

SYLVAN TOWNSHIP WATER &  
SEWER AUTHORITY

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2007

**SYLVAN TOWNSHIP WATER AND SEWER AUTHORITY**

**WATER & SEWER AUTHORITY BOARD**

Chairman - Jerry Dresselhouse  
Vice-Chairman - Maryann Noah  
Member - Ken Unterbrink  
Member - LuAnn Koch  
Member - Scott Cooper

**WATER & SEWER AUTHORITY AUDITORS**

Pfeffer, Hanniford & Palka  
Certified Public Accountants

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITORS' REPORT	
MANAGEMENT DISCUSSION AND ANALYSIS	6
FINANCIAL STATEMENTS	
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12
NOTES TO FINANCIAL STATEMENTS	14



**PFEFFER ■ HANNIFORD ■ PALKA**  
*Certified Public Accountants*

**John M. Pfeffer, C.P.A.**  
**Patrick M. Hanniford, C.P.A.**  
**Kenneth J. Palka, C.P.A.**

*Members:*  
*AICPA Private Practice Companies Section*  
*MACPA*

**225 E. Grand River - Suite 104**  
**Brighton, Michigan 48116-1575**  
**(810) 229-5550**  
**FAX (810) 229-5578**

July 1, 2008

Authority Board  
Sylvan Township Water and Sewer Authority  
Sylvan Township Hall  
18027 W. Old US 12  
Chelsea, MI 48118-9673

INDEPENDENT AUDITORS' REPORT

Honorable Authority Board:

We have audited the accompanying financial statements of the Sylvan Township Water and Sewer Authority as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Sylvan Township Water and Sewer Authority, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

*Pfeffer, Hanniford & Palka, P.C.*

**PFEFFER, HANNIFORD & PALKA**  
Certified Public Accountants

MANAGEMENT  
DISCUSSION  
AND  
ANALYSIS

Management Discussion and Analysis  
December 31, 2007

---

Within this section of the Sylvan Township Water & Sewer Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2007. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

***Government-wide Financial Statements***

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

***Notes to the financial statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$19,455,990. This is a \$540,411 decrease over last year's net assets of \$19,996,401. As consistent figures are used the Authority will provide comparative data.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

**Summary of Net Assets**

	<u>12/31/2007</u>	<u>12/31/2006</u>
Current and other assets	\$ 136,584	\$ 162,081
Capital assets, net	<u>19,894,272</u>	<u>20,319,053</u>
Total assets	<u>20,030,856</u>	<u>20,481,134</u>
Accounts payable	46,128	22,473
Due to Sylvan Township	<u>528,738</u>	<u>462,260</u>
Total liabilities	<u>574,866</u>	<u>484,733</u>
Net assets		
Invested in capital assets	19,894,272	20,319,053
Unrestricted (deficit)	<u>(438,282)</u>	<u>(322,652)</u>
Total net assets	<u>\$ 19,455,990</u>	<u>\$ 19,996,401</u>

**Summary of Changes in Net Assets**

	<u>12/31/2007</u>	<u>12/31/2006</u>
Operating revenues	<u>\$ 351,658</u>	<u>\$ 328,766</u>
Operating expenses		
Depreciation	424,781	424,781
Other operating expenses	<u>467,288</u>	<u>398,504</u>
Total operating expenses	<u>892,069</u>	<u>823,285</u>
Operating (loss)	(540,411)	(494,519)
Capital contributions		<u>1,058,289</u>
Net income (loss)	(540,411)	563,770
Beginning net assets	<u>19,996,401</u>	<u>19,432,631</u>
Ending net assets	<u>\$ 19,455,990</u>	<u>\$ 19,996,401</u>

Revenues have increased significantly due to the addition of new users onto the utility systems. Expenses have also increased due to these additional users, and the depreciation of \$424,781 associated with the system.

#### Capital and Debt Administration

The debt for all the capital assets is recorded within each individual Member Township.

#### Economic Factors and Next Year's Goals

The Authority's financial outlook is very hard to predict with the recent downturn in the economy. The Authority expects that the operating deficit will be eliminated or reduced with the addition of new users onto the system.

#### Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 18027 W. Old US 12, Chelsea, Michigan 48118-9673.

