland County, Michigan

We have audited the accompanying basic financial statements of the ***Southeastern Oakland County Water Authority***, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the ***Southeastern Oakland County Water 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 ***Southeastern Oakland County Water Authority***, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2007 on our consideration of the ***Southeastern Oakland County Water Authority's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on Pages 3 through 10 and the Schedule of Funding Progress on Page 26 are 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 of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the *Southeastern Oakland County Water Authority's* basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Southeastern Oakland County Water Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

Water sales were substantially under budget for the fiscal year ended June 30, 2007. Actual water sales were \$13,822,681 compared to budgeted water sales of \$14,726,500. For the fiscal year, sales were \$903,819 (6.1%) less than budgeted. Water sales were lower than budgeted for each month of the fiscal year. As a result, total revenues were \$844,405 below budget. Operating expenses were also below budget by \$931,576 leaving the Authority with sufficient revenue to cover the bond principal and interest payments. The amount available for reserves and capital outlays was \$909,787, which was \$87,172 greater than budgeted. The debt coverage ratio was 218% for the fiscal year, which was higher than the 206% budgeted.

A significant rate increase (\$0.90 per thousand cubic feet) was put into effect on July 1, 2006 in order to off-set an increase in the cost of water purchased from the City of Detroit and to fund two major capital expenditures.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial statements. The *financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in total net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Authority is a single purpose business-type activity. As such, charges for services are intended to recover all or a significant portion of the costs to provide services. The business-type activity of the Authority includes providing water services to member communities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Please refer to the Notes to the Financial Statements section of this report.

Other information. In addition to the basic financial statements, this report also presents certain *required supplementary information*. This is limited to defined benefit pension plan information and to this management discussion and analysis.

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 the Authority, assets exceeded liabilities by \$12,857,997 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to its member communities; consequently, these assets are *not* available for future spending. Although the 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. A portion of the Authority's net assets is legally restricted for a specific purpose as imposed by sources outside the Authority. Additional information on the Authority's restricted net assets can be found in Note II-E of this report.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Authority Net Assets

	2007	2006
Current assets	\$ 3,009,996	\$ 1,634,249
Restricted assets	1,363,963	1,306,336
Other assets	254,567	288,783
Capital assets, net	16,505,329	16,798,921
Total assets	21,133,855	20,028,289
Current liabilities	3,028,076	2,044,233
Noncurrent liabilities	5,247,782	5,817,255
Total liabilities	8,275,858	7,861,488
Net assets:		
Invested in capital assets, net of related debt	11,430,329	11,148,921
Restricted assets	689,458	719,630
Unrestricted	738,210	298,250
Total net assets	\$ 12,857,997	\$ 12,166,801

Operating activities after depreciation increased the Authority's net assets by \$968,280, accounting for 140% of the change in the Authority's net assets for the current year. This was primarily due to the July 1, 2006 water sales rate increase, lower operating expenses and higher non-water revenue. Non-operating revenue and expense accounted for a decrease of \$277,084 in net assets. A key element of this decrease was the book loss on the disposition of capital assets of over \$200,000.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

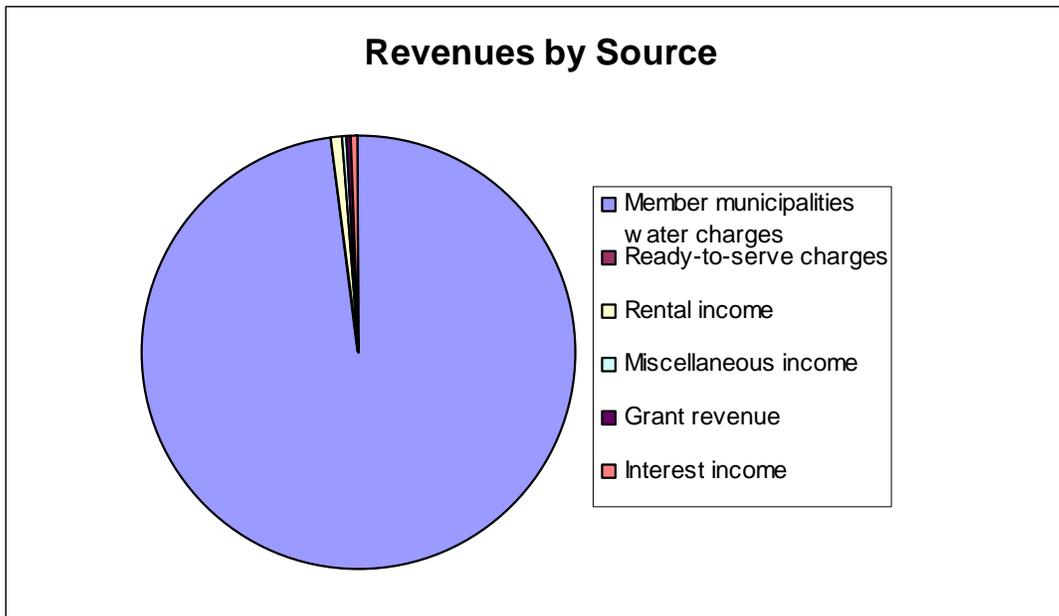
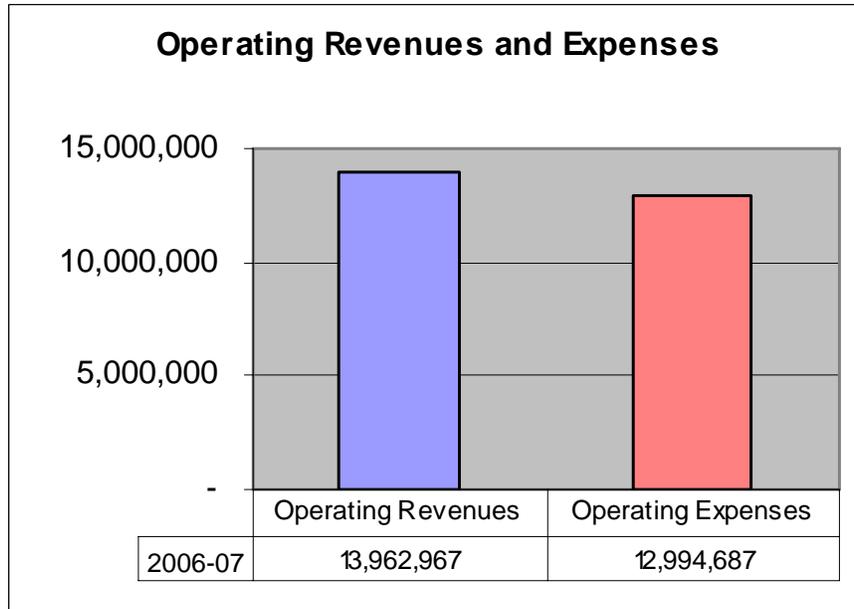
MANAGEMENT'S DISCUSSION AND ANALYSIS

