

*Byron-Gaines Utility Authority*  
*Kent County, Michigan*

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

*Year ended December 31, 2007*

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Byron-Gaines Utility Authority**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following discussion and analysis is intended as a narrative overview of the Byron-Gaines Utility Authority's operations over the fiscal year and its financial condition on December 31, 2007.

**FINANCIAL HIGHLIGHTS**

- The Authority's total net assets decreased \$106,704 (3%) as a result of this year's activities.
- Total net assets, in the amount of \$3,272,079, were reported, of which \$3,254,017 is invested in capital assets. This leaves the Authority with unrestricted net assets of \$18,062.

**Overview of the financial statements**

The statement of net assets reports all of the Authority's assets and liabilities along with the difference between the two, which is identified as the net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the Authority's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position.

The statement of revenues, expenses, and changes in net assets shows how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). This statement should help the reader to answer the question: Is the Authority better off or worse off as a result of this year's activities?

The statement of cash flows presents the Authority's cash receipts and disbursements during the fiscal year, classified by principal sources and uses.

**Funds**

The accounts of the Authority are organized on the basis of funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority's funds are classified in two categories:

*Operating Fund.* This fund accounts for the expenses involved in providing utility operation and maintenance services to the constituent municipalities that are then charged fees to recover the costs of operation. This fund uses accrual accounting, which is the same method used by private sector businesses.

*Fiduciary Fund.* This fund is used to account for the resources held for the benefit of parties outside the Authority. The resources reported here represent an agency relationship and are not, therefore, available to the Authority to provide services to its customers. The Authority is responsible for ensuring that the assets reported in this fund are used for their intended purpose. The Authority's fiduciary assets and liabilities are reported in a separate statement of fiduciary net assets - agency fund. This fund is also reported using accrual accounting.

The notes to the basic financial statements provide additional information that is necessary to understand the data reported in the financial statements.

**Byron-Gaines Utility Authority**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**FINANCIAL ANALYSIS**

**Net assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the Authority's case, assets exceeded liabilities at the end of the fiscal year by \$3,272,079. The Authority's investment in capital assets (e.g., building, equipment, and vehicles), a component of the total net assets, amounts to \$3,254,017. The Authority uses these capital assets to provide essential services to its customers; consequently, these assets are not available to be liquidated for future spending needs. The remaining net assets, in the amount of \$18,062, are unrestricted.

**Condensed financial information**  
**Net assets**

	<u>2007</u>	<u>2006</u>
Current assets	<b>\$ 216,065</b>	\$ 243,146
Capital assets	<b><u>3,254,017</u></b>	<u>3,366,032</u>
 Total assets	 <b><u>3,470,082</u></b>	 <u>3,609,178</u>
 Current liabilities	 <b><u>198,003</u></b>	 <u>230,395</u>
 Net assets:		
Invested in capital assets	<b>3,254,017</b>	3,366,032
Unrestricted	<b><u>18,062</u></b>	<u>12,751</u>
 Total net assets	 <b><u>\$3,272,079</u></b>	 <u>\$3,378,783</u>

**Changes in net assets.** The Authority experienced a decrease in net assets of \$106,704 during the current fiscal year primarily because depreciation expense exceeded capital contributions. During the previous fiscal year, the Authority experienced a decrease in net assets of \$48,147. The decrease is higher in the current year because the prior year was a short fiscal period (six months).

The Authority's total revenues for the year ended December 31, 2007 were \$1,158,857. Virtually all of the Authority's revenues come from its constituent municipalities. During the current year, the Authority charged \$1,112,184 for its services, received \$41,362 in capital contributions, and earned \$5,311 in interest on its bank deposits.

**Byron-Gaines Utility Authority**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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The total cost of the Authority's operations amounted to \$1,257,868 in the year ended December 31, 2007. Expenses for the period ended December 31, 2006, were much lower because 2006 was a short six-month fiscal period. The Authority's most significant expenses were personnel costs (46 percent), shop supplies (18 percent), and depreciation (12 percent).

