

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010**

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

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INDEPENDENT AUDITORS' REPORT

December 7, 2011

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, 2011 and 2010, 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, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 5 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.



Grand Haven-Spring Lake Sewer Authority
Management's Discussion and Analysis
June 30, 2011 and 2010

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 County communities of the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, Grand Haven Charter Township and Spring Lake Township. The Authority ended the fiscal year in good financial position. Overall liabilities are very low and all current liabilities due to lack of long term debt.
- b) Net assets decreased from \$6,611,462 to \$6,386,258.
- c) Total operating expenses totaled \$1,838,643, up from \$1,828,773 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 and contain many additional disclosures about the financial policies and 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, 2011 and 2010**

	Net Assets		
June 30,	2011	2010	2009
Current and other assets	\$2,435,705	\$2,506,194	\$2,753,546
Capital assets, net	4,120,608	4,346,257	4,322,998
Total assets	6,556,313	6,852,451	7,076,544
Long-term debt outstanding	-	-	90,000
Other liabilities	170,055	240,989	188,270
Total liabilities	170,055	240,989	278,270
Net assets			
Invested in capital assets, net of related debt	4,120,608	4,346,257	4,232,315
Unrestricted	2,265,650	2,265,205	2,565,959
Total net assets	\$6,386,258	\$6,611,462	\$6,798,274

The total net assets of the Authority are \$6,386,258; however, \$4,120,608 represents net investment in capital assets including infrastructure. Of the \$2,265,650 in unrestricted net assets, the Board of Trustees has designated \$1,734,169 for capital improvements at June 30, 2011. Total net assets decreased by \$225,204 during the fiscal year, primarily in depreciation.

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, 2011 and 2010**

Changes in Net Assets

Years ended June 30,	2011	2010	2009
Operating revenues			
Sewage disposal services	\$1,602,991	\$1,609,237	\$1,695,955
Other	1,712	-	2,190
Total operating revenues	1,604,703	1,609,237	1,698,145
Operating expenses			
Plant operations and charges	1,067,854	1,082,368	1,065,257
Administrative	399,394	381,455	355,740
Depreciation	371,395	362,223	342,495
Other	-	2,737	-
Total operating expenses	1,838,643	1,828,773	1,763,492
Operating loss	(233,940)	(219,536)	(65,347)
Nonoperating revenue (expense)			
Debt service charge	-	-	58,610
Interest income	8,736	34,112	60,375
Non-operating grants - state	-	-	800
Interest expense	-	(1,388)	(5,768)
Total nonoperating revenue , net	8,736	32,724	114,017
Change in net assets	(225,204)	(186,812)	48,670
Net assets, beginning of year	6,611,462	6,798,274	6,749,604
Net assets, end of year	\$6,386,258	\$ 6,611,462	\$ 6,798,274

The Authority had a decrease in net assets of \$225,204 for the year ended June 30, 2011, compared to a decrease in net assets of \$186,812 for the year ended June 30, 2010 and an increase in net assets of \$48,670 for the year ended June 30, 2009. The change between 2011 and 2010 consisted of a \$4,534 decrease in operating revenues, a \$9,870 increase in operating expenses and a \$23,988 decrease in nonoperating revenue, which was caused by declining interest rates. The change between 2010 and 2009 consisted of an \$88,908 decrease in operating revenues, a \$65,281 increase in operating expenses and an \$81,293 decrease in nonoperating revenue. Overall fund expenditures were within budget.

Grand Haven-Spring Lake Sewer Authority
Management's Discussion and Analysis
June 30, 2011 and 2010

4) Capital Assets and Debt Administration

a) Capital assets

i. Summary of capital assets

The Authority has \$4,120,608 invested in capital assets net of depreciation. Capital assets include all purchases of assets that exceed \$1,000 and have an expected useful life 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 2011, net capital assets decreased by \$225,649, an increase of \$145,746 in treatment plant additions less \$371,395 in depreciation.

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

b) Debt

The Authority had no long-term debt outstanding as of June 30, 2011.

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

5) 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 and policies 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 2011-12 Budget, Administration anticipates that sales will be roughly equal to FY 2010-11 volumes.

6) Contacting the Authority's Financial Management Staff

The City of Grand Haven is, by contract, 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	
	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 445,661	\$ 406,647
Due from other governmental units	243,202	353,334
Inventories	9,258	12,449
Prepaid items	3,415	646
Total current assets	701,536	773,076
Noncurrent assets		
Capital assets not being depreciated	575,210	575,210
Capital assets being depreciated, net	3,545,398	3,771,047
Cash and cash equivalents	484,169	1,733,118
Investments	1,250,000	-
Total noncurrent assets	5,854,777	6,079,375
Total assets	6,556,313	6,852,451
Liabilities		
Due to the City of Grand Haven	142,710	166,883
Accounts payable	27,345	74,106
Total liabilities - all current	170,055	240,989
Net assets		
Invested in capital assets	4,120,608	4,346,257
Unrestricted	2,265,650	2,265,205
Total net assets	\$ 6,386,258	\$ 6,611,462

