BAGLEY TOWNSHIP/OTSEGO LAKE TOWNSHIP UTILITIES AUTHORITY

OTSEGO COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2004

495 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

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

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☒ Other	Bagley Township/ Otsego Lake Township Utilities Authority	Otsego

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
3/31/04	6/9/04	8/9/04

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.

RECEIVED
DEPT. OF TREASURY
AUG 25 2004
8/23
LOCAL AUDIT & FINANCE DIV.

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.

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ 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.

☐ yes ☒ 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]).

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ 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).

☐ yes ☒ 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).

☐ yes ☒ 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.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)			
Keskine, Cook, Miller, Smith & Alexander, LLP			
Street Address	City	State	ZIP
100 West First Street	Gaylord	MI	49735
Accountant Signature Rachel Frisch			

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Keskine, Cook, Miller, Smith & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

June 9, 2004

Bagley Township/Otsego Lake
Township Utilities Authority
Otsego County, MI

We have audited the accompanying financial statements of the business-type activities and major fund information of the Bagley Township/Otsego Lake Township Utilities Authority as of and for the year ended March 31, 2004, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. 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.

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 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund information of the Bagley Township/Otsego Lake Township Utilities Authority as of March 31, 2004, and the respective changes in financial position and cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", as of March 31, 2004.

P.O. BOX 962 • GAYLORD, MICHIGAN 49734
PHONE (989) 732-7515 • FAX (989) 732-7790

The management's discussion and analysis, located on pages 3-4, 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 of the supplementary information. However, we did not audit the information and express no opinion on it.

Keskine, Cook, Miller, Smith & Alexander, LLP

Keskine, Cook, Miller, Smith & Alexander, LLP
Certified Public Accountants

BAGLEY TOWNSHIP/OTSEGO LAKE TOWNSHIP UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED MARCH 31, 2004

This section of the Bagley Township/Otsego Lake Township Utilities Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended March 31, 2004. Please read it in conjunction with the financial statements which immediately follow this section.

Financial Highlights

The Authority remains essentially an idle entity. The sewer utility system that will be governed by the Authority has not yet begun construction, nor has the Authority engaged in any activities.

The only transaction recorded in these financial statements reflects a $5,000 cash transfer from Bagley Township for the purposes of covering potential start-up costs.

Overview of the Financial Statements

This annual report consists of three parts, management discussion and analysis, the basic financial statements and required supplementary information.

The financial statements provide both long and short-term information about our overall financial status. These statements present only business-type activities, as the Authority is a single-purpose government engaging in only business-type activities.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information consists of the Management's Discussion and Analysis.

Financial Statements

The financial statements report information about the Authority as a whole using accounting methods used by private companies. The statement of net assets includes all of the entity's assets and liabilities. The statement of changes in net assets records all of the current year revenues and expenses regardless of when received or paid.

Financial Statements (Continued)

The financial statements report net assets and how they have changed. Net assets are the difference between the Authority's assets and liabilities; this is one method to measure an entity's financial health or position.

Over time, increases or decreases in the Authority's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Authority, you may also have to consider additional factors such as tax base changes, political and economic conditions, and future plans.

The entity has one fund:

Sewer Operating Fund – All of the Authority's activities except those required to be accounted for in a separate fund will be included in the sewer operating fund, once the Authority becomes operational. This fund is presented on the accrual basis, which is designed to show short and long-term financial information.

Financial Analysis of the Authority as a Whole

Net Assets – the entity's combined net assets increased 100 percent from $0 to $6 during the year ended March 31, 2004.

Capital Assets

The Authority owns no capital assets.

Long-Term Debt Activity

The Authority has no long-term debt.

Contacting Entity Management

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have questions concerning this report, please contact the Bagley Township Supervisor at (989)732-5924.

