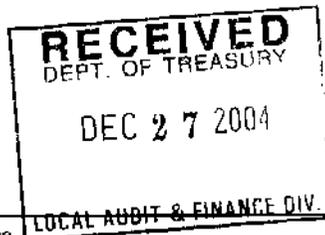


**FINANCIAL REPORT
HARBOR SPRINGS AREA FIRE AUTHORITY
December 31, 2003**

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 Harbor Springs Area Fire Authority	County Emmet
Audit Date 12/31/03	Opinion Date 11/30/04	Date Accountant Report Submitted to State: 12/15/04	

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:

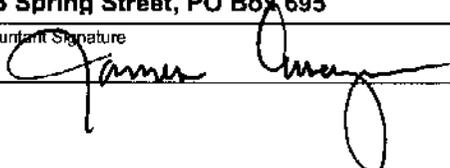
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

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) Hill, Schroderus & Co., LLP			
Street Address 923 Spring Street, PO Box 695	City Petoskey	State MI	ZIP 49770
Accountant Signature 		Date	

HARBOR SPRINGS AREA FIRE AUTHORITY
FINANCIAL REPORT
December 31, 2003

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Section:	
Balance Sheet	2
Statement of Revenues, Expenses and Changes in Retained Earnings	3
Statement of Cash Flows	4
Notes to Financial Statements	5-7



November 30, 2004

Independent Auditors' Report

Board of Directors
Harbor Springs Area Fire Authority
Harbor Springs, Michigan

We have audited the general purpose financial statements of the Harbor Springs Area Fire Authority as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Springs Area Fire Authority as of December 31, 2003 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.

Hill Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

**HARBOR SPRINGS AREA FIRE AUTHORITY
BALANCE SHEET
December 31, 2003**

Assets

Current assets:	
Cash	\$ 70,233
Due from other governmental units	98,000
	<hr/>
Total current assets	168,233
	<hr/>
Property, plant, and equipment	644,802
Less: accumulated depreciation	(295,576)
	<hr/>
Net property, plant and equipment	349,226
	<hr/>
Total assets	\$ 517,459
	<hr/> <hr/>

Liabilities and Fund Equity

Liabilities:	
Current liabilities:	
Due to other governmental units	\$ 102,521
	<hr/>
Fund equity:	
Contributed capital:	
Capital Grants	91,485
Local governmental units contributions	528,369
Less: accumulated depreciation on assets acquired from contributed capital	(291,895)
	<hr/>
Net contributed capital	327,959
	<hr/>
Retained earnings	86,979
	<hr/>
Total fund equity	414,938
	<hr/>
Total liabilities and fund equity	\$ 517,459
	<hr/> <hr/>

HARBOR SPRINGS AREA FIRE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
Year Ended December 31, 2003

Operating revenue:	
Charges for services	\$ 96,563
Operating expenses:	
Operation and maintenance	101,084
Depreciation	53,536
Total operating expenses	154,620
Operating income (loss)	(58,057)
Nonoperating revenues (expenses):	
Interest revenues	1,126
Grants	14,500
Loss on sale of fixed asset	(900)
Total nonoperating revenues (expenses)	14,726
Other expense:	
Debt interest expense	1,706
Less: contribution by local governmental units to defray interest expense on long-term debt	(1,706)
Total other expense	-
Net income (loss)	(43,331)
Add depreciation on fixed assets acquired by local funding that reduces contributed capital	50,477
Increase (decrease) in retained earnings	7,146
Retained earnings, beginning	79,833
Retained earnings, ending	<u>\$ 86,979</u>

