

Michigan Department of Treasury
496 (Rev.06/08)

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Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	LEONI REGIONAL UTILITY AUTHORITY	County	JACKSON	Type	AUTHORITY	MuniCode	38-7-511
Opinion Date-Use Calendar	6/27/2008	Audit Submitted-Use Calendar	6/27/2008	Fiscal Year-Use Drop List	2007		

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

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

- 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
- 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- 5. Did the local unit adopt a budget for all required funds?
- 6. Was a public hearing on the budget held in accordance with State statute?
- 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
- 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
- 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
- 12. Is the local unit free of repeated reported deficiencies from previous years?
- 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it?
- 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- 18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 10,998.00
General Fund Expenditure:	\$ 9,937.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 23,241.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	PAUL	Last Name	HICKEY	Ten Digit License Number	1101008615				
CPA Street Address	209 E WASHINGTON AVE.	City	JACKSON	State	MI	Zip Code	49201	Telephone	+1 (517) 796-8880
CPA Firm Name	DOVE & HICKEY, P.L.C.	Unit's Street Address	913 FIFTH ST	City	MICHIGAN CENTER	LU Zip	49254		

LEONI REGIONAL UTILITY AUTHORITY

JACKSON COUNTY - MICHIGAN

FINANCIAL STATEMENTS

Year Ended December 31, 2007

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Dove & Hickey, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

209 E. Washington Ave., Suite 255 • Jackson, Michigan 49201
Phone (517) 796-8880 • Fax (517) 796-8777

MEMBERS:

**AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

**MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS**

**GEORGE DOVE, C.P.A.
PAUL T. HICKEY, C.P.A.
NANNETTE M. SPONSLER, C.P.A.
ALLISON I. COLE, C.P.A.**

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Leoni Regional Utility Authority
Jackson County, Michigan

We have audited the accompanying basic financial statements of Leoni Regional Utility Authority as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of Leoni Regional Utility 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Leoni Regional Utility Authority as of December 31, 2007, and the respective changes in financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the financial statements.

Dove & Hickey, P.L.C.

June 27, 2008

LEONI REGIONAL UTILITY AUTHORITY
STATEMENT OF NET ASSETS
Year Ended December 31, 2007

ASSETS

Cash and cash equivalents	\$23,315
Receivables	653
Prepaid expenses	<u>1,660</u>
Total assets	<u>25,628</u>

LIABILITIES:

Accounts payable	<u>2,387</u>
Total liabilities	<u>2,387</u>

NET ASSETS

Unrestricted	<u>23,241</u>
Total net assets	<u>\$23,241</u>

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

LEONI REGIONAL UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Year Ended December 31, 2007

OPERATING REVENUES:	
Site plan review fees	\$ 2,723
Member contributions	<u>7,546</u>
Total operating revenues	<u>10,269</u>
OPERATING EXPENSES:	
Administration	3,465
Communication	2,758
Professional services	<u>3,714</u>
Total operating expenses	<u>9,937</u>
OPERATING INCOME	332
NON-OPERATING REVENUES:	
Interest income	<u>729</u>
CHANGES IN NET ASSETS	1,061
NET ASSETS, BEGINNING OF YEAR	<u>22,180</u>
NET ASSETS, END OF YEAR	<u>\$23,241</u>

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

LEONI REGIONAL UTILITY AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from members	\$10,246
Payments to suppliers	<u>(8,721)</u>
Net cash provided (used) by operating activities	<u>1,525</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	<u>729</u>
Net cash provided (used) by investing activities	<u>729</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,254
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>21,061</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$23,315</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income	\$ 332
Changes in assets and liabilities:	
Prepaid expenses	(204)
Accounts receivable	(23)
Accounts payable	<u>1,420</u>
Net cash provided (used) by operating activities	<u>\$ 1,525</u>

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

LEONI REGIONAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Leoni Regional Utility Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Leoni Regional Utility Authority.

Reporting Entity

The Authority was established under the provisions of Act 233, Public Acts of 1955. The constituent members currently include the Townships of Blackman, Cambridge, Columbia, Grass Lake, Hanover, Leoni, Liberty, Lyndon, Napoleon, Norvell, and Sylvan and the Villages of Brooklyn and Grass Lake. The Authority is governed by a Board of Commissioners, which is composed of one commissioner from each Constituent Municipality. The Authority's purpose is to acquire, own, construct, improve, enlarge, extend, maintain, and operate sewage disposal systems and water supply systems or a construction of systems as authorized by Public Act 233. To date, the Authority has limited its activities to exploring consolidated utility billing services. The accompanying financial statements present the Authority's entities for which the Authority is considered to be financially accountable. The Authority has no component units.

Basis of Presentation

The financial statements include the accounts of the Authority and have been prepared on the accrual basis. The significant account policies of the Authority, as summarized below, conform with proprietary fund accounting.

Basis of Accounting

The Authority utilizes the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Private-sector standards of accounting issued prior to December 1, 1989, are generally followed, unless those standards conflict with standards of the Governmental Accounting Standards Board; the Authority has elected not to follow private-sector standards issued after November 30, 1989.

Cash and Cash Equivalents

The Authority considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Receivables

All receivables from the municipalities are considered to be fully collectible.

LEONI REGIONAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid expenses.

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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2. DEPOSITS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated one bank for the deposit of its funds. The Authority's deposits are in accordance with statutory authority.

The Authority's deposits are included on the balance sheet under the following classifications:

Cash and cash equivalents	<u>\$23,315</u>
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The Authority's cash is subject to risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

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. At year end, the Authority did not have any bank deposits (checking accounts) that were uninsured and uncollateralized.

Dove & Hickey, P.L.C.

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June 27, 2008

Board of Commissioners
Leoni Regional Utility Authority
Jackson County, Michigan

Board Members:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Leoni Regional Utility Authority as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Leoni Regional Utility Authority's internal control over financial reporting 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

Financial Statement Report Adjustments:

During the audit we generally provide assistance in identifying and calculating certain year-end adjustments required to prepare financial statements in accordance with generally accepted accounting principles, including the requirements of GASB 34. We also assist in gathering information required for financial statements reclassifications and footnote disclosures. We are pleased to assist in this process, as we have expertise in these adjustments and reporting issues, and can generally assist in a very cost-efficient manner. We bring this to your attention since it meets the above definition of a matter to be communicated.

Segregation of Duties:

As commented last year, segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets. Due to its size, the Authority does not have adequate segregation of accounting duties. We suggest that another board member, other than those involved in receipting and disbursing the Authority's cash, should receive, open, and review the monthly bank statements.

We believe that implementation of these recommendations will provide the Authority with a stronger system of internal control while making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation. This report is intended solely for the information and use of the Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve you. If you have any questions regarding this letter, please contact us.

Respectfully yours,

Dove & Hickey, P.L.C.