

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Park-Holland Twp Water &amp; Sewer Authority</b>	County <b>Ottawa</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>1/13/05</b>	Date Accountant Report Submitted to State: <b>5/13/05</b>	

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.

- 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.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Kiekoer, Scholma &amp; Shumaker, PC</b>			
Street Address <b>205 East Main Street</b>		City <b>Zeeland</b>	State <b>MI</b>
Accountant Signature <i>Kiekoer, Scholma &amp; Shumaker, PC</i>		ZIP <b>49464</b>	Date <b>5/13/05</b>

ANNUAL FINANCIAL REPORT  
PARK-HOLLAND TOWNSHIPS WATER AND SEWER AUTHORITY  
HOLLAND, MICHIGAN  
For the Fiscal Year Ended December 31, 2004

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BOARD OF TRUSTEES (APPOINTED)

Chairperson	Donald Komejan (Holland Township)
Vice-Chairperson	Stuart Visser (Park Township)
Secretary	Charles Kreun (Holland Township)
Treasurer	Jan Steggerda (Park Township)

Park-Holland Townships Water and Sewer Authority  
Holland, Michigan  
ANNUAL FINANCIAL REPORT  
Year Ended December 31, 2004

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INDEPENDENT AUDITOR'S REPORT

January 13, 2005

Board of Trustees  
Park-Holland Townships Water and Sewer Authority  
Holland, Michigan

We have audited the accompanying financial statements of the governmental activities and major fund of Park-Holland Townships Water and Sewer Authority as of and for the year ended December 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 Park-Holland Townships Water and Sewer 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Park-Holland Townships Water and Sewer Authority, as of December 31, 2004 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages II through IV and 6 through 7, are not a required part of the basic financial statements but are 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.

*Kiekoever, Scholma & Shumaker, PC*

Park-Holland Townships Water and Sewer Authority  
Holland, Michigan

**Management's Discussion and Analysis**

As management of Park-Holland Townships Water and Sewer Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements that follow this section.

The Authority was formed in 1994 for the purpose of financing the acquisition and/or construction of improvements to the water supply, sanitary sewer and/or storm sewer systems in Park Township and/or Holland Charter Township.

In 1994 the Authority issued limited tax general obligation bonds in the amount of \$825,000 for specified storm sewer capital improvements in Holland Charter Township. Holland Charter Township is obligated to make annual contractual payments to the Authority in amounts sufficient for the Authority to make required debt principal and interest payments.

**Financial Highlights**

- The Authority's net assets were \$0 at December 31, 2004. Its change in net assets was also \$0 for the year ended December 31, 2004 as the Authority recognizes revenue from Holland Charter Township only to the extent required to cover debt service interest payments.
- As of the close of the current fiscal year, the Authority's debt service governmental fund reported an ending fund balance of \$5,987, an increase of \$697 in comparison with the prior year.
- The Authority's total debt decreased by \$60,000 (14%) during the current fiscal year. This is the result of the Authority making its required scheduled debt service payments while incurring no new debt during the year.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Park-Holland Townships Water and Sewer Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: the financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Financial statements.** The financial statements are presented in a columnar format. The Authority maintains only one fund, a governmental fund (debt service fund) that is presented in the first column (*governmental funds* financial statements) and is prepared on the modified accrual basis of accounting. These fund financial statements present a short-term view and tell how resources were spent during the year as well as what remains for future spending. Such financial information may be helpful in evaluating the Authority's near-term financing requirements.

The second column in the financial statements presents the adjustments necessary to reconcile the *governmental funds* financial statements to the *governmental activities* financial statements (*Statement of Net Assets* and *Statement of Activities*) presented in the third column.

These *governmental activities* financial statements are designed to provide the readers with a broad view of the Authority's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Authority's finances and whether the full cost of government services have been funded. The two governmental activities statements are as follows:

- The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two 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 is improving or deteriorating.

- The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that result in cash flows in different fiscal periods.

The Authority adopts an annual appropriated budget for its debt service fund. A budgetary comparison schedule has been provided for the debt service fund to demonstrate compliance with this budget.

The basic *governmental fund* financial statements and *governmental activities* financial statements can be found on pages 1-2 of this report.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the governmental fund and governmental activities financial statements. The notes to the financial statements can be found on pages 3-5 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* presenting budgetary comparisons for the Authority's Debt Service Fund found on pages 6-7 of this report.

**Financial Analysis of the Authority as a Whole**

The following table shows, in a condensed format, the net assets of Park-Holland Townships Water and Sewer Authority as of December 31, 2004 and 2003.