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	
	2011	2010
Operating revenues		
Sewage disposal charges	\$ 1,602,991	\$ 1,609,237
Other	1,712	-
Total operating revenues	1,604,703	1,609,237
Operating expenses		
Plant operations and charges	1,067,854	1,082,368
Administrative	399,394	381,445
Depreciation	371,395	362,223
Other	-	2,737
Total operating expenses	1,838,643	1,828,773
Operating loss	(233,940)	(219,536)
Nonoperating revenue (expense)		
Interest income	8,736	34,112
Interest expense	-	(1,388)
Total nonoperating revenue (expense)	8,736	32,724
Change in net assets	(225,204)	(186,812)
Net assets, beginning of year	6,611,462	6,798,274
Net assets, end of year	\$ 6,386,258	\$ 6,611,462

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	
	2011	2010
Cash flows from operating activities		
Receipts from customers and users	\$ 1,714,835	\$ 1,568,696
Payments to suppliers	(819,431)	(734,273)
Payments to employees	(718,329)	(681,463)
Net cash provided by operating activities	177,075	152,960
Cash flows from capital and related financing activities		
Purchase of capital assets	(145,746)	(385,482)
Principal paid on long-term debt	-	(90,000)
Interest paid on long-term debt	-	(2,070)
Net cash used in capital and related financing activities	(145,746)	(477,552)
Cash flows from investing activities		
Interest received on investments	8,736	34,112
Purchase of investment securities	(1,250,000)	-
Proceeds from sale or maturities of investment securities	-	831,895
Net cash (used in) provided by investing activities	(1,241,264)	866,007
Net (decrease) increase in cash and cash equivalents	(1,209,935)	541,415
Cash and cash equivalents, beginning of year	2,139,765	1,598,350
Cash and cash equivalents, end of year	\$ 929,830	\$ 2,139,765
Statements of net assets classification of cash and cash equivalents		
Cash and cash equivalents - current	\$ 445,661	\$ 406,647
Cash and cash equivalents - noncurrent	484,169	1,733,118
Total cash and cash equivalents	\$ 929,830	\$ 2,139,765

Continued...

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

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

STATEMENTS OF CASH FLOWS (CONCLUDED)

	Year Ended June 30	
	2011	2010
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (233,940)	\$ (219,536)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	371,395	362,223
Changes in operating assets and liabilities which provided (used) cash:		
Due from other governmental units	110,132	(40,541)
Inventories	3,191	(2,034)
Prepaid items	(2,769)	(553)
Due to the City of Grand Haven	(24,173)	18,121
Accounts payable	(46,761)	35,280
Net cash provided by operating activities	\$ 177,075	\$ 152,960

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

Reporting Entity

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.

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 \$96,550 and \$97,687 for costs that have been capitalized during the years ended June 30, 2011 and 2010, respectively.

Basis of Presentation

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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

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.

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Cash Equivalents

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

Inventories

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

Prepaid Expense

The Authority incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the Authority records an asset to reflect the investment in future services.

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

Net Assets

The Board of Trustees has designated net assets of \$1,734,169 and \$1,733,118 at June 30, 2011 and 2010, respectively, for future capital improvements.

GRAND HAVEN-SPRING LAKE SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Due to the City of Grand Haven

The amounts due to the City of Grand Haven for payment in lieu of taxes were \$11,256 and \$11,513 at June 30, 2011 and 2010, respectively.

In addition, all operating personnel of the Authority are legally employees of the City of Grand Haven. Amounts due to operating personnel for accrued wages, health benefits and compensated absences are shown in the financial statements as due to the City of Grand Haven. The amounts due to the City for these costs at June 30, 2011 and 2010 were \$131,454 and \$155,370, respectively.

Revenue Recognition

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

2. DEPOSITS AND INVESTMENTS

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

	2011	2010
Cash and cash equivalents - current	\$ 445,661	\$ 406,647
Cash and cash equivalents - noncurrent	484,169	1,733,118
Investments	1,250,000	-
Total	\$ 2,179,830	\$ 2,139,765

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

	2011	2010
Cash on hand	\$ 100	\$ 100
Deposits in checking and savings accounts	929,730	2,039,665
Certificates of deposit (due within one year)	1,250,000	100,000
Total	\$ 2,179,830	\$ 2,139,765

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.