Authority Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Revenue:		
Charges for services	\$ 13,825,699	\$ 12,948,947
Rental	108,074	119,449
Operating grants and contributions	31,205	27,265
Interest and other	<u>125,575</u>	<u>147,022</u>
Total revenue	<u>14,090,553</u>	<u>13,242,683</u>
Expenses:		
Operating expenses	12,406,753	11,844,711
Depreciation and amortization	587,934	617,177
Interest expense	<u>404,670</u>	<u>213,413</u>
Total expenses	<u>13,399,357</u>	<u>12,675,301</u>
Change in net assets	691,196	567,382
Net assets, beginning of year	<u>12,166,801</u>	<u>11,599,419</u>
Net assets, end of year	<u>\$ 12,857,997</u>	<u>\$ 12,166,801</u>

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS



**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its activities as of June 30, 2007, amounted to \$16,505,329 (net of accumulated depreciation). This investment in capital assets includes land, buildings, pumping stations, elevated tanks, reservoirs, equipment and infrastructure. In the current fiscal year the Authority's total investment in capital assets decreased by 1.73%.

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

- Engineering and construction expenses for replacement of our water main as part of the 11 Mile Road Project.
- Replacement of water main in Clawson.
- Purchase of new backhoe/loader.
- The meter SCADA project
- Replacement of lawn mowers.
- Additional capital projects were deferred to future fiscal years in order to improve the level of working capital.

Authority Capital Assets
(net of depreciation)

	2007	2006
Land	\$ 1,026,171	1,026,171
Construction in progress	242,362	58,637
Pumping stations	3,514,925	3,531,951
Elevated tanks	1,978,997	1,978,997
Reservoirs	2,292,791	2,292,791
Scada system	1,786,121	1,718,187
Transmission mains and accessories	15,674,830	15,660,626
Meters	831,671	1,076,840
Webster office	293,435	293,435
Equipment and other assets	1,475,904	1,419,313
Less: accumulated depreciation	(12,611,878)	(12,258,027)
Total capital assets, net	\$ 16,505,329	16,798,921

Additional information on the Authority capital assets can be found in Note II-C of this report.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term debt. At the end of the current fiscal year, the Authority had total debt outstanding of \$5,650,000 made up entirely of the Series 2003 water system revenue refunding bonds.

The Authority's total debt decreased by \$480,000 or (7.8%) during the current fiscal year.

The Authority is currently rated for Baa1 by Moody's and A- by Standard & Poors for general obligation bond issuance.

Additional information on the Authority's long-term debt can be found in Note II-D of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the 2007-2008 fiscal year:

- Increased employee wages cost of 3%.
- Health insurance costs were decreased by 15% to recognize the changes that were implemented on July 1, 2006 and January 1, 2007.
- Water sales to member communities were reduced by 2.6% and were established using a 5 year average.
- Water rates remained unchanged. The rates remaining unchanged reflect the recent \$0.05 decrease for water purchased from the City of Detroit and a \$0.05 increase for the operations of the Authority.
- Capital expenditures were estimated at \$660,000 and included \$500,000 for the replacement of a water main in conjunction with the reconstruction of 11 Mile Road between Woodward and Greenfield.
- A debt coverage ratio of 217% was budgeted in order to fund the capital projects identified above.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, 3910 W. Webster, Royal Oak, Michigan 48073.

***BASIC FINANCIAL
STATEMENTS***

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2007**

ASSETS	
Current assets	
Cash and cash equivalents	\$ 852,083
Accounts receivable	1,729,766
Grant receivable	31,205
Other receivable - related party	318,986
Other current assets	77,956
Total current assets	3,009,996
Restricted cash	1,363,963
Capital assets	
Not being depreciated	1,268,533
Being depreciated (net)	15,236,796
Total capital assets	16,505,329
Other assets	
Bond discount and issuance costs (net of amortization)	254,567
Total assets	21,133,855
LIABILITIES	
Current liabilities	
Vouchers payable	\$ 2,233,657
Other current liabilities	119,914
Total current liabilities from unrestricted assets	2,353,571
Current liabilities payable from restricted assets	674,505
Total current liabilities	3,028,076
Noncurrent liabilities	
Bond indebtedness	5,075,000
Accrued compensated absences	152,333
Arbitrage rebate payable	20,449
Total noncurrent liabilities	5,247,782
Total liabilities	8,275,858
Net assets	
Invested in capital assets, net of related debt	11,430,329
Restricted assets	689,458
Unrestricted	738,210
Total net assets	\$ 12,857,997