**Condensed financial information**  
**Changes in net assets**

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Charges for services	\$1,107,726	\$511,969
Other	4,458	16,259
Nonoperating revenues:		
Capital contributions	41,362	20,095
Interest income	<u>5,311</u>	<u>3,601</u>
 Total revenues	 <u>1,158,857</u>	 <u>551,924</u>
 Expenses:		
Personnel	576,177	243,206
Supplies	235,141	178,024
Professional services	106,673	35,522
Utilities	49,093	18,281
Repairs and maintenance	66,103	17,542
Insurance	31,114	13,135
Depreciation	145,684	71,843
Miscellaneous	<u>55,576</u>	<u>22,518</u>
 Total expenses	 <u>1,265,561</u>	 <u>600,071</u>
 Decrease in net assets	 <u>\$ (106,704)</u>	 <u>\$ (48,147)</u>

**Capital assets and debt administration**

*Capital assets*

The Authority's investment in capital assets as of December 31, 2007, amounts to \$3,254,017 (net of accumulated depreciation). Capital assets include utility system infrastructure, buildings, land improvements, shop and office equipment, and vehicles.

The net decrease in capital assets amounted to \$112,015. This year's major capital events included the following:

- Utility system improvements were acquired at a cost of \$26,700.
- Several shop and office equipment items were purchased for \$15,450.
- Dispositions of several small assets generated a loss of \$7,693

More detailed information about the Authority's capital assets is presented in Note 5 of the notes to the financial statements.

**Capital assets and debt administration (Continued)**

*Debt*

The Authority had no debt at the beginning or end of the current fiscal year.

**Economic condition and outlook**

The Authority continues to rely on support from its constituent municipalities to finance all operating costs and capital acquisitions.

**Contacting the Authority's financial management**

This financial report is designed to provide a general overview of the Authority's finances to its customers and creditors, and to demonstrate the Authority's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

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## INDEPENDENT AUDITORS' REPORT

**Members of the Commission  
Byron-Gaines Utility Authority**

We have audited the accompanying financial statements of the Byron-Gaines Utility Authority, as of December 31, 2007, and for the year then ended, as listed in the contents. These financial statements are the responsibility of the Byron-Gaines Utility Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 Byron-Gaines Utility Authority as of December 31, 2007, and the changes in financial position and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, on pages i through iv, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Siegfried Crandall P.C.*

May 6, 2008



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## **BASIC FINANCIAL STATEMENTS**

**Byron-Gaines Utility Authority**  
**STATEMENT OF NET ASSETS**  
*December 31, 2007*

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**ASSETS**

Current assets:

Cash	\$ 118,863
Receivables	85,042
Prepaid expenses	<u>12,160</u>

Total current assets 216,065

Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>3,254,017</u>
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Total assets 3,470,082

**LIABILITIES**

Current liabilities:

Accounts payable	24,747
Accrued expenses	28,256
Advances from constituent municipalities	<u>145,000</u>

Total current liabilities 198,003

**NET ASSETS**

Invested in capital assets	3,254,017
Unrestricted	<u>18,062</u>

Total net assets \$ 3,272,079

**Byron-Gaines Utility Authority**

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

Year ended December 31, 2007

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**OPERATING REVENUES**

Charges for services:

Charter Township of Gaines	\$ 585,113
Township of Byron	522,613
Other	<u>4,458</u>
 Total operating revenues	 <u>1,112,184</u>

**OPERATING EXPENSES**

Personnel:

Salaries and wages	414,879
Fringe benefits	161,298
Supplies - Shop and office	235,141
Professional services	106,673
Fuel	25,581
Utilities	49,093
Repairs and maintenance	66,103
Insurance	31,114
Depreciation	145,684
Miscellaneous	<u>22,302</u>
 Total operating expenses	 <u>1,257,868</u>

**OPERATING LOSS**

(145,684)

