

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009**

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TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter	1-3
Independent Auditors' Report	4
Management's Discussion and Analysis	5-8
Financial Statements as of and for the Years Ended June 30, 2010 and 2009	
Statements of Net Assets	9
Statements of Revenues, Expenses, and Changes in Net Assets	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-20
Supplementary Information for the Years Ended June 30, 2010 and 2009	
Schedule of Plant Operations and Charges	21



November 1, 2010

Honorable Mayor and City Council
Grand Haven-Spring Lake Sewer Authority Board

It is with great pleasure that we present the Grand Haven/Spring Lake Sewer Authority Annual Financial Report for the fiscal year ended June 30, 2010.

As the City of Grand Haven, by contract, is the fiscal agent for the Sewer Authority, this report has been prepared by the financial services staff of the City of Grand Haven with the assistance of the Wastewater Treatment Plant Superintendent. City Administration holds full responsibility for the completeness and accuracy of all statements, schedules, notes and analysis herein. To provide a reasonable basis for making these representations, City Administration maintains a system of internal controls to protect Sewer Authority assets from theft, loss or misuse and to compile reliable information for the presentation of our financial statements in conformity with generally accepted accounting principles. The cost of internal controls should not exceed the benefit received; therefore the internal controls have been designed to provide reasonable assurance, rather than absolute assurance, that the financial statements will be free from material misstatement. As City Administration, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Reporting Entity

The Sewer Authority was established in 1970 by agreement between the City of Grand Haven and the Village of Spring Lake to provide regional wastewater treatment. The City of Ferrysburg and the Township of Spring Lake joined the Authority in 1982 and the Charter Township of Grand Haven joined in 1986. In 1972, the current wastewater treatment plant was built and over the years has been upgraded and modified to its current capacity. The Authority serves a population over 30,000 and presently operates at an average capacity of 50%. In past years, average operations were significantly higher, but significant efforts on the part of the local governmental members reduced infiltration of groundwater into the system, allowing greater available treatment capacity. The current lower levels of river and Lake Michigan water also serve to reduce groundwater infiltration.

The City of Grand Haven also provides contractual management and financial administration to the following organizations:

Northwest Ottawa Water Treatment Plant, a joint venture of Northwest Ottawa County local units of government to provide potable water treatment supply, and
Ottawa County Central Dispatch Authority, a component unit of Ottawa County

The financial reports of these entities as well as the City of Grand Haven are reported elsewhere and are not included here.

Budgeting and Financial Planning

As part of the City's financial planning process, the Sewer Authority Board adopts an annual budget including a six year Capital Improvement Plan. These two documents address the Authority's strategy to improve the operations and maintain the wastewater plant. The budget document is included within the City of Grand Haven annual budget document to provide comprehensive public presentation. It shows the financial framework for planning and control as well as defining the Authority's role for the future. The Capital Improvement Plan provides the Board and staff with a strategy for future major capital items and related financial resources that will be required over the next six years to implement the Board's vision.

The budget process normally begins in late fall with a goal-setting session. The Wastewater Superintendent, Grand Haven's City Manager and Finance Director draft the budget on a line item basis, considering capital and operational priorities separately and combining both into a preliminary budget document. The Sewer Authority Board adopts the Authority's budget.

After the close of the fiscal year, the Financial Statements are prepared to report on the financial condition of the Authority and the fiscal results of its operations. Included in the report are comparisons of actual revenues and expenditures for the audited year and the prior year.

Economic Condition and Outlook

Current state economic conditions continue to present employment challenges for displaced employees and the local economy as a whole. Economic forecasts indicate a continuation of challenging conditions for 2010 and beyond in Michigan, some estimates indicating at least a four year cycle until improvements occur. Keys to these forecasts are reductions in auto and furniture industry jobs and capital expenditures and a continuing retrenching in Michigan's manufacturing economy.

The Sewer Authority notes a continuing slight decline in services provided to the local municipalities, especially evident in the continuing reduction of wastewater infiltration into local unit sewer collection lines. This is compounded by the lower water table and by reduced Lake Michigan water levels presently being experienced. There is a slowing population increase in the surrounding townships and reduced potential for economic and industrial growth. Property values have been significantly reduced, but taxation does not play a major part in Sewer Authority finances. The current plant is well within its capacity for future service expansion without a major near-term major capital initiative.

