

# AUDITING PROCEDURES REPORT

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

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Western Washtenaw Recycling Authority	County Washtenaw
Audit Date December 31, 2003	Opinion Date May 17, 2004	Date Accountant Report Submitted To State: June 28, 2004	

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:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> 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.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> 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])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> 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). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> 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).   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> 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		<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>		X

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address Suite 200, 350 South Main Street	City Ann Arbor	State MI	ZIP 48104-1923
Accountant Signature <i>Plante &amp; Moran, PLLC</i>			

# **Western Washtenaw Recycling Authority**

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**Financial Report  
with Additional Information  
December 31, 2003**

# Western Washtenaw Recycling Authority

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## Independent Auditor's Report

To the Board of Directors  
Western Washtenaw Recycling Authority

We have audited the accompanying general purpose financial statements of Western Washtenaw Recycling Authority as of December 31, 2003 and 2002 and for the years then ended. These general purpose financial statements are the responsibility of Western Washtenaw Recycling Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Western Washtenaw Recycling Authority as of December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

May 17, 2004

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# Western Washtenaw Recycling Authority

## Balance Sheet

	December 31	
	2003	2002
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 109,418	\$ 86,956
Amounts on deposit with Washtenaw County	681,060	569,088
Accounts receivable:		
Special assessments	240,107	240,902
Other	20,273	17,031
	<u>1,050,858</u>	<u>913,977</u>
<b>Fixed Assets - Net (Note 3)</b>	<u>489,053</u>	<u>551,482</u>
<b>Total assets</b>	<b><u>\$ 1,539,911</u></b>	<b><u>\$ 1,465,459</u></b>
<b>Liabilities and Fund Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and other accrued liabilities	\$ 64,488	\$ 62,104
Deferred revenue	293,399	266,965
	<u>357,887</u>	<u>329,069</u>
<b>Fund Equity</b>		
Contributed capital (Note 4)	335,400	335,400
Retained earnings - Unreserved	846,624	800,990
	<u>1,182,024</u>	<u>1,136,390</u>
<b>Total liabilities and fund equity</b>	<b><u>\$ 1,539,911</u></b>	<b><u>\$ 1,465,459</u></b>

# Western Washtenaw Recycling Authority

## Statement of Revenue, Expenses, and Changes in Retained Earnings

	Year Ended December 31	
	2003	2002
<b>Operating Revenue</b>		
Special assessments	\$ 258,891	\$ 271,944
Sale of recycled materials	237,765	215,832
Other operating revenue	<u>712</u>	<u>450</u>
Total operating revenue	497,368	488,226
<b>Operating Expenses</b>	<u>470,902</u>	<u>432,041</u>
<b>Operating Income</b>	26,466	56,185
<b>Nonoperating Income</b> - Interest income	<u>19,168</u>	<u>22,774</u>
<b>Net Income</b>	45,634	78,959
<b>Retained Earnings</b> - Beginning of year	<u>800,990</u>	<u>722,031</u>
<b>Retained Earnings</b> - End of year	<u><b>\$ 846,624</b></u>	<u><b>\$ 800,990</b></u>

# Western Washtenaw Recycling Authority

## Statement of Cash Flows

	Year Ended December 31	
	2003	2002
<b>Cash Flows from Operating Activities</b>		
Operating income	\$ 26,466	\$ 56,185
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	66,093	77,822
Changes in assets and liabilities:		
Increase in amounts on deposit with Washtenaw County	(111,972)	(159,321)
(Increase) decrease in accounts receivable	(2,447)	8,117
Increase (decrease) in accounts payable and other liabilities	2,384	(29,338)
Increase in deferred revenue	26,434	14,095
	<u>6,958</u>	<u>(32,440)</u>
Net cash provided by (used in) operating activities	6,958	(32,440)
<b>Cash Flows from Capital and Related Financing Activities -</b>		
Purchase of fixed assets	(3,664)	(22,600)
<b>Cash Flows from Investing Activities -</b> Interest received on investments	<u>19,168</u>	<u>22,774</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	22,462	(32,266)
<b>Cash and Cash Equivalents -</b> Beginning of year	<u>86,956</u>	<u>119,222</u>
<b>Cash and Cash Equivalents -</b> End of year	<u>\$ 109,418</u>	<u>\$ 86,956</u>

There were no noncash investing, capital, or financing activities during the years ended December 31, 2003 and 2002.