**NONOPERATING REVENUES (EXPENSES)**

Interest	5,311
Loss on disposal of capital assets	<u>(7,693)</u>
 Total nonoperating expenses	 <u>(2,382)</u>

**CAPITAL CONTRIBUTIONS FROM CONSTITUENT MUNICIPALITIES**

Charter Township of Gaines	9,225
Township of Byron	<u>32,137</u>
 Total capital contributions from constituent municipalities	 <u>41,362</u>

**CHANGE IN NET ASSETS**

(106,704)

**NET ASSETS - BEGINNING**

3,378,783

**NET ASSETS - ENDING**

\$ 3,272,079

See notes to financial statements

**Byron-Gaines Utility Authority**  
**STATEMENT OF CASH FLOWS**  
Year ended December 31, 2007

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 1,124,064
Payments to suppliers	(741,857)
Payments to employees	<u>(414,879)</u>
Net cash used in operating activities	<u>(32,672)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital contributions from constituent municipalities	41,362
Proceeds from sales of capital assets	788
Acquisition of fixed assets	<u>(42,150)</u>
Net cash provided by capital and related financing activities	<u>-</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	<u>5,311</u>
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**NET DECREASE IN CASH** (27,361)

**CASH - BEGINNING** 146,224

**CASH - ENDING** \$ 118,863

**Reconciliation of operating loss to net cash used in operating activities:**

Operating loss	\$ (145,684)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	145,684
Decrease in receivables	11,880
Increase (decrease) in:	
Prepaid expenses	(12,160)
Accounts payable	(34,671)
Accrued expenses	3,279
Customer deposits	<u>(1,000)</u>

Net cash used in operating activities \$ (32,672)

**Byron-Gaines Utility Authority**  
**STATEMENT OF FIDUCIARY NET ASSETS - Agency Fund**  
*December 31, 2007*

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**ASSETS**

Cash	\$ 340,074
Due from constituent municipalities	<u>256,192</u>
Total assets	<u>\$ 596,266</u>

**LIABILITIES**

Accounts payable	<u>\$ 596,266</u>
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*See notes to the financial statements*

**Byron-Gaines Utility Authority**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Byron-Gaines Utility Authority (the Authority) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies:

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial 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.

These financial statements include all the operations of the Authority, a municipal joint venture. The Authority was created under the provisions of Act 233 of the Public Acts of Michigan of 1955, as amended, through an agreement entered into by the Township of Byron and the Charter Township of Gaines on March 4, 2002. The purpose of the Authority is to acquire, own, construct, improve, enlarge, extend, maintain, and operate sewage disposal systems and water supply systems for the benefit of its constituent municipalities. Initially, it is the intent of the constituent municipalities that the Authority operate and maintain the sewage disposal systems and water supply systems located in and owned by the constituent municipalities. Capital expenditures are supported by contributions from the constituent municipalities.

The constituent municipalities have entered into contracts with certain nonconstituent municipalities for the furnishing of sewer and water service to utility systems owned by the constituent municipalities. The Authority, in a fiduciary capacity, collects money from the constituent municipalities and pays the nonconstituent municipalities for these services. This activity is accounted for in the Authority's Agency Fund.

*b) Basis of accounting:*

The Authority uses the accrual basis of accounting to account for its operations. 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 issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector standards.

*c) Operating revenues and expenses:*

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to the constituent municipalities for operating and maintaining the utility systems located in and owned by the constituent municipalities. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Byron-Gaines Utility Authority**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets and liabilities:*

i) *Cash* - Cash is 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.

ii) *Receivables* - All receivables are considered to be fully collectible.

iii) *Capital assets* - Capital assets, which include property, equipment, and vehicles, are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	5 - 40 years
Buildings	40 years
Equipment	5 - 10 years
Vehicles	7 years

iv) *Compensated absences (vacation and sick leave)* - It is the Authority's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service. Vested compensated absences are accrued when earned.