Fiscal Year 2009-10 Initiatives

- Treated 1.0972 billion gallons of wastewater.
- Rebuilt pump #1 at the Grand Haven pump station.
- Replaced the northwest primary clarifier drive unit.
- Replaced the 3-way primary clarifier sludge valves.
- Replaced the motor control center in grit building.
- Replaced the heating & cooling system in the control building.
- Removed lime scale from the south thickener.
- Replaced the air line to the aeration tank.

Future Initiatives

- Replace suction elbows and volutes on a return pump.
- Replace one final clarifier drive unit.
- Replace the filter screen, conveyor and grit washer.
- Rebuild #1 & #4 return pumps.
- Replace the variable speed drive at the Spring Lake pump station.
- Using high pressure, clean sludge storage tank draw off lines.
- Recoat steel components of primary clarifiers.
- Replace staff car with a hybrid model.

Reporting Model Format

The objective of the Financial Statements of the Grand Haven-Spring Lake Sewer Authority under GASB Statement 34 is to highlight the accountability of the Sewer Authority by providing useful information to a wide range of users. A few of the more significant reporting requirements include:

- This transmittal letter and the "Management's Discussion and Analysis" (MD&A) provide an in-depth review and discussion of the Sewer Authority's financial position. GASB Statement 34 provides very specific guidance for topics that must be covered in the MD&A. Many key financial topics are covered by the MD&A which can be found immediately after the auditor's opinion letter.
- Consistent with the appropriate accounting basis for enterprise funds, Sewer Authority statements are presented on a full accrual basis of accounting. The full accrual method addresses overall operating results and the financial position of the Sewer Authority as an economic entity, as is done in the private sector.
- The Sewer Authority has only one operating fund, a proprietary fund.

The Sewer Authority report is significantly less complex than other municipal reports due to the single fund included in the report and the proprietary fund format.

Independent Audit

State statutes and the City Charter require an annual financial audit by an independent certified public accounting firm. In March 2009, City Council selected the accounting firm of Rehmann Robson, Certified Public Accountants, to provide auditing services for five annual financial reports. This report is the second of five under that structure.

Acknowledgments

The work of preparing the financial report has required the help and assistance of many people. The staff of the City of Grand Haven Finance and City Treasurer Departments in particular spent many hours working on this project. Katrina Robinson, Accounting Supervisor, deserves special thanks for her efforts in organizing and directing the audit preparation work. Likewise, appreciation is offered to Wastewater Superintendent, John Stuparits for his assistance.

Sincerely,

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INDEPENDENT AUDITORS' REPORT

November 10, 2010

To the Board of Trustees

Grand Haven-Spring Lake Sewer Authority
Grand Haven, Michigan

We have audited the accompanying financial statements of the **Grand Haven-Spring Lake Sewer Authority** as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Grand Haven-Spring Lake Sewer Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grand Haven-Spring Lake Sewer Authority as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

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

The letter of transmittal has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



**Grand Haven-Spring Lake Sewer Authority
Management's Discussion and Analysis
June 30, 2010 and 2009**

1) Financial Highlights

- a) The Grand Haven/Spring Lake Sewer Authority (the "Authority"), is a separate and distinct governmental authority and operates a wastewater treatment facility and certain collection lines for the Northwest Ottawa communities of the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, Grand Haven Charter Township and Spring Lake Township and ended the fiscal year in good financial position. Overall debt was lower due to annual bond payments.
- b) Business-type activities net assets decreased from \$6,798,274 to \$6,611,462.
- c) Total operating expenses for business-type activities totaled \$1,828,773, up from \$1,763,492 in the prior year.

2) Overview of Financial Statements

a) Overall financial picture

The financial statements provide the Authority's financial position using the full accrual method of accounting. This method of accounting is similar to private sector for-profit accounting.

i) Statements of Net Assets

The *Statements of Net Assets* provide information on assets, liabilities and the difference between assets and liabilities, which is called net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health. A trend of increasing net assets is viewed as a sign of improving condition. The *Statements of Net Assets* are similar to a balance sheet in private sector accounting.

ii) Statements of Revenues, Expenses and Changes in Net Assets

The *Statements of Revenues, Expenses and Changes in Net Assets* suggest the underlying causes of the change in net assets. All changes in net assets are reported as the change occurs and include depreciation on the assets. This statement does not report any capital projects. Capital projects are reported on the *Statements of Net Assets*.

b) Notes to the Financial Statements

Immediately after the financial statements are the Notes to the Financial Statements. The Notes are an integral part of the financial statements. The Notes contain many additional disclosures about the financial health of the Authority.

