

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: South Huron Valley Utility Authority	County Wayne
Audit Date December 31, 2003	Opinion Date February 25, 2004	Date Accountant Report Submitted To State: May 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

South Huron Valley Utility Authority

**Financial Report
with Additional Information
December 31, 2003**

South Huron Valley Utility Authority

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Independent Auditor's Report

To the Board of Commissioners
South Huron Valley Utility Authority

We have audited the accompanying general purpose financial statements of the South Huron Valley Utility Authority as of December 31, 2003 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Huron Valley Utility Authority as of December 31, 2003 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

February 25, 2004

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South Huron Valley Utility Authority

Balance Sheet December 31, 2003

Assets

Current Assets

Accounts receivable - Operations	\$ 24,004
Accounts receivable - Communities	187,225
Accounts receivable - Lookback adjustment	148,746
Prepaid insurance	209,708
Due from other governmental units - Current portion	<u>38,333</u>
Total current assets	608,016

Noncurrent Assets

Due from other governmental units - Net of current portion (Note 7)	153,334
Restricted assets (Note 3)	457,482
Capital assets - Net (Note 4)	<u>100,009,679</u>
Total noncurrent assets	<u>100,620,495</u>
Total assets	<u><u>\$ 101,228,511</u></u>

Liabilities and Fund Equity

Current Liabilities

Accounts payable	\$ 57,197
Accounts payable - Communities	187,225
Accounts payable - Lookback adjustment	273,960
Due to other governmental units - Current portion	38,333
Current portion of meter loan payable (Note 5)	<u>257,000</u>
Total current liabilities	813,715

Long-term Liabilities

Due to other governmental units - Net of current portion (Note 7)	153,334
Long-term debt - Net of current portion (Note 5)	<u>29,549,133</u>
Total long-term liabilities	29,702,467

Fund Equity

Contributed capital (Note 6)	59,841,625
Retained earnings - Unreserved	<u>10,870,704</u>
Total fund equity	<u>70,712,329</u>
Total liabilities and fund equity	<u><u>\$ 101,228,511</u></u>

South Huron Valley Utility Authority

Statement of Revenue, Expenses, and Changes in Retained Earnings Year Ended December 31, 2003

Operating Revenue	
Sewage billings	\$ 2,826,993
Permit and review fees	<u>14,550</u>
Total operating revenue	2,841,543
Operating Expenses	
Contractual - Operation and maintenance	2,334,883
Professional fees	175,250
Insurance expense	200,512
Financial consulting	20,000
Vehicle leases	1,432
Maintenance of equipment	8,745
Meter testing	34,795
Net lookback adjustment	125,214
Miscellaneous expense	<u>12,771</u>
Total operating expenses	<u>2,913,602</u>
Operating Loss	(72,059)
Nonoperating Revenue (Expenses)	
Debt billings to communities	2,490,825
Interest income and other	11,996
Interest expense	(714,339)
Depreciation	<u>(2,101,668)</u>
Total nonoperating expenses	<u>(313,186)</u>
Net Loss	(385,245)
Retained Earnings - January 1, 2003	9,763,414
Add Depreciation on Contributed Assets	<u>1,492,535</u>
Retained Earnings - December 31, 2003	<u><u>\$ 10,870,704</u></u>

South Huron Valley Utility Authority

Statement of Cash Flows Year Ended December 31, 2003

Cash Flows from Operating Activities

Operating loss	\$ (72,059)
Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities:	
Accounts receivable	(103,752)
Due from other governmental units	23,422
Prepaid insurance	(8,586)
Accounts payable	(185,188)
Due to other governmental units	<u>(38,333)</u>
Net cash used in operating activities	(384,496)

Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt	(2,791,514)
Payments for the acquisition and construction of capital assets	(856,810)
Collection of settlement from communities	38,333
Collection of debt billings to communities	<u>2,490,825</u>
Net cash used in capital and related financing activities	(1,119,166)

Cash Flows from Investing Activities - Interest received on investments 11,996

Net Decrease in Cash and Cash Equivalents (1,491,666)

Cash and Cash Equivalents - January 1, 2003 1,949,148

Cash and Cash Equivalents - December 31, 2003 \$ 457,482

Balance Sheet Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ -
Restricted assets - Capital replacement and improvement (Note 3)	<u>457,482</u>

Total \$ 457,482

Noncash Financing and Related Activities - The long-term debt obligations of the Authority decreased by \$307,692, which represents a revision of the estimated debt outstanding related to the plant expansion. The construction was completed and the payment schedules finalized by the bonding agent in 2003.

