

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 Big Creek - Mentor Utility Authority		County Oscoda	
Fiscal Year End 3/31/07		Opinion Date 8/6/07		Date Audit Report Submitted to State 9/26/07			

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"/>	See Report on Internal Control with financial statements	
Other (Describe)		<input type="checkbox"/>	None required	
Certified Public Accountant (Firm Name) Robertson & Carpenter CPAs, P.C.			Telephone Number 989-826-5442	
Street Address P.O. Box 308			City Mio	State MI
			Zip 48647	
Authorizing CPA Signature		Printed Name Robert J. Carpenter		License Number 1101008247

**Big Creek - Mentor Utility Authority
Oscoda County, Michigan
Financial Report
With Supplemental Information
March 31, 2007**

Big Creek - Mentor Utility Authority

Table of Contents

Page

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Proprietary Funds:	
Statement of Net Assets	
Business-type Activities - Enterprise Funds	10
Statement of Revenues, Expenses and Changes in Net Assets	
Business-type Activities - Enterprise Funds	11
Statement of Cash Flows	
Business-type Activities - Enterprise Funds	12
Notes to Financial Statements	13-19
Supplemental Information	
All Proprietary Funds	
Combining Balance Sheet	20
Combining Statement of Revenues, Expenses, and	
Changes in Fund Equity	21
Combining Statement of Cash Flows	22
Water Fund	
Comparative Balance Sheet	23
Comparative Statement of Revenues, Expenses, and	
Changes in Fund Equity	24
Comparative Statement of Cash Flows	25
Sewer Fund	
Comparative Balance Sheet	26
Comparative Statement of Revenues, Expenses, and	
Changes in Fund Equity	27
Comparative Statement of Cash Flows	28
Appendices	
Report on Internal Control Over Financial Reporting and on Compliance	
and Other Matters Based on an Audit of Financial Statements	
Performed in Accordance With <i>Government Auditing Standards</i>	29-30
Schedule of Findings and Responses	31



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Robert J. Carpenter, CPA
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INDEPENDENT AUDITOR'S REPORT

Utility Authority Board
Big Creek - Mentor Utility Authority
Mio, MI 48647

We have audited the accompanying financial statements of the business-type activities of Big Creek - Mentor Utility as of and for the year ended March 31, 2007, which comprise the Utility Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Big Creek - Mentor Utility Authority's management. Our responsibility is to express opinions 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 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Big Creek - Mentor Utility Authority as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2007 on our consideration of Big Creek - Mentor Utility Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing to internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on page 3 through page 7 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise Big Creek - Mentor Utility Authority's basic financial statements. The items identified as supplementary information in the table of contents; the combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of Big Creek - Mentor Utility Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Comparative total data for the prior year have been presented in the supplementary financial information in order to provide an understanding of the change in the Authority's financial position and operations.

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants
Mio, Michigan
August 6, 2007

Management's Discussion and Analysis

As management of Big Creek - Mentor Utility Authority (the "Utility Authority"), we offer readers of the Utility Authority's financial statements this narrative overview and analysis of the financial activities of the Utility Authority for the fiscal year ended March 31, 2007.

Financial Highlights

- The assets of the Utility Authority exceeded its liabilities at the close of the most recent fiscal year by \$6,729,173 (*net assets*). Of this amount, \$454,817 (*unrestricted net assets*) may be used to meet the Utility Authority's ongoing obligations
- The Utility Authority's total net assets decreased by \$165,088.
- The operating revenues increased by \$37,841, while operating expenses decreased by \$7,763.
- Local capital contributions increased \$72,892 which was composed of \$30,292 from the townships of Big Creek and Mentor with balance coming from new users.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Utility Authority's basic financial statements. The Utility Authority's basic financial statements consist of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide financial statements. The *Government-wide financial statements* are designed to provide readers with a broad overview of the Utility Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Utility Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Utility Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the Government-wide financial statements present functions of the Utility Authority that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The business-type activities of the Utility Authority include providing water and sewer services.

The Government-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements. 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 Utility Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Utility Authority can be found in one category – proprietary funds.

Proprietary funds. Big Creek-Mentor Utility Authority maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the Government-wide financial statements. Big Creek-Mentor Utility Authority uses enterprise funds to account for its Water and Sewer funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on the Water and Sewer funds which are considered to be major funds of Big Creek-Mentor Utility Authority.

The basic proprietary fund financial statements can be found on pages 10-12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-19 of this report.

Other information. In addition to the basic financial statements and the accompanying note, this report also presents other supplementary information concerning the proprietary funds comparisons with the prior year. This other information can be found on pages 20-28 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Utility Authority, assets exceeded its liabilities by \$6,729,173 at the close of the most recent fiscal year.

The largest portion of the Utility Authority's net assets (92%) reflects its investment in capital assets (e.g., land, land improvements, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The Utility Authority uses these capital assets to provide water and sewer services to the community; consequently, these assets are *not* available for future spending.