3) Financial Analysis

a) Net Assets

The *Statements of Net Assets* provides an overview of the Authority's assets, liabilities and net assets. As mentioned above, over time, this can provide a good indicator of the Authority's fiscal health. A comparative analysis has been presented.

On the next page is a summarized version of the *Statements of Net Assets*:

**Grand Haven-Spring Lake Sewer Authority
Management's Discussion and Analysis
June 30, 2010 and 2009**

Net Assets

June 30,	2010	2009
Current and other assets	\$2,506,194	\$2,753,546
Capital assets, net	4,346,257	4,322,998
Total assets	6,852,451	7,076,544
Long-term debt outstanding	-	90,000
Other liabilities	240,989	188,270
Total liabilities	240,989	278,270
Net assets		
Invested in capital assets, net of related debt	4,346,257	4,232,315
Restricted	1,733,118	2,146,153
Unrestricted	532,087	419,806
Total net assets	\$6,611,462	\$6,798,274

The total net assets of the Authority are \$6,611,462; however, \$4,346,257 represents net investment in capital assets including infrastructure. Of the more liquid assets, \$1,733,118 is restricted. The Authority has \$532,087 in unrestricted net assets. Total net assets decreased by \$186,812 during the fiscal year, primarily in depreciation and reduced bond fund reserves.

b) Changes in Net Assets

Significant changes in net assets are shown in the table on the next page.

**Grand Haven-Spring Lake Sewer Authority
Management's Discussion and Analysis
June 30, 2010 and 2009**

Years ended June 30,	2010	2009
Changes in Net Assets		
Revenue		
Program revenues		
Sewage disposal services	\$1,609,237	\$1,695,955
Other	-	2,190
Total Operating Revenue	1,609,237	1,698,145
Expenses		
Plant operations and charges	1,082,368	1,065,257
Administrative	381,455	355,740
Depreciation	362,223	342,495
Other	2,737	-
Total Operating Expenses	1,828,773	1,763,492
Operating Loss	(219,536)	(65,347)
Non-Operating Revenue (Expense)		
Debt service charge	-	58,610
Interest income	34,112	60,375
Interest expense	(1,388)	(5,768)
Non-operating grants - state	-	800
Total Non-Operating Revenue	32,724	114,017
Change In Net Assets	(186,812)	48,670
Net Assets, beginning of year	6,798,274	6,749,604
Net Assets, end of year	\$ 6,611,462	\$ 6,798,274

4) Financial Analysis

The Authority had a net loss of \$186,812, an decrease from last year's net gain of \$48,670. The decrease consists of a \$88,908 decrease in operating revenue, a \$65,281 increase in operating expenses and a \$81,293 decrease in non-operating revenue. Overall fund expenditures were within budget.

**Grand Haven-Spring Lake Sewer Authority
Management's Discussion and Analysis
June 30, 2010 and 2009**

5) Capital Assets and Debt Administration

a) Capital assets

i) Summary of capital assets

The Authority has \$4,346,257 invested in capital assets net of depreciation. Capital assets include all purchases of assets that exceed \$1,000 and have an expected useful life of greater than one year. Capital assets include: land, land improvements, buildings, equipment, and utility systems such as sewer lines. The Authority uses straight line depreciation for all depreciable assets. In FY 2010, capital assets increased by \$23,259, \$385,482 in treatment plant additions less \$362,223 in depreciation.

b) More detailed information about changes in capital assets can be found in Note 3 of the footnotes.

6) Debt

The Authority had no current debt outstanding as of June 30, 2010.

In Note 5 of the footnotes more detailed information on debt and other obligations can be found.

7) Economic Forecast

The Authority has one main source of revenue, wastewater treatment utility charges. Utility sales are affected by the economy and can experience large swings of revenue from changes in weather conditions. During wet spells, wastewater treatment sales increase due to groundwater infiltration into the collection system. The participating units continue to reduce infiltration as capital project funds allow, but these costs are not the responsibility of the Authority. The ongoing effort on the part of the local units, however, allows the treatment plant to operate at an average 50% of capacity.

For the FY 2010-11 Budget, Administration anticipates that sales will be roughly equal to FY 2009-10 volumes.

