

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Calhoun County 100% DTR Fund	County Calhoun
Audit Date 12/31/04	Opinion Date 2/24/05	Date Accountant Report Submitted to State: 5/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|------------------------------|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations. INTERNAL CONTROL LETTER INCLUDED IN AUDIT REPORT			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48060
Accountant Signature <i>Stewart, Beauvais & Whipple</i>		Date 5/27/05	

COUNTY OF CALHOUN, MICHIGAN
100% DELINQUENT TAX REVOLVING FUND
ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED
DECEMBER 31, 2004

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



COUNTY OF CALHOUN, MICHIGAN
100% DELINQUENT TAX REVOLVING FUND

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INDEPENDENT AUDITOR' S REPORT

County Treasurer
County of Calhoun, Michigan
Marshall, Michigan

We have audited the accompanying financial statements of the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan, as of December 31, 2004, and for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of the County Treasurer. Our responsibility is to express an opinion 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the 100% Delinquent Tax Revolving Fund and are not intended to present fairly the financial position of the County of Calhoun, Michigan, and the results of its operations and cash flows of its proprietary and similar trust fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan, as of December 31, 2004, and the results of its operations and cash flows 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 February 24, 2005, on our consideration of the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. 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 our audit. The purpose of that report is to describe the scope of our testing of 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 over compliance.

Our audit of the financial statements was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed financial statements listed as supplementary financial information in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Beausier Whipple
Certified Public Accountants

February 24, 2005

COUNTY OF CALHOUN, MICHIGAN

100% DELINQUENT TAX REVOLVING FUND
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

Current Assets:

Cash and cash equivalents	\$ 3,884,472
Investments	7,837,432
Receivables -	
Accrued interest and fees	1,042,803
Delinquent taxes	<u>4,567,653</u>
Total Current Assets	17,332,360

Capital Assets:

Furniture and equipment (net of accumulated depreciation)	38,432
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Other Assets:

Advance to other funds	<u>120,401</u>
Total Assets	<u>\$ 17,491,193</u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accrued liabilities	\$ 54,951
Due to other governmental units	144,805
Tax note payable	<u>450,000</u>
Total Liabilities	<u>649,756</u>

Net Assets:

Restricted	6,180,964
Unrestricted	<u>10,660,473</u>
Total Net Assets	<u>16,841,437</u>
Total Liabilities and Net Assets	<u>\$ 17,491,193</u>

See Notes to
Financial Statements

COUNTY OF CALHOUN, MICHIGAN

100% DELINQUENT TAX REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

Operating Revenues:

Interest on taxes	\$ 827,644
Administrative fees and penalties	408,961
Other	<u>69,697</u>

Total Operating Revenues 1,306,302

Operating Expenses:

Administrative	80,837
Paying agent fees and other	<u>109,247</u>

Total Operating Expenses 190,084

Operating Income 1,116,218

Non-Operating Revenues (Expenses):

Interest earned on investments	178,157
Interest expense	<u>(48,860)</u>
	<u>129,297</u>

Income before transfers 1,245,515

Transfers:

Transfer to County General Fund	<u>(1,500,000)</u>
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Change in Net Assets (254,485)

