
**BERTHIAUME
& COMPANY**

Certified Public Accountants



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**REQUIRED COMMUNICATION TO SAGINAW AREA STORM WATER AUTHORITY
IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

To the Board of Trustees
Saginaw Area Storm Water Authority

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Saginaw Area Storm Water Authority for the year ended December 31, 2012, and we have issued our report thereon dated February 13, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our Engagement Letter to you, dated July 22, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, 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 U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. The Authority has elected to not present a Management Discussion and Analysis which is not required to be part of the basic financial statements.

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.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Saginaw Area Storm Water 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 governmental unit 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

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 may be 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. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties 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. Management has corrected all such misstatements, if any.

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 management representation letter dated February 13, 2013.

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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Communication of Internal Control Matters Identified in the Audit

In planning and performing our audit of the financial statements of the Saginaw Area Storm Water Authority as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Saginaw Area Storm Water Authority's internal control over financial reporting (internal control) as a basis for designing



our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A significant deficiency is a deficiency or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did identify deficiencies in internal control that we are required to consider material weaknesses as noted below. However, other material weaknesses may exist that have not been identified.

Recording, Processing and Summarizing Accounting Data

Criteria: All governmental units are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements.

Conditions: As is the case with many smaller and medium-sized entities, the organization has historically relied on its independent external auditors to assist in preparing financial statements as part of its external financial reporting process. Accordingly, the organization has placed reliance on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: This condition was caused by the organization's decision that it is more cost effective to have external auditors prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

Effect: As a result of this condition, there is considered a lack of internal controls over the preparing of financial statements.

View of Responsible Officials: The organization has evaluated the cost versus benefit of establishing internal controls over the preparing of financial statements, and determined that it is in the best interests of the organization to rely on its external auditors to prepare the financial statements.

This communication is intended solely for the information and use of management, Authority Board and the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Berthiaume & Company
Certified Public Accountants
Saginaw, Michigan

February 13, 2013



**SAGINAW AREA STORM WATER
AUTHORITY**

Saginaw County, Michigan

FINANCIAL STATEMENTS

December 31, 2012 and 2011

**BERTHIAUME
& COMPANY**

Certified Public Accountants



SAGINAW AREA STORM WATER AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Saginaw Area Storm Water Authority
Saginaw, Michigan

We have audited the statement of net position of the Saginaw Area Storm Water Authority as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in fund net position and cash flows for the years then ended. These 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Saginaw Area Storm Water Authority as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 5) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Saginaw Area Storm Water Authority's financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bertchmann & Co.

Saginaw, Michigan
February 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAGINAW AREA STORM WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

Overview of the Financial Statements

Our discussion and analysis of the Saginaw Area Storm Water Authority's financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2012. Please read it in conjunction with the Authority's financial statements.

Saginaw Area Storm Water Authority as a Whole

The following table shows, in a condensed format, the statement of net position at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets:		
Current assets	\$ 7,363	\$ 33,414
Liabilities:		
Current liabilities	3,392	7,926
Net position:		
Unrestricted	3,971	25,488
Total net position	<u>\$ 3,971</u>	<u>\$ 25,488</u>

The following table shows, in a condensed format, the changes in fund net position for 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues		
Operating revenues	\$ 55,700	\$ 63,503
Grants	-	10,046
General revenues		
Interest earned	6	25
Total revenues	<u>55,706</u>	<u>73,574</u>
Expenses:		
Program expenses	<u>77,223</u>	<u>113,258</u>
Change in net position	(21,517)	(39,684)
Net position, beginning of year	<u>25,488</u>	<u>65,172</u>
Net position, end of year	<u>\$ 3,971</u>	<u>\$ 25,488</u>

SAGINAW AREA STORM WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

Financial Highlights for 2012

For the year ended December 31, 2012, the net position of the Authority decreased by \$21,517. Some of the significant items for the year are as follows:

The membership charges to various governmental units were decreased to \$55,700 in the current year from \$63,500, a \$7,800 decrease. This was a budgeted reduction.

Capital Assets and Debt Administration

The Authority has no capital assets and no long-term debt.

Economic Factors

The Saginaw Area Storm Water Authority's budget for next year calls for membership billings of \$82,000, which is an increase of \$26,300 (47%).

Contacting the Authority's Management

This financial report is intended to provide our citizens and customers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority's office.

