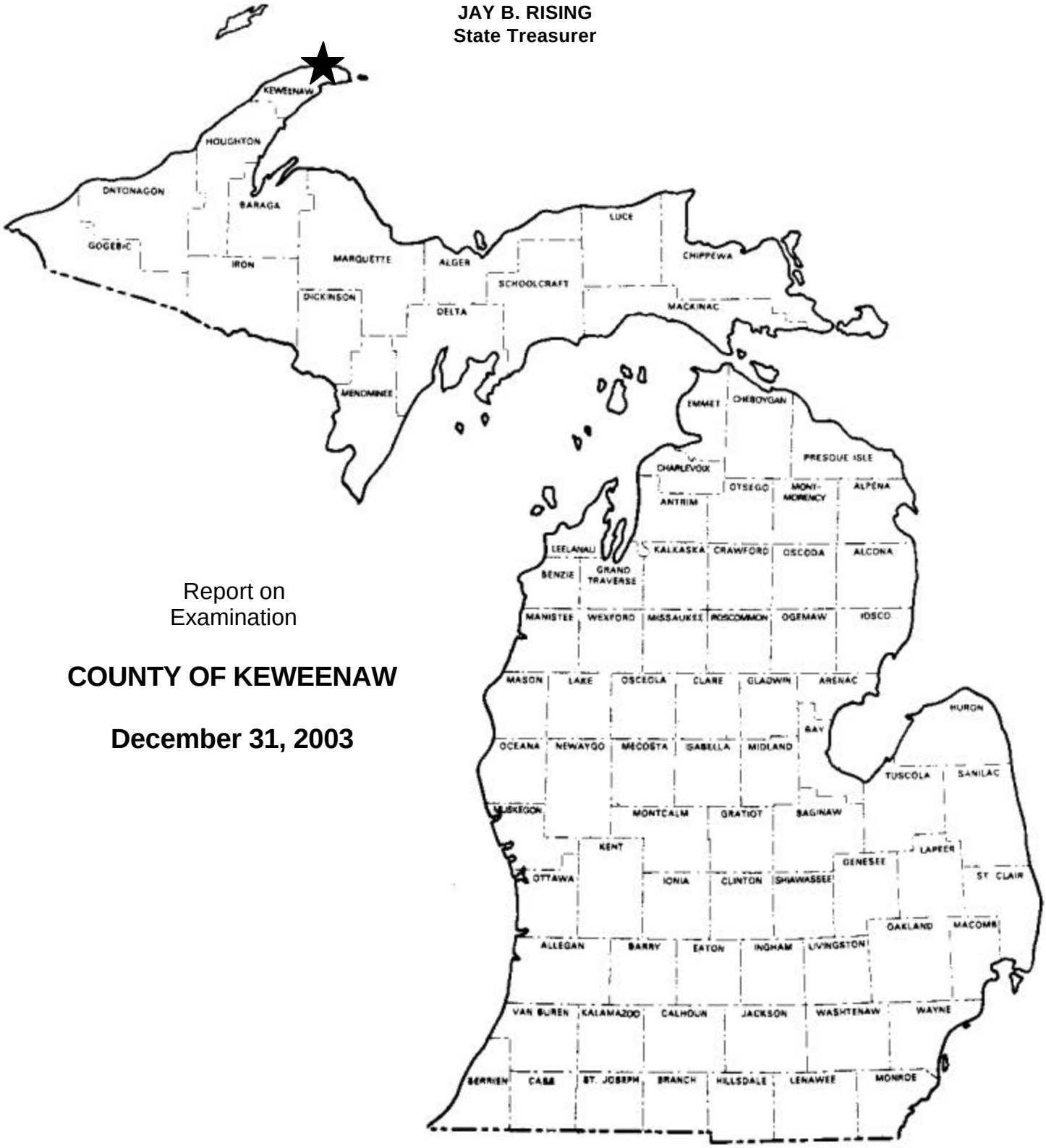
STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

COUNTY OF KEWEENAW

December 31, 2003

Local Audit and Finance Division
Bureau of Local Government Services

KEWEENAW COUNTY

BOARD OF COMMISSIONERS

Frank Stubenrauch
Chairperson

Eric Bjorn

Gordon Roberts

Donald Keith

Clyde H. Westcoat II

COURT JUDGES

Garfield W. Hood
Circuit Judge

James Jaaskelainen
Probate Judge

Phillip L. Kukkonen
District Judge

OTHER ELECTED OFFICIALS

Geri Hall
Treasurer

James Kaura
Mine Inspector

Donna Jaaskelainen
Prosecuting Attorney

Ronald Lahti
Sheriff

Marilyn Winquist
Clerk and Register of Deeds

COUNTY POPULATION -- 2000
2,301

STATE EQUALIZED VALUATION--2003
$132,089,703

TAXABLE VALUATION--2003
$85,595,064

JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

August 6, 2004

Keweenaw County Board of Commissioners
Keweenaw County Courthouse
5095 Fourth Street
Eagle River, Michigan 49950