**TABLE 1 - Park-Holland Township's Water and Sewer Authority's Net Assets**

	2004	2003
Cash	\$ 5,987	\$ 5,290
Receivable from Holland Charter Township	369,013	429,710
Total Assets	<u>375,000</u>	<u>435,000</u>
Long-term debt outstanding	375,000	435,000
Other liabilities	-	-
Total Liabilities	<u>375,000</u>	<u>435,000</u>
Net Assets		
Restricted	-	-
Unrestricted	-	-
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>

The following analysis highlights the changes in net assets for the years ended December 31, 2004 and 2003:

**TABLE 2 - Changes in Park-Holland Townships Water and Sewer Authority's Net Assets**

	<u>2004</u>	<u>2003</u>
General Revenues		
Contribution from Holland Charter Township	\$ 23,303	\$ 26,379
Interest	<u>-</u>	<u>-</u>
Total Revenues	23,303	26,379
Expenses		
Interest and fiscal charges	<u>23,303</u>	<u>26,379</u>
Change in Net Assets	<u>\$ -</u>	<u>\$ -</u>

**Financial Analysis of the Authority's Debt Service Fund**

Total revenue sources for fiscal year 2004 were \$84,000 consisting of contributions from Holland Charter Township. Expenditures for fiscal year 2004 totaled \$83,303 consisting of \$60,000 in principal payments and \$23,303 of interest and fiscal charges. These expenditures represent the scheduled debt services payments due on the limited tax general obligation bonds for 2004.

The December 31, 2004 fund balance of the Debt Service Fund is \$5,987, which is reserved for debt service.

**Debt Service Funds Budgetary Highlights**

There were no revisions during the year in the Debt Service Fund budget, which generally reflected the actual debt service expenditures for the year.

**Debt Administration**

At December 31, 2004, the Authority had \$375,000 of long-term debt outstanding after repayments of \$60,000 during the year. These long-term debt obligations are scheduled to mature serially through fiscal year 2009.

**Next Year's Budget**

The Authority's budget for 2005 calls for a slight increase in contributions from Holland Charter Township consistent with the increase in required debt service payments for 2005.

**Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors 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 chairperson.

**Basic  
Financial Statements**

Park-Holland Townships Water and Sewer Authority  
Holland, Michigan  
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS  
December 31, 2004

	<u>Debt Service Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Cash	\$ 5,987	\$ -	\$ 5,987
Receivable from Holland Charter Township	<u>-</u>	<u>369,013</u> (1)	<u>369,013</u>
Total Assets	<u>\$ 5,987</u>	<u>369,013</u>	<u>375,000</u>
<b>LIABILITIES</b>			
Long-term liabilities:			
Due within one year	\$ -	65,000 (2)	65,000
Due in more than one year	<u>-</u>	<u>310,000</u> (2)	<u>310,000</u>
Total Liabilities	<u>-</u>	<u>375,000</u>	<u>375,000</u>
<b>FUND BALANCES/NET ASSETS</b>			
Fund balance-reserved for debt service	<u>5,987</u>	<u>(5,987)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 5,987</u>		
Net assets-restricted for debt service			<u>\$ -</u>

(1) To record receivable from Holland Charter Township sufficient to pay-off balance of outstanding debt. Because the focus of governmental (debt service) funds is on short-term financing, these assets are not available to pay for current period expenditures and thus are not included in fund balance.

(2) Long-term liabilities applicable to the Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets.

Park-Holland Townships Water and Sewer Authority  
Holland, Michigan  
STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES  
Year Ended December 31, 2004

	Debt Service Fund	Adjustments	Statement of Activities
Revenues:			
Local unit contributions	\$ 84,000	\$ (60,697) <sup>(1)</sup>	\$ 23,303
Interest	-	-	-
Total Revenues	84,000	(60,697)	23,303
Expenditures:			
Debt service:			
Principal retirement	60,000	(60,000) <sup>(2)</sup>	-
Interest and fiscal charges	23,303	-	23,303
Total Expenditures	83,303	(60,000)	23,303
Excess of Revenues Over Expenditures/Change in Net Assets	697	(697)	-
Fund Balances/Net Assets - January 1	5,290	(5,290)	-
Fund Balances/Net Assets - December 31	\$ 5,987	\$ (5,987)	\$ -

(1) In the statement of net assets a receivable from Holland Charter Township was recorded for its obligation to transfer funds to the Authority in an amount equal to the outstanding bond principal. Therefore, current year revenue from Holland Charter Township contributions is recognized in the statement of activities only to the extent needed to fund current year's interest expense. In the governmental (debt service) funds the entire amount of the contribution during the year is recognized as revenue.