Net Assets at beginning of year 17,095,922

Net Assets at end of year \$ 16,841,437

See Notes to
Financial Statements

COUNTY OF CALHOUN, MICHIGAN
100% DELINQUENT TAX REVOLVING FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

Cash Flows From Operating Activities:	
Cash received from customers and governmental units	\$ 10,771,676
Cash payments to suppliers and governmental units	(9,254,087)
Net cash provided by operating activities	<u>1,517,589</u>
Cash Flows From Non-Capital Financing Activities:	
Payment received on advance to other funds	64,753
Transfers in (out) - General Fund	(1,500,000)
Tax note proceeds	4,500,000
Redemption of tax notes	(6,050,000)
Net Cash Used by Non-Capital Financing Activities	<u>(2,985,247)</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition of furniture and equipment	<u>(1,500)</u>
Cash Flows From Investing Activities:	
Redemptions (purchases) of investments	1,375,851
Interest earned on investments	126,180
Net Cash Provided by Investing Activities	<u>1,502,031</u>
Net Increase in Cash and Cash Equivalents for the year	32,873
Cash and Cash Equivalents at beginning of year	<u>3,851,599</u>
Cash and Cash Equivalents at end of year	<u><u>\$ 3,884,472</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income for the year	\$ 1,116,218
Adjustments to reconcile operating income to net cash provided by operating activities -	
Depreciation	17,136
Changes in assets and liabilities -	
(Increase) Decrease in -	
Delinquent taxes receivable	238,131
Accrued interest receivable	208,248
Due from other governmental units	134,260
Increase (Decrease) in -	
Accrued liabilities	54,000
Due to other governmental units	(151,056)
May tax sale	(99,348)
Net Cash Provided by Operating Activities	<u><u>\$ 1,517,589</u></u>
Supplemental Information:	
Cash paid during the year for interest	<u><u>\$ 48,860</u></u>

See Notes to
Financial Statements

COUNTY OF CALHOUN, MICHIGAN
100% DELINQUENT TAX REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - DESCRIPTION OF THE 100% DELINQUENT TAX REVOLVING FUND OPERATIONS:

The 100% Delinquent Tax Revolving Fund is an Enterprise Fund of the County of Calhoun, Michigan, and is used to account for the operations related to the borrowing of money to pay other local units of government (taxing units) and various County funds for their delinquent real property taxes.

The accompanying financial statements are the exclusive presentation of the financial position and results of operations and cash flows of the 100% Delinquent Tax Revolving Fund and do not include or reflect the financial position or results of operations and changes in cash flows of the other funds of the County of Calhoun. Therefore, the 100% Delinquent Tax Revolving Fund is not intended to present fairly the financial position and results of operations of the County of Calhoun, in conformity with accounting principles generally accepted in the United States of America. The 100% Delinquent Tax Revolving Fund, although legally reported as one fund, is the combined total of three specific operational segments described as follows:

Delinquent Tax Series -

By agreement with the various local units of government (taxing authorities) in the County of Calhoun, Michigan, the County purchases at face value the real property taxes returned delinquent each March 1. The County issues general obligation limited tax notes to partially finance the purchase of the delinquent taxes and pays the notes through subsequent collection on delinquent taxes receivable, plus interest and administrative fees thereon, and investment earnings.

The activity for each tax levy year is accounted for separately in the tax series year in which the property taxes become delinquent and the general obligation limited tax notes are issued.

Limited Tax Note Reserve -

A separate account has been established pursuant to resolution by the Board of Commissioners of Calhoun County, which states in part that the County Treasurer may set aside an amount not to exceed \$1,000,000 as a debt service reserve to be available for the payment of current debt service requirements on an outstanding note, for which collection of money primarily pledged is insufficient. At December 31, 2004, there is a \$1,000,000 debt service reserve in a separate account.

Bond Administration -

The Bond Administration of the various Delinquent Tax Series represents the administrative expenses of the operations of the 100% Delinquent Tax Revolving Fund as regulated by Michigan Compiled Laws. The administrative expenses are accrued annually for each tax series, based on a legal formula, however, the amount is not actually transferred to the administration account until the appropriate tax series general obligation limited tax note issue is paid in full.

NOTE 1 - DESCRIPTION OF THE 100% DELINQUENT TAX FUND OPERATIONS - (cont'd):

The amount accrued for administrative expenses is then transferred to and maintained in a separate cash account from the various Delinquent Tax Series bank accounts. From this cash account, administrative expenses are made and thus recorded in the bond administration account. The administrative account also maintains the dollars derived from foreclosure sales.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the County of Calhoun pertaining to the 100% Delinquent Tax Revolving Fund conform to accounting principles generally accepted in the United States of America. The following is a summary of the more significant accounting policies:

BASIS OF ACCOUNTING - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The 100% Delinquent Tax Revolving Fund, operated as an Enterprise Fund, uses the accrual method of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

MEASUREMENT FOCUS - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Calhoun County 100% Delinquent Tax Revolving Fund is accounted for on a flow of economic resources measurement focus.