8) Contacting the Authority's Financial Management Staff

The City of Grand Haven, by contract, is the fiscal administrator of the Authority. This financial report is designed to provide individuals interested in the Authority's financial position, such as citizens, taxpayers, customers, and investors and creditors, with a general overview of the Authority's finances and to show the Authority's accountability for the revenue it receives. If you have questions about this report or need additional financial information, please contact us at 519 Washington Avenue, Grand Haven, MI 49417, or call or e-mail us as noted below:

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**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

STATEMENTS OF NET ASSETS

	June 30	
	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 406,647	\$ 294,314
Due from other governmental units	353,334	302,571
Inventories	12,449	10,415
Prepaid items	646	93
Total current assets	773,076	607,393
Noncurrent assets		
Capital assets not being depreciated	575,210	575,210
Capital assets being depreciated, net	3,771,047	3,747,788
Restricted assets:		
Cash and cash equivalents	1,733,118	2,135,931
Due from other governmental units	-	10,222
Total noncurrent assets	6,079,375	6,469,151
Total assets	6,852,451	7,076,544
Liabilities		
Due to other governmental units	29,311	11,648
Accounts payable	74,106	38,826
Accrued and other liabilities	137,572	137,796
Current portion of long-term debt	-	90,000
Total liabilities - all current	240,989	278,270
Net assets		
Invested in capital assets, net of related debt	4,346,257	4,232,315
Restricted	1,733,118	2,146,153
Unrestricted	532,087	419,806
Total net assets	\$ 6,611,462	\$ 6,798,274

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

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Year Ended June 30	
	2010	2009
Operating revenues		
Sewage disposal charges	\$ 1,609,237	\$ 1,695,955
Other	-	2,190
Total operating revenues	1,609,237	1,698,145
Operating expenses		
Plant operations and charges	1,082,368	1,065,257
Administrative	381,445	355,740
Depreciation	362,223	342,495
Other	2,737	-
Total operating expenses	1,828,773	1,763,492
Operating loss	(219,536)	(65,347)
Non-operating revenue (expense)		
Debt service charge	-	58,610
Interest income	34,112	60,375
Interest expense	(1,388)	(5,768)
Non-operating grants – state	-	800
Total non-operating revenue	32,724	114,017
Change in net assets	(186,812)	48,670
Net assets, beginning of year	6,798,274	6,749,604
Net assets, end of year	\$ 6,611,462	\$ 6,798,274

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

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2010	2009
Cash flows from operating activities		
Receipts from customers and users	\$ 1,568,696	\$ 1,600,803
Payments to suppliers	(734,273)	(765,345)
Payments to employees	(681,463)	(640,406)
Net cash provided by operating activities	152,960	195,052
Cash flows from noncapital financing activities		
Proceeds from non-operating grants	-	800
Cash flows from capital and related financing activities		
Purchase of capital assets	(385,482)	(217,149)
Principal paid on long-term debt	(90,000)	(80,000)
Interest paid on long-term debt	(2,070)	(6,361)
Proceeds from debt service charge	-	58,610
Net cash used in capital and related financing activities	(477,552)	(244,900)
Cash flows from investing activities		
Interest received on investments	34,112	60,375
Purchases of investment securities	-	(409,702)
Proceeds from sale or maturities of investment securities	831,895	921,898
Net cash provided by investing activities	866,007	572,571
Net increase in cash and cash equivalents	541,415	523,523
Cash and cash equivalents, beginning of year	1,598,350	1,074,827
Cash and cash equivalents, end of year	\$ 2,139,765	\$ 1,598,350
Statements of net assets classification of cash and cash equivalents		
Cash and cash equivalents	\$ 406,647	\$ 294,314
Restricted assets	1,733,118	1,304,036
Total cash and cash equivalents	\$ 2,139,765	\$ 1,598,350

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

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

STATEMENTS OF CASH FLOWS (CONTINUED)

	Year Ended June 30	
	2010	2009
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (219,536)	\$ (65,347)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	362,223	342,495
Changes in operating assets and liabilities which provided (used) cash:		
Due from other governmental units	(40,541)	(97,342)
Inventories	(2,034)	(4,141)
Prepaid items	(553)	(93)
Due to other governmental units	17,663	545
Accounts payable	35,280	9,878
Accrued and other liabilities	458	9,057
Net cash provided by operating activities	\$ 152,960	\$ 195,052

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

GRAND HAVEN-SPRING LAKE SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

The *Grand Haven-Spring Lake Sewer Authority* (the “Authority”) is incorporated under the terms of Act 233, Public Acts of Michigan of 1955 for the purpose of constructing, owning, and operating a sewage disposal system for its constituent municipalities: the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, the Township of Spring Lake and the Township of Grand Haven. The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under a contract executed in 1974 and subsequently amended, the City of Grand Haven (the “City”) is operating and maintaining the plant. Monthly operating expenses are billed by the City to the constituent municipalities for their proportionate shares of those expenses. Sewage disposal revenue also includes charges of \$97,687 and \$217,149 for costs that have been capitalized during the years ended June 30, 2010 and 2009, respectively.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the *Governmental Accounting Standards Board*. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Cash Equivalents

Cash equivalents consist of highly liquid investments, including certificates of deposit, with an original maturity of three months or less.