(2) Repayment of bond principal is reported as an expenditure in governmental (debt service) funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the Authority as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Park-Holland Townships Water and Sewer Authority  
Holland, Michigan  
NOTES TO FINANCIAL STATEMENTS  
Year Ended December 31, 2004

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Park-Holland Townships Water and Sewer 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 Park-Holland Townships Water and Sewer Authority:

**A. Reporting Entity**

The Park-Holland Townships Water and Sewer Authority ("Authority") is a Michigan municipal corporation created in 1994 under the provisions of Act 223, Public Acts of Michigan, as amended, for the purpose of financing the acquisition and/or construction of improvements to the water supply systems, sanitary sewer systems and/or storm sewer systems of the Michigan municipalities of Park Township and Holland Charter Township. The authority's governing board consists of two members appointed by Park Township and two members appointed by Holland Charter Township. The financial statements of the authority are presented as a separate reporting entity and are not included with the financial statements of either Park Township or Holland Charter Township. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the authority's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

**Blended Component Unit.** The authority has no blended component units.

**Discretely Presented Component Unit.** The authority has no discretely presented component units.

**B. Government-Wide and Fund Financial Statements**

Separate columns are included in the financial statements for the government-wide financial statements (i.e., the statement of net assets and the statement of activities) and the fund financial statements, which present the sole governmental (debt service) fund of the authority.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

Governmental (debt service) fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The authority reports the following major governmental funds:

*Debt Service Fund*

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the authority.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

#### **D. Assets, Liabilities, and Net Assets or Equity**

##### *1. Bank Deposits and Investments.*

The authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

##### *2. Long-Term Obligations.*

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

##### *3. Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### **NOTE 2. DETAILED NOTES ON ALL FUNDS**

##### **A. Deposits and Investments**

*Michigan Compiled Laws, Section 129.91*, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office 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; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated 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 as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of State statutory authority as listed above.

The authority's deposits and investment policy is in accordance with statutory authority.

At year-end, the authority's carrying amount of deposits was \$5,987 and the bank balance was \$5,987. The entire amount of the bank balance was covered by federal deposit insurance.

**B. Long-Term Debt**

In fiscal year 1994, the authority issued limited tax general obligation bonds in the amount of \$825,000 for specified storm sewer capital improvements in Holland Charter Township. Holland Charter Township has pledged its limited full faith and credit for payments required for retirement of the authority's bonds and will make the annual contractual payments to the authority from budgeted appropriations of its general fund. These bonds were issued with interest rates from 3.5% to 5.75% and mature in the year 2009.

Bond activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
1994 Limited Tax general Obligation Bonds	3.5%- 5.5%	2009	<u>\$ 435,000</u>	<u>\$ (60,000)</u>	<u>\$ 375,000</u>	<u>\$ 65,000</u>

Annual debt service requirements to maturity for the above obligation is as follows:

<u>Year End December 31</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 65,000	\$ 19,613
2006	70,000	15,812
2007	75,000	11,644
2008	80,000	7,187
2009	<u>85,000</u>	<u>2,444</u>
Total	<u>\$ 375,000</u>	<u>\$ 56,700</u>

**Required  
Supplementary Information**

Park-Holland Townships Water and Sewer Authority  
Holland, Michigan  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND  
Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local unit contributions	\$ 84,000	\$ 84,000	\$ 84,000	\$ -
Interest	<u>250</u>	<u>250</u>	<u>-</u>	<u>(250)</u>
Total Revenues	<u>84,250</u>	<u>84,250</u>	<u>84,000</u>	<u>(250)</u>
Expenditures:				
Debt Service:				
Principal retirement	60,000	60,000	60,000	-
Interest and fiscal charges	<u>23,500</u>	<u>23,500</u>	<u>23,303</u>	<u>197</u>
Total Expenditures	<u>83,500</u>	<u>83,500</u>	<u>83,303</u>	<u>197</u>
Excess of Revenues Over Expenditures	750	750	697	(53)
Fund Balances - January 1	<u>5,290</u>	<u>5,290</u>	<u>5,290</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 6,040</u>	<u>\$ 6,040</u>	<u>\$ 5,987</u>	<u>\$ (53)</u>

Park-Holland Townships Water and Sewer Authority  
Holland, Michigan  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2004

**NOTE - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

An annual budget is adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. In August of each year, a preliminary budget is prepared. By October 1, the proposed budget is presented to the Boards of Trustees of Park Township and Holland Charter Township after which the Board of Trustees of the authority approves the final budget.

Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**B. Excess of Expenditures Over Appropriations**

There were no excess of expenditures over appropriations for the year ended December 31, 2004.