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of Keweenaw County, Michigan, as of and for the year ended December 31, 2003, as listed in the Table of Contents. These financial statements are the responsibility of Keweenaw County'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 described more fully in Note A, the Keweenaw Park has not maintained its general fixed assets records since 1987 and, accordingly, the statement of general fixed assets included in this report does not include all of the general fixed assets of the county, as required by generally accepted accounting principles. As of December 31, 1987, the assets were valued at $2,326,221, but the current value is unknown.

In our opinion, except for the omission of the financial statements explained in the third paragraph which results in an incomplete presentation and based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Keweenaw County, as of December 31, 2003 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 6, 2004, on our consideration of Keweenaw County's internal control over financial

reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of Keweenaw County, taken as a whole. The accompanying supplemental and related information in Exhibits D through I is presented for purposes of additional analysis and is not a required part of the financial statements of Keweenaw County. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF KEWEENAW

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KEWEENAW COUNTY **EXHIBIT A**
COMBINED BALANCE SHEET--ALL FUND TYPES,
ACCOUNT GROUPS AND DISCREETLY PRESENTED COMPONENT UNITS
December 31, 2003

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)	COMPONENT UNIT	TOTAL (MEMORANDUM ONLY)
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government	Road Commission	Reporting Entity
ASSETS								
Cash	$ 429,798	$ 546,230	$274,160			$1,250,188	$ 634,904	$1,885,092
Receivables								
Taxes--Current Levy	568,303	117,829				686,132		686,132
Taxes--Delinquent	11,910	2,682				14,592		14,592
Accounts (Net of Estimated Uncollectibles)		9,042				9,042	38,683	47,725
Due From								
Townships	17,241	3,882				21,123	18,207	39,330
State of Michigan	61,092	24,472				85,564	243,984	329,548
Federal Government		1,800				1,800		1,800
Inventories (at Cost)						-	178,748	178,748
Prepaid Expense		41,683				41,683		41,683
Property, Plant and Equipment								
Net of Accumulated Depreciation				$3,463,343		3,463,343	1,273,612	4,736,955
Amount to be Provided for								
Payment of Long-Term Debt					$ 43,261	43,261	171,116	214,377
Total Assets	$1,088,344	$ 747,620	$274,160	$3,463,343	$ 43,261	$5,616,728	$ 2,559,254	$8,175,982

KEWEENAW COUNTY
COMBINED BALANCE SHEET--ALL FUND TYPES,
ACCOUNT GROUPS AND DISCREETLY PRESENTED COMPONENT UNITS
December 31, 2003

EXHIBIT A
(CONTINUED)

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)	COMPONENT UNIT	TOTAL (MEMORANDUM ONLY)
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government	Road Commission	Reporting Entity
LIABILITIES AND FUND EQUITY								
Liabilities								
Accounts Payable	$ 23,623	$ 56,222				$ 79,845	$ 12,360	$ 92,205
Due to State of Michigan			$ 19,964			19,964		19,964
Accrued Liabilities		16,402				16,402	40,074	56,476
Undistributed Penal Fines			2,695			2,695		2,695
Undistributed Tax Collections			251,131			251,131		251,131
Other Trust Items Payable			370			370		370
Advances--State of Michigan						-	234,255	234,255
Deferred Revenue--Taxes	580,213	120,511				700,724		700,724
Deferred Revenue--Other		53,707				53,707		53,707
Vested Employee Benefits Payable					$ 43,261	43,261	171,116	214,377
Total Liabilities	603,836	246,842	274,160	$ -	43,261	1,168,099	457,805	1,625,904
Fund Equity								
Investment in General Fixed Assets				3,463,343		3,463,343	1,273,612	4,736,955
Fund Balances								
Reserved for								
Family Counseling	5,870					5,870		5,870
Act 302 Training	1,139					1,139		1,139
Unreserved--Undesignated	477,499	500,778				978,277	827,837	1,806,114
Total Fund Equity	484,508	500,778	-	3,463,343	-	4,448,629	2,101,449	6,550,078
Total Liabilities and Fund Equity	$1,088,344	$ 747,620	$274,160	$3,463,343	$ 43,261	$5,616,728	$ 2,559,254	$8,175,982

The Notes to Financial Statements are an integral part of this statement.