FINANCIAL  
STATEMENTS

SYLVAN TOWNSHIP WATER AND SEWER AUTHORITY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2007

ASSETS

CURRENT ASSETS

Cash	\$ 43,772	
Accounts receivable - billings	92,812	
Total current assets		\$ 136,584

CAPITAL ASSETS

Land	98,350	
Utility systems	21,128,579	
Leasehold improvements	44,185	
	21,271,114	
Less accumulated depreciation	(1,376,842)	
Net property, plant and equipment		19,894,272
Total assets		20,030,856

LIABILITIES

CURRENT LIABILITIES

Accounts payable	46,128	
Due to Sylvan Township	528,738	
Total current liabilities		574,866

NET ASSETS

NET ASSETS

Investment in capital assets	19,894,272	
Unrestricted (deficit)	(438,282)	
Total net assets		\$ 19,455,990

The accompanying notes are an integral part of these financial statements

SYLVAN TOWNSHIP WATER AND SEWER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2007

OPERATING REVENUES		
Billings - operations	\$ 331,348	
Meter sales	6,510	
Service charges	11,764	
Permit fees	1,815	
Miscellaneous	<u>221</u>	
Total operating revenues		\$ 351,658
OPERATING EXPENSES		
Contracted services	185,856	
Depreciation	424,781	
Inspections and testing	2,523	
Utilities	44,090	
Chemicals	10,392	
Supplies		
Water	35,619	
Sewer	4,850	
Repairs and maintenance		
Water	3,856	
Sewer	114,858	
Telephone	1,510	
Office supplies	6,092	
Insurance	8,703	
Licenses and subscriptions	720	
Printing and publications	4,791	
Professional fees	16,859	
Security	85	
Fuel	4,428	
Uniform	392	
Litigation	<u>21,664</u>	
Total operating expenses		<u>892,069</u>
Net (loss)		(540,411)
NET ASSETS, JANUARY 1, 2007		<u>19,996,401</u>
NET ASSETS, DECEMBER 31, 2007		<u><u>\$ 19,455,990</u></u>

The accompanying notes are an integral part of these financial statements

SYLVAN TOWNSHIP WATER AND SEWER AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2007

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	
Receipts from customers	\$ 370,858
Payments to vendors	<u>(443,633)</u>
Net cash (used in) operating activities	\$ (72,775)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Receipts of loan proceeds from Sylvan Township	<u>66,478</u>
Net decrease in cash and cash equivalents	(6,297)
CASH AT JANUARY 1, 2007	<u>50,069</u>
CASH AT DECEMBER 31, 2007	<u><u>\$ 43,772</u></u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES	
Operating (loss)	\$ (540,411)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities	
Depreciation expense	424,781
Changes in assets and liabilities	
Accounts receivable	19,200
Accounts payables	<u>23,655</u>
Net cash (used in) from operating activities	<u><u>\$ (72,775)</u></u>

The accompanying notes are an integral part of these financial statements

NOTES  
TO  
FINANCIAL  
STATEMENTS

SYLVAN TOWNSHIP WATER AND SEWER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 - DESCRIPTION OF THE ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Sylvan Township Water and Sewer Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities. The following is a summary of the significant accounting policies used by the Sylvan Township Water and Sewer Authority:

A. REPORTING ENTITY

The Sylvan Township Water and Sewer Authority is governed by an appointed five-member board. The Authority provides water and sewer services to certain areas within Sylvan Township, Lima Township and Lyndon Township. The utility systems used and maintained by the Authority are contributed by these member Townships.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net deficit and the statement of revenue, expenses, and changes in net deficit) report all activities of the Authority. The activities of the Authority are considered business-type activities in that they rely to a significant extent on fees and charges for support. The Authority does not conduct any governmental activities.

C. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

D. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

E. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 50 years for equipment and 5 to 50 years for buildings, structures, and improvements. All assets are owned by their respective member townships, but recorded on the Authority's books as they manage, maintain, and bill for utility usage.

F. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

G. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

SYLVAN TOWNSHIP WATER AND SEWER AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 - DESCRIPTION OF THE ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
 (continued)

H. PREMIUM AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended December 31, 2007.

I. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Business Tax.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>FDIC Insured</u>
Chelsea State Bank	<u>\$ 43,772</u>	<u>\$ 55,654</u>	<u>\$ 55,654</u>

SYLVAN TOWNSHIP WATER AND SEWER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 20067

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

The Authority's cash and investments are subject to types of risk, which are 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 Township had no amounts of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of August 15, accounts receivable that are over 90 days old are placed on the tax roll for the applicable Township. As a result, there is no allowance for doubtful accounts as all receivables will be collected.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in property, plant and equipment:

	Balance 1/1/2007	Additions	Deletions	Balance 12/31/2007
Land	\$ 98,350	\$	\$	\$ 98,350
Utility systems	21,128,579			21,128,579
Leasehold improvements	44,185			44,185
Net	21,271,114			21,271,114
Accumulated depreciation	(952,061)	(424,781)		(1,376,842)
Total net book value	<u>\$ 20,319,053</u>	<u>\$ (424,781)</u>	<u>\$</u>	<u>\$ 19,894,272</u>

Depreciation related to the utility systems and equipment is recorded as depreciation expense on the statement of revenues and expenses. Depreciation is recorded on the straight-line basis over the estimated useful life of the asset which is as follows:

Water system - plant and distribution system	50 years
Equipment	5 & 7 years
Leasehold	20 years

The Authority is responsible to manage and maintain these assets. Additions to these capital assets are generally due to capital contributions from the member townships for their portion of the system used by the Authority.

SYLVAN TOWNSHIP WATER AND SEWER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 6 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	<u>Beginning Balance</u> <u>January 1, 2007</u>	<u>Ending Balance</u> <u>December 31, 2007</u>
CASH AND CASH EQUIVALENTS	\$ <u>50,069</u>	\$ <u>43,772</u>

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 8 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$	351,658
Depreciation		424,781
Total assets		20,030,856
Total net assets		19,455,990
Net (loss)		(540,411)

NOTE 9 - RETAINED EARNINGS DEFICIT

The unreserved retained earnings in the operations of the Authority. The Authority expects this deficit to be remedied over time as users are being added to this relatively new system.

NOTE 10 - MEMBER TOWNSHIP UNCERTAINTY

Sylvan Township has entered into agreements with Washtenaw County in which the county sold bonds for approximately \$15 million on behalf of the Township to finance the construction of a sewer/water system improvements and lines. The bonds are payable over 20 years.

The Township has special assessments totaling much less than the total debt related to these projects as of March 31, 2007. The Township believed there would be enough new utility customers to pay for the difference. However, the new customers are not forthcoming as originally planned. Recent projections of the debt service fund show possible cash flow deficits over the life of the debt obligation

The Township is considering various options to remedy the above problem. The effect of this possible deficit on the Authority has not been determined.

**John M. Pfeffer, C.P.A.**  
**Patrick M. Hanniford, C.P.A.**  
**Kenneth J. Palka, C.P.A.**

*Members:*  
*AICPA Private Practice Companies Section*  
*MACPA*

**225 E. Grand River - Suite 104**  
**Brighton, Michigan 48116-1575**  
**(810) 229-5550**  
**FAX (810) 229-5578**

July 1, 2008

Authority Board  
Sylvan Township Sewer & Water Authority  
18027 W. Old US 12  
Chelsea, MI 48118-9673

Dear Honorable Authority Board:

During our audit of the Sylvan Township Sewer & Water Authority we came across the following matters that we would like to discuss with you as part of our audit presentation for the year ending December 31, 2007.

The matter which we would like to discuss with you is as follows:

There is a new auditing standard (SAS #112) which we are required to follow as your auditing firm. This new standard relates to more formal communications by us to you regarding significant deficiencies in your internal controls and accounting procedures.

There are certain issues (deficiencies) which were previously considered general comments but under the new standard are now considered significant deficiencies.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America 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 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 or detected by the entity's internal control.

We consider the following to be a material weakness of the Authority:

- The water and sewer contractor collects funds, bills the users, issues permits, and water meters. This is a lack of segregation of duties, and the Authority should evaluate the cost/benefit of segregating these duties.
- The special assessments levied to finance the utility systems is considerably less than the outstanding debt owed by the Township to the bondholders. It is unknown of the effect on the Authority for this situation.

Conclusion

Thank you for your assistance and hospitality toward our firm while conducting the audit of the Sylvan Township Sewer & Water Authority.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Authority Board and management of the Sylvan Township Sewer & Water Authority and is not intended to be and should not be used by anyone other than the specified parties.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants