NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

FINANCIAL REPORT

Year ended December 31, 2004

RECEIVED
DEPT. OF TREASURY
JUL 0 1 2005
LOCAL AUDIT & FINANCE DIV.

Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

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

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☑ Other	NORTH HOUGHTON COUNTY WATER & SEWAGE AUTHORITY	Houghton

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
12/31/04	6/6/05	

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.

☐ Yes ☑ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☑ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ Yes ☑ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☑ 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.

☐ Yes ☑ 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]).

☐ Yes ☑ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☑ 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).

☐ Yes ☑ 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).

☐ Yes ☑ 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.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)			
John I. Jukuri, CPA			
Street Address	City	State	ZIP
56730 Calumet Ave, Suite J	**Calumet**	**MI**	**49913**
Accountant Signature		Date	
John I Jukuri CPA		6/27/05	

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INDEPENDENT AUDITOR'S REPORT

Board Members
North Houghton County Water and Sewage Authority
Calumet, Michigan

I have audited the accompanying financial statements of North Houghton County Water and Sewage Authority as of and for the years ended December 31, 2004. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Houghton County Water and Sewage Authority, as of December 31, 2004, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 6, 2005 on my consideration of the North Houghton County Water and Sewage Authority's internal control over financial reporting and on my 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 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

John I. Jukuri, CPA

Calumet, Michigan
June 6, 2005

North Houghton County Water and Sewage Authority
Management's Discussion and Analysis
Year Ended December 31, 2004

This section of the annual financial report of the North Houghton County Water and Sewage Authority (the "Authority") presents our discussion and analysis of the entity's financial performance for the year ended December 31, 2004. This discussion should be read in conjunction with the financial statements which follow.

Financial Highlights

Net capital assets declined $305,849, or 2.33 percent, as a result of current year depreciation of $359,202, partially offset by $52,557 of capitalized improvements to the sewage system. Total assets decreased by a similar amount of $335,201, or 2.34 percent.

Total liabilities declined $59,801, or 0.70 percent, as a result of a decline in long-term debt of $69,000, or 0.82 percent. Net assets declined $275,400, or 4.76 percent.

Operating revenues were $794,819, an increase of 9.70 percent from 2003, of which $762,292 were program revenues and $32,527 were charges for services and miscellaneous revenues. Operating expenses of $700,681 were up 9.95 percent from 2003 mainly due to an increase in depreciation expense. Sewer fees from residential and commercial customers in the Authority's service area comprised most of the revenue collected during the year.

Analysis and Overview of Financial Position for the Authority as a Whole and for the Enterprise Fund (see Note 1B to the Financial Statements)

The Authority generates cash from sanitary sewage fees based on water usage and a flat monthly service charge charged to its customers. It uses the cash to pay for current operations and to pay the interest and principal on long-term bonds issued to construct the sanitary sewage system. In 2004, net cash decreased $43,893, or 6.88 percent, as an increase in revenue of $70,282, or 9.70 percent, was offset by an increase of interest expense of $76,065, or 24.68 percent. The increase in revenue was the result of an increase in the monthly flat service fee. In 2003, the Authority completed construction on a $4.2 million improvement to the system. The increase in interest expense is the result of full-year service on the debt incurred for this project.

At the present time, the financial position of the Authority is sound. Sewage rates were increased in late 2004 to a level which the Authority believes will be sufficient for fund operations and debt service for the coming year. The Authority believes that it is in substantial compliance with all relevant federal and state requirements for the operation of a sanitary sewage system. As such, no additional material investments in the system, and no additional bond indebtedness, are anticipated at this time. A large decrease in water usage would impact the Authority's revenue, which could result in additional rate

increases in the future. The Authority is not aware of any circumstances that would cause a significant reduction in water usage at the present time. As discussed in Note 7 to the Financial Statements, one customer accounted for 10.51 percent of the Authority's 2004 revenue. Should this one customer significantly lower its water usage, it could have an impact on the financial performance of the Authority and could result in increased rates for the remainder of the customer base. The Authority is not aware of any plans by the customer to significantly alter its water usage at the present time.

Analysis of Budget vs. Actual Financial Results

Operating revenues exceeded original and final budget by $38,419, or 5.08 percent. Operating expenses, excluding depreciation, exceeded original budget by $32,130, or 10.39 percent, and exceeded final budget by $14,530, or 4.44 percent, caused mainly by an increase in utility expenses. Depreciation expense exceeded original and final budget by $309,201 as a result of a change in classification. Actual operating income fell $302,912 short of original budget and $285,312 short of final budget.

Contacting Entity Management

This financial report is designed to provide taxpayers, creditors, investors and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues it receives. If you have questions concerning this report please contact Mr. Paul Lehto, Chairman, at 25880 Red Jacket Road, Calumet, Michigan 49913.

North Houghton County
Water and Sewage Authority

Paul Lehto

Paul Lehto, Chairman

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

STATEMENT OF NET ASSETS
December 31, 2004

ASSETS

	2004
CURRENT ASSETS	
Cash	$ 165,317
Investment	7,353
Accounts receivable, net	221,405
Interest receivable	1,393
Inventory	4,913
Prepaid expenses	22,177
TOTAL CURRENT ASSETS	422,558
RESTRICTED ASSETS	
Cash	428,853
Investment	293,282
TOTAL RESTRICTED ASSETS	722,135
CAPITAL ASSETS	
Land	248,687
Building and improvements	15,103
Sewer system	15,288,474
Machinery, equipment & furniture	260,524
Vehicles	63,598
Accumulated depreciation	(3,110,554)
Deferred bond issue costs	90,476
Accumulated amortization	(16,981)
TOTAL CAPITAL ASSETS	12,839,327
TOTAL ASSETS	$ 13,984,020

The accompanying notes are an integral part of the financial statements.

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

STATEMENT OF NET ASSETS
December 31, 2004

LIABILITIES AND NET ASSETS

	2004
CURRENT LIABILITIES	
Accounts payable	$ 5,076
Accrued expenses	1,402
Payable from restricted assets:	
Accrued interest	31,564
Current maturities on revenue bonds	119,000
TOTAL CURRENT LIABILITIES	157,042
LONG-TERM DEBT	
Revenue bonds payable	8,319,000
TOTAL LONG-TERM DEBT	8,319,000
TOTAL LIABILITIES	8,476,042
NET ASSETS	
Investment in capital assets, net of related debt	4,401,327
Restricted for debt service	571,571
Unrestricted	535,080
TOTAL NET ASSETS	5,507,978

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
Year ended December 31, 2004

	2004
OPERATING REVENUES	
Sewer fees	$ 762,292
Charges for services	8,160
Miscellaneous	24,367
TOTAL OPERATING REVENUES	794,819
OPERATING EXPENSES	
Salaries, wages & benefits	173,427
Administrative expenses	17,220
Supplies & maintenance	89,496
Utilities	34,995
Insurance	26,342
Depreciation & amortization	359,201
TOTAL OPERATING EXPENSES	700,681
OPERATING INCOME	94,138
NONOPERATING REVENUE (EXPENSE)	
Interest income	14,759
Interest expense	(384,279)
Loss on disposal of asset	(18)
TOTAL NONOPERATING REVENUE (EXPENSE)	(369,538)
NET INCOME (LOSS)	(275,400)
NET ASSETS, 12/31/03	5,783,378
NET ASSETS, 12/31/04	5,507,978

The accompanying notes are an integral part of the financial statements.

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

STATEMENT OF CASH FLOWS
Year ended December 31, 2004

	2004
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 783,604
Payments to employees	(173,427)
Payments to vendors	(171,180)
Net cash from operating activities	438,997
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Bond proceeds	50,000
Acquisition of fixed assets	(53,370)
Interest paid	(384,562)
Revenue bonds principal payment	(110,000)
Net cash used in capital and related financing activities	(497,932)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	15042
Net cash provided by (used in) investing activities	15,042
INCREASE (DECREASE) IN CASH	(43,893)
CASH AT 12/31/03	638,063
CASH AT 12/31/04	$ 594,170
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:	
Operating income	94,138
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	359,201
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable, net	(11,215)
Inventory	(2,000)
Prepaid expenses	(1,609)
Increase (decrease) in:	
Accounts payable	756
Accrued expenses	(274)
Net cash provided by operating activities	438,997

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The North Houghton County Water and Sewage Authority was formed in 1983 for the purpose of constructing and making improvements to waste water collection, transmission, and treatment facilities within the service area of the Authority. It operates under a seven member board consisting of two members from Laurium Village, one member from Osceola Township, one member from Calumet Village and three members from Calumet Township. Financial activity of the Authority began during 1986. In 1989, the Authority acquired an existing sewage farm system from the Village of Laurium. It also purchased sewer lines from a local water company in 1990. The Authority completed sewer system improvement projects in 1993, 1995, 2002 and 2003 with funding provided by various sources.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

PROPRIETARY/ENTERPRISE FUNDS - The Authority records its financial activity under the proprietary fund type, and within the category of an enterprise fund. The Enterprise Fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; 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 measurement made, regardless of the measurement focus applied. The Authority uses the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual method, revenues are recognized when they are earned and expenses are recognized when they are incurred. The Authority applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

D. CASH, CASH EQUIVALENTS AND INVESTMENTS

For purposes of the statement of cash flows, demand deposits and short-term investments with maturities of three months or less when acquired are considered to be cash equivalents.