Utility Authority's Net Assets

	Business – Type Activities	
	<u>March 31, 2007</u>	<u>March 31, 2006</u>
Current and Other Assets	\$ 733,071	\$ 745,434
Capital Assets, Net	<u>8,135,316</u>	<u>8,328,938</u>
Total Assets	<u>8,868,387</u>	<u>9,074,372</u>
Current Liabilities	198,214	212,111
Long Term Liabilities	<u>1,941,000</u>	<u>1,968,000</u>
Total Liabilities	<u>2,139,214</u>	<u>2,180,111</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	6,167,316	6,335,938
Restricted for Debt Service	107,040	83,797
Unrestricted	<u>454,817</u>	<u>474,526</u>
Total Net Assets	<u>\$ 6,729,173</u>	<u>\$ 6,894,261</u>

The Utility Authority's net assets decreased by \$165,088 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$19,709 or 4%, during fiscal year ended March 31, 2007.

Utility Authority's Changes in Net Assets

	Business –Type Activities	
	March 31, 2007	March 31, 2006
Revenue:		
Program Revenue:		
Charges for services	\$ 325,479	\$ 287,638
General Revenue:		
Interest Earnings	9,709	8,825
Capital Contributions	72,892	121,546
Total Revenue	408,080	418,009
Expenses:		
Water and Sewer	474,143	447,779
Interest on long term debt	99,025	100,250
Total Expenses	573,168	548,029
(Decrease) in Net Assets	(165,088)	(130,020)
Net Assets, Beginning of Year	6,894,261	7,024,281
Net Assets, End of Year	\$ 6,729,173	\$ 6,894,261

Business -Type activities. The Utility Authority's total operating revenues increased by \$37,841 from last fiscal year. This was primarily attributed to new users being connected to the system. Expenses increased by \$26,364 due to increases in repairs and inflationary increases in other operating costs.

Financial Analysis of the Government's Funds

As noted earlier, the Utility Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary funds. Big Creek-Mentor Utility Authority's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer funds at the end of the fiscal year amounted to \$454,817. The restricted net assets amounted to \$107,040. Other factors concerning the finances of the proprietary funds have already been addressed in the discussion of Big Creek-Mentor Utility Authority's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Utility Authority's investment in capital assets for its business - type activities as of March 31, 2007, amounted to \$8,135,316 (net of accumulated depreciation). Investment in capital assets includes land, the water distribution system, the sewer collection system, and equipment. Additions totaled \$1,380 for the fiscal year.

Utility Authority's Capital Assets (net of depreciation)

	<u>March 31, 2007</u>	<u>March 31, 2006</u>
Land – Water Fund	16,772	16,772
Land – Sewer Fund	47,133	47,133
Water System	2,064,972	2,114,698
Sewer System	6,003,971	6,148,576
Equipment	<u>2,468</u>	<u>1,759</u>
Total	<u>\$ 8,328,938</u>	<u>\$ 8,328,938</u>

Additional information on the Utility Authority's capital assets can be found in note 3 on page 17 of this report.

Long term debt. Big Creek-Mentor Utility Authority has two outstanding bond issues, both dated June 17, 1997. These issues were used to assist in the construction of the sewer system. The original amount of issue #1 was \$2,000,000 and the original amount of issue #2 was \$135,000. The rate of interest is 5.00% for both issues. Payments for the year ended March 31, 2007 totaled \$124,025 including interest of \$99,025 and principal of \$25,000. The outstanding principal due at March 31, 2007 was \$1,968,00.

Factors Bearing on the Utility Authority's Future

The Big Creek-Mentor Utility Authority Board reviews the usage and billing rates on an annual basis and makes adjustments as needed. Additional users are anticipated coming on line with the system in the year ended March 31, 2008.

Requests for Information

This financial report is designed to provide a general overview of the Utility Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Big Creek - Mentor Utility Authority
P.O. Box 99
Mio, Michigan 48647

Basic Financial Statements

Big Creek - Mentor Utility Authority
Statement of Net Assets
Proprietary Funds
March 31, 2007

		Business-type Activities Enterprise Fund
ASSETS		
Current Assets:		
Cash and cash equivalents	\$	283,817
Accounts receivable - usage fees		44,877
Total Current Assets		328,694
Noncurrent Assets:		
Restricted cash and cash equivalents		107,040
Accounts receivable - hookup fees		297,337
Capital assets		8,135,316
Total Noncurrent Assets		8,539,693
Total Assets		8,868,387
 LIABILITIES		
Current Liabilities:		
Accounts payable	\$	19,135
Due to townships		152,079
Current portion of long-term debt		27,000
Total Current Liabilities		198,214
Noncurrent Liabilities:		
Long-term debt		1,941,000
Total Noncurrent Liabilities		1,941,000
Total Liabilities		2,139,214
 NET ASSETS		
Invested in capital assets, net of related debt		6,167,316
Restricted for debt service		107,040
Unrestricted		454,817
Total Net Assets	\$	6,729,173

See accompanying notes

Big Creek - Mentor Utility Authority
Statement of Revenues, Expenses, and Changes in Net Fund Assets
Proprietary Funds
Year Ended March 31, 2007