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

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007**

OPERATING REVENUES	
Member municipalities water charge:	\$ 13,822,681
Ready-to-serve charges	3,018
Rental income	108,074
Miscellaneous income	<u>29,194</u>
Total operating revenues	<u>13,962,967</u>
OPERATING EXPENSES	
Source of supply	10,438,961
Operating, maintenance and administrative	<u>1,967,792</u>
Total operating expenses	<u>12,406,753</u>
Operating income before depreciation and amortization	1,556,214
Depreciation and amortization	<u>587,934</u>
Net operating income	<u>968,280</u>
NONOPERATING REVENUES (EXPENSE)	
Grant revenue	31,205
Interest income	96,381
Bond interest expense	(199,013)
(Loss) on disposition of capital assets	<u>(205,657)</u>
Total nonoperating (expense)	<u>(277,084)</u>
Change in net assets	691,196
Net assets, beginning of year	<u>12,166,801</u>
Net assets, end of year	<u><u>\$ 12,857,997</u></u>

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

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007**

Cash flows from operating activities	
Receipts from customers	\$ 13,566,553
Receipts from related party	458,702
Payments to suppliers	(10,824,291)
Payments to employees	(980,581)
	2,220,383
Net cash provided by operating activities	
Cash flows from noncapital financing activities	
Proceeds from operating grants	20,728
Cash flows from capital and related financing activities	
Purchases of capital assets	(465,782)
Principal paid on bond indebtedness	(480,000)
Interest and fees paid on bond indebtedness	(206,215)
	(1,151,997)
Net cash used in capital and related financing activities	
Cash flows from investing activities	
Interest received on investment	96,381
	1,185,495
Net increase in cash and cash equivalents	
Cash and cash equivalents, beginning of year	1,030,551
	\$ 2,216,046
Statement of net assets classification of cash and cash equivalents	
Cash and cash equivalents	\$ 852,083
Restricted assets	1,363,963
	\$ 2,216,046
Total	
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 968,280
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities	
Depreciation and Amortization	587,934
Decrease in accounts receivable	(463,053)
Decrease in other assets	(50,134)
Increase in vouchers payable and other liabilities	1,177,356
	1,252,103
Net cash provided by operating activities	
	\$ 2,220,383

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

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Southeastern Oakland County Water Authority (“the Authority” or “SOCWA”), was created in 1953 as a Michigan Public Corporation under Act Number 179 of the Michigan Public Acts of 1952. The Authority provides a water supply system primarily to eleven municipal communities in Oakland County, Michigan. The Authority is governed by a Board of Trustees, one member representing each constituent municipality. Principal funding for the Authority is derived from water charges to the member municipalities.

The Authority has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

B. Basis of Presentation - Government-Wide Statements

Government-wide financial statements. The statement of net assets and statement of revenues, expenses and changes in net assets report information on all of the activities of the primary government (the Authority). The Authority engages in only business-type activities. Business-type activities rely to a significant extent on fees and charges for services.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund financial statements. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the Authority’s enterprise fund is charges to customers for sales and services. 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.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The Authority reports the following major proprietary fund:

Water - This fund accounts for the activities of the Authority's water system.

The financial statements of the Authority follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Under the terms of grant agreements, the Authority funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Assets, Liabilities and Equity

Deposits and investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Other Assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as other assets in the financial statements.

Restricted Assets

Certain resources of the Authority are set aside for debt repayment and are classified as restricted assets on the statement of net assets because their use is limited to those types of expenses.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

The depreciation on these assets are charged as an expense against the operations on a straight-line basis over the estimated useful lives of the assets, which will range from five (5) to one hundred (100) years depending on the nature of the assets.

<u>Asset Type</u>	<u>Depreciable Life</u>
Pumping stations	10 - 50
Elevated tanks	10 - 50
Reservoirs	10 - 50
Scada system	10 - 40
Transmission mains and accessories	25 - 100
Meters	10 - 30
Webster office	10 - 25
Equipment and other assets	5 - 25

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Compensated Absences

The Authority allows union employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 960 hours (120 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year. Once an employee has accumulated not less than 480 hours (60 days) and no more than 960 hours (120 days), they shall receive payment at the end of the next fiscal year for half of all unused sick leave credits earned during the immediately preceding fiscal year. The Authority allows non-union employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 480 hours (60 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year.

II. DETAILED NOTES

A. Deposits, Investments and Securities Lending

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2007:

	<u>Deposits</u>	<u>Investment</u>	<u>Total</u>
Financial statement captions			
Cash and Cash Equivalents	\$ 48,737	\$ 803,346	\$ 852,083
Restricted cash	<u>609,109</u>	<u>754,854</u>	<u>1,363,963</u>
	<u>\$ 657,846</u>	<u>\$1,558,200</u>	<u>\$2,216,046</u>

Statutory Authority

The Authority is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Board of Commissioners is authorized to designate depositories for the Authority's funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

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

As of year-end, the Authority had a pooled investments accounts balance of \$1,558,201 with Comerica bank. The investments are not rated and do not have a maturity date.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Authority investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment, if available, are identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$674,506 of the total \$757,841 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

**SOUTHEASTERN OAKLAND COUNTY
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NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. The Authority’s total investments of \$1,558,200 are in short-term investment pools that are registered with the Securities Exchange Commission (the “SEC”). The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The short-term investments are not required to be classified according to custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

B. Receivables

Receivables consist of amounts due from member communities and other water sales customers. These receivables are considered 100% collectable and as such, no allowance for uncollectible accounts has been established.

