

Powers Spalding Water Authority

Annual Financial Report

February 28, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name POWERS SPALDING WATER AUTHORITY		County MENOMINE	
Fiscal Year End 02-28-07		Opinion Date 05-06-07		Date Audit Report Submitted to State JUNE 15, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	NONE TO REPORT
Other (Describe)	<input type="checkbox"/>	

Certified Public Accountant (Firm Name) CARL R. SORENSEN, CPA		Telephone Number (715) 735-9021	
Street Address 844 PIERCE AVE		City MARINETTE	State WI
Authorizing CPA Signature 		Printed Name CARL R. SORENSEN	Zip 54143
		License Number 1101012650	

Powers Spalding Water Authority
February 28, 2007

Table of Contents

Independent Auditors Report	Page 1
Basic Financial Statements	
Statement of Net Assets	2
Statement of Revenues, Expenses & Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 10
Additional Independent Auditor's Report	
Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	11 - 12

Carl R. Sorensen

Certified Public Accountant

844 Pierce Avenue
"In The Northern Building"
P.O. Box 225

Marinette, Wisconsin 54143
Phone 715-735-9021
Fax 715-735-7116

Independent Auditor's Report

To the Board of Directors
Powers Spalding Water Authority
Powers, MI 49874

I have audited the accompanying basic financial statements of Powers Spalding Water Authority as of February 28, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of Powers Spalding Water Authority as of February 28, 2007, and the changes in financial position and cash flows where applicable for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented management's discussion and analysis which is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report letter dated May 6, 2007, on my consideration of the Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.



Carl R. Sorensen
Certified Public Accountant
May 6, 2007

Powers Spalding Water Authority
Statement of Net Assets
Proprietary Fund
February 28, 2007

ASSETS

Current Assets

Cash and investments	\$	20,119
Accounts receivable		12,653
Prepaid expense		<u>6,207</u>
Total Current Assets		38,979

Noncurrent Assets

Restricted Assets		
Bond reserve fund		37,400
Bond redemption fund		16,385
Maintenance fund		41,724
Capital Assets		
Plant in service		2,229,747
Accumulated depreciation		(473,389)
Other Assets		
Unamortized debt issuance cost		<u>39,182</u>
Total Noncurrent Assets		<u>1,891,049</u>

TOTAL ASSETS 1,930,028

LIABILITIES

Current Liabilities

Accounts payable		1,374
Accrued interest payable		11,006
Current portion of long-term debt		<u>9,000</u>
Total Current Liabilities		<u>21,380</u>

LONG-TERM LIABILITIES 578,000

TOTAL LIABILITIES 599,380

NET ASSETS

Invested in capital assets, net of related debt		1,169,358
Restricted		95,509
Unrestricted		<u>65,781</u>
TOTAL NET ASSETS		<u>\$ 1,330,648</u>

Powers Spalding Water Authority
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended February 28, 2007

OPERATING REVENUES	
Service	\$ 104,978
Fees	<u>10,000</u>
Total Operating Revenues	<u>114,978</u>
OPERATING EXPENSES	
Operation	27,159
Administration	17,866
Depreciation	<u>43,619</u>
Total Operating Expenses	<u>88,644</u>
OPERATING INCOME	<u>26,334</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment income	3,348
Interest expense	<u>(26,011)</u>
Total Non-Operating Revenues (Expenses)	<u>(22,663)</u>
CHANGE IN NET ASSETS	3,671
NET ASSETS - BEGINNING	<u>1,326,977</u>
NET ASSETS - ENDING	<u>\$ 1,330,648</u>

Powers Spalding Water Authority
Statement of Net Assets
Proprietary Fund
February 28, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from user charges	\$ 103,440
Cash received from other Governmental units	10,000
Cash payments to employees	(11,179)
Cash payments to suppliers	<u>(34,790)</u>
Net Cash Provided by Operating Activities	67,471
 CASH FLOWS USED FOR CAPITAL & RELATED FINANCING ACTIVITIES:	
Capital assets purchased	(31,714)
Principal paid	(9,000)
Interest paid	<u>(25,263)</u>
Net Cash Used for Capital & Related Financing Activities	<u>(65,977)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>3,348</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,842
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>110,786</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 115,628</u>
 CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating income	\$ 26,334
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	43,619
Changes in Assets and Liabilities:	
Accounts receivable	(1,538)
Prepaid expenses	(2,045)
Accounts payable	<u>1,101</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 67,471</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF NET ASSETS TO STATEMENT OF CASH FLOWS:	
Amounts Per Statement of Net Assets:	
Unrestricted cash and investments	\$ 20,119
Restricted cash and investments	<u>95,509</u>
CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	<u>\$ 115,628</u>

Powers Spalding Water Authority
Statement of Net Assets
Proprietary Fund
February 28, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Introduction

The Powers Spalding Water Authority was incorporated in 1990, pursuant to Act 33, Public Acts of Michigan, 1955 as amended. The authority operates as a jointly Governed Organization. The participants of the Authority are the Village of Powers, Spalding Township and Pinecrest Medical Care Facility. The Authority operates under a Governing body of six members, two members appointed by each participant.