# Western Washtenaw Recycling Authority

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## Notes to Financial Statements December 31, 2003 and 2002

### Note 1 - Summary of Significant Accounting Policies

The Western Washtenaw Recycling Authority (the "Authority") provides recycling services primarily for the benefit of citizens within the Authority's special assessment districts in Washtenaw County, Michigan. The accounting policies of the Authority conform to generally accepted accounting principles as applicable to Enterprise Funds of governmental units and, accordingly, the accrual basis of accounting is followed. A summary of significant accounting policies is as follows:

**Reporting Entity** - The Authority is governed by a Board of Directors that is appointed by member municipalities. As required by generally accepted accounting principles, these financial statements present the Western Washtenaw Recycling Authority. The Authority has no component units that are required to be included in the financial statements.

**Cash Equivalents** - For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

**Amounts on Deposit with Washtenaw County** - The Authority has an account set up with Washtenaw County whereby special assessment payments are collected and certain disbursements are approved. The account was set up to provide assurance that the monies received from the special assessments would be properly accounted for and disbursed.

**Fixed Assets** - Plant and equipment are recorded at cost. Depreciation on fixed assets is charged as an expense against operations on a straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

**Deferred Revenue** - Deferred revenue consists of special assessment monies billed or collected that relate to the ensuing fiscal years.

Other accounting policies are disclosed in other notes to the financial statements.

### Note 2 - Cash and Cash Equivalents

The Authority's deposits are included on the balance sheet under the cash and cash equivalents classification and are reflected in the accounts of the bank at \$110,374 and \$70,399 at December 31, 2003 and 2002, respectively, (all of which was covered by depository insurance). These amounts are without recognition of checks written but not yet cleared or of deposits in transit.

# Western Washtenaw Recycling Authority

## Notes to Financial Statements December 31, 2003 and 2002

### Note 3 - Fixed Assets

A summary of fixed assets follows:

	2003	2002	Depreciable Life - Years
Building	\$ 264,059	\$ 264,059	50
Equipment	403,762	400,098	10-20
Transportation equipment	273,001	273,001	5-20
Total cost	940,822	937,158	
Less accumulated depreciation	(451,769)	(385,676)	
Net carrying amount	<u>\$ 489,053</u>	<u>\$ 551,482</u>	

Depreciation expense totaled \$66,093 and \$77,822 for the years ended December 31, 2003 and 2002, respectively.

### Note 4 - Contributed Capital

The following is an analysis of contributed capital by source at December 31, 2003 and 2002:

State grants	\$ 330,400
Contributions from member municipalities	<u>5,000</u>
Total contributed capital	<u>\$ 335,400</u>

### Note 5 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits. The Authority uses commercial insurance for all claims other than workers' compensation claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation claims.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

# **Western Washtenaw Recycling Authority**

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**Notes to Financial Statements  
December 31, 2003 and 2002**

## **Note 6 - Upcoming Reporting Change**

For the year beginning January 1, 2004, the Authority plans to adopt GASB Statement No. 34. This statement will not dramatically revise the information being reported in these financial statements. Information is not available to present pro forma data that would show the effect of this future change.