**SOUTHEASTERN OAKLAND COUNTY
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NOTES TO FINANCIAL STATEMENTS

C. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,026,171	\$ -	\$ -	\$ 1,026,171
Construction in progress	58,637	210,816	(27,091)	242,362
Total capital assets not being depreciated	<u>1,084,808</u>	<u>210,816</u>	<u>(27,091)</u>	<u>1,268,533</u>
Capital assets, being depreciated:				
Pumping stations	3,531,951	5,500	(22,526)	3,514,925
Elevated tanks	1,978,997	-	-	1,978,997
Reservoirs	2,292,791	-	-	2,292,791
Scada system	1,718,187	75,821	(7,887)	1,786,121
Transmission mains and accessories	15,660,626	60,000	(45,796)	15,674,830
Meters	1,076,840	8,333	(253,502)	831,671
Webster office	293,435	-	(6,057)	287,378
Equipment and other assets	1,419,313	132,403	(69,755)	1,481,961
Total capital assets being depreciated	<u>27,972,140</u>	<u>282,057</u>	<u>(405,523)</u>	<u>27,848,674</u>
Less accumulated depreciation for	<u>(12,258,027)</u>	<u>(553,717)</u>	<u>199,866</u>	<u>(12,611,878)</u>
Total capital assets being depreciated, net	<u>15,714,113</u>	<u>(271,660)</u>	<u>(205,657)</u>	<u>15,236,796</u>
Business-type activities capital assets, net	<u>\$ 16,798,921</u>	<u>\$ (60,844)</u>	<u>\$ (232,748)</u>	<u>\$ 16,505,329</u>

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

D. Long-term Debt

The government issues bonds when the government pledges income derived from the construction or acquired assets to pay debt service. Revenue bonds outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Business-type activities		
Series 2003 refunding bonds	2.25%-4.25%	<u>\$5,650,000</u>

	<u>Principal</u>	<u>Interest and Amortization</u>
2008	\$ 575,000	220,291
2009	575,000	205,054
2010	600,000	187,054
2011	625,000	165,804
2012	625,000	142,679
2013-2016	<u>2,650,000</u>	<u>274,252</u>
	<u>\$ 5,650,000</u>	<u>\$ 1,195,134</u>

**SOUTHEASTERN OAKLAND COUNTY
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NOTES TO FINANCIAL STATEMENTS

Advance refundings. During fiscal year 2004, the Authority issued \$6,980,000 in water supply system revenue refunding bonds and transferred \$6,918,500 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$6,850,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Assets. This advanced refunding was undertaken to reduce total debt service payments by \$674,506. On June 30, 2007, \$5,650,000 remained outstanding.

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
2003 refunding bonds	\$ 6,130,000	\$ -	\$ (480,000)	\$ 5,650,000	\$ 575,000
Bond discount, issuance costs and deferred loss	(288,783)	-	34,216	(254,567)	(34,217)
Accrued compensated absences	146,806	5,527	-	152,333	-
Arbitrage rebate payable	20,449	-	-	20,449	-
	<u>\$ 6,008,472</u>	<u>\$ 5,527</u>	<u>\$ (445,784)</u>	<u>\$ 5,568,215</u>	<u>\$ 540,783</u>

E. Restrictions of Net Assets

Restricted net assets on the Statement of Net Assets are legally restricted for a specific purpose as imposed by sources outside of the Authority.

The schedule of restricted net assets is as follows:

	<u>Restricted Net Assets</u>
Surplus fund	\$ 20
Construction fund	(2,588)
Improvement fund	(63,790)
Operation and maintenance reserve	257
Replacement reserve	50,275
Bond reserve accounts	<u>1,379,789</u>
Total restricted cash	1,363,963
Less: Current liabilities from restricted cash	<u>(674,505)</u>
Total restricted net assets	<u>\$ 689,458</u>

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

III. OTHER INFORMATION

A. 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 is a member of the Michigan Municipal Risk Management Authority and the Michigan Municipal League sponsored self-insurance/public entity risk pools. The Authority pays annual premiums to the respective pools for general liability, property, auto, worker's compensation and employee fidelity insurance coverage. The agreements for the formation of the Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers Compensation Fund provide that the pools will be self sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool. Settled claims have not exceeded coverage in any of the past three years.

B. Related Party Transactions

The Authority has developed a cost sharing strategy for certain administrative salaries, operating expenses and capital asset expenses with the Southeastern Oakland County Resource Recovery Authority (SOCRRA). In addition to these shared costs, the Authority also charges and receives an annual office rental fee from SOCRRA in the amount of \$40,000. These cost sharing arrangements resulted in the Authority charging SOCRRA \$525,341 for the year ended June 30, 2007. As of June 30, 2007, the amount of payables due from SOCRRA was \$314,765.

C. Postretirement Benefits Other than Pensions

Non-Union Employees

The Authority sponsors a retiree health care plan (the "Plan"). The plan is a defined contribution public retiree health care plan established effective January 1, 2002. The purpose of the plan is to accumulate funds to fully provide for the funding of health care benefits for the Authority's retirees and beneficiaries based on eligibility criteria established by the Board. Benefits under the plan are administered by MERS and provided pursuant to a group contract issued by Blue Cross Blue Shield of Michigan and individual contracts issued by health care insurance providers. The Authority Board has the authority to establish and amend benefit provisions.