The purpose of the Authority is to provide water service to the residents of the three participants.

Reporting Entity

The Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This statement provides that proprietary funds may apply all GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless pronouncements conflict or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles (APB Opinions and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. The Authority has elected to apply only FASB, APB, and ARB materials issued on or before November 30, 1989 to the proprietary funds.

Measurement Focus and Basis Accounting

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues are charges to customers for services. Operating expenses for enterprise funds 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.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Cash and Investments

Cash and investments are combined on the statement of net assets. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For the purpose of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from the date of acquisition are considered to be cash equivalents.

Powers Spalding Water Authority
Statement of Net Assets
Proprietary Fund
February 28, 2007

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

Assets, Liabilities and Net Assets or Equity (continued)

Accounts Receivable

The Primary source of accounts receivable is from customers who are billed monthly for water services. The Authority uses the direct write off method for uncollectible amounts.

User Charges

The Authority charges customers of its Water Department for water usage based on the water flow meter readings. The rates are established by the Authority and are generally based on operating costs as well as nonoperating items such as interest expense.

Prepaid Items

Payments made to vendors that will benefit the end of the current fiscal year are recorded as prepaid items.

Restricted Cash

Cash has been set aside to provide for debt retirement and replacement of certain water plant equipment.

Capital Assets

Capital assets which include property, plant, equipment and infrastructure assets are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of \$1,000 or higher and an estimated useful life in excess of one year. 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.

Property, plant and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Business-Type Activities Years</u>
Buildings, Structure & Improvements	15 - 50

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold otherwise disposed of, the asset account and related accumulated depreciation amount are reduced and any gain or loss is included in operations. The depreciation expense for the year was \$43,619.

Powers Spalding Water Authority
Statement of Net Assets
Proprietary Fund
February 28, 2007

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

Assets, Liabilities and Net Assets or Equity (continued)

Unamortized Bond Issuance Costs

Bond issue costs are recorded as other assets and are being amortized over the life of the bond.

Compensated Absences

Under terms of employment, employees are not compensated for vacation and sick leave. Therefore, no long-term liability is recorded at year end.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- a.) *Invested in capital assets net of related debt* - amount of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- b.) *Restricted net assets* - amount of net assets that are subject to restrictions that are imposed by:
 - 1. External groups such as creditors, contributors or laws or regulations of other Governments -or
 - 2. Law through constitutional provisions or enabling legislation
- c.) *Unrestricted net assets* - net assets that are neither classified or restricted nor as invested in capital assets net of related debt.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain disclosures. Accordingly, actual results may differ from these estimates.

NOTE 2 - CASH AND INVESTMENTS:

The Authority is authorized to invest its funds in accordance with Michigan Statutes. Allowable investments are as follows:

Time Deposits, Direct Obligations of the United States Treasury, United States Repurchase Agreements, Bankers Alliances of U.S. Banks, Commercial Paper, certain Mutual Funds and Investment Pools.

Deposits in banks are insured by federal insurance in the amount of \$100,000 for demand deposits and \$100,000 for time deposits.

Powers Spalding Water Authority
Statement of Net Assets
Proprietary Fund
February 28, 2007

NOTE 2 - CASH AND INVESTMENTS (continued):

At year end the Authority's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Proprietary Fund</u>
Cash & cash equivalents	\$ 115,628
Investments	—
Total	\$ 115,628

The breakdown between deposits and investments for the Authority is as follows:

Deposits	\$ 116,453
Investments in securities	—
Petty cash and cash on hand	—
Total	\$ 116,453

As required by Governmental Accounting Standards Board Statement No. 40, *Deposits and Investment Risk Disclosures*, the following represents a summary of deposits as of June 30, 2006:

Fully insured deposits	\$ 116,453
Collateralized with securities held by the pledging financial institution in the schools name	—
Collateralized with securities held by the pledging financial institutions trust department	—
Uncollateralized	—
	\$ 116,453

NOTE 3 - RESTRICTED ASSETS:

Restricted assets on February 28, 2007 totaled \$59,992 held by the following purposes:

Bond reserve	\$ 37,400
Bond redemption	16,385
Maintenance	6,207
	\$ 59,992

Powers Spalding Water Authority
Statement of Net Assets
Proprietary Fund
February 28, 2007

NOTE - 4 CAPITAL ASSETS:

Capital asset activity for the year ended February 28, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not Being Depreciated				
Land	\$ 25,418	\$ -	\$ -	\$ 25,418
Construction in progress	<u>15,302</u>	<u>31,714</u>	<u>-</u>	<u>47,016</u>
Total Capital Assets Not Being Depreciated	<u>40,720</u>	<u>31,714</u>	<u>-</u>	<u>72,434</u>
Capital Assets Being Depreciated:				
Property and equipment	2,157,313	-	-	2,157,313
Less: accumulated depreciation	<u>429,770</u>	<u>43,619</u>	<u>-</u>	<u>473,389</u>
Total Capital Assets Being, Net of Depreciation	<u>1,727,543</u>	<u>(43,619)</u>	<u>-</u>	<u>1,683,924</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$1,768,263</u>	<u>\$ (11,905)</u>	<u>\$ -</u>	<u>\$1,756,358</u>

Depreciation expense was charged to functions of the Authority as follows:

Water utility	<u>\$ 43,619</u>
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NOTE 5 - LONG-TERM DEBT:

The following is a summary of changes in long-term obligations of the Authority for the year ended February 28, 2007:

	<u>Outstanding 03-01-06</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 02-28-07</u>	<u>Due Within One Year</u>
Revenue Bond	<u>\$ 596,000</u>	<u>\$ -</u>	<u>\$ 9,000</u>	<u>\$ 587,000</u>	<u>\$ 9,000</u>

Total interest during the year on long-term debt was \$26,011.

	<u>Date of Issuance</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Indebtedness</u>	<u>Balance 02-28-07</u>
Long-Term Obligations: Revenue bond	04-19-95	04-19-35	4.5%	\$ 641,000	<u>\$ 587,000</u>

Powers Spalding Water Authority
Statement of Net Assets
Proprietary Fund
February 28, 2007

NOTE 5 - LONG-TERM DEBT (continued):

Debt service requirements to maturity are as follows:

Year Ended <u>02-28-07</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 9,000	\$ 26,213	\$ 35,213
2009	10,000	25,785	35,785
2010	10,000	25,335	35,335
2011	12,000	27,050	39,050
2012	12,000	26,450	38,450
2013-2015	36,000	65,484	101,484
2016-2020	77,000	103,704	180,704
2021-2025	100,000	82,848	182,848
2026-2030	127,000	58,524	185,524
2031-2035	<u>194,000</u>	<u>26,305</u>	<u>220,305</u>
Total	<u>\$ 587,000</u>	<u>\$ 467,698</u>	<u>\$ 1,054,698</u>

NOTE 6 - NET ASSETS:

Net assets at February 28, 2007 includes the following:

Invested in Capital Assets, Net of Related Debt:	
Net capital assets	\$ 1,756,358
Less: related long-term debt outstanding	(587,000)
Total Invested Capital Assets, Net of Related Debt	<u>1,169,358</u>
Restricted:	
Bond reserve	37,400
Bond redemption	16,385
Maintenance	<u>41,724</u>
Total Restricted Assets	<u>95,509</u>
Unrestricted	<u>65,781</u>
Total Net Assets	<u>\$ 1,330,648</u>

NOTE 7 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health claims; unemployment compensation claims and environmental damage for which the Authority purchases commercial insurance. There has been no reduction in insurance coverage from the prior year. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in the past year.

ADDITIONAL INDEPENDENT AUDITOR'S REPORT

Carl R. Sorensen

Certified Public Accountant

844 Pierce Avenue
"In The Northern Building"
P.O. Box 225

Marinette, Wisconsin 54143
Phone 715-735-9021
Fax 715-735-7116

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the Provider Agency Audit Guide

To the Board of Directors
Powers Spalding Water Authority
Powers, Michigan

I have audited the financial statements of the Powers Spalding Water Authority, Powers Michigan, as of and for the year ended February 28, 2007, and have issued my report thereon dated May 6, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Provider Agency Guide*, issued by the State of Wisconsin.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or a combination of control deficiencies that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

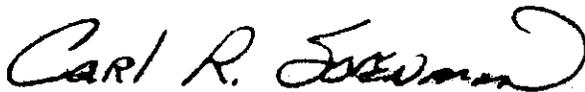
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses as defined above.

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards
and the Provider Agency Audit Guide (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Authority Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Carl R. Sorensen
Certified Public Accountant
May 6, 2007