In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at cost, which approximates market and include U.S. Treasury notes only. The Authority had no cash equivalents at December 31, 2004.

E. ACCOUNTS RECEIVABLE

Receivables for sewer fees are shown net of an allowance for uncollectibles, where applicable.

F. INVENTORY AND PREPAID ITEMS

Inventory is valued at the lower of cost or market, using the first-in/first-out (FIFO) method. Inventory consists of expendable material held for consumption. The cost is recorded as an expense at the time the inventory material is consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

G. RESTRICTED ASSETS - CASH & INVESTMENTS

Certain resources set aside for enterprise fund revenue bonds and interest payments and equipment replacement are classified as restricted assets on the statement of net assets because their use is limited by the applicable bond covenant or by capital contributors.

H. CAPITAL ASSETS

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Improvements to capital assets that add to the value of the asset or materially extend the asset's life are capitalized at cost. Interest costs incurred during construction of assets are also capitalized.

Land with an original cost of $10,000, and a sewer farm system, with an original cost net of depreciation of $455,718, were transferred to the Authority from the Village of Laurium on July 11, 1989 and were capitalized by the Authority at net book value. During 1990, the Authority obtained the sewage lines that lie within the Authority's boundaries at a cost of $352,501. However, the purchase price did not include the lines within the Villages of Calumet and Laurium since those lines were donated to the Authority. The estimated fair market value of the donated lines has not been determined. Therefore, no related cost basis has been recorded in the financial records of the Authority.

Capital assets, other than land, are depreciated over the estimated useful life of the asset using the straight-line method. The estimated useful lives over which capital assets are being depreciated are as follows:

Sewer System	50 years
Building Addition	40 years
Vehicles & Equipment	5 years
Furniture	7 years

I. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

J. COMPARATIVE DATA/RECLASSIFICATIONS

Comparative data for the prior year is not included in the Authority's sections of the financial statements. A comparative analysis will be provided in future years when prior information is available.

(2) CASH DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States; or an agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Deposits are in one financial institution in the name of the Authority. The investment policy adopted by the Authority is in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the cash deposits at year end are as follows:

	2004
Cash & Restricted Cash	
Insured (FDIC)	$ 100,000
Uninsured	501,114
Total Cash & Restricted Cash	$ 601,114

At year end, the carrying amount of cash and restricted cash was $594,170.

The Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for investments at year end are as follows:

Investment Type Risk Categorized	(1)	(2)	(3)	Carrying Amount
U.S. Treasury notes	$ 300,635	$	$	$ 300,635

Risk Categories

1. Insured or registered, or securities held by the entity or its agent in the entity's name.
2. Uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the entity's name.
3. Uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent but not in the entity's name.

(3) COMPONENTS OF RESTRICTED CASH

Restricted cash as of December 31, 2004 and 2003 are as follows:

	Construction Funds	Bond & Interest Redemption Funds	Bond Reserve Funds	Equipment Replacement Fund	Totals
Restricted assets 12-31-03	$ 117	$ 222,684	$ 288,275	$ 107,685	$ 618,761
Additions (withdrawals), net	(117)	16,956	35,300	51,235	103,374
Restricted assets 12-31-04	$ 0	$ 239,640	$ 323,575	$ 158,920	$ 722,135

The ordinance authorizing the Sewage Disposal System Revenue Bonds requires that the Authority establish Revenue Bond and Interest Redemption Funds and Bond Reserve Funds in amounts not less than the stated annual requirements. At December 31, 2004 the fund balances are sufficient to satisfy the bond ordinance requirements.

The amount of restricted net assets at December 31, 2004 is detailed as follows:

	Construction Funds	Bond & Interest Redemption Funds	Bond Reserve Funds	Equipment Replacement Fund	Totals
Restricted cash	$ 0	$ 239,640	$ 323,575	$ 158,920	$ 722,135
Less payables from restricted assets:					
Accrued interest on revenue bonds		31,564			31,564
Current maturities on revenue bonds		119,000			119,000
Total Payables from Restricted Assets		150,564			150,564
Restricted net assets	$ 0	$ 89,076	$ 323,575	$ 158,920	$ 571,571

(4) SUMMARY OF CAPITAL ASSETS

A summary of changes in capital assets for the years ended December 31, 2003 and 2004 follows:

	Balance 12-31-03	Additions	Deletions	Balance 12-31-04
Land	$ 248,687			$ 248,687
Building addition	15,103			15,103
Sewer System	15,235,917	52,557		15,288,474
Machinery, equip & furniture	260,788	813	(1,077)	260,524
Vehicles	63,598			63,598
Deferred bond issue costs	90,476			90,476
Total Assets	15,914,569	53,370	(1,077)	15,966,862
Accumulated depreciation	(2,754,674)	(356,939)	1,059	(3,110,554)
Accumulated amortization	(14,719)	(2,262)		(16,981)
Net Capital Assets	$13,145,176	$ (305,831)	$ (18)	$12,839,327

(5) LONG-TERM DEBT

Revenue Bonds

The Authority issues bonds where it pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

	Wastewater System Projects						
	5.0%	4.5%	4.5%	4.5%	3.25%	4.5%	Totals
Balance 1/1/04	$2,315,000	$ 869,000	$ 115,000	$4,077,000	$710,000	$412,000	$8,498,000
Principal proceeds					50,000		50,000
Principal payments	(40,000)	(10,000)	(1,000)	(45,000)	(10,000)	(4,000)	(110,000)
Balance 12/31/04	$2,275,000	$ 859,000	$ 114,000	$4,032,000	$ 750,000	$ 408,000	$8,438,000

The annual principal payments on the above bonds, payable on December 1 or June 1 of each year, increase incrementally from $1,000 to $220,000. Interest is payable on all bond obligations semi-annually on June 1 and December 1.

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Total	Principal	Interest
2005	$ 501,455	$ 119,000	$ 382,455
2006	504,035	127,000	377,035
2007	510,277	139,000	371,277
2008	507,938	143,000	364,938
2009	506,995	151,000	355,995
2010-2014	2,530,207	861,000	1,669,207
2015-2019	2,510,045	1,058,000	1,452,045
2020-2024	2,489,227	1,305,000	1,184,227
2025-2029	2,485,976	1,635,000	850,976
2030-2034	1,841,853	1,366,000	475,853
2035-2039	1,404,717	1,999,000	205,717
2040-2042	344,383	335,000	9,383
	$16,137,108	$ 8,438,000	$ 7,699,108

(6) RETIREMENT PLAN - DEFINED BENEFIT

Description of Plan and Plan Assets

The Authority is in an agent multiple-employer statewide, defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by a nine member Retirement Board. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and post retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0 percent times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was originally established under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document, as revised. Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation which is an instrumentality of the participating municipalities and courts. Prior to that time MERS was a component unit of the State of Michigan and operated within the Department of Management and Budget. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

All permanent employees of the Authority are eligible to participate in the plan upon working at least 10 full work days in a given month. As of December 31, 2003, the most recent report available, the Authority had 3 active covered employees, 0 inactive vested members and 0 retirees and beneficiaries. The annual covered payroll at that date totaled $88,448 and the Authority's total payroll for all employees was $126,891.

Under the provisions of the plan, pension benefits vest after 10 years of credited service. Participants may elect normal retirement at age 60 with 10 or more years of credited service or early retirement at age 55 with 15 or more years of service, and at age 50 with 25 or more years of service.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Authority's board and does not require employees to contribute to the plan. The Authority is required to contribute at an actuarially determined rate; the current rate was 9.01% for 2004.

Annual Pension Cost

During the fiscal year ended December 31, 2004, the Authority's contributions totaling $8,096 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal actuarial cost method and are based upon the benefit plan(s) adopted by the Authority. Under the entry age normal cost method, the total actuarially-determined contribution requirement is the sum of the normal cost and the payment required to amortize the unfunded accrued liability over the amortization period of 30 years, less the accelerated funding credit, if available. The employer normal cost is, for each employee, the level percentage-of-salary contribution (from entry age to retirement) required each year to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5%, plus a percentage based on age-related scale to reflect merit, longevity and promotional salary increases.

The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27. All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	$ 0
Terminated employees not yet receiving benefits	0
Current employees –	
Accumulated employee contributions including allocated investment income	0
Employer Financed	140,505
Total Actuarial Accrued Liability	140,505
Net Assets Available for Benefits at Actuarial Value (Market Value is $103,628)	113,489
Unfunded (Overfunded) Actuarial Accrued Liability	$ 27,016

GASB 27 INFORMATION (as of 12/31/03)

Fiscal Year Beginning	January 1, 2005
Annual Required Contribution (ARC)	$ 7,716
Amortization Factor Used – Underfunded Liabilities (30 years)	0.053632

(7) ECONOMIC DEPENDENCY – MAJOR CUSTOMER

The Authority had one customer in 2004 who accounted for more than 10% of total revenue. The following is information regarding this customer for year ended December31:

	2004	
	Amount	% of Total
Annual revenue	$ 794,819	10.51%

(8) COMMITMENTS AND CONTINGENCIES

The Authority receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Authority's management, such disallowances, if any, will not be significant to the Authority's financial statements.