NOTE 2 - CASH:

Cash, as presented in the accompanying financial statements, consists of the following:

	<u>Fund</u>		<u>Total</u>
	<u>Operating</u>	<u>Fiduciary</u>	
Deposits	\$ 118,763	\$ 340,074	\$ 458,837
Cash on hand	<u>100</u>	<u>-</u>	<u>100</u>
Totals	<u>\$ 118,863</u>	<u>\$ 340,074</u>	<u>\$ 458,937</u>

**Byron-Gaines Utility Authority**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 2 - CASH (Continued):

*Deposits with financial institutions* - State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Authority will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. As of December 31, 2007, \$267,441 of the Authority's bank balances of \$467,441 was exposed to custodial credit risk because it was uninsured. The Authority believes that it is impractical to insure all bank deposits. The Authority evaluates each financial institution with which it deposits funds and assesses the risk level of each financial institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 3 - RECEIVABLES:

At December 31, 2007, receivables consist of amounts due from constituent municipalities that are due within one year.

NOTE 4 - CAPITAL ASSETS:

Capital asset activity for the short year ended December 31, 2007, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets being depreciated:				
Utility system insurable assets	\$ 2,516,823	\$ 26,700	\$ (7,500)	\$ 2,536,023
Land improvements	120,018	-	-	120,018
Buildings and improvements	1,254,856	-	(1,500)	1,253,356
Shop equipment	93,276	13,877	(1,790)	105,363
Office equipment and furniture	50,549	1,573	-	52,122
Vehicles	169,787	-	(2,500)	167,287
Subtotal	<u>4,205,309</u>	<u>42,150</u>	<u>(13,290)</u>	<u>4,234,169</u>
Less accumulated depreciation for:				
Utility system insurable assets	(584,451)	(52,328)	2,318	(634,461)
Land improvements	(19,488)	(11,769)	-	(31,257)
Buildings and improvements	(105,868)	(31,799)	375	(137,292)
Shop equipment	(34,202)	(15,298)	1,283	(48,217)
Office equipment and furniture	(28,046)	(9,228)	-	(37,274)
Vehicles	(67,222)	(25,262)	833	(91,651)
Subtotal	<u>(839,277)</u>	<u>(145,684)</u>	<u>4,809</u>	<u>(980,152)</u>
Total capital assets being depreciated, net	<u>\$ 3,366,032</u>	<u>\$ (103,534)</u>	<u>\$ (8,481)</u>	<u>\$ 3,254,017</u>

**NOTE 5 - ADVANCES FROM CONSTITUENT MUNICIPALITIES:**

The constituent municipalities provided advances, which represent a working capital reserve for the Authority that is to be equal to three months of budgeted direct expenses of the Authority.

**NOTE 6 - DEFINED CONTRIBUTION PENSION PLAN:**

The Authority provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate starting the first day of the month following their date of employment. The Authority contributes 10% of each qualified employee's base salary to the plan. The Authority's contributions are fully vested immediately. The Authority is not a trustee of the plan, nor is the Authority responsible for investment management of plan assets. The Authority made the required contributions of \$39,872 for the year ended December 31, 2007.

**NOTE 7 - RISK MANAGEMENT:**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), and medical benefits provided to employees. The Authority has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

May 6, 2008

To the Members of the Commission  
Byron-Gaines Utility Authority

We have audited the financial statements of the Byron-Gaines Utility Authority for the year ended December 31, 2007, and have issued our report thereon dated May 6, 2008. Professional standards require that we provide you with the following information related to our audit.

*Our Responsibility under U.S. Generally Accepted Auditing Standards*

As stated in our engagement letter dated November 29, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Byron-Gaines Utility Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Byron-Gaines Utility Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.



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Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Authority's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

*Audit Adjustments*

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We did not find it necessary to propose any audit adjustments.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended December 31, 2007.

*Other Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Byron-Gaines Utility Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This communication is intended solely for the information and use of the Commission of the Byron-Gaines Utility Authority and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Sigfried Crandall P.C.*