Shirley Jenkins
Bagley Township Supervisor

BAGLEY TOWNSHIP/OTSEGO LAKE TOWNSHIP UTILITIES AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2004

ASSETS	
Cash	$ 5,006
LIABILITIES	
Due to Other Governmental Units	5,000
NET ASSETS	
Unrestricted	$ 6

See accompanying notes to financial statements.

BAGLEY TOWNSHIP/OTSEGO LAKE TOWNSHIP UTILITIES AUTHORITY
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2004

REVENUES	
Interest Income	$ 6
EXPENDITURES	-
Change in Net Assets	6
Net Assets - Beginning of Year	-
Net Assets - End of Year	$ 6

See accompanying notes to financial statements.

BAGLEY TOWNSHIP/OTSEGO LAKE TOWNSHIP UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2004

Cash flows from non-capital financing activities:		
Cash received from Bagley Township	$	5,000
Cash flows from investing activities:		
Interest Income		6
Net increase in cash		5,006
Cash at Beginning of Year		-
Cash at End of Year	$	5,006

See accompanying notes to financial statements.

BAGLEY TOWNSHIP/OTSEGO LAKE TOWNSHIP UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

NOTE A: ENTITY

The Authority was created in 2001 as a joint venture by the Townships of Bagley and Otsego Lake for the purpose of constructing, operating, maintaining, administering, and managing a sewer utilities facility for the benefit of the forenamed Townships, all for the betterment of the health, safety, economy and general welfare of the participating municipalities.

The sewer utility system has not yet been constructed, nor has the Authority engaged in any operating activity. The notes to the financial statements reflect the accounting policies that will be in effect once the Authority becomes an operating entity.

The separate financial statements of the Townships participating in the joint venture are located at:

Bagley Township 2946 Old 27 South Gaylord, MI 49735	Otsego Lake Township 10584 Old 27 South Waters, MI 49797

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Authority are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures, of the Authority's financial activities for the fiscal year.

The accounting policies of the Authority conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2003, the Authority adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Authority's financial statements has shifted from a fund focus to a government-wide focus.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL STATEMENT PRESENTATION

The Authority is a single-purpose government engaging only in business-type activities. The financial statements include the statement of net assets and the statement of changes in net assets. These statements report financial information for the Authority as a whole.

The measurement focus and basis of accounting for the financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Proprietary Fund

The Authority reports the following major proprietary fund:

Sewer Operations Fund – this fund, once the Authority becomes operational, will report sewer utilities operations that provide services which will be financed primarily by user charges.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The financial statements report using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Operating income includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues include user charges for services provided. Principal operating expenses are the costs of providing sewer operation services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. As cited in Note A, the Authority has not engaged in operating activities yet; accordingly, no operating income or expenses are presented in these financial statements.

BUDGET

An operating budget will be prepared by the Authority annually for use as a management tool, once the Authority begins to engage in utility operations.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

CAPITAL ASSETS AND DEPRECIATION

The Authority owns no capital assets; therefore, no capital assets and depreciation policies have been adopted.

All engineering and design costs of the proposed sewer system have been paid for and capitalized by Bagley Township, until the Authority becomes a functional entity. At that time, the capitalized sewer system costs will be transferred from the Township to the Authority.

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In these financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method. The Authority has no outstanding long-term debt.

NOTE C: CASH AND INVESTMENTS

All cash is maintained in a financial institution in the Gaylord, Michigan area, and is maintained in accounts as approved by State Statutes.

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at fiscal year-end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.
Category 2 – Collteralized with securities held by the pledging Financial institution's trust department or agent in the Authority's name.
Category 3 – Uncollateralized.

BANK BALANCE	CATEGORY 1	CATEGORY 2	CATEGORY 3	CARRYING AMOUNT
$ 5,006	$ 5,006	$ -	$ -	$ 5,006

NOTE D: DUE TO OTHER GOVERNMENTS

The Authority has reported $5,000 as being due to Bagley Township, as this represents monies transferred over to the Authority from the Township to cover potential start-up costs. The intent is to repay the Township once the Authority becomes operational.