At June 30, 2007 participants in the plan consisted of:

Retirees and beneficiaries currently receiving benefits	1
Active employees	<u>8</u>
Total	<u>9</u>

**SOUTHEASTERN OAKLAND COUNTY
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NOTES TO FINANCIAL STATEMENTS

Employees contribute to the plan based upon eligible payroll. The contribution percentage for the year-ended June 30, 2007 was 5% resulting in contributions of \$23,816. Authority contributions are not required. A separate trust fund has been established for these assets and as such, these assets are not shown as part of the Authority's restricted assets.

Union Employees

The Authority provides postretirement health care benefits to union employees and their dependents as established by Board resolution. There are currently nineteen retirees and dependents that receive these benefits. Expenses are recognized as insurance premiums become due and are netted against co-pays that are required from certain participants. During the year ended June 30, 2007, \$62,853 was recognized for postretirement health care.

D. Defined Benefit Pension Plan

Plan Description

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377, www.mersofmich.com.

All full-time Authority employees are eligible to participate in MERS. Service retirement benefits have a vesting period of 10, 15, 20 and 25 years of service depending on the employees age at retirement. Payment of benefits is based on the benefit program in effect as of the date of termination of membership. Payment is based on 2.25% for union employees and 2.5% for salaried employees, of the three-year final average compensation multiplied by credited years of service. These benefits are established by resolution of the Authority and negotiation with the collective bargaining unit representing union employees.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The Authority is required to contribute at an actuarially determined rate; the rate for the valuation year ending December 31, 2006 is \$8,971 per month for union employees and 21.6% of annual covered payroll for salaried employees. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Authority or through negotiations with the collective bargaining unit representing union employees.

Annual Pension Cost

For the year ended June 30, 2007, the Authority's annual pension cost of \$150,014 for MERS was equal to the Authority's required and actual contributions. The required contributions were determined as part of the December 31, 2006 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investments of present and future assets of 8.0% compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 29 years for salaried employees and 20 years for union employees.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
6/30/05	\$ 145,773	100%	\$ -
6/30/06	157,919	100%	-
6/30/07	150,014	100%	-

* * * * *

***REQUIRED SUPPLEMENTARY
INFORMATION***

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

DEFINED BENEFIT PENSION PLAN INFORMATION

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/02	\$ 4,232,401	\$ 6,170,873	\$ 1,938,472	69%	\$ 1,221,613	159%
12/31/03	4,367,033	6,557,028	2,189,995	67%	1,235,987	177%
12/31/04	4,490,251	6,544,301	2,054,050	69%	1,275,452	161%
12/31/05	4,644,858	6,729,167	2,084,309	69%	1,273,904	164%
12/31/06	4,883,741	7,120,476	2,236,735	69%	1,300,427	172%

SUPPLEMENTARY SCHEDULES

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

SCHEDULE OF BUDGET ANALYSIS

	July 1, 2006 to June 30 2007		
	Budgeted	Actual	Variance Favorable (Unfavorable)
Revenue			
Sale of water	\$ 14,726,500	\$ 13,822,681	\$ (903,819)
Ready-to-serve charges	3,018	3,018	-
Grant revenue	36,000	31,205	(4,795)
Rental income	85,440	108,074	22,634
Interest on investments	60,000	96,381	36,381
Water analysis - laboratory and miscellaneous income	24,000	29,194	5,194
Total revenue	14,934,958	14,090,553	(844,405)
Operating expenses	13,338,329	12,406,753	931,576
Revenue in excess of operating expenses	1,596,629	1,683,800	87,172
Amount of bond interest and bond maturities			
Bond interest	199,013	199,013	-
Bond maturities	575,000	575,000	-
Total bond interest and bond maturities	774,013	774,013	-
Amount available for reserves and capital outlay	\$ 822,615	\$ 909,787	\$ 87,172

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

	<u>July 1, 2006 to June 30 2007</u>		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variances Favorable (Unfavorable)</u>
Source of Supply			
Pump Station Operations			
Water purchased for resale	\$ 11,246,934	\$ 10,438,961	\$ 807,973
Meters			
Labor and supervision	32,000	32,135	(135)
Power and light	7,000	6,367	633
Cellular telephone	6,000	2,634	3,366
Maintenance	-	30	(30)
Maintenance of equipment	15,000	10,045	4,955
Total meters expense	<u>60,000</u>	<u>51,211</u>	<u>8,789</u>
Mains			
Labor and supervision	32,000	29,074	2,926
Maintenance	12,000	3,527	8,473
Maintenance and equipment	-	3,334	(3,334)
Miss Dig	8,500	7,240	1,260
Total mains expense	<u>52,500</u>	<u>43,175</u>	<u>9,325</u>
Webster			
Pump Station Operations			
Labor and supervision	388,500	443,784	(55,284)
Utilities	9,000	6,919	2,081
Power and light	45,000	28,232	16,768
Telephone	-	(179)	179
Maintenance of equipment	9,000	7,037	1,963
Maintenance of building	8,000	6,451	1,549
Maintenance of property and grounds	6,000	9,294	(3,294)
Supplies	19,000	10,154	8,846
Total Webster pump station expense	<u>484,500</u>	<u>511,692</u>	<u>(27,192)</u>
Reservoirs Operations			
Maintenance	1,500	860	640
Total Webster reservoirs expense	<u>1,500</u>	<u>860</u>	<u>640</u>

Continued....