GRAND HAVEN-SPRING LAKE SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Investments

Investments are recorded at fair value, which approximates cost at the balance sheet date.

Inventories

Inventories are valued at cost, on a first-in, first-out basis, which approximates market value.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Wastewater plant, wastewater mains and equipment are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Wastewater treatment plant and pumping stations	10-40
Wastewater mains	40
Office, laboratory, and transportation equipment	5-40

Revenue Recognition

Revenue is recognized at the point when customers are billed for services.

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS

The Authority's deposits and investments are included on the statement of net assets under the following classifications at June 30:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 406,647	\$ 294,314
Restricted cash and cash equivalents	<u>1,733,118</u>	<u>2,135,931</u>
Total	<u>\$ 2,139,765</u>	<u>\$ 2,430,245</u>

The composition of cash and investments is as follows at June 30:

	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 100	\$ 100
Deposits in checking and savings accounts	2,039,665	1,188,548
Certificates of deposit (due within one year)	100,000	1,141,597
Certificates of deposit (due in more than one year)	<u>-</u>	<u>100,000</u>
Total	<u>\$ 2,139,765</u>	<u>\$ 2,430,245</u>

State statutes authorize the Authority to invest in:

- 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 two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- 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 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

GRAND HAVEN-SPRING LAKE SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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's 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 deposits and bank accounts with qualified financial 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 above.

Custodial Credit Risk. 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's investment policy does not have specific limits in excess of state law on custodial credit risk. As of June 30, 2010, the Authority's bank balance was \$2,139,665. Because FDIC insurance coverage pertains to all deposits of the City of Grand Haven, the specific coverage pertaining to the Authority's deposits, if any, is not readily determinable.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the listing above. The Authority will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 is as follows:

	Balance July 1, 2009	Additions	Disposals	Balance June 30, 2010
Capital assets, not being depreciated				
Land	\$ 575,210	\$ -	\$ -	\$ 575,210
Capital assets, being depreciated				
Wastewater treatment plant	9,155,092	317,036	-	9,472,128
Wastewater pumping stations	1,281,046	17,012	-	1,298,058
Wastewater mains	560,724	-	-	560,724
Office, laboratory and transportation equipment	247,256	51,434	-	298,690
	11,244,118	385,482	-	11,629,600
Accumulated depreciation				
Wastewater treatment plant	6,018,151	274,057	-	6,292,208
Wastewater pumping stations	878,031	57,045	-	935,076
Wastewater mains	486,482	14,018	-	500,500
Office, laboratory and transportation equipment	113,666	17,103	-	130,769
	7,496,330	362,223	-	7,858,553
Net capital assets, being depreciated	3,747,788	23,259	-	3,771,047
Total capital assets, net	\$ 4,322,998	\$ 23,259	\$ -	\$ 4,346,257

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Capital asset activity for the year ended June 30, 2009 is as follows:

	Balance July 1, 2008	Additions	Disposals	Balance June 30, 2009
Capital assets, not being depreciated				
Land	\$ 575,210	\$ -	\$ -	\$ 575,210
Capital assets, being depreciated				
Wastewater treatment plant	9,021,673	133,419	-	9,155,092
Wastewater pumping stations	1,217,603	63,443	-	1,281,046
Wastewater mains	560,724	-	-	560,724
Office, laboratory and transportation equipment	226,969	20,287	-	247,256
	11,026,969	217,149	-	11,244,118
Accumulated depreciation				
Wastewater treatment plant	5,761,956	256,195	-	6,018,151
Wastewater pumping stations	823,045	54,986	-	878,031
Wastewater mains	472,464	14,018	-	486,482
Office, laboratory and transportation equipment	96,370	17,296	-	113,666
	7,153,835	342,495	-	7,496,330
Net capital assets, being depreciated	3,873,134	(125,346)	-	3,747,788
Total capital assets, net	\$ 4,448,344	\$ (125,346)	\$ -	\$ 4,322,998