## **Additional Information**

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To the Board of Directors  
Western Washtenaw Recycling Authority

We have audited the general purpose financial statements of Western Washtenaw Recycling Authority for the years ended December 31, 2003 and 2002. Our audits were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The schedule of operating expenses is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of Western Washtenaw Recycling Authority. This information has been subjected to the procedures applied in the audits of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Plante & Moran, PLLC*

May 17, 2004

# Western Washtenaw Recycling Authority

## Schedule of Operating Expenses

	Year Ended December 31	
	2003	2002
Salaries and wages	\$ 225,139	\$ 201,236
Payroll taxes and employee benefits	43,158	53,152
Depreciation expense	66,093	77,822
Professional fees	21,465	9,600
Repairs and maintenance	49,051	32,678
Telephone and utilities	9,022	9,859
Administrative charges	7,239	11,271
Operating supplies	4,586	4,425
General insurance	13,935	9,901
Fuel expense	14,553	11,245
Other operating expenses	16,661	10,852
	<u>          </u>	<u>          </u>
Total operating expenses	<u>\$ 470,902</u>	<u>\$ 432,041</u>

May 17, 2004

Chairman and Members of Board of Directors  
Western Washtenaw Recycling Authority  
8025 Werkner Road  
Chelsea, Mi 48118

Dear Chairman and Board Members:

We have recently completed our audit of the general purpose financial statements of Western Washtenaw Recycling Authority for the year ended December 31, 2003. As a result of our audit, and in addition to our audit report, we offer the following comments and recommendations for your consideration.

### **REPORTABLE CONDITIONS**

In planning and performing our audit of the financial statements of Western Washtenaw Recycling Authority for the year ended December 31, 2003, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

As mentioned previously, it was noted during our audit that blank checks, pre-signed by an authorized check signer, are available for use in the daily operations of the Authority. We understand this may assist the Authority with time constraints posed by these necessary signatures, however it continues to represent a lack in control over the Authority's cash and the cash disbursement process.

We would suggest the use of direct bill payment for certain monthly expenses, such as utilities. We would also suggest the incorporation of charge accounts for some of the more regular purchase vendors, such as supplies and maintenance. The Authority may also want to consider having checks cut more than once a month to avoid late payments.

### **INTERNAL REVIEW OF ACCOUNTING FUNCTIONS**

During our testing, it was noted that several important accounting procedures are not reviewed by someone outside of the bookkeeping function. In particular, the monthly bank reconciliation and payroll information process are not subsequently reviewed by anyone within the Authority. We recommend that someone outside of the accounting function review these reconciliations and payroll schedules on a regular basis, perhaps quarterly.

Chairman and Members of Board of Directors  
Western Washtenaw Recycling Authority

May 17, 2004

### **DOCUMENT RETENTION**

During our testing it was noted that the Authority does not maintain documentation related to employee information in the form of a personnel file. It is important to maintain proper record retention in the event that an outside party would need to access any of the pertinent information for certain purposes. In particular pay rates and withholding election information should be maintained. In addition, after the Authority's change in bookkeepers, we noted that some source documents were still in the possession of the former bookkeeper. All Authority financial records should be kept in the Authority's possession such as monthly bank reconciliations, payroll registers, cash receipt and cash disbursement registers, etc.

### **POLICIES AND PROCEDURES**

It was noted that the Authority does not have a written policy in place or Board resolution regarding wire transfer or other ACH transactions. The Board should document a policy regarding the use of, and restrictions on, ACH transactions related to payroll or other forms of direct payments. In addition, the Authority does not have a formal investment policy documenting the approved types of investment of the Authority's cash and cash equivalents. This is a requirement under Public Act 196 of 1997. We would be happy to assist the Authority by providing examples of these policies.

### **UPCOMING REPORTING CHANGE**

The GASB has recently finalized its new financial statement reporting model. As the Authority currently functions as an enterprise fund, this new reporting model will not have a dramatic effect on the presentation of the information included in the financial statements. However, there will be some additional information required, specifically a "Management's Discussion and Analysis" section. This section will necessitate several different elements including; a brief description of the basic financial statements, condensed comparative financial information, analysis of Authority's overall financial position and results of operations, and discussion of currently known facts, decisions, or conditions. The MD&A is the responsibility of the Authority, however we would be willing to assist with the preparation of this when the time comes.

We would like to thank the Chairman, Manager, Marilyn Troyer, and others within the organization for the courtesy and cooperation extended to us during our audit. If you have questions or if we can be of assistance in the implementation of any of the above suggestions, please contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**



David H. Helisek

DHH:ss