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

	<u>July 1, 2006 to June 30 2007</u>		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variances Favorable (Unfavorable)</u>
Tank Operation			
Maintenance	\$ 1,000	\$ 430	\$ 570
Total Webster tank expense	<u>1,000</u>	<u>430</u>	<u>570</u>
Computer operations			
Labor and supervision	13,500	13,556	(56)
Utilities	1,500	1,594	(94)
Maintenance	9,600	6,096	3,504
Computer software maintenance	12,000	8,452	3,548
Total Webster computer expense	<u>36,600</u>	<u>29,698</u>	<u>6,902</u>
Purification			
Labor and supervision	41,000	42,762	(1,762)
Maintenance of equipment	500	30	470
Supplies	38,000	33,693	4,307
Total Webster purification expense	<u>79,500</u>	<u>76,485</u>	<u>3,015</u>
Transportation			
Labor and supervision	15,500	11,195	4,305
Maintenance	-	5	(5)
Maintenance and equipment	10,000	25,247	(15,247)
Fuel	30,000	25,215	4,785
Total Webster transportation expense	<u>55,500</u>	<u>61,662</u>	<u>(6,162)</u>
Total Webster expense	<u>658,600</u>	<u>680,827</u>	<u>(22,227)</u>
Shafter			
Pump Station Operations			
Labor and supervision	16,500	14,888	1,612
Utilities	3,150	2,442	708
Power and light	15,000	4,245	10,755
Telephone	550	557	(7)
Maintenance of equipment	-	1,968	(1,968)
Maintenance of property and grounds	2,000	371	1,629
Total Shafter expense	<u>37,200</u>	<u>24,471</u>	<u>12,729</u>

Continued....

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

	<u>July 1, 2006 to June 30 2007</u>		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variances Favorable (Unfavorable)</u>
Lamb			
Pump Station Operations			
Labor and supervision	\$ 16,500	\$ 14,973	\$ 1,527
Utilities	3,150	1,749	1,401
Power and light	25,000	4,028	20,972
Telephone	300	316	(16)
Maintenance of equipment	5,000	274	4,726
Maintenance of building	1,000	245	755
Total Lamb expense	<u>50,950</u>	<u>21,585</u>	<u>29,365</u>
12 Mile Meter			
Meter Station Operations			
Labor and supervision	12,500	10,842	1,658
Utilities	1,000	1,099	(99)
Power and light	500	361	139
Telephone	300	318	(18)
Maintenance of equipment	2,000	1,493	507
Maintenance of building	500	257	243
Maintenance of property and grounds	500	83	417
Total 12 Mile meter expense	<u>17,300</u>	<u>14,453</u>	<u>2,847</u>
Gare			
Pump Station Operations			
Labor and supervision	24,000	19,855	4,145
Utilities	3,150	4,672	(1,522)
Power and light	13,000	13,136	(136)
Telephone	300	316	(16)
Maintenance of equipment	5,000	271	4,729
Maintenance of building	500	46	454
Maintenance of property and grounds	1,000	592	408
Total Gare pump station expense	<u>46,950</u>	<u>38,888</u>	<u>8,062</u>
Reservoirs			
Maintenance	500	-	500
Total Gare reservoirs expense	<u>500</u>	<u>-</u>	<u>500</u>
Total Gare expense	<u>47,450</u>	<u>38,888</u>	<u>8,562</u>

Continued....

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

	<u>July 1, 2006 to June 30 2007</u>		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variances Favorable (Unfavorable)</u>
Oliver			
Pump Station Operations			
Labor and supervision	\$ 12,000	\$ 9,930	\$ 2,070
Utilities	1,500	1,736	(236)
Power and light	2,000	2,225	(225)
Telephone	300	303	(3)
Maintenance of equipment	1,000	36	964
Maintenance of building	500	-	500
Maintenance of property and grounds	500	140	360
Total Oliver expense	<u>17,800</u>	<u>14,370</u>	<u>3,430</u>
14 Mile/Lahser			
Meter Station Operations			
Labor and supervision	6,000	5,687	313
Power and light	325	199	126
Maintenance of equipment	2,000	-	2,000
Maintenance of property and grounds	-	10	(10)
Total 14 Mile/Lahser expense	<u>8,325</u>	<u>5,896</u>	<u>2,429</u>
Quarton/Cummings			
Meter Station Operations			
Labor and supervision	6,000	5,708	292
Maintenance	300	380	(80)
Maintenance of equipment	1,000	-	1,000
Total Quarton/Cummings expense	<u>7,300</u>	<u>6,088</u>	<u>1,212</u>
14 Mile Tank and Pump Station			
Pump Station Operations			
Labor and supervision	23,000	19,096	3,904
Utilities	2,500	3,221	(721)
Power and light	7,500	5,243	2,257
Telephone	300	293	7
Maintenance of equipment	9,000	4,375	4,625
Maintenance of building	500	188	312
Maintenance of property and grounds	2,000	848	1,152
Total 14 Mile tank and pump expense	<u>44,800</u>	<u>33,264</u>	<u>11,536</u>

Continued....

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

	<u>July 1, 2006 to June 30 2007</u>		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variances Favorable (Unfavorable)</u>
Reservoir Operations			
Labor and supervision			
Maintenance	\$ 500	\$ 430	\$ 70
Total 14 Mile reservoir expense	<u>500</u>	<u>430</u>	<u>70</u>
Tank Operations			
Maintenance	500	430	70
Maintenance of equipment	-	182	(182)
Total 14 Mile tank expense	<u>500</u>	<u>612</u>	<u>(112)</u>
Total 14 Mile expense	<u>45,800</u>	<u>34,306</u>	<u>11,494</u>
Samoset			
Tank Operations			
Labor and supervision	12,000	8,798	3,202
Utilities	800	717	83
Power and light	500	354	146
Maintenance of equipment	1,200	636	564
Maintenance of property and grounds	750	1,409	(659)
Total Samoset expense	<u>15,250</u>	<u>11,914</u>	<u>3,336</u>
Buchanan			
Pump Station Operations			
Labor and supervision	14,500	12,052	2,448
Utilities	1,300	688	612
Power and light	1,000	145	855
Telephone	300	289	11
Maintenance of equipment	2,000	-	2,000
Maintenance of building	500	245	255
Maintenance of property and grounds	250	-	250
Total Buchanan pump expense	<u>19,850</u>	<u>13,419</u>	<u>6,431</u>
Reservoir Operations			
Maintenance	500	-	500
Total Buchanan reservoir expense	<u>500</u>	<u>-</u>	<u>500</u>
Total Buchanan expense	<u>20,350</u>	<u>13,419</u>	<u>6,931</u>

Continued....

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

	<u>July 1, 2006 to June 30 2007</u>		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variances Favorable (Unfavorable)</u>
Engineering			
Transportation			
Fuel	\$ -	\$ 3,014	\$ (3,014)
Total engineering transportation expense	<u>-</u>	<u>3,014</u>	<u>(3,014)</u>
Administrative			
Labor and supervision	68,450	73,342	(4,892)
Administrative and office	1,500	38,535	(37,035)
Personnel improvement	1,000	130	870
Travel, conference	500	126	374
Total engineering administrative expense	<u>71,450</u>	<u>112,133</u>	<u>(40,683)</u>
Total engineering expense	<u>71,450</u>	<u>115,147</u>	<u>(43,697)</u>
Administrative and General			
Labor and supervision	228,150	218,431	9,719
Administrative and office	48,000	44,148	3,852
Personnel improvement	1,500	2,550	(1,050)
Travel, conference	2,500	2,391	109
Telephone - office	12,000	16,707	(4,707)
Legal	6,000	14,219	(8,219)
Audit	9,300	9,300	-
Social security	73,200	78,720	(5,520)
Retirement plan	155,280	150,014	5,266
General	61,500	49,094	12,406
Group	324,040	263,170	60,870
Worker's Compensation	17,000	13,823	3,177
Permit and bonds	6,000	(6,038)	12,038
Grant expense	36,000	31,205	4,795
Public education	-	3,808	(3,808)
Paying agent	650	500	150
Total administrative expense	<u>981,120</u>	<u>892,042</u>	<u>89,078</u>
Total Operating Expenses	<u>\$ 13,338,329</u>	<u>\$ 12,406,753</u>	<u>\$ 931,576</u>

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

**SCHEDULE OF ACCOUNTS RECEIVABLE
AND ANALYSIS OF CHARGES**

	Accounts Receivable Balance July 1, 2006	Water Consumption (1M Cubic Feet)	Total Water Charges	Ready-To- Serve Charges	Total Billing For Year	Amount Due at Beginning of Year Plus Billing For Year	Total Paid	Accounts Receivable Balance June 30, 2007
Municipalities								
Berkley	\$ 51,922	56,860	\$ 611,249	\$ -	\$ 611,249	\$ 663,171	\$ 546,302	\$ 116,869
Beverly Hills	61,936	59,801	642,863	-	642,863	704,799	615,643	89,156
Bingham Farms	19,156	14,047	151,001	-	151,001	170,157	146,624	23,533
Birmingham	152,406	132,231	1,421,488	-	1,421,488	1,573,894	1,387,969	185,925
Clawson	41,523	44,984	483,580	-	483,580	525,103	469,653	55,450
Ferndale	-	1,037	11,140	-	11,140	11,140	-	11,140
Huntington Woods	27,931	26,529	285,183	-	285,183	313,114	252,138	60,976
Lathrup Village	21,009	25,464	273,742	-	273,742	294,751	263,991	30,760
Pleasant Ridge	18,703	15,111	162,445	-	162,445	181,148	159,110	22,038
Royal Oak	291,534	302,437	3,251,202	-	3,251,202	3,542,736	3,173,722	369,014
Southfield	599,990	579,928	6,234,226	3,018	6,237,244	6,837,234	6,109,541	727,693
Rackham	3,006	1,838	19,761	-	19,761	22,767	17,650	5,117
Detroit Zoo	43,984	25,563	274,801	-	274,801	318,785	286,690	32,095
Total	<u>\$ 1,333,100</u>	<u>1,285,830</u>	<u>\$ 13,822,681</u>	<u>\$ 3,018</u>	<u>\$ 13,825,699</u>	<u>\$ 15,158,799</u>	<u>\$ 13,429,033</u>	<u>\$ 1,729,766</u>

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

SCHEDULE OF WORKING CAPITAL ANALYSIS

	June 30	
	2007	2006
Total current unrestricted assets	\$ 3,009,996	\$ 1,634,249
Less current unrestricted liabilities	<u>2,353,571</u>	<u>1,457,527</u>
Total working capital	<u>656,425</u>	<u>176,722</u>
Annual operating expenses	<u>12,406,753</u>	<u>11,844,711</u>
Percentage of working capital to annual operating expense	<u>5.29%</u>	<u>1.49%</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

December 10, 2007

To the Honorable Members of the Board
Southeastern Oakland County
Water Authority
Oakland County, Michigan

We have audited the basic financial statements of the *Southeastern Oakland County Water Authority*, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *Southeastern Oakland County 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 *Southeastern Oakland County Water Authority's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Southeastern Oakland County Water Authority's* internal control over financial reporting.