GRAND HAVEN-SPRING LAKE SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

- 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
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

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, 2011, \$404,315 of the Authority's bank balance of \$2,154,342 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, 2010, the Authority's bank balance was \$2,139,665. As insurance coverage at June 30, 2010 pertained to all deposits of the City of Grand Haven, which included the Authority, the specific coverage pertaining to the Authority's deposits, if any, was 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, 2011 is as follows:

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Capital assets, not being depreciated				
Land	\$ 575,210	\$ -	\$ -	\$ 575,210
Capital assets, being depreciated				
Wastewater treatment plant	9,472,128	55,531	-	9,527,659
Wastewater pumping stations	1,298,058	21,161	-	1,319,219
Wastewater mains	560,724	-	-	560,724
Office, laboratory and transportation equipment	298,690	69,054	-	367,744
	11,629,600	145,746	-	11,775,346
Accumulated depreciation				
Wastewater treatment plant	6,292,208	277,815	-	6,570,023
Wastewater pumping stations	935,076	57,574	-	992,650
Wastewater mains	500,500	14,018	-	514,518
Office, laboratory and transportation equipment	130,769	21,988	-	152,757
	7,858,553	371,395	-	8,229,948
Net capital assets, being depreciated	3,771,047	(225,649)	-	3,545,398
Total capital assets, net	\$ 4,346,257	\$ (225,649)	\$ -	\$ 4,120,608

**GRAND HAVEN-SPRING LAKE
SEWER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

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

4. LONG-TERM DEBT

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

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

5. 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.

6. 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**

SCHEDULES OF PLANT OPERATIONS AND CHARGES

	Years Ended June 30	
	2011	2010
Sludge removal	\$ 239,833	\$ 218,441
Wastewater treatment	216,442	211,184
Laboratory	200,988	214,142
Secondary treatment	153,731	144,791
Building and grounds	65,749	56,414
Pumping station		
Grand Haven	42,322	47,273
Spring Lake	67,145	66,934
Local	11,160	10,879
Wastewater primaries	17,250	10,533
Phosphate removal	6,821	48,457
Chlorination	15,274	15,777
Dechlorination	19,539	19,470
Grit and screening	8,744	12,838
Wastewater thickeners	2,359	5,081
Sludge storage	497	154
Total plant operations and charges	\$ 1,067,854	\$ 1,082,368

December 7, 2011

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

We have audited the financial statements of the *Grand Haven-Spring Lake Sewer Authority* (the "Authority") for the year ended June 30, 2011, and have issued our report thereon dated December 7, 2011. 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 28, 2011, 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 July 11, 2011.

Significant Results of the Audit

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 amount due to the City of Grand Haven for 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 misstatements.

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 December 7, 2011.

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 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.

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 black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

Grand Haven-Spring Lake Sewer Authority

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

In planning and performing our audit of the financial statements of the *Grand Haven-Spring Lake Sewer Authority* (the “Authority”) as of and for the year ended June 30, 2011, 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Other Matters

Timely Preparation of Bank Reconciliations

The State of Michigan has set a requirement that bank reconciliations should be completed within approximately six weeks of each month and year end. During our audit, we noted instances in which the Authority’s reconciliations were not completed within the timeframe as prescribed by the State, primarily as a result of employee turnover in the accounting department. In order to ensure that all related accounting transactions are recorded on a timely basis and that all reconciling items are properly identified and resolved, we recommend that the Authority complete its bank reconciliations within six weeks of the bank statement date, as required by the State.

* * * * *

Grand Haven-Spring Lake Sewer Authority

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

In planning and performing our audit of the financial statements of the *Grand Haven-Spring Lake Sewer Authority* (the “Authority”) as of and for the year ended June 30, 2011, 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.

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Other Matters

Timely Preparation of Bank Reconciliations

The State of Michigan has set a requirement that bank reconciliations should be completed within approximately six weeks of each month and year end. During our audit, we noted instances in which the Authority’s reconciliations were not completed within the timeframe as prescribed by the State, primarily as a result of employee turnover in the accounting department. In order to ensure that all related accounting transactions are recorded on a timely basis and that all reconciling items are properly identified and resolved, we recommend that the Authority complete its bank reconciliations within six weeks of the bank statement date, as required by the State.

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COPY



Finance Office

City of Grand Haven
519 Washington Avenue
Grand Haven, MI 49417

616 847-4893
616 847-3496 fax

December 7, 2011

Rehmann Robson
570 Seminole Road, Suite 200
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, 2011 and 2010 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 respective financial position of the Grand Haven-Spring Lake Sewer Authority and its changes in financial position and cash flows 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 December 7, 2011, 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 and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of the 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 are in agreement with the adjusting journal entries you have proposed, and they have been posted.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. 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.
8. 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.
9. We have a process to track the status of audit findings and recommendations.
10. 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.
11. The Authority has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
12. 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.

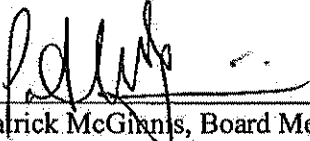
For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
 - b. Guarantees, 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.
13. 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.

14. 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 fund equity that were not properly authorized and approved.
15. 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.
16. 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.
17. 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.
18. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
19. The financial statements properly classify all funds and activities.
20. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
21. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
22. Provisions for uncollectible receivables have been properly identified and recorded.
23. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

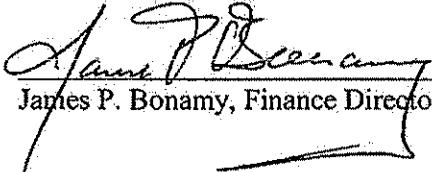
24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
25. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
26. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
27. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
28. 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

December 7, 2011
Date



James P. Bonamy, Finance Director

December 7, 2011
Date