(9) OTHER INFORMATION

Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. All risk of loss is covered by commercial insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

(10) ACCOUNTING CHANGE

Effective January 1, 2004, the Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments* (GASB No. 34), along with all related statements and interpretations.

In connection with the implementation of this statement, the following adjustments to net assets, 12/31/03 has been made to reflect the cumulative effect of this accounting change:

Total fund equity for year ended 12/31/03	$ 5,783,378
Equals net assets, 12/31/03 on the: STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS.	$ 5,783,378

SUPPLEMENTARY INFORMATION

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES – BUDGET TO ACTUAL
OPERATIONS ONLY
YEAR ENDED 12/31/04

	Original budget	Final budget	Actual
OPERATING REVENUES			
Sewer fees	740,000	740,000	762,292
Other income	16,400	16,400	32,527
Total Operating Revenue	756,400	756,400	794,819
OPERATING EXPENSES			
Salaries, wages, and benefits	171,000	171,000	173,427
Administrative expenses	44,350	41,950	17,220
Supplies and maintenance	70,000	82,000	89,496
Utilities	24,000	32,000	34,995
Insurance	-	-	26,342
Depreciation and amortization	50,000	50,000	359,201
TOTAL OPERATING EXPENSES	359,350	376,950	700,681
OPERATING INCOME	397,050	379,450	94,138

This schedule is for supplemental information only. It is prepared to present revenues and expenses related to current operations only and as such do not present the results of operations on the basis of generally accepted accounting principles.

FEDERAL PROGRAMS

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

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

Board Members
North Houghton County Water and Sewage Authority
Calumet, Michigan

I have audited the financial statements of North Houghton County Water and Sewage Authority, as of and for the year ended December 31, 2004 and have issued my report thereon dated June 6, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

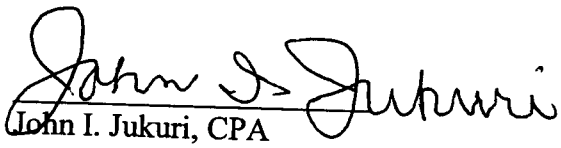
As part of obtaining reasonable assurance about whether North Houghton County Water and Sewage Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance, which I have reported to the management of North Houghton County Water and Sewage Authority in a separate letter dated June 6, 2005.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered North Houghton County Water and Sewage Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted a matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect North Houghton County Water and Sewage Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted is an absence of appropriate segregation of duties due to a limited number of available personnel. If an adequate number of personnel were available, a proper segregation of duties would provide reasonable assurance that not one employee would have access to both physical assets and the related accounting records, or to all phases of a transaction. Because of the absence of an appropriate segregation of duties, there is a possibility that unintentional or intentional errors or irregularities could exist and not be promptly detected.

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 caused by error or fraud 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

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



John I. Jukuri, CPA

Calumet, Michigan
June 6, 2005

JOHN I. JUKURI
CERTIFIED PUBLIC ACCOUNTANT
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Calumet, Michigan 49913
Tel. (906) 337-0662
Fax (906) 337-2587

June 6, 2005

Board Members
North Houghton County Water and Sewage Authority
Calumet, Michigan

Dear Board Members:

In planning and performing my audit of the financial statements of North Houghton County Water and Sewage Authority for the year ended December 31, 2004, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. I noted certain matters involving the internal control and its operation and other items that came to my attention in the normal conduct of my audit that are presented to assist in improving accounting procedures and controls.

Reportable Conditions

(1) The size of the Authority's administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Authority Board remains involved in the financial affairs of the Authority to provide oversight and independent review functions.

(2) The Authority should adopt procedures to reconcile billings and collections received from the Michigan-American Water Company.

Other

(3) At December 31, 2004 the Authority had $601,114 in cash and $501,114 of this amount was uninsured. I recommend that the Authority review its investment policy and procedures to determine if there could be alternative investment strategies that would yield higher investment returns and also allow for FDIC protection.

This report is intended for the information and use of the board members and applicable Federal and State agencies. I will be pleased to discuss this with you at your convenience.

Sincerely,

John I. Jukuri

John I. Jukuri, CPA