

Auditing Procedures Report

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

| | | | |
|---|-------------------------------|---|--------------------------|
| Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government: SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, VILLAGE OF ST CHARLES WATER AUTHORITY | County SAGINAW |
| Audit Date 3/31/05 | Opinion Date 6/2/05 | Date Accountant Report Submitted to State: 7/15/05 | |

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) BERTHIAUME & COMPANY CPAS | | | |
| Street Address 60 HARROW LANE | City SAGINAW | State MI | ZIP 48638 |
| Accountant Signature <i>Kenneth A. Berthiaume</i> | | Date 7-15-05 | |

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP,
AND VILLAGE OF ST. CHARLES
WATER AUTHORITY**

Saginaw County, Michigan

FINANCIAL STATEMENTS

March 31, 2005

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND
VILLAGE OF ST. CHARLES WATER AUTHORITY**

TABLE OF CONTENTS

| | PAGE |
|---|------|
| Independent Auditors' Report | 1 |
| Basic Financial Statements: | |
| <i>Proprietary Funds:</i> | |
| Statement of Net Assets..... | 3 |
| Statement of Revenues, Expenses, and Changes in Net Assets..... | 4 |
| Statement of Cash Flows..... | 5 |
| Notes to Financial Statements..... | 6 |



INDEPENDENT AUDITORS' REPORT

To the Members of the Board
Swan Creek Township, James Township, and
Village of St. Charles Water Authority
Saginaw County, Michigan

We have audited the accompanying basic financial statements of the Swan Creek Township, James Township, and Village of St. Charles Water Authority, as of and for the year ended March 31, 2005 as listed in the table of contents. These financial statements are the responsibility of Swan Creek Township, James Township, and Village of St. Charles Water 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 financial position of the Swan Creek Township, James Township, and Village of St. Charles Water Authority, as of March 31, 2005, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

As described in Note 5, 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*, and related statements, as of April 1, 2004.

Berthiaume & Co.

June 2, 2005

BASIC FINANCIAL STATEMENTS

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND
VILLAGE OF ST. CHARLES WATER AUTHORITY**

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

March 31, 2005

Assets:

Current assets:

| | |
|-----------------------------------|----------------|
| Cash and cash equivalents | \$ 146,547 |
| Due from other governmental units | <u>32,205</u> |
| Total current assets | <u>178,752</u> |

Liabilities:

Current liabilities:

| | |
|---------------------------|---------------|
| Accounts payable | <u>24,271</u> |
| Total current liabilities | <u>24,271</u> |

Net assets:

| | |
|------------------|-------------------|
| Unrestricted | <u>154,481</u> |
| Total net assets | <u>\$ 154,481</u> |

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

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND
VILLAGE OF ST. CHARLES WATER AUTHORITY**

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

Year Ended March 31, 2005

Operating revenues:

Intergovernmental:

Charges for services:

| | |
|-------------|--------------|
| Water sales | \$ 293,166 |
| Annual fees | <u>9,000</u> |

| | |
|--------------------------|----------------|
| Total operating revenues | <u>302,166</u> |
|--------------------------|----------------|

Operating expenses:

| | |
|------------------------|--------------|
| Supplies | 15 |
| Contracted services | 1,721 |
| Purchase of water | 293,166 |
| Telephone | 1,722 |
| Insurance | 3,838 |
| Utilities | 1,513 |
| Repair and maintenance | <u>2,250</u> |

| | |
|--------------------------|----------------|
| Total operating expenses | <u>304,225</u> |
|--------------------------|----------------|

| | |
|-------------------------|----------------|
| Operating income (loss) | <u>(2,059)</u> |
|-------------------------|----------------|

Non-operating revenues (expenses):

| | |
|-------------------|--------------|
| Investment income | <u>1,613</u> |
|-------------------|--------------|

| | |
|---|--------------|
| Total non-operating revenues (expenses) | <u>1,613</u> |
|---|--------------|

| | |
|-------------------|-------|
| Net income (loss) | (446) |
|-------------------|-------|

| | |
|--|----------------|
| Net assets, beginning of year, as restated | <u>154,927</u> |
|--|----------------|

| | |
|-------------------------|-------------------|
| Net assets, end of year | <u>\$ 154,481</u> |
|-------------------------|-------------------|

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

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND
VILLAGE OF ST. CHARLES WATER AUTHORITY**