BASIC FINANCIAL STATEMENTS

SAGINAW AREA STORM WATER AUTHORITY

STATEMENT OF NET POSITION

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets:		
Cash and cash equivalents	\$ 3,563	\$ 22,812
Due from other governmental units	-	10,602
Prepaid expenses	<u>3,800</u>	<u>-</u>
Total assets	<u>7,363</u>	<u>33,414</u>
Liabilities:		
Accounts payable	<u>3,392</u>	<u>7,926</u>
Net position:		
Unrestricted	<u>3,971</u>	<u>25,488</u>
Total net position	<u>\$ 3,971</u>	<u>\$ 25,488</u>

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

SAGINAW AREA STORM WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Contributions from other governmental units/members	\$ 55,700	\$ 63,503
State grant for Illicit Disconnect	-	10,046
Total operating revenues	<u>55,700</u>	<u>73,549</u>
Operating expenses:		
Administrative coordination and planning		
Contracted engineering services	64,773	83,012
Illicit Disconnect		
Contracted engineering services	-	15,056
Illicit Discharge Elimination Plan (IDEP)		
Contracted engineering services	-	2,380
Low impact design		
Contracted engineering services	-	850
Other		
Accounting and auditing services	8,700	8,250
Insurance	3,750	3,710
Total operating expenses	<u>77,223</u>	<u>113,258</u>
Operating income (loss)	(21,523)	(39,709)
Non-operating revenues:		
Interest income	<u>6</u>	<u>25</u>
Change in net assets	(21,517)	(39,684)
Net position, beginning of year	<u>25,488</u>	<u>65,172</u>
Net position, end of year	<u>\$ 3,971</u>	<u>\$ 25,488</u>

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

SAGINAW AREA STORM WATER AUTHORITY

STATEMENT OF CASH FLOWS

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Charges for services	\$ 55,700	\$ 52,901
Grant revenue	10,602	10,046
Payments to suppliers	<u>(85,557)</u>	<u>(112,046)</u>
Net cash used by operating activities	<u>(19,255)</u>	<u>(49,099)</u>
Cash flows from investing activities:		
Interest earned	<u>6</u>	<u>25</u>
Net decrease in cash and cash equivalents	(19,249)	(49,074)
Cash and cash equivalents, beginning of year	<u>22,812</u>	<u>71,886</u>
Cash and cash equivalents, end of year	<u>\$ 3,563</u>	<u>\$ 22,812</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (21,523)	\$ (39,709)
(Increase) decrease in assets:		
Due from other governmental units	10,602	(10,602)
Prepaid expenses	(3,800)	-
Increase (decrease) in liabilities:		
Accounts payable	<u>(4,534)</u>	<u>1,212</u>
Net cash used by operating activities	<u>\$ (19,255)</u>	<u>\$ (49,099)</u>

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

NOTES TO FINANCIAL STATEMENTS

SAGINAW AREA STORM WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Saginaw Area Storm Water Authority was created in 2002 by twelve municipalities in Saginaw County under Michigan Public Act 233 of 1955 (enabling act). The purpose of the Authority is to provide its members with assistance in maintaining compliance with the laws and regulations of the United States (Clean Water Act) and the State of Michigan which pertain to the regulation of the storm water discharges, in accordance with the Enabling Act and to perform any other functions permitted by the Enabling Act. The Authority also addresses various water quality issues related to storm water runoff and seeks to educate the general public about protecting the fresh water resources. The Authority is made up of 16 members as of December 31, 2012.

The accounting policies of the Saginaw Area Storm Water 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 financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Saginaw Area Storm Water Authority is the primary government which has oversight responsibility and control over all activities. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Authority (the primary government) and do not include any other component units within its financial statements.

The governing body of the Authority is a Board of Trustees which consists of one voting representative for each member municipality.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The financial activities of the Authority are recorded within one fund, categorized and described as follows:

Proprietary Fund – Used to account for ongoing organizations and activities that are similar to those found in the private sector.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

SAGINAW AREA STORM WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

Assets, Liabilities and Equity

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit. For purposes of the statement of cash flows, the above are considered to be cash and cash equivalents.

Receivable – Recognized for all significant amounts due to the Authority. No allowance for uncollectible accounts has been provided as management does not believe collection to be doubtful.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

The Authority is authorized by the State of Michigan Public Act 217 of 1982 to deposit its funds in banks, savings and loan associations, or credit unions having their main offices in the State of Michigan.

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 to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2012, the Authority's bank balance of \$3,888 was FDIC insured.

NOTE 3: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for all its insurance needs. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

SAGINAW AREA STORM WATER AUTHORITY

DETAILED SCHEDULE OF OPERATING REVENUES

Year Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Contributions from other governmental units/members		
Bridgeport Charter Township	\$ 3,633	\$ 4,141
Bridgeport Spaulding Schools	1,949	2,223
Buena Vista Township and Schools	5,449	6,212
Carrollton Township and Schools	4,432	5,052
Kochville Township	2,979	3,396
Saginaw Charter Township	6,684	7,620
Saginaw County Public Works	1,950	2,223
Saginaw County Road Commission	6,684	7,620
Saginaw Intermediate School District	1,949	2,223
Saginaw Township Community Schools	1,949	2,223
Saginaw Valley State University	1,949	2,223
Saginaw, City of	1,950	2,223
Swan Valley School District	1,949	2,223
Thomas Township	6,684	7,620
Tittabawassee Township	3,560	4,058
Zilwaukee, City of	1,950	2,223
State grant for Illicit Disconnect	-	10,046
Total operating revenues	<u>\$ 55,700</u>	<u>\$ 73,549</u>