	Business-type Activities Enterprise Fund
OPERATING REVENUES	
Charges for services	\$ 295,375
Penalties and interest charges	23,909
Miscellaneous	6,195
Total operating revenues	325,479
OPERATING EXPENSES	
Contracted services	196,031
Insurance	8,785
Maintenance and repairs	13,817
Wages and payroll taxes	16,190
Professional services	4,463
Printing and publishing	534
Office expenses	3,250
Supplies	62
Licenses and permits	4,492
Utilities	31,517
Depreciation	195,002
Total operating expenses	474,143
OPERATING INCOME (LOSS)	(148,664)
NON OPERATING REVENUES (EXPENSES)	
Interest income	9,709
Interest expense - bonds	(99,025)
Net nonoperating revenues (expenses)	(89,316)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	(237,980)
Capital contributions	72,892
CHANGE IN NET ASSETS	(165,088)
NET ASSETS - April 1, 2006	6,894,261
NET ASSETS - March 31, 2007	\$ 6,729,173

See accompanying notes

Big Creek - Mentor Utility Authority
Statement of Net Assets
Proprietary Funds
March 31, 2007

ASSETS	Business-type Activities Enterprise Funds	
	Water Fund	Sewer Fund
	Current Assets	
Cash and cash equivalents	\$ 22,694	\$ 261,123
Accounts receivable - usage fees	8,170	36,707
Total Current Assets	30,864	297,830
Noncurrent Assets:		
Restricted cash and cash equivalents	-	107,040
Accounts receivable - hookup fees	-	297,337
Capital assets	2,081,744	6,053,572
Total Noncurrent Assets	2,081,744	6,457,949
Total assets	2,112,608	6,755,779
LIABILITIES		
Current Liabilities		
Accounts payable	5,226	13,909
Due to townships	14,000	138,079
Current portion of noncurrent liabilities	-	27,000
Total Current Liabilities	19,226	178,988
Noncurrent Liabilities		
Bonds payable	-	1,941,000
Total Noncurrent Liabilities	-	1,941,000
Total Liabilities	19,226	2,119,988
NET ASSETS		
Invested in capital assets - net of related debt	2,081,744	4,085,572
Restricted for debt service	-	107,040
Unrestricted	11,638	443,179
Total Net Assets	\$ 2,093,382	\$ 4,635,791

See accompanying notes

Big Creek - Mentor Utility Authority
Statement of Revenue, Expenses, and Changes in Net Assets
Proprietary Funds
March 31, 2007

	Business-type Activities Enterprise Funds	
	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating Revenues		
Water sales	\$ 65,943	\$ -
Sewage disposal services	-	229,432
Penalties and interest charges	1,630	22,279
Installation and other miscellaneous charges	-	6,195
	<u>67,573</u>	<u>257,906</u>
Operating Expenses		
Contracted services	61,412	134,619
Insurance	-	8,785
Maintenance and repairs	-	13,817
Wages and payroll taxes	-	16,190
Professional services	-	4,463
Printing and publishing	-	534
Office expenses	-	3,250
Supplies	-	62
Licenses and permits	-	4,492
Utilities	2,964	28,553
Depreciation	49,726	145,276
Total Operating Expenses	<u>114,102</u>	<u>360,041</u>
Operating Income (Loss)	<u>(46,529)</u>	<u>(102,135)</u>
Nonoperating Revenues (Expenses)		
Interest and investment revenue	151	9,558
Interest expense	-	(99,025)
Total Nonoperating Revenue (Expenses)	<u>151</u>	<u>(89,467)</u>
Income (Loss) Before Contributions	(46,378)	(191,602)
Capital contributions	<u>-</u>	<u>72,892</u>
Change in Net Assets	(46,378)	(118,710)
Total Net Assets - Beginning	<u>2,139,760</u>	<u>4,754,501</u>
Total Net Assets Ending	<u>\$ 2,093,382</u>	<u>\$ 4,635,791</u>

See accompanying notes

Big Creek - Mentor Utility Authority
Statement of Cash Flows
Proprietary Funds
Year Ended March 31, 2007

	Business-type Activities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 357,491
Cash payments to suppliers for goods and services	(278,831)
Cash payments to employees for services	(16,206)
	62,454
Net cash provided (used) by operating activities	62,454
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(1,380)
Contributed capital - Local	72,892
Principal paid on bonds	(25,000)
Interest paid on bonds	(99,025)
	(52,513)
Net cash provided by capital and related financing activities	(52,513)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	9,709
	9,709
NET increase (decrease) in cash	19,650
CASH - April 1, 2005	371,207
CASH - March 31, 2006	\$ 390,857
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income (loss)	\$ (148,664)
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation	195,002
(Increase) decrease in accounts receivable	32,013
Increase (decrease) in accounts payable	(15,897)
	62,454
Net cash provided (used) by operating activities	\$ 62,454

See accompanying notes

Big Creek - Mentor Utility Authority
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Big Creek - Mentor Utility Authority ("the Utility Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Utility Authority:

Reporting Entity

The Utility Authority operates under an appointed Utility Authority Board composed of the Supervisors from Big Creek and Mentor Townships, one person appointed by the Big Creek Township Board, one person appointed by the Mentor Township Board, and one person appointed by majority vote of the four members of the Utility Authority Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Utility Authority's reporting entity, and which organizations are legally separate, component units of the Utility Authority. Based on the application criteria, the Utility Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and statement of revenues, expenses and changes in net assets) report information as a whole on all of the nonfiduciary activities of the Utility Authority. For the most part, the effect of interfund activity has been removed from these statements. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All the Utility Authority's government-wide activities are considered business-type activities.