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

Year Ended March 31, 2005

Cash flows from operating activities:

| | |
|---|------------------|
| Intergovernmental receipts | \$ 291,945 |
| Cash payments to suppliers for goods and services | <u>(302,170)</u> |
| Net cash provided (used) by operating activities | <u>(10,225)</u> |

Cash flows from investing activities:

| | |
|--|--------------|
| Interest received | <u>1,613</u> |
| Net cash provided (used) by investing activities | <u>1,613</u> |
| Net increase (decrease) in cash and cash equivalents | (8,612) |

| | |
|--|-------------------|
| Cash and cash equivalents, beginning of year | <u>155,159</u> |
| Cash and cash equivalents, end of year | <u>\$ 146,547</u> |

**Reconciliation of operating income (loss) to net cash
provided (used) by operating activities:**

| | |
|--|--------------------|
| Operating income (loss) | \$ (2,059) |
| Changes in assets and liabilities: | |
| Due from other governmental units | (10,221) |
| Accounts payable | <u>2,055</u> |
| Net cash provided (used) by operating activities | <u>\$ (10,225)</u> |

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

NOTES TO FINANCIAL STATEMENTS

SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND VILLAGE OF ST. CHARLES WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Swan Creek Township, James Township, and Village of St. Charles 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 Swan Creek Township, James Township, and Village of St. Charles Water Authority was created in December, 2001 by the three constituent municipalities under the provisions of Act 233, Public Acts of Michigan, 1955 as amended. The Water Authority was created to administer and operate the water main supply system which provides the water supply for the three municipalities. The Water Authority superseded the James Township, Swan Creek Township, and St. Charles Village Water Supply District which was established by the Saginaw County Board of Commissioners by a resolution adopted June 10, 1969. The Water Authority took over operations from the Water District as of January 1, 2002. The governing body of the Water Authority is a Board of Commissioners which is made up of two voting representatives from each municipality for a total of six board members.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 these financial statements of the Water Authority include all activities for which the Authority has oversight responsibility. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the statements would be misleading if data were not included. The Authority has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

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

The Authority engages in only business type activities.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The operations of this fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The financial operations of the Authority are reported using the economic resources measurement focus and 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 a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND
VILLAGE OF ST. CHARLES WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2005

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to administer and operate the water main supply system which provides the water supply for the three municipalities. Operating expenses include the cost of water, administrative expenses, repairs and maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Equity:

Deposits – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired.

Due from other governmental units – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital assets – The Authority has no capital assets to report. The Authority administers, operates and maintains the water mains for the three participating units. The capital costs of these main lines have been recorded and depreciated separately by each of the three units.

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: DEPOSITS

The Authority's deposits at March 31, 2005 are included in the statement of net assets under the following categories:

| | |
|---------------------------|-------------------|
| Cash and cash equivalents | <u>\$ 146,547</u> |
|---------------------------|-------------------|

Deposits:

The breakdown in deposits for the Authority is as follows:

| | |
|---|-------------------|
| Bank deposits (checking accounts, savings accounts, and certificates of deposit) | <u>\$ 146,547</u> |
|---|-------------------|

The deposits of the Authority were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$146,547, of which \$100,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Authority believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND
VILLAGE OF ST. CHARLES WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2005

impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Deposits have been made in accordance with statutory authority.

NOTE 3: 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, and natural disasters. The Authority has purchased commercial insurance to cover any potential claims associated with these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 4: CONTRACTS AND COMMITMENTS

The Authority has entered into various contracts as follows:

- **Water Supply Services** – The Authority contracts with the City of Saginaw for its water supply needs.
- **Service Contracts** – The Authority contracts with each of the constituent municipalities to provide services.

NOTE 5: PRIOR PERIOD ADJUSTMENTS

Accounting Change:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments* (Statement). The Authority is required to implement the new requirements for the year ended March 31, 2005. The more significant of the changes to the financial statements as a result of the Statement are as follows:

For the first time, the financial statements will include:

- The statement of net assets
- The statement of activities
- The statement of cash flows prepared using the direct method instead of the cash flow method.

The Authority previously reported a balance sheet and statement of revenues, expenditures and changes in fund balance.

**SWAN CREEK TOWNSHIP, JAMES TOWNSHIP, AND
VILLAGE OF ST. CHARLES WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2005

Change in Fund Type:

In prior years, the operations of the Authority were presented as a governmental fund. Because of reporting changes brought about by GASB Statement No. 34, it has been determined that the operations of the Authority should be presented as a proprietary fund type, specifically an enterprise fund.

This change has no effect on Authority's fund equity.