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2003

Note 1 - Nature of Entity

The South Huron Valley Utility Authority (the "Authority") is a joint venture of the Charter Townships of Brownstown, Huron, and Van Buren, the Cities of Flat Rock, Gibraltar, Romulus, and Woodhaven, and the Village of South Rockwood. The Authority was founded in order to acquire and operate a sewage and wastewater treatment system, formerly operated by Wayne County. The Authority began operations on March 1, 1999. The Authority subcontracted all operations of the system and has no employees.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

Note 2 - Summary of Significant Accounting Policies

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

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

Basis of Accounting - The accrual basis of accounting is used by the Authority.

Operating Revenue - Operating revenue represents billings to member communities based on the Authority's cash-based operating expenses. Therefore, the Authority has shown depreciation expense as a nonoperating expense for purposes of the statement of revenue, expenses, and changes in retained earnings.

Fixed Assets - Fixed assets in the amount of \$78,248,476 were transferred by Wayne County on March 1, 1999. Since the Authority had economic ownership of these assets, they were recorded at net book value. Depreciation on fixed assets is charged as a nonoperating expense of the Authority on a straight-line basis.

Cash Equivalents - For purposes of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

Upcoming Reporting Change - For the year beginning January 1, 2004, the Authority plans to adopt GASB Statement Number 34. This will revise the information being reported in these financial statements. Information is not available to present pro forma data that would show the effect of this future change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

Note 3 - Deposits

The Authority's deposits at December 31, 2003 are included on the balance sheet under the following classifications:

Recorded as cash	\$ -
Recorded as restricted assets*	<u>457,482</u>
Total	<u>\$ 457,482</u>

* These deposits are restricted for capital replacement and improvement.

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$671,594 at December 31, 2003. Of that amount, \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2003

Note 4 - Capital Assets

Capital assets and depreciable lives consist of the following:

	Amount	Depreciable Life - Years
Land	\$ 898,091	-
Buildings	58,628,421	60
Interceptors	46,243,019	50
Machinery and equipment	685,708	5-20
Sewer meters	1,290,687	10
Construction in progress (Note 9)	<u>968,944</u>	-
Total	108,714,870	
Less accumulated depreciation	<u>(8,705,191)</u>	
Net carrying amount	<u>\$ 100,009,679</u>	

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2003

Note 5 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the Authority as of December 31, 2003:

	January 1, 2003	Reductions	December 31, 2003
	<u> </u>	<u> </u>	<u> </u>
State revolving fund bonds #5028-01, dated September 1998, maturing through 2011, in the amount of \$9,680,000. Principal payments are due annually on April 1, with interest at 2.00%	\$ 6,965,000	\$ (715,000)	\$ 6,250,000
State revolving fund bonds #5161-01, dated September 1998, maturing through 2020, in the amount of \$26,307,133. Principal payments are due annually on October 1, with interest at 2.25%	24,450,000	(1,407,867)	23,042,133
Meter installment loan dated September 2001, maturing through 2005, in the amount of \$1,285,000. Principal payments are due annually on November 1, with interest at 5%	<u>771,000</u>	<u>(257,000)</u>	<u>514,000</u>
Subtotal of long-term debt outstanding	32,186,000	<u>\$ (2,379,867)</u>	29,806,133
Less current portion of meter loan payable	<u>(257,000)</u>		<u>(257,000)</u>
Total long-term debt outstanding	<u>\$ 31,929,000</u>		<u>\$ 29,549,133</u>