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

4. RESTRICTED ASSETS

Restricted assets consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,733,118	\$ 1,304,036
Investments	-	831,895
Due from other governmental units	-	10,222
Total	<u>\$ 1,733,118</u>	<u>\$ 2,146,153</u>

These assets are restricted for the following purposes at June 30:

	<u>2010</u>	<u>2008</u>
Debt service	\$ -	\$ 83,999
Capital improvements	1,733,118	2,062,154
Total	<u>\$ 1,733,118</u>	<u>\$ 2,146,153</u>

5. LONG-TERM DEBT

Outstanding Debt

Long-term debt consists of the following at June 30:

	<u>2010</u>	<u>2009</u>
Contract payable to Ottawa County for 1998 Series A Sewage Treatment Plant Improvement Bonds, interest at 4.6%	\$ -	\$ 90,000
Less current portion	-	(90,000)
Long-term debt, net of current portion	<u>\$ -</u>	<u>\$ -</u>

GRAND HAVEN-SPRING LAKE SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Changes in Long-Term Debt

The following is a summary of long-term debt transactions for the years ended June 30, 2010 and 2009:

Long-term debt – July 1, 2008	\$ 170,000
Debt retired	<u>(80,000)</u>
Long-term debt – June 30, 2009	90,000
Debt retired	<u>(90,000)</u>
Long-term debt – June 30, 2010	<u><u>\$ -</u></u>

Debt Charges

The Authority receives a debt charge from participating communities for the 1998 contract payable to Ottawa County based on volume of sewage treated for those communities. The Authority and the applicable participating communities have pledged their full faith and credit on the contracts payable to Ottawa County.

6. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority participates in the Michigan Municipal League risk pool for workers' compensation. The Authority purchases its general liability coverage through Selective Insurance. The Authority has purchased commercial insurance for medical benefits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

7. LITIGATION

In the normal course of its activities, the Authority is a party to various legal actions and subject to certain asserted and unasserted claims and assessments. Although some actions have been brought, the Authority has not experienced significant losses or costs. The Authority is of the opinion that the outcome of any pending actions will not have a material effect on the Authority's financial position or results of operations.

SUPPLEMENTARY INFORMATION

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

SCHEDULE OF PLANT OPERATIONS AND CHARGES

	Years Ended June 30	
	2010	2009
Sludge removal	\$ 218,439	\$ 225,865
Wastewater treatment	211,183	193,056
Laboratory	214,140	215,189
Secondary treatment	144,793	127,384
Building and grounds	56,414	62,932
Pumping station		
Grand Haven	47,276	41,049
Spring Lake	66,934	71,670
Local	10,879	20,367
Wastewater primaries	10,533	9,232
Phosphate removal	48,457	60,986
Chlorination	15,777	18,713
Dechlorination	19,471	15,695
Grit and screening	12,837	2,230
Wastewater thickeners	5,081	84
Sludge storage	154	805
Total plant operations and charges	\$ 1,082,368	\$ 1,065,257

November 10, 2010

To the Board of Trustees
Grand Haven-Spring Lake Sewer Authority

We have audited the financial statements of the *Grand Haven-Spring Lake Sewer Authority* (the "Authority") as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 2010. 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

As stated in our engagement letter dated September 14, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. 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. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on June 28, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by 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 for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not note any material corrected or uncorrected adjustments.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated November 10, 2010.

Management 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.

Other Audit Findings or Issues

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

This information is intended solely for the use of the governing body and management of the Authority and is 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".

November 10, 2010

Rehmann Robson
570 Seminole Road
Muskegon, MI 49444

We are providing this letter in connection with your audits of the financial statements of the *Grand Haven-Spring Lake Sewer Authority* (the "Authority") as of June 30, 2010 and 2009, and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in financial position and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of November 10, 2010, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or

- c. Others where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
 8. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
 9. The Authority has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
 10. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and affiliated governmental units that are not included in the financial statements as part of the reporting entity.

- b. Guarantees, whether written or oral, under which the Authority is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
 12. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.

- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of net assets that were not properly authorized and approved.
13. As part of your audit, you prepared the draft financial statements and related notes. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
 14. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 15. The Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 16. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.
 17. Provisions for uncollectible receivables have been properly identified and recorded.
 18. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
 19. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 20. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Patrick McGinnis, Board Member

Date

James P. Bonamy, Finance Director

Date