

**Wexford County**  
**Department of Public Works,**  
**Wastewater Collection System #3**  
**(a fund of the County of Wexford, Michigan)**

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**Financial Report**  
**December 31, 2003**

# **Wexford County Department of Public Works, Wastewater Collection System #3**

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## Independent Auditor's Report

To the Board of Public Works  
Wexford County  
Cadillac, Michigan

We have audited the basic financial statements of Wexford County, Michigan as of December 31, 2003 and for the year then ended and have issued our report thereon dated May 6, 2004. Those basic financial statements are the responsibility of the management of Wexford County, Michigan. Our responsibility was to express an opinion on those basic 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 and the reports of the other auditors provide a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Wexford County, Michigan taken as a whole. The accompanying financial statements of the Wexford County Department of Public Works, Wastewater Collection System #3 are presented for the purpose of additional analysis and are not a required part of Wexford County, Michigan's basic financial statements. The accompanying financial statements of the Wexford County Department of Public Works, Wastewater Collection System #3 have been subjected to the auditing procedures applied in the audit of the County's basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the County's basic financial statements taken as a whole.

As discussed in Note 8, as of January 1, 2003, the County implemented the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

*Plante & Moran, PLLC*

May 6, 2004

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# Wexford County Department of Public Works, Wastewater Collection System #3

## Statement of Net Assets December 31, 2003

### Assets

#### Current assets:

Cash (Note 2)	\$ 13,178
Accounts receivable	<u>34,634</u>

Total current assets 47,812

Noncurrent assets - Capital assets - Net (Note 3) 16,293

Total assets 64,105

### Liabilities - Current

Accounts payable	4,701
Accrued payroll and other liabilities	<u>1,293</u>

Total liabilities 5,994

### Net Assets

Invested in capital assets - Net of related debt	16,293
Unrestricted	<u>41,818</u>

Total net assets \$ 58,111

# Wexford County Department of Public Works, Wastewater Collection System #3

## Statement of Revenue, Expenses, and Changes in Net Assets Budget and Actual Year Ended December 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenue</b>			
Charges for services - Service billings and construction	\$ 139,800	\$ 117,433	\$ (22,367)
Other revenue	1,110	1,197	87
Total operating revenue	140,910	118,630	(22,280)
<b>Operating Expenses</b>			
Salaries and wages	28,217	25,845	2,372
Employee fringe benefits	17,987	17,021	966
Office supplies	903	622	281
Operating supplies	2,597	1,945	652
Repairs and maintenance	991	10,723	(9,732)
Legal and professional fees	9,939	9,812	127
Computer services	500	257	243
Engineering services	3,383	2,927	456
Insurance	3,149	3,149	-
Utilities	3,613	2,682	931
Metered sewage - Haring Township	49,700	49,268	432
Publications	150	11	139
Administrative	2,800	2,800	-
Travel expenses	300	191	109
Capital asset activity:			
Capital outlay	11,797	-	11,797
Depreciation expense	4,302	3,441	861
Miscellaneous expense	805	425	380
Total operating expenses	141,133	131,119	10,014
<b>Operating Loss</b>	(223)	(12,489)	(12,266)
<b>Nonoperating Income</b> - Interest earnings	1,500	127	(1,373)
<b>Change in Net Assets</b>	1,277	(12,362)	(13,639)
<b>Net Assets</b> - January 1, 2003	70,473	70,473	-
<b>Net Assets</b> - December 31, 2003	<b>\$ 71,750</b>	<b>\$ 58,111</b>	<b>\$ (13,639)</b>

# Wexford County Department of Public Works, Wastewater Collection System #3

## Statement of Cash Flows Year Ended December 31, 2003

### Cash Flows from Operating Activities

Receipts from customers	\$ 117,550
Payments to suppliers	(91,052)
Payments to employees	<u>(42,759)</u>

Net cash used in operating activities (16,261)

### Cash Flows from Investing Activities - Interest received

127

### Net Decrease in Cash

(16,134)

Cash - January 1, 2003

29,312

Cash - December 31, 2003

\$ 13,178

### Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (12,489)
Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities:	
Accounts receivable	(1,080)
Depreciation	3,441
Accounts payable	(6,240)
Accrued and other liabilities	<u>107</u>