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2003

Note 5 - Long-term Debt (Continued)

Debt Service Requirements

The annual principal and interest requirements for the debt outstanding as of December 31, 2003 are as follows:

Years Ending December 31	Principal	Interest	Total
2004	\$ 2,112,000	\$ 661,848	\$ 2,773,848
2005	2,152,000	608,986	2,760,986
2006	1,935,000	555,198	2,490,198
2007	1,980,000	513,348	2,493,348
2008	2,025,000	470,586	2,495,586
Remaining years	<u>19,602,133</u>	<u>2,683,514</u>	<u>22,285,647</u>
Total	<u>\$ 29,806,133</u>	<u>\$ 5,493,480</u>	<u>\$ 35,299,613</u>

Interest

Total interest incurred for the year ended December 31, 2003 was approximately \$714,000.

Debt Service Agreement

The outstanding debt of the Authority, except for the meter installment loan, will be funded through direct billings to the community members, rather than through working capital. Therefore, the Authority has classified all outstanding debt service requirements, except for the meter installment loan, as long-term.

Note 6 - Capital Contributed by Member Communities

The following is an analysis of contributed capital by source:

	January 1, 2003	Reductions	December 31, 2003
Assets contributed by member communities	\$ 66,927,860	\$ -	\$ 66,927,860
Depreciation expense on fixed assets contributed by member communities	<u>(5,593,700)</u>	<u>(1,492,535)</u>	<u>(7,086,235)</u>
Net contributed capital	<u>\$ 61,334,160</u>	<u>\$ (1,492,535)</u>	<u>\$ 59,841,625</u>

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2003

Note 7 - Due to Other Governmental Units

In May 2002, a lawsuit filed by one of the Authority's member communities was settled. The settlement requires the Authority to pay the filing community \$38,333 each year from December 31, 2003 through December 31, 2008. The Authority will collect the funds for this settlement through a separate billing to the member communities based on usage percentages. The related receivable and payable have been recorded at December 31, 2003.

Note 8 - Accounts Receivable/Payable - Communities

The Authority has recorded a payable due to the member communities for \$187,225. This amount represents a duplication of funds collected for a prior year debt service payment. The Authority has also recorded a receivable in the same amount, as the member communities will be billed according to 2004 billing percentages to reimburse the Authority for the payment.

Note 9 - Commitment

The Authority is under a consent order with the Department of Environmental Quality concerning the construction of an equalization basin for the Authority's sewage treatment plant facility. The project is expected to cost approximately \$16,700,000, which is anticipated to be financed through bonds. Construction in process at December 31, 2003 represents expenses incurred toward this project. No provision has been made in the financial statements as of December 31, 2003 for the ultimate resolution of this matter.

Note 10 - Risk Management

The Authority is exposed to various risks related to property loss, torts, and errors and omissions. The Authority has purchased commercial insurance for possible claims relating to these risks. The Authority has no employees, and, therefore, does not have exposure to risks related to employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance since inception.

Additional Information



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To the Board of Commissioners
South Huron Valley Utility Authority

We have audited the general purpose financial statements of the South Huron Valley Utility Authority for the year ended December 31, 2003. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the South Huron Valley Utility Authority. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