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

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 *Southeastern Oakland County Water Authority'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 *Southeastern Oakland County Water Authority's* financial statements that is more than inconsequential will not be prevented or detected by the *Southeastern Oakland County Water Authority's* internal control. We consider the deficiency described below to be significant deficiencies in internal control over financial reporting.

Finding 2007-1 – Segregation of Duties

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting and safeguarding the Authority's assets.
Condition:	During the course of our audit, we noted instances where multiple key duties are being performed by the same individual that also has access to the general ledger. Examples include, (1) the ability to setup new employees and enter payroll information (pay rates, hours, deductions, etc.) (2) the ability to create vendors, enter invoices and print disbursement checks (3) the ability to initiate and enter manual journal entries (4) the duty to perform bank reconciliations.
Cause:	As is the case with many organizations of similar size, the Authority lacks a sufficient number of personnel in order to ensure a complete segregation of duties within its accounting function.
Effect:	Due to the inherent lack of segregation of duties, the Authority has an increased risk that fraud or abuse is not prevented or could be detected in a timely manner. Ideally, no single individual should ever be able to initiate and record a transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.
View of Responsible Officials:	The Authority understands the increased risk due to the inherent lack of segregation of duties and has concluded that the cost of implementing the segregation does not warrant the benefit of lower risk obtained. However management will maintain a heightened awareness and continually review the mitigating controls over these areas.

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 *Southeastern Oakland County Water Authority's* internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Southeastern Oakland County Water Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of *Southeastern Oakland County Water Authority*, in a separate letter dated December 10, 2007.

Southeastern Oakland County Water Authority's response to the finding identified in our audit is described above. We did not audit *Southeastern Oakland County Water Authority's* response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Johnson".

December 10, 2007

To the Members of the Audit Committee
Southeastern Oakland County
Water Authority
Royal Oak, Michigan

We have audited the financial statements of the business-type activities of *Southeastern Oakland County Watery Authority* (the "Authority") for the year ended **June 30, 2007**, and have issued our report thereon dated December 10, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated June 14, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

We evaluated the key factors of the assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority's financial reporting process.

Disagreements with Management

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

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However,

these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

This letter and the accompanying memorandum are intended solely for the use of the audit committee, the governing body, and management of the Authority and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is positioned centrally below the closing text.

SOUTHEAST OAKLAND COUNTY WATER AUTHORITY

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of the **Southeast Oakland County Water 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 first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or 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. The deficiency we noted that we consider to be a significant deficiency are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

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.

SOUTHEAST OAKLAND COUNTY WATER AUTHORITY

Comments and Recommendations

For the Year Ended June 30, 2007

Other Matters

A – Review of Bank Reconciliations

The Authority has an inherent segregation of duties issue related to cash due to the ability of a single individual having access to the general ledger, is part of the cash disbursement process and performs bank reconciliations as part of their normal routine. We would recommend that someone outside of this process review the bank reconciliations and provide evidence of this review through initialing and dating the bank reconciliations.

B – Holding Printed Checks

During our audit we noted that printed disbursement checks were printed and held for several days before being mailed due to the Authority awaiting proper approval by the Board before releasing. . We believe that this condition increases the Authority's risk of misappropriations due to theft and adds unnecessary complexity to the Authority's bank reconciliation process. We would recommend that the Authority consider using a listing of invoices/checks to use for Board approval prior to the actual printing of checks. Once approval is obtained, then checks can be printed and released in a timely manner.

C – Manual Journal Entry Approval

The Authority has an inherent segregation of duties issue related to the journal entry process due to the same individual initiating the entry also has the ability to post the entry to the general ledger. We would recommend that to help mitigate the risk of misappropriations or fraudulent reporting, that manual journal entries are reviewed and approved by someone outside the process as evidenced by their initials and date reviewed on the supporting journal entry documentation.

D - New Auditing Standards for Upcoming Year

In March 2006, the Auditing Standards Board issued eight auditing standards, collectively referred to as the *risk assessment standards*. These new standards are effective for audits of financial statements for periods beginning on or after December 15, 2006. Most auditors believe that the changes caused by the new risk assessment standards are the most significant in recent history.

SOUTHEAST OAKLAND COUNTY WATER AUTHORITY

Comments and Recommendations

For the Year Ended June 30, 2007

Overall, the new standards should increase the effectiveness of financial statement audits. In applying the risk assessment standards, auditors explicitly consider higher areas by focusing on what is most likely to go wrong that could affect the financial statements. Auditors assess the risk that the financial statements are materially misstated and design and perform audit procedures to respond to those identified risks. In performing audits under the new standards, auditors and clients may find that they may need to spend more time (at least in the year of adoption) documenting their understanding of internal control systems for each significant area and financial statement assertion as it relates to what could go wrong from a financial reporting focus, mitigating controls, and determining if those controls have been implemented.

Recommendation:

We would recommend that the Authority begin defining the significant areas and accounting cycles related to financial reporting, identifying “what could go wrong” scenarios and the controls that the Authority has in place to mitigate the impact related to each financial statement assertion.

We of course are willing and able to provide guidance and assistance in developing these new internal control models at any level of involvement as the Authority determines.

We believe that the Authority will benefit by having a working model to easily assess the Authority’s strengths and areas of improvement over internal controls, a physical resource to demonstrate the Authority’s resolve and commitment to good financial reporting and fiscal responsibility, and a proactive approach to help mitigate the rising costs of audit services due to increasing standards and regulations.

* * * * *