KEWEENAW COUNTY **EXHIBIT B**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE--ALL GOVERNMENTAL FUND TYPES AND DISCREETLY PRESENTED COMPONENT UNITS

For the Year Ended December 31, 2003

	GOVERNMENTAL FUND TYPES		TOTAL (MEMORANDUM ONLY)	COMPONENT UNIT	TOTAL (MEMORANDUM ONLY)
	General	Special Revenue	Primary Government	Road Commission	Reporting Entity
Revenues					
Taxes	$ 731,440	$ 120,066	$ 851,506		$ 851,506
Licenses and Permits	921	46,522	47,443		47,443
Federal Grants	50,752	53,358	104,110	$ 281,910	386,020
State Grants	195,355	102,409	297,764	1,331,166	1,628,930
Contributions From Local Units	4,100		4,100	7,500	11,600
Charges for Services	64,894	985,026	1,049,920	613,594	1,663,514
Fines and Forfeits		2,000	2,000		2,000
Interest and Rents	27,341	36,217	63,558	19,458	83,016
Other Revenue	5,694	38,147	43,841	22,418	66,259
Total Revenues	1,080,497	1,383,745	2,464,242	2,276,046	4,740,288
Expenditures					
Current					
Legislative	26,014		26,014		26,014
Judicial	118,466	2,217	120,683		120,683
General Government	250,567	35,709	286,276		286,276
Public Safety	350,845	91,225	442,070		442,070
Public Works				2,348,468	2,348,468
Health and Welfare	31,469	239,448	270,917		270,917
Recreation and Cultural	200	948,477	948,677		948,677
Other	259,847	23,435	283,282		283,282
Capital Outlay	27,030	21,774	48,804	103,155	151,959
Total Expenditures	1,064,438	1,362,285	2,426,723	2,451,623	4,878,346
Excess of Revenues Over (Under) Expenditures	16,059	21,460	37,519	(175,577)	(138,058)
Other Financing Sources (Uses)					
Primary Government					
Operating Transfers In		6,312	6,312		6,312
Operating Transfers (Out)	(6,312)		(6,312)		(6,312)
Total Other Financing Sources (Uses)	(6,312)	6,312	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	9,747	27,772	37,519	(175,577)	(138,058)
Fund Balance--January 1, 2003	474,761	473,006	947,767	1,003,249	1,951,016
Restatements to Fund Balance January 1, 2003			-	165	165
Restated Fund Balance--January 1, 2003	474,761	473,006	947,767	1,003,414	1,951,181
Fund Balance--December 31, 2003	$ 484,508	$ 500,778	$ 985,286	$ 827,837	$ 1,813,123

The Notes to Financial Statements are an integral part of this statement.

KEWEENAW COUNTY **EXHIBIT C**

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL--GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended December 31, 2003

	GENERAL FUND			SPECIAL REVENUE FUNDS			TOTAL (MEMORANDUM ONLY)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues									
Taxes	$ 700,387	$ 731,440	$ 31,053	$ 114,092	$ 120,066	$ 5,974	$ 814,479	$ 851,506	$ 37,027
Licenses and Permits	965	921	(44)	36,800	46,522	9,722	37,765	47,443	9,678
Federal Grants	48,703	50,752	2,049	53,358	53,358		102,061	104,110	2,049
State Grants	195,514	195,355	(159)	77,540	102,409	24,869	273,054	297,764	24,710
Contributions From Local Units	-	4,100	4,100				-	4,100	4,100
Charges for Services	40,330	64,894	24,564	1,048,868	985,026	(63,842)	1,089,198	1,049,920	(39,278)
Fines and Forfeits				2,000	2,000		2,000	2,000	
Interest and Rents	14,200	27,341	13,141	30,000	36,217	6,217	44,200	63,558	19,358
Other Revenue	19,134	5,694	(13,440)	24,360	38,147	13,787	43,494	43,841	347
Total Revenues	1,019,233	1,080,497	61,264	1,387,018	1,383,745	(3,273)	2,406,251	2,464,242	57,991
Expenditures									
Legislative	26,234	26,014	220				26,234	26,014	220
Judicial	134,749	118,466	16,283	2,000	2,217	(217)	136,749	120,683	16,066
General Government	266,011	250,567	15,444	47,534	35,709	11,825	313,545	286,276	27,269
Public Safety	373,513	350,845	22,668	67,679	91,225	(23,546)	441,192	442,070	(878)
Health and Welfare	36,107	31,469	4,638	237,032	239,448	(2,416)	273,139	270,917	2,222
Recreation and Cultural	200	200		930,000	948,477	(18,477)	930,200	948,677	(18,477)
Other	285,575	259,847	25,728	23,360	23,435	(75)	308,935	283,282	25,653
Capital Outlay	35,163	27,030	8,133	61,000	21,774	39,226	96,163	48,804	47,359
Total Expenditures	1,157,552	1,064,438	93,114	1,368,605	1,362,285	6,320	2,526,157	2,426,723	99,434
Excess of Revenues Over (Under) Expenditures	(138,319)	16,059	154,378	18,413	21,460	3,047	(119,906)	37,519	157,425
Other Financing Sources (Uses)									
Operating Transfers In				41,312	6,312	(35,000)	41,312	6,312	(35,000)
Operating Transfers (Out)	(44,012)	(6,312)	37,700			-	(44,012)	(6,312)	37,700
Total Other Financing Sources (Uses)	(44,012)	(6,312)	37,700	41,312	6,312	(35,000)	(2,700)	-	2,700
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(182,331)	9,747	192,078	59,725	27,772	(31,953)	(122,606)	37,519	160,125
Fund Balance--January 1, 2003	474,761	474,761	-	472,861	473,006	145	947,622	947,767	145
Fund Balance--December 31, 2003	$ 292,430	$ 484,508	$ 192,078	$ 532,586	$ 500,778	$ (31,808)	$ 825,016	$ 985,286	$ 160,270