Net cash used in operating activities \$ (16,261)

# **Wexford County Department of Public Works, Wastewater Collection System #3**

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

## **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Wexford County Department of Public Works, Wastewater Collection System #3 (the "System") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The System is included in the basic financial statements of Wexford County, Michigan (the "County") as an Enterprise Fund. The following is a summary of the significant accounting policies:

**Reporting Entity** - The System operates and maintains a sanitary sewer collection system for Haring Township (the "Township"). At present, the County has legal title to the sewer system, but the Township has capitalized the cost of the project as an asset in its sewer fund. The purpose of capitalizing the System in the Township's records is the provision in the lease contract that calls for the County to transfer ownership in the sewer system to the Township upon maturity of the bonds.

The accompanying financial statements reflect only the operation and maintenance of Wastewater Collection System #3. The Debt Service Fund and the long-term debt are maintained by the County and reported in the County's basic financial statements.

**Basis of Accounting** - The accrual basis of accounting is used by the System. The System follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The System has elected not to follow private sector standards used after November 30, 1989.

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

**Investments** - Investments are recorded at fair value, based on quoted market prices.

**Inventories** - Inventories held by the System are not considered material and are not shown in these financial statements.

**Receivables** - All trade receivables of the System are shown without an allowance for uncollectible accounts because delinquent amounts attach as a lien against the benefited property, which assures their eventual collection.

# **Wexford County Department of Public Works, Wastewater Collection System #3**

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

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Capital Assets** - All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. The assets of the System consist of equipment items used to run the System. Depreciation on such capital assets is charged as an expense against operations on a straight-line basis.

**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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

## **Note 2 - Deposits and Investments**

The deposits of the System consist entirely of cash. These deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$13,178, which was fully covered by federal depository insurance. The insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the System, if any, is not determinable.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices 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; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are related as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the Board allows the County Treasurer to invest in all investments authorized by Public Act 20 of 1943, as amended.

The County of Wexford, Michigan's deposits and investments policies are in accordance with statutory authority.

# Wexford County Department of Public Works, Wastewater Collection System #3

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

## **Note 3 - Capital Assets**

The capital assets of the System are composed of the following:

	Balance January 1, 2003	Additions	Balance December 31, 2003	Depreciable Life - Years
Capital assets being depreciated -				
Machinery and equipment	\$ 44,210	\$ -	\$ 44,210	5-7
Less accumulated depreciation	<u>(24,476)</u>	<u>(3,441)</u>	<u>(27,917)</u>	
Net assets being depreciated	<u>\$ 19,734</u>	<u>\$ (3,441)</u>	<u>\$ 16,293</u>	

Depreciation expense is calculated on the straight-line method over the estimated useful lives as indicated above.

## **Note 4 - Postemployment Benefits**

The County provides health care benefits to all full-time employees upon retirement. The cost associated with this benefit is charged to the County's self-insurance fund when incurred. Currently, two retirees are eligible. The County includes pre-Medicare retirees and their dependents in its insured health care plan. The County charges the retirees a monthly fee to participate. During the year ended December 31, 2003, the County collected approximately \$1,700 from retirees.

## **Note 5 - Defined Benefit Pension Plan**

The County's employees who operate the System are covered by a defined benefit pension plan. Complete information about the plan can be found in the County's basic financial statements. Annual pension expense allocated to the System amounted to approximately \$2,000 for the year ended December 31, 2003.

# **Wexford County Department of Public Works, Wastewater Collection System #3**

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

## **Note 6 - Risk Management**

The System 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 provided to employees. The System participates in the County's risk management program. The County has purchased commercial insurance for workers' compensation and medical benefit claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general liability.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Michigan Municipal Risk Management Authority that the Michigan Municipal Risk Management Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

Detailed information concerning estimates of liability for claims is provided in the County's basic financial statements.

## **Note 7 - Budget**

The State's Budget Act does not require a formal budget to be adopted for Enterprise Funds. However, an annual budget is adopted and is included in these financial statements for management control purposes.

## **Note 8 - Accounting Change**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The County has applied the provisions of this statement in the accompanying financial statements (including notes to the financial statements). The County has elected to implement the general provisions of the statement. There were no significant changes to the System's financial statements.