**HARBOR SPRINGS AREA FIRE AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2003**

Increase (Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:	
Cash received for services	\$ 69,962
Cash payments to suppliers for goods and services	<u>(83,941)</u>
Net cash provided (used) by operating activities	<u>(13,979)</u>
Cash flows from noncapital financing activities:	
Operating grants received	<u>14,500</u>
Cash flows from capital and related financing activities:	
Contributed capital	10,212
Capital grants received	37,485
Lease obligation payments	(40,821)
Collection on contracts receivable	40,821
Debt interest expense	(1,706)
Purchase of capital assets	(120,648)
Sale of capital assets	18,000
Less: contribution by local governmental units to defray interest expense on long-term debt	<u>1,705</u>
Net cash provided (used) by capital and related financial activities	<u>(54,952)</u>
Cash flows from investing activities:	
Interest from bank accounts	<u>1,126</u>
Net increase in cash and cash equivalents	(53,305)
Cash and cash equivalents, beginning	<u>123,538</u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	<u>\$ (58,057)</u>
Adjustments to net cash provided by operating activities:	
Depreciation	53,536
Change in assets and liabilities:	
(increase) decrease due from other governmental units	(20,200)
Increase (decrease) due to other governmental units	<u>10,742</u>
Total adjustments	<u>44,078</u>
Net cash provided (used) by operations	<u>\$ (13,979)</u>

HARBOR SPRINGS AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Harbor Springs Area Fire Authority (the "Authority") was created as a corporate instrumentality in 1992 under provisions of Act 57, Michigan Public Acts of 1988. The local governments comprising the Authority include the City of Harbor Springs, Little Traverse, West Traverse and Pleasantview Townships. The Authority provides fire protection, equipment and services to these municipalities. The Authority is not included in any other governmental "reporting entity" as defined by GASB 14, since none of these governmental units appoint a majority of the Authority's board, the board members have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

The accounting policies of the Authority conform to generally accepted accounting principles applicable to governmental units. The Authority accounts for operations that are financed and operating in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, excluding depreciation associated with utility plant financed from contributions in aid of construction) of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges. The Authority follows the policy of recording income when earned and expenses when incurred. Specific accounting policies are described in the following paragraphs.

Property, Plant and Equipment – The building, equipment and vehicles are recorded at cost. The vehicles are being depreciated under the straight-line method over their estimated useful life of 15 years; the other fixed assets are being depreciated over their shorter estimated useful lives using the straight-line method.

Provisions for depreciation aggregating \$53,536 in 2003 have been recorded in the statement of operations. Such amounts, to the extent they reflect depreciation of assets acquired from local contributions received to defray capital acquisition costs, are charges against contributed capital. Any depreciation associated with assets acquired from other sources is charged against retained earnings.

Contributed Capital – Contributions awarded the Authority to defray capital acquisition costs and contracted amounts due from local governmental units to repay long-term debt are recorded as contributed capital.

Repair and Maintenance – Repair and maintenance expenses are charges against operations when incurred.

Financial Statement Estimates – The Authority uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were assumed in preparing the financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 2: CASH

Insured Deposits

At December 31, 2003, the carrying amount and bank balance of the Authority's deposits was \$70,233. All of which was covered by federal depository insurance. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

State statutes and the Fire Authority's investment policy authorize the Fire Authority to make deposits in the accounts of federally insured banks, credit unions, and saving and loan associations that have an office in Michigan; the Fire Authority is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Fire Authority's deposits are in accordance with statutory authority.

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

A summary of Property, Plant and Equipment at December 31, 2003 follows:

Buildings	\$ 11,747
Operating equipment	100,831
Office equipment	1,905
Vehicles	<u>530,319</u>
Total	644,802
Less: accumulated depreciation	<u>295,576</u>
Net	<u>\$349,226</u>

NOTE 4: CONTRIBUTED CAPITAL

A summary of changes in contributed capital follows:

Balance - January 1, 2003	\$ 526,746
Additions (deletions)	<u>93,108</u>
Balance - December 31, 2003	<u>\$ 619,854</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5: SEGMENT INFORMATION

Segment information for the year ended December 31, 2003 was as follows:

Operating revenues	\$ 96,563
Depreciation expense	53,536
Operating income (loss)	(58,057)
Net income (loss)	(43,331)
Current capital contributions (cash and noncash)	93,108
Plant, property and equipment:	
Additions	114,247
Deletions	(23,187)
Net working capital	65,712
Total assets	517,459
Total equity	414,938

NOTE 6: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Authority belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Authority pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the Authority could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

NOTE 7: SUBSEQUENT EVENT

On January 27, 2004 the board authorized the purchase of a computerized bar-code 7 system to track Fire Authority equipment, at an estimated cost of \$7,200.

NOTE 8: NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Fire Authority is required to implement this standard for the fiscal year ending December 31, 2004.