The accounts of the Utility Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

Separate financial statements are provided for the major proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in accounts and reported in financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The Utility Authority reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewage collection system.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with standards of the Governmental Accounting Standards Board. The Utility Authority has elected to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods and services or privileges provided; (2) operating grants and contributions; (3) capital grants and contributions, including special assessments (if any).

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of hook-up fees intended to recover the cost of infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments (certificates of deposit) with a maturity of 12 months or less.

Restricted Assets

The terms of the Sewage Disposal System Revenue Bonds recorded in the Sewer enterprise fund, require amounts to be set aside in a Bond Reserve Account. This amount has been classified as a restricted asset.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure are reported in the business-type activities column of the government-wide financial statements. Capital assets are defined by the Utility Authority as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities, and Net Assets (continued)

Capital Assets (continued)

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

Water System	50 years
Sewer System	50 years
Equipment	5-10 years

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long term obligations (if any) are reported as liabilities in the business-type activities and the proprietary fund statement of net assets.

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 revenues and expenses during the reporting period. Actual amounts could vary from those estimates.

Note 2 - Deposits and Investments

Deposits are carried at cost. Deposits are in one financial institution in the name of the Big Creek - Mentor Utility Authority Treasurer. Michigan Compiled Laws, Section 129.91, as amended, authorizes the Utility Authority to deposit and invest in the accounts of a state or nationally chartered bank, a state or federally chartered savings and loan association, a savings bank, or a credit union whose deposits are insured by an agency of the U.S. government and which maintains a principal office or branch office in this state under the law of this state of the United States; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund.

The Utility Authority's investments are in accordance with statutory authority.

Big Creek - Mentor Utility Authority
Notes to Financial Statements
March 31, 2007

Note 2 - Deposits and Investments (continued)

At year-end, the Utility Authority's deposits were reported in the basic financial statements in the following categories:

	<u>Business-type Activities</u>
Cash and cash equivalents	\$ 283,817
Restricted Assets	107,040
Total	<u>\$ 390,857</u>

The breakdown of deposits is as follows:

Petty cash	\$ 100
Bank deposits (checking and savings accounts, and certificates of deposit)	390,757
Total	<u>\$ 390,857</u>

The bank balance of the Utility Authority's deposits is \$390,757, of which \$200,000 is covered by federal depository insurance.

Investments are classified into three categories of credit risk as follows:

- Category 1: Insured or collateralized with securities held by the Utility Authority or its agent in the Utility Authority's name
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Utility Authority's name.
- Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Utility Authority's name).

The Utility Authority did not have any investments to be classified as to risk at year end.

The Utility Authority's investment policy has not been updated to conform to Governmental Accounting Standards Board #40.

Big Creek - Mentor Utility Authority
Notes to Financial Statements
March 31, 2007

Note 3 - Capital Assets

Capital asset activity for the year was as follows:

Business-type activities:	<u>April 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>March 31, 2007</u>
Capital assets not being depreciated:				
Water Fund:				
Land	\$ 16,772	\$ -	\$ -	\$ 16,772
Sewer Fund:				
Land	<u>47,133</u>	<u>-</u>	<u>-</u>	<u>47,133</u>
Subtotal	<u>63,905</u>	<u>-</u>	<u>-</u>	<u>63,905</u>
Capital assets being depreciated:				
Water Fund:				
Water system	2,486,263	-	-	2,486,263
Sewer Fund:				
Sewer system	7,230,255	-	-	7,230,255
Equipment	<u>5,957</u>	<u>1,380</u>	<u>-</u>	<u>7,337</u>
Subtotal	<u>9,722,475</u>	<u>1,380</u>	<u>-</u>	<u>9,723,855</u>
Less: Accumulated depreciation				
Water Fund:				
Water system	371,565	49,726	-	421,291
Sewer Fund:				
Sewer system	1,081,679	144,605	-	1,226,284
Equipment	<u>4,198</u>	<u>671</u>	<u>-</u>	<u>4,869</u>
Subtotal	<u>1,457,442</u>	<u>195,002</u>	<u>-</u>	<u>1,652,444</u>
Net capital assets being depreciated	<u>8,265,033</u>	<u>(193,622)</u>	<u>-</u>	<u>8,071,411</u>
Business-type activities total assets				
Net of depreciation	<u>\$ 8,328,938</u>	<u>\$ (193,622)</u>	<u>\$ -</u>	<u>\$ 8,135,316</u>

Depreciation expense was charged in the financial statements as follows:

Business-type Activities	
Water	\$ 49,726
Sewer	<u>145,276</u>
	<u>\$ 195,002</u>

Note 4 - Due to Townships

The amount due to Townships, \$152,079 at March 31, 2007 is composed of \$91,585 due to Big Creek Township and \$60,494 due to Mentor Township. The Townships have advanced this money to the utility authority, interest free, to be paid back once the water and sewer systems become self supporting.