February 25, 2004

South Huron Valley Utility Authority

Statement of Revenue and Expenses Budget and Actual Year Ended December 31, 2003

	Amended Budget 2003	Audited 2003	Difference
Revenue			
Revenue from communities:			
Plant and related costs	\$ 2,684,853	\$ 2,684,853	\$ -
Trenton Arm Pump Station	128,750	128,750	-
Odette Pump Station	13,390	13,390	-
Permit and review fees	14,600	14,550	(50)
Interest and miscellaneous	59,325	11,996	(47,329)
Total revenue	2,900,918	2,853,539	(47,379)
Expenses			
Earthtech	2,271,712	2,310,525	(38,813)
Maintenance of equipment	25,000	8,745	16,255
Insurance	225,000	200,512	24,488
Miscellaneous contractual	10,000	24,358	(14,358)
Financial consulting	20,000	20,000	-
Professional fees	105,000	175,250	(70,250)
Depreciation	2,075,000	2,101,668	(26,668)
Land application fee	20,000	-	20,000
Meters - Debt service and engineering	295,550	295,514	36
Design engineering - Basin	811,100	808,135	2,965
Meter testing	39,600	34,795	4,805
Miscellaneous	5,000	12,773	(7,773)
Vehicle leases	-	1,432	(1,432)
Total expenses	5,902,962	5,993,707	(90,745)
Net Loss	(3,002,044)	(3,140,168)	(138,124)
Cash Adjustments			
Equalization Engineering - SRF Drawdowns	848,100	-	(848,100)
Depreciation	2,075,000	2,101,668	26,668
Capital improvements	(257,365)	(48,673)	208,692
Total funds used for operations	<u>\$ (336,309)</u>	<u>\$ (1,087,173)</u>	<u>\$ (750,864)</u>

South Huron Valley Utility Authority

Note to Additional Information Year Ended December 31, 2003

Note - Budget and Actual Basis of Accounting

The budget and actual statement is prepared on the accounting method utilized when preparing the budget. This method differs from the full accrual basis of accounting in the following ways:

- The modified accrual method is being used for preparation of the budget.
- The budgeted expenses include the current portion of principal and interest payments on the meter installment loan, since these payments are made from working capital.

May 11, 2004

Board of Commissioners
South Huron Valley Utility Authority
34001 West Jefferson
Brownstown Township, MI 48173

Dear Commissioners:

We have recently completed our audit of the financial statements of the South Huron Valley Utility Authority for the year ended December 31, 2003. In addition to the audit report, we offer the following comments and recommendations:

GASB 34

The Government Accounting Standards Board has issued a major new pronouncement that will drastically change the way governmental financial statements will look. The purported benefits of the new model include improved comparability of financial statements between governmental entities, and a better matching of the current year's revenue sources to the full cost of services provided during that year.

For the Authority, this pronouncement will be effective beginning January 1, 2004. One significant change for the Authority is, after adoption of GASB 34, the Authority will be required to include a "Management Discussion and Analysis" section in the financial statements. We have assisted several communities in the implementation of this standard over the past two years and will provide the financial consultants with materials to help make the transition to the new reporting model as smooth as possible.

Replacement Reserve

When the sewage treatment plant was originally constructed, a significant portion of the construction was funded with federal grant monies. The EPA guideline suggested that a capital repair and replacement reserve fund be established. When the system was taken over, the Board consulted with the engineering consultants and established a replacement reserve of \$800,000 and operation reserve of \$400,000. The reserve was fully funded at this level through December 31, 2002. As part of the 2003 budget process, the Board determined that the reserve funds would be utilized to fund the engineering fees related to the construction of an equalization basin, with the intent of replenishing the reserve fund upon receipt of funding for the project. We would encourage the Board to continue to monitor the level of reserve funding and ensure appropriate action is taken to begin replenishing the reserves during the year ended December 31, 2004.

Board of Commissioners
South Huron Valley Utility Authority

May 11, 2004

Periodic Financial Reporting

A key internal control for an Organization involves periodic financial reporting to the legislative body. We would recommend the Board receive budget to actual financial analysis throughout the year, in order to ensure the Board is aware of significant variances from original projections.

Repair and Maintenance Expenses

The Authority contracts operation and maintenance of the plant to a third party. The contract includes a provision for repair and maintenance costs incurred. These expenses are included in the monthly invoices received from the plant manager; however, the Authority does not receive supporting documentation related to these expenses for review. We recommend the Authority consider requesting supporting documentation related to repair and maintenance expenses, to ensure proper approvals are obtained.

We appreciate the opportunity to serve the Authority. We would like to thank Sharry Budd and Sean Bellingham for the cooperation extended to us during the audit. If you have any questions regarding this letter, please feel free to contact us.

Yours truly,

PLANTE & MORAN, PLLC



Gordon E. Krater



Stacey L. Reeves