With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Balance Sheet. The operating statement presents increases (e.g. revenues) and decreases (e.g., expenses) in net total assets.

CASH EQUIVALENTS - Cash equivalents are temporary investments which consist of government investment trust funds and certificates of deposit with maturity dates less than 90 days and are recorded at cost which approximates fair value. The government investment trust funds have the general characteristics of demand deposit accounts in that the County Treasurer may deposit and withdraw additional cash at any time without prior notice or penalty. Cash equivalents are recorded at cost which approximates fair value.

INVESTMENTS - Investments consist of certificates of deposit and commercial paper with maturities in excess of ninety days from the date of purchase. The investments are recorded at cost which approximates fair value.

DUE FROM OTHER GOVERNMENTAL UNITS - Due from other governmental units is an asset account reflecting amounts due to the 100% Delinquent Tax Revolving Fund from another governmental unit. The amounts represent receivables from local governmental units for chargebacks resulting from delinquent taxes that were unable to be collected.

DUE TO OTHER GOVERNMENTAL UNITS - Due To Other Governmental Units is a liability account reflecting amounts due from the 100% Delinquent Tax Revolving Fund to another governmental unit. The amounts represent payables to the State of Michigan for State tax sale redemptions and delinquent property taxes turned over to the 100% Delinquent Tax Revolving Fund (Series 2005) by the Villages in the County prior to December 31, 2004, but will not be paid until the Series 2004 G.O. Limited Tax Note sale.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

FIXED ASSETS - Fixed assets are recorded at cost. Expenses that materially extend the life of existing assets, are capitalized.

Depreciation of all fixed assets is charged as an expense against operations. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are:

Equipment	5 to 7 years
Office furniture	10 years

ESTIMATES - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 results could differ from those estimates.

COMPARATIVE AMOUNTS - Comparative amounts have not been presented on the financial statements for 2004. The financial statements of the 100% Delinquent Tax Revolving Fund as of December 31, 2003, were audited, and the Independent Auditor's Report, dated February 26, 2004, expressed an unqualified opinion on those statements.

NOTE 3 - DEPOSITS AND INVESTMENTS:

The 100% Delinquent Tax Revolving Fund deposits and investments consist of checking accounts, savings accounts, certificates of deposits, government investment trust funds and commercial paper which are reported as cash, cash equivalents and investments on the Balance Sheet. As a fund of the County of Calhoun, all the 100% Delinquent Tax Revolving Fund deposits are part of accounts maintained by the County at banking institutions insured by Federal depository insurance funds.

In accordance with Act 20 PA 1943 as amended, the County is authorized after Board resolution to invest surplus funds in the following types of investments:

- a) In bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States.
- b) In certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.
- c) In commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States banks.
- f) In obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

- g) In investment pools organized under the Surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 118.
- h) In investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i) In mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

Deposits -

Michigan Public Acts authorize the units of local government in Michigan to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations. Deposits of the County are at federally insured banks in the State of Michigan in the name of the County.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of December 31, 2004, the carrying amount of 100% Delinquent Tax Revolving Funds deposits is \$7,839,589 and the bank balance is \$7,839,589. The bank balance is classified by credit risk as follows:

Certificates of Deposit - insured by FDIC	\$ 300,000
Certificates of Deposit - uninsured and uncollateralized	<u>7,539,589</u>
	<u>\$ 7,839,589</u>

The County Treasurer believes that due to the dollar amounts of cash deposits and the limits of FDIC Insurance, it is impractical to insure all bank deposits. As a result, the County Treasurer evaluates each financial institution and assesses the level of risk and uses only those financial institutions with an acceptable estimated risk level as depositories.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as deposits increases significantly. As a result, the amount of uninsured and uncollateralized deposits were substantially higher at these peak periods than at year end.

Investments -

The 100% Delinquent Tax Revolving Fund investments consist of commercial paper and government investment trusts.

As of December 31, 2004, the 100% Delinquent Tax Revolving Fund's investments are susceptible to the following risk categories as summarized in the table below:

- 1) Insured or registered for which the securities are held by the 100% Delinquent Tax Revolving Funds or its agent in the 100% Delinquent Tax Revolving Fund's name.