Big Creek - Mentor Utility Authority
Notes to Financial Statements
March 31, 2007

Note 5 - Risk Management

Big Creek - Mentor Utility Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last 3 fiscal years.

Note 6 - Long Term Debt

The Utility Authority's outstanding debt at March 31, 2007 is composed of two issues of sewage disposal revenue bonds. Both series are payable, both as to principal and interest, solely from the net revenues of the sewer system.

	<u>Balance April 1, 2006</u>	<u>Additions (Reductions)</u>	<u>Balance March 31, 2007</u>	<u>Due Within One Year</u>
Bond No. 1 - Issue date 6/17/97 Original amount - \$2,000,000 Interest at the rate of 5.000% due semi-annually commencing 11/1/97. Principal due annually in amounts ranging from \$18,000 to \$116,000 commencing 5/1/99. Final payment due 5/1/37.	\$ 1,867,000	(24,000)	\$ 1,843,000	\$ 25,000
Bond No. 2 - issue date 6/17/97 Original amount - \$135,000 Interest at the rate of 5.000% due semi-annually commencing 11/1/97. Principal due annually in amounts ranging from \$1,000 to \$13,000 commencing 5/1/99. Final payment due 5/1/37.	<u>126,000</u>	<u>(1,000)</u>	<u>125,000</u>	<u>2,000</u>
Totals	<u>\$ 1,993,000</u>	<u>\$ (25,000)</u>	<u>\$ 1,968,000</u>	<u>\$ 27,000</u>

Future payments due are as follows:

Year ended March 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 27,000	\$ 97,725	\$ 124,725
2009	28,000	96,350	124,350
2010	30,000	94,900	124,900
2011	31,000	93,375	124,375
2012	33,000	91,775	124,775
2013-2017	190,000	431,950	621,950
2018-2022	245,000	373,825	618,825
2023-2027	317,000	307,975	624,975
2028-2032	410,000	217,650	627,650
2033-2037	528,000	101,000	629,000
2038	129,000	3,225	132,225
	<u>\$ 1,968,000</u>	<u>\$ 1,909,750</u>	<u>\$ 3,877,750</u>

Big Creek - Mentor Utility Authority
Notes to Financial Statements
March 31, 2007

Note 7 - Required Deposits

Big Creek - Mentor Utility Authority, under terms of the Sewage Disposal System Revenue Bonds, is required to establish certain reserve accounts. The Bond Reserve Account was effective May 1, 1999 and is to be funded with an annual deposit of \$12,690, until there is \$126,900 accumulated in the account. The Bond Redemption Reserve is to be funded by a monthly deposit. The monthly deposit is equal to 1/6 of the interest payment next coming due and 1/12 of the principal payment next coming due.

The Authority is using Certificates of Deposit to fund the Bond Redemption Reserve. An annual deposit is made when the a Certificate of Deposit is purchased. The Authority made the required deposit for the year ended March 31, 2007.

The Bond Reserve Account was established on February 7, 2001 with a deposit of \$12,690. The required balance as of March 31, 2007 is \$101,520. The actual balance is the Bond Reserve Account is \$107,040.

Supplemental Information

Big Creek - Mentor Utility Authority
Combining Balance Sheet
All Proprietary Fund Types
March 31, 2007
With Comparative Totals for March 31, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>2007 Total</u>	<u>2006 Total</u>
ASSETS				
Current Assets:				
Petty cash	\$ -	\$ 100	\$ 100	\$ 50
Cash - checking	22,694	134,346	157,040	166,046
Cash - certificates of deposit	-	126,677	126,677	121,314
Cash - bond reserve	-	107,040	107,040	83,797
Accounts receivable - usage fees	8,170	36,707	44,877	45,676
Accounts receivable - hookup fees	-	297,337	297,337	328,551
Fixed assets:				
Land	16,772	47,133	63,905	63,905
Sewer system	-	7,230,255	7,230,255	7,230,255
Equipment	-	7,337	7,337	5,957
Water system	2,486,263	-	2,486,263	2,486,263
Accumulated depreciation	<u>(421,291)</u>	<u>(1,231,153)</u>	<u>(1,652,444)</u>	<u>(1,457,442)</u>
Total assets	<u>\$ 2,112,608</u>	<u>\$ 6,755,779</u>	<u>\$ 8,868,387</u>	<u>\$ 9,074,372</u>
 LIABILITIES AND FUND EQUITY				
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 5,226	\$ 13,909	\$ 19,135	\$ 35,032
Due to townships	14,000	138,079	152,079	152,079
Bonds payable	<u>-</u>	<u>1,968,000</u>	<u>1,968,000</u>	<u>1,993,000</u>
Total liabilities	<u>19,226</u>	<u>2,119,988</u>	<u>2,139,214</u>	<u>2,180,111</u>
 FUND EQUITY				
Contributed capital - Federal	-	4,331,132	4,331,132	4,435,422
Contributed capital - State	2,073,066	-	2,073,066	2,122,583
Contributed capital - Local	<u>34,645</u>	<u>1,419,022</u>	<u>1,453,667</u>	<u>1,380,775</u>
Total contributed capital	2,107,711	5,750,154	7,857,865	7,938,780
Retained earnings	<u>(14,329)</u>	<u>(1,114,363)</u>	<u>(1,128,692)</u>	<u>(1,044,519)</u>
Total fund equity	<u>2,093,382</u>	<u>4,635,791</u>	<u>6,729,173</u>	<u>6,894,261</u>
Total liabilities and fund equity	<u>\$ 2,112,608</u>	<u>\$ 6,755,779</u>	<u>\$ 8,868,387</u>	<u>\$ 9,074,372</u>

Big Creek - Mentor Utility Authority
Combining Statement of revenues, Expenses, and Changes in Fund Equity
All Proprietary Fund Types
Year Ended March 31, 2007
With Comparative Totals for March 31, 2006

	Water Fund	Sewer Fund	2007 Total	2006 Total
OPERATING REVENUES				
Charges for services	\$ 65,943	\$ 229,432	\$ 295,375	\$ 259,522
Penalties and interest charges	1,630	22,279	23,909	26,172
Miscellaneous	-	6,195	6,195	1,944
Total operating revenues	<u>67,573</u>	<u>257,906</u>	<u>325,479</u>	<u>287,638</u>
OPERATING EXPENSES				
Contracted services	61,412	134,619	196,031	189,465
Insurance	-	8,785	8,785	8,505
Maintenance and repairs	-	13,817	13,817	3,092
Wages and payroll taxes	-	16,190	16,190	12,225
Professional services	-	4,463	4,463	6,064
Printing and publishing	-	534	534	450
Office expenses	-	3,250	3,250	3,938
Supplies	-	62	62	489
Licenses and permits	-	4,492	4,492	4,263
Utilities	2,964	28,553	31,517	24,386
Depreciation	49,726	145,276	195,002	194,902
Total operating expenses	<u>114,102</u>	<u>360,041</u>	<u>474,143</u>	<u>447,779</u>
OPERATING INCOME (LOSS)	<u>(46,529)</u>	<u>(102,135)</u>	<u>(148,664)</u>	<u>(160,141)</u>
NON OPERATING REVENUES (EXPENSES)				
Interest income	151	9,558	9,709	8,825
Interest expense - bonds	-	(99,025)	(99,025)	(100,250)
Net nonoperating revenues (expenses)	<u>151</u>	<u>(89,467)</u>	<u>(89,316)</u>	<u>(91,425)</u>
NET INCOME (LOSS)	(46,378)	(191,602)	(237,980)	(251,566)
AMORTIZATION OF CONTRIBUTED CAPITAL - GRANTS	49,517	104,290	153,807	153,807
FUND EQUITY - Retained earnings - April 1	<u>(17,468)</u>	<u>(1,027,051)</u>	<u>(1,044,519)</u>	<u>(946,760)</u>
FUND EQUITY - Retained earnings - March 31	<u>\$ (14,329)</u>	<u>\$ (1,114,363)</u>	<u>\$ (1,128,692)</u>	<u>\$ (1,044,519)</u>
FUND EQUITY - Contributed capital - April 1	\$ 2,157,228	\$ 5,781,552	\$ 7,938,780	\$ 7,971,041
Contributions - Capital grants - State	-	-	-	-
Amortization - Capital grants	(49,517)	(104,290)	(153,807)	(153,807)
Contributions - Local	<u>-</u>	<u>72,892</u>	<u>72,892</u>	<u>121,546</u>
FUND EQUITY - Contributed capital - March 31	<u>\$ 2,107,711</u>	<u>\$ 5,750,154</u>	<u>\$ 7,857,865</u>	<u>\$ 7,938,780</u>

Big Creek - Mentor Utility Authority
Combining Statement of Cash Flows
All Proprietary Fund Types
Year Ended March 31, 2007
With Comparative Totals for March 31, 2006

	Water Fund	Sewer Fund	2007 Total	2006 Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 70,037	\$ 287,454	\$ 357,491	\$ 314,652
Cash payments to suppliers for goods and services	(69,229)	(209,602)	(278,831)	(239,079)
Cash payments to employees for services	-	(16,206)	(16,206)	(11,097)
	<u>808</u>	<u>61,646</u>	<u>62,454</u>	<u>64,476</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	-	(1,380)	(1,380)	(726)
Contributed capital - Local	-	72,892	72,892	121,546
Principal paid on bonds	-	(25,000)	(25,000)	(24,000)
Interest paid on bonds	-	(99,025)	(99,025)	(100,250)
Net cash provided by capital and related financing activities	-	(52,513)	(52,513)	(3,430)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	151	9,558	9,709	8,825
NET increase (decrease) in cash	959	18,691	19,650	69,871
CASH - April 1	<u>21,735</u>	<u>349,472</u>	<u>371,207</u>	<u>301,336</u>
CASH - March 31	<u>\$ 22,694</u>	<u>\$ 368,163</u>	<u>\$ 390,857</u>	<u>\$ 371,207</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (46,529)	\$ (102,135)	\$ (148,664)	\$ (160,141)
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation	49,726	145,276	195,002	194,902
(Increase) decrease in accounts receivable	2,465	29,548	32,013	27,014
Increase (decrease) in accounts payable	(4,854)	(11,043)	(15,897)	2,701
Net cash provided (used) by operating activities	<u>\$ 808</u>	<u>\$ 61,646</u>	<u>\$ 62,454</u>	<u>\$ 64,476</u>