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

- 2) Uninsured and unregistered for which the securities are held by the trust department or a bank in the 100% Delinquent Tax Revolving Fund's name.
- 3) Uninsured and unregistered for which the securities are held by the trust department of a bank but not in the 100% Delinquent Tax Revolving Fund's name.

	<u>Categories</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Commercial Paper	<u>\$ -</u>	<u>\$ 3,206,418</u>	<u>\$ -</u>	\$ 3,206,418
Government Investment – Trust Funds				<u>675,797</u>
				<u>\$ 3,882,215</u>

The Government Investment Trust Funds are funds deposited in Standard Federal Public Funds Investment Funds, which are managed by the bank’s trust department. The trusts invest primarily in short-term maturity U.S. Government backed or guaranteed securities which are held by the trust in its name. The investment account is registered with the Securities and Exchange Commission and the fair value of the 100% Delinquent Tax Revolving Fund’s portion in the Investment pool is the same as the value of the investment pools shares. These funds have not been considered to be susceptible to investment risk categories. The investment trusts have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the County may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

The following is a summary of the financial statement presentation of Deposits and Investments at December 31, 2004:

	<u>Total</u>	<u>Financial Reporting</u>	
		<u>Cash & Cash Equivalents</u>	<u>Investments</u>
Deposits	\$ 7,839,589	\$ 3,208,575	\$4,631,014
Investments	<u>3,882,215</u>	<u>675,797</u>	<u>3,206,418</u>
	<u>\$11,721,804</u>	<u>\$ 3,884,372</u>	<u>\$7,837,432</u>

The caption cash and cash equivalents on the Balance Sheet also includes \$100 in imprest cash.

NOTE 4 - DELINQUENT TAXES RECEIVABLE:

The Delinquent Taxes Receivable at December 31, 2004, represent the balance owed by individual taxpayers for delinquent real property taxes. These delinquent taxes receivable for Series 2004 are pledged to a bank for the payment of the notes payable described in Note 6 of Notes to Financial Statements. Subsequent collections on the delinquent taxes receivable, plus interest and administrative fees thereon, and investment earnings are used to service the notes payable. At the end of three years, any real property taxes not collected may be charged back to the County and all other taxing authorities affected. The following are the balances of the Delinquent Taxes Receivable per Delinquent Tax Series and year of tax levy:

NOTE 4 - DELINQUENT TAXES RECEIVABLE – (cont'd):

Series 1997 (Levy 1996)	\$ 5,604
Series 1998 (Levy 1997)	11,851
Series 1999 (Levy 1998)	18,520
Series 2000 (Levy 1999)	15,133
Series 2001 (Levy 2000)	60,654
Series 2002 (Levy 2001)	269,698
Series 2003 (Levy 2002)	725,735
Series 2004 (Levy 2003)	3,398,683
Series 2005 (Levy 2004)	<u>61,775</u>
	<u>\$ 4,567,653</u>

NOTE 5 - FIXED ASSETS:

Furniture	\$ 33,104
Equipment	<u>69,104</u>
	102,208
Less - accumulated depreciation	<u>63,776</u>
	<u>\$ 38,432</u>

The depreciation expense for 2004 is \$17,136

NOTE 6 - ADMINISTRATIVE AND AGENT FEES:

Pursuant to a County Board Resolution, each delinquent tax series may be charged an administrative and agent fee. The amount is specified in Michigan Public Act 211.87c and is currently 3/64 of the interest collected each month payable as follows: 20% to the County Treasurer as Agent for the County, and 80% to the County Treasurer's office to cover administrative expenses. However, the Treasurer's agent fees shall not exceed 20% of the County Treasurer's annual salary, and any excess over this limitation shall be included as part of the Treasurer's Office Administration fee determination. The sum of the amount in excess of the limitation referred to above and the 80% allocated to the County Treasurer's for administrative expenses shall not exceed 5% of the total budget of the Treasurer's office for any given year. The administrative and agent fee amounts are recorded as transfers between the various tax note series accounts and the administration account. The resulting due to, due from, transfer to and from amounts are eliminated for reporting purposes so that assets, liabilities, and transfers are not inflated. The agent fee expense is recognized in each year of the calculation while the administrative fee is recognized when an expense is incurred.

NOTE 7 - LONG-TERM DEBT:

The following is a summary of the changes in long-term debt of the 100% Delinquent Tax Revolving Fund of the County of Calhoun for the year ended December 31, 2004:

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
General Obligation Limited Tax Notes -				
Series 2003	\$2,000,000	\$ -	\$ 2,000,000	\$ -
Series 2004	<u>-</u>	<u>4,500,000</u>	<u>4,050,000</u>	<u>450,000</u>
	<u>\$2,000,000</u>	<u>\$4,500,000</u>	<u>\$ 6,050,000</u>	<u>\$ 450,000</u>

Significant details regarding outstanding General Obligation Limited Tax Notes are presented as follows:

The County issues General Obligation Limited Tax Notes in order to finance the purchase of delinquent real property taxes from the cities, villages and townships in the County and from various County funds. The Series 2004 General Obligation Limited Tax Notes dated May 21, 2004 were issued for \$4,500,000. The balance on the notes of \$450,000 is made up as follows:

Interest Rate	Principle	Interest
2.77%	\$ 300,000	\$ 1,065
2.77	<u>150,000</u>	<u>371</u>
	<u>\$ 450,000</u>	<u>\$ 1,436</u>

NOTE 8 – RESTRICTED NET ASSETS:

All Delinquent Tax Series that have tax notes with outstanding balances by Bond Resolution must reserve all the Net Asset Balance until such tax notes are paid in full. Also, by Bond Resolution a Bond Administration Fund has been established to restrict funds for Treasurer's Office Bond Administration and for fund restricted as a result of foreclosure sales.

In addition, the County has elected to restrict \$1,000,000 as described in Note 1 to the Notes to Financial Statements and to transfer excess funds during 2004 in the amount of \$3,876,113 from various Series which no longer have tax notes payable and the Limited Tax note reserve to the 2004 series, thus requiring these amounts to be reserved. The following is a summary of the Restricted Net Asset amounts at December 31, 2004:

Restricted for Debt Service -	
Delinquent Tax Series 2004	\$ 4,820,433
Limited Tax Note Reserve	<u>1,000,000</u>
	5,820,433
Restricted For Treasurer's Office Bond Administration	289,561
Restricted from foreclosure sales	<u>70,970</u>
	<u>\$ 6,180,964</u>

NOTE 9 - ADVANCE TO OTHER FUNDS:

The County Treasurer entered into a loan agreement with the County on June 17, 1996. The agreement provides the County Treasurer to loan \$500,000 in surplus 100% Delinquent Tax Revolving Fund money to the County General Fund. An advance to other funds is reported on the Balance Sheet of the 100% Delinquent Tax Revolving Fund to reflect the loan transaction. The agreement calls for the loan to be repaid from the General Fund in equal annual installments of \$50,000, commencing on June 1, 1997, through June 1, 2007, including interest at five percent of the outstanding principal balance per annum. The loan may be repaid prior to June 1, 2007, without penalty. The balance of the advance to other funds at December 31, 2004 is \$120,401.

NOTE 10 – MICHIGAN PUBLIC ACT 123 OF 1999:

Under Public Act 123, property owners that let there property taxes go three years delinquent have their property foreclosed upon and sold at public auction. This was effective with the 1999 delinquent taxes.

Counties under the new law had the option of obtaining ownership of the properties or having the State of Michigan obtain ownership. Calhoun County originally elected to have the State obtain ownership of the foreclosed property. Therefore the State has had the responsibility for obtaining, maintaining and selling the property. Calhoun County has now elected to take ownership of the foreclosed properties. As a result, the County will have the responsibility for obtaining, maintaining and selling the property. This is effective with the 2002 delinquent taxes.