Big Creek - Mentor Utility Authority
Comparative Balance Sheet
Water Fund
March 31, 2007 and 2006

	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
ASSETS		
Cash - checking	\$ 22,694	\$ 21,735
Accounts receivable - usage fees	8,170	10,635
Fixed assets:		
Land	16,772	16,772
Water system	2,486,263	2,486,263
Accumulated depreciation	<u>(421,291)</u>	<u>(371,565)</u>
Total assets	<u>\$ 2,112,608</u>	<u>\$ 2,163,840</u>
 LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	\$ 5,226	\$ 10,080
Due to townships	<u>14,000</u>	<u>14,000</u>
Total liabilities	<u>19,226</u>	<u>24,080</u>
 FUND EQUITY		
Contributed capital - State	2,073,066	2,122,583
Contributed capital - Local	<u>34,645</u>	<u>34,645</u>
Total contributed capital	<u>2,107,711</u>	<u>2,157,228</u>
Retained earnings	<u>(14,329)</u>	<u>(17,468)</u>
Total fund equity	<u>2,093,382</u>	<u>2,139,760</u>
Total liabilities and fund equity	<u>\$ 2,112,608</u>	<u>\$ 2,163,840</u>

Big Creek - Mentor Utility Authority
Comparative Statement of Revenues, Expenses, and Changes in Fund Equity
Water Fund
Years Ended March 31, 2007 and 2006

	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
OPERATING REVENUES		
Charges for services	\$ 65,943	\$ 56,193
Penalties and interest charges	1,630	1,426
Miscellaneous	-	-
	<u>67,573</u>	<u>57,619</u>
OPERATING EXPENSES		
Contracted services	61,412	59,359
Maintenance and repairs	-	1,372
Office expenses	-	-
Utilities	2,964	2,743
Depreciation	49,726	49,718
	<u>114,102</u>	<u>113,192</u>
OPERATING INCOME (LOSS)	(46,529)	(55,573)
NON OPERATING REVENUE		
Interest income	151	223
	<u>151</u>	<u>223</u>
NET INCOME (LOSS)	(46,378)	(55,350)
AMORTIZATION OF CONTRIBUTED CAPITAL - GRANTS		
	49,517	49,517
FUND EQUITY - Retained earnings - April 1	<u>(17,468)</u>	<u>(11,635)</u>
FUND EQUITY - Retained earnings - March 31	<u>\$ (14,329)</u>	<u>\$ (17,468)</u>
FUND EQUITY - Contributed capital - April 1	\$ 2,157,228	\$ 2,203,549
Amortization - Capital grants - State	(49,517)	(49,517)
Contributions - Local	-	3,196
	<u>-</u>	<u>3,196</u>
FUND EQUITY - Contributed capital - March 31	<u>\$ 2,107,711</u>	<u>\$ 2,157,228</u>

Big Creek - Mentor Utility Authority
Comparative Statement of Cash Flows
Water Fund
Years Ended March 31, 2007 and 2006

	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 70,037	\$ 56,368
Cash payments to suppliers for goods and services	(69,229)	(63,154)
Cash payments to employees for services	-	-
	<u>808</u>	<u>(6,786)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	-	(726)
Contributed capital - Local	-	3,196
	<u>-</u>	<u>2,470</u>
Net cash provided (used) by capital and related financing activities	-	2,470
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	<u>151</u>	<u>223</u>
Net increase (decrease) in cash	959	(4,093)
CASH - April 1	<u>21,735</u>	<u>25,828</u>
CASH - March 31	<u>\$ 22,694</u>	<u>\$ 21,735</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (46,529)	\$ (55,573)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	49,726	49,718
(Increase) decrease in accounts receivable	2,465	(1,251)
Increase (decrease) in accounts payable	<u>(4,854)</u>	<u>320</u>
Net cash provided (used by) operating activities	<u>\$ 808</u>	<u>\$ (6,786)</u>

Big Creek - Mentor Utility Authority
Comparative Balance Sheet
Sewer Fund
March 31, 2007 and 2006