SUPPLEMENTARY FINANCIAL INFORMATION

COUNTY OF CALHOUN, MICHIGAN

**100% DELINQUENT TAX REVOLVING FUND
DETAILED NET ASSETS
DECEMBER 31, 2004**

	Delinquent Tax Series 1993-2003	Delinquent Tax Series 2004	Delinquent Tax Series 2005	Limited Tax Note Reserve	Bond Administration	Total
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 2,240,735	\$ 1,361,208	\$ 51,872	\$ -	\$ 230,657	\$ 3,884,472
Investments	6,837,432	-	-	1,000,000	-	7,837,432
Receivables -						
Accrued interest and fees	504,793	521,560	2,471	13,951	28	1,042,803
Delinquent taxes	1,107,195	3,398,683	61,775	-	-	4,567,653
Total Current Assets	10,690,155	5,281,451	116,118	1,013,951	230,685	17,332,360
Capital Assets:						
Furniture and equipment (net of accumulated depreciation)	-	-	-	-	38,432	38,432
Other Assets:						
Advance to other funds	120,401	-	-	-	-	120,401
Total Assets	\$ 10,810,556	\$ 5,281,451	\$ 116,118	\$ 1,013,951	\$ 269,117	\$ 17,491,193
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 32,460	\$ 32,460
Due to bond administration	112,795	11,018	61	-	(123,874)	-
Due to other governmental units	33,128	-	111,677	-	-	144,805
May tax sale and state sold bids	22,491	-	-	-	-	22,491
Tax notes payable	-	450,000	-	-	-	450,000
Total Liabilities	168,414	461,018	111,738	-	(91,414)	649,756
Net Assets:						
Restricted						
Debt service	-	4,820,433	-	1,000,000	-	5,820,433
Bond administration	-	-	-	-	289,561	289,561
Foreclosure sales	-	-	-	-	70,970	70,970
Unrestricted	10,642,142	-	4,380	13,951	-	10,660,473
Total Net Assets	10,642,142	4,820,433	4,380	1,013,951	360,531	16,841,437
Total Liabilities and Net Assets	\$ 10,810,556	\$ 5,281,451	\$ 116,118	\$ 1,013,951	\$ 269,117	\$ 17,491,193

COUNTY OF CALHOUN, MICHIGAN

**100% DELINQUENT TAX REVOLVING FUND
 DETAILED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2004**

	Delinquent Tax Series 1993-2003	Delinquent Tax Series 2004	Delinquent Tax Series 2005	Limited Tax Note Reserve	Bond Administration	Total
Operating Revenues:						
Interest on delinquent taxes	\$ 249,849	\$ 574,023	\$ 3,772	\$ -	\$ -	\$ 827,644
Fees on delinquent taxes	-	408,961	-	-	-	408,961
Other	-	-	-	-	69,697	69,697
Total Operating Revenues	249,849	982,984	3,772	-	69,697	1,306,302
Operating Expenses:						
Administrative	16,576	21,832	-	-	42,429	80,837
Other	108,906	-	-	-	341	109,247
Total Operating Expenses	125,482	21,832	-	-	42,770	190,084
Operating Income	124,367	961,152	3,772	-	26,927	1,116,218
Non-Operating Revenues (Expenses):						
Interest earned on investments	143,986	14,108	669	16,628	2,766	178,157
Interest paid on long-term debt	(28,036)	(20,824)	-	-	-	(48,860)
	115,950	(6,716)	669	16,628	2,766	129,297
Income before transfers	240,317	954,436	4,441	16,628	29,693	1,245,515
Transfers In (Out):						
General Fund	(1,500,000)	-	-	-	-	(1,500,000)
Delinquent Tax Series	(3,865,000)	3,876,113	-	(11,113)	-	-
Bond Administration	(36,367)	(10,979)	(61)	-	47,407	-
Total Transfers	(5,401,367)	3,865,134	(61)	(11,113)	47,407	(1,500,000)
Net Change in Net Assets	(5,161,050)	4,819,570	4,380	5,515	77,100	(254,485)
Net Assets at beginning of year	15,803,192	863	-	1,008,436	283,431	17,095,922
Net Assets at end of year	\$ 10,642,142	\$ 4,820,433	\$ 4,380	\$ 1,013,951	\$ 360,531	\$ 16,841,437

COUNTY OF CALHOUN, MICHIGAN

**100% DELINQUENT TAX REVOLVING FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Delinquent Tax Series 1993-2003	Delinquent Tax Series 2004	Delinquent Tax Series 2005	Limited Tax Note Reserve	Bond Administration	Total
Cash Flows from Operating Activities:						
Cash received from customers and governmental units	\$ 4,760,166	\$ 5,890,610	\$ 51,203	\$ -	\$ 69,697	\$ 10,771,676
Cash payments to suppliers and governmental units	(310,606)	(8,907,176)	-	-	(36,305)	(9,254,087)
Net cash provided (used) by operating activities	<u>4,449,560</u>	<u>(3,016,566)</u>	<u>51,203</u>	<u>-</u>	<u>33,392</u>	<u>1,517,589</u>
Cash Flows from Noncapital Financing Activities:						
Payment received on advance to other funds	64,753	-	-	-	-	64,753
Transfers in (out) -						
General Fund	(1,500,000)	-	-	-	-	(1,500,000)
Other DTR funds	(3,885,950)	3,876,113	-	(11,113)	20,950	-
Tax note proceeds	-	4,500,000	-	-	-	4,500,000
Redemption of tax notes	(2,000,000)	(4,050,000)	-	-	-	(6,050,000)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(7,321,197)</u>	<u>4,326,113</u>	<u>-</u>	<u>(11,113)</u>	<u>20,950</u>	<u>(2,985,247)</u>
Cash Flows from Capital and Related Financing Activities:						
Acquisition of furniture and equipment	-	-	-	-	(1,500)	(1,500)
Cash Flows from Investing Activities:						
Redemption (purchase) of investments	2,250,851	-	-	(1,000,000)	125,000	1,375,851
Interest earned on investments	105,701	14,070	669	2,982	2,758	126,180
Net Cash Provided (Used) by Investing Activities	<u>2,356,552</u>	<u>14,070</u>	<u>669</u>	<u>(997,018)</u>	<u>127,758</u>	<u>1,502,031</u>
Net increase (decrease) in cash and cash equivalents	(515,085)	1,323,617	51,872	(1,008,131)	180,600	32,873
Cash and cash equivalents, beginning of year	<u>2,755,820</u>	<u>37,591</u>	<u>-</u>	<u>1,008,131</u>	<u>50,057</u>	<u>3,851,599</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,240,735</u></u>	<u><u>\$ 1,361,208</u></u>	<u><u>\$ 51,872</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 230,657</u></u>	<u><u>\$ 3,884,472</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:						
Operating income for the year	124,367	961,152	3,772	-	26,927	1,116,218
Adjustments to reconcile operating income to net cash provided (used) by operating activities -						
Depreciation	-	-	-	-	17,136	17,136
Changes in assets and liabilities -						
(Increase) Decrease in -						
Delinquent taxes receivable	3,643,777	(3,343,871)	(61,775)	-	-	238,131
Accrued interest receivable	732,279	(521,560)	(2,471)	-	-	208,248
Due from other governmental units	134,260	-	-	-	-	134,260
Increase (Decrease) in -						
Accrued liabilities	(26,221)	(20,785)	111,677	-	(10,671)	54,000
Due to other governmental units	(59,554)	(91,502)	-	-	-	(151,056)
May tax sale	(99,348)	-	-	-	-	(99,348)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 4,449,560</u></u>	<u><u>\$(3,016,566)</u></u>	<u><u>\$ 51,203</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 33,392</u></u>	<u><u>\$ 1,517,589</u></u>
Supplemental Information:						
Cash paid during the year for interest	<u><u>\$ 28,036</u></u>	<u><u>\$ 20,824</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 48,860</u></u>

SUPPLEMENTARY COMPLIANCE INFORMATION

INDEPENDENT AUDITOR'S 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

County Treasurer
County of Calhoun, Michigan
Marshall, Michigan

We have audited the basic financial statements of the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan, as of and for the year ended December 31, 2004, and have issued our report thereon, dated February 24, 2005. 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 the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the 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 provision 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the County Treasurer and the Board of Commissioners of the County of Calhoun, Michigan and is not intended to be and should not be used by anyone other those specified parties.

Stewart, Beausart Whipple
Certified Public Accountants

February 24, 2005