	<u>March 31, 2007</u>	<u>March 31, 2006</u>
ASSETS		
Petty cash	\$ 100	\$ 50
Cash - checking	134,346	144,311
Cash - certificates of deposit	126,677	121,314
Cash - bond reserve	107,040	83,797
Accounts receivable - usage fees	36,707	35,041
Accounts receivable - hookup fees	297,337	328,551
Fixed assets:		
Land	47,133	47,133
Sewer system	7,230,255	7,230,255
Equipment	7,337	5,957
Accumulated depreciation	<u>(1,231,153)</u>	<u>(1,085,877)</u>
Total assets	<u>\$ 6,755,779</u>	<u>\$ 6,910,532</u>
 LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	\$ 13,909	\$ 24,952
Due to townships	138,079	138,079
Bonds payable	<u>1,968,000</u>	<u>1,993,000</u>
Total liabilities	<u>2,119,988</u>	<u>2,156,031</u>
 FUND EQUITY		
Contributed capital - Federal	4,331,132	4,435,422
Contributed capital - Local	<u>1,419,022</u>	<u>1,346,130</u>
Total contributed capital	5,750,154	5,781,552
Retained earnings	<u>(1,114,363)</u>	<u>(1,027,051)</u>
Total fund equity	<u>4,635,791</u>	<u>4,754,501</u>
Total liabilities and fund equity	<u>\$ 6,755,779</u>	<u>\$ 6,910,532</u>

Big Creek - Mentor Utility Authority
Comparative Statement of Revenues, Expenses, and Changes in Fund Equity
Sewer Fund
Years Ended March 31, 2007 and 2006

	March 31, 2007	March 31, 2006
OPERATING REVENUES		
Charges for services	\$ 229,432	\$ 203,329
Penalties and interest charges	22,279	24,746
Miscellaneous	6,195	1,944
Total Operating revenues	257,906	230,019
OPERATING EXPENSES		
Contracted services	134,619	130,106
Insurance	8,785	8,505
Maintenance and repairs	13,817	1,720
Wages and payroll taxes	16,190	12,225
Professional services	4,463	6,064
Printing and publishing	534	450
Office expenses	3,250	3,938
Supplies	62	489
Licenses and permits	4,492	4,263
Utilities	28,553	21,643
Depreciation	145,276	145,184
Total operating expenses	360,041	334,587
OPERATING INCOME (LOSS)	(102,135)	(104,568)
NON OPERATING REVENUES (EXPENSES)		
Interest income	9,558	8,602
Interest expense - bonds	(99,025)	(100,250)
Net nonoperating revenues (expenses)	(89,467)	(91,648)
NET INCOME (LOSS)	(191,602)	(196,216)
AMORTIZATION OF CONTRIBUTED CAPITAL - GRANTS	104,290	104,290
FUND EQUITY - Retained earnings - April 1	(1,027,051)	(935,125)
FUND EQUITY - Retained earnings - March 31	\$ (1,114,363)	\$ (1,027,051)
FUND EQUITY - Contributed capital - April 1	\$ 5,781,552	\$ 5,767,492
Amortization - Capital grants - Federal	(104,290)	(104,290)
Contributions - Local	72,892	118,350
FUND EQUITY - Contributed capital - March 31	\$ 5,750,154	\$ 5,781,552

Big Creek - Mentor Utility Authority
 Comparative Statement of Cash Flows
 Sewer Fund
 Years Ended March 31, 2007 and 2006

	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 287,454	\$ 258,284
Cash payments to suppliers for goods and services	(209,602)	(175,925)
Cash payments to employees for services	<u>(16,206)</u>	<u>(11,097)</u>
Net cash provided (used) by operating activities	<u>61,646</u>	<u>71,262</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(1,380)	-
Contributed capital - Local	72,892	118,350
Principal paid on bonds	(25,000)	(24,000)
Interest paid on bonds	<u>(99,025)</u>	<u>(100,250)</u>
Net cash provided (used) by capital and related financing activities	(52,513)	(5,900)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	<u>9,558</u>	<u>8,602</u>
NET increase (decrease) in cash	18,691	73,964
CASH - April 1	<u>349,472</u>	<u>275,508</u>
CASH - March 31	<u>\$ 368,163</u>	<u>\$ 349,472</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (102,135)	\$ (104,568)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	145,276	145,184
(Increase) decrease in accounts receivable	29,548	28,265
Increase (decrease) in accounts payable	<u>(11,043)</u>	<u>2,381</u>
Net cash provided (used) by operating activities	<u>\$ 61,646</u>	<u>\$ 71,262</u>

Appendices



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Utility Authority Board
Big Creek - Mentor Utility Authority
Mio, Michigan 48647

We have audited the financial statements of the business-type activities of Big Creek - Mentor Utility Authority as of and for the year ended March 31, 2007, which comprise Big Creek - Mentor Utility Authority's basic financial statements and have issued our report thereon dated August 6, 2007. We conducted our 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Big Creek - Mentor Utility Authority's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Creek - Mentor Utility Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a 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 entity's internal control.

Our consideration of 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Big Creek - Mentor Utility Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Big Creek - Mentor Utility Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Big Creek - Mentor Utility Authority's response, and accordingly, we express no opinion on it.

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

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants
Mio, Michigan
August 6, 2007

FINDING

Lack of adequate controls to produce full-disclosure GAAP basis financial statements.

Requirement: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including related footnotes.

Condition: The Authority, as is common in smaller and medium sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

Cause: This condition is caused by the Authority's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

Effect: The result of this condition is that the Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

RESPONSE

The Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the Authority to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.