The Notes to Financial Statements are an integral part of this statement.

NOTE A-- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Keweenaw County was organized in 1861 and covers an area of 561 square miles divided into 5 townships and 1 village. The county seat is located in Eagle River. The county operates under an elected county board of commissioners (5 members) and provides services to its more than 2,301 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services. The component units discussed below are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present Keweenaw County (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Discretely Presented Component Units

The component unit column in the combined financial statements reflects the financial data of the Keweenaw County Road Commission because of the significance of its operational or financial relationships with the county. The Road Commission's financial statements are reported in a separate column to emphasize that they are legally separate from the county.

The Keweenaw County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval.

Complete audited financial statements of the Keweenaw County Road Commission can be obtained from their administrative offices or from the County Clerk's Office at the courthouse. The administrative office address is Keweenaw County Road Commission, 1916 Fourth Street, P.O. Box 327, Mohawk, Michigan 49950.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly Governed Organization--District Health Department

Keweenaw County, in conjunction with Baraga, Gogebic, Houghton and Ontonagon counties, has created the Western Upper Peninsula District Health Department under the authority of the Public Health Code. The District Health Board is composed of 2 members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Houghton County, as a discreetly presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation.

Member counties' percentages and dollar share of the net operating budget for 2003 were:

Requested %	Actual %	Appropriatio
12.7%	13.5%	$ 18,413
25.6%	20.9%	28,575
43.8%	47.1%	64,372
5.2%	5.4%	7,394
12.7%	13.1%	17,978
100.0%	100.0%	$ 136,732

Keweenaw County's 2003 formula appropriation to the District Health Department was $7,394. An additional $977 was appropriated from the State-shared cigarette tax revenues.

Jointly Governed Organization--Community Mental Health Services Authority

Keweenaw County, in conjunction with Baraga, Houghton and Ontonagon Counties, has created the Copper Country Mental Health Services Board, which is a Community Mental Health Organization defined in the Mental Health Code (Code), MCL 330.1001, et seq., as amended. During 1996, the jointly created board became a Community Mental Health Authority under Section 205 of the Code in accordance with the Urban Cooperation Act. The Copper Country Community Mental Health Services Authority Board is composed of 12 members who are apportioned between the member counties on the basis of population and who's board appointments are approved by their respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Houghton County, as a discretely presented component unit. The funding of the Community Mental Health Authority operations by the member counties is based on an agreement between the Community Mental Health Board and member counties, which provides for single annual appropriations to provide for State institution inpatient costs and community mental health program costs.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The board approved member county appropriations for the Community Mental Health Authority's fiscal year ended September 30, 2003 were as follows:

Baraga	$ 33,795
Houghton	164,495
Keweenaw	8,500
Ontonagon	48,814
Total	$ 255,604

Keweenaw County's 2003 appropriation to the Community Mental Health Board was $8,500.

BASIS OF PRESENTATION

The accounts of the county are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the county are recorded in separate funds and account groups, categorized as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of: (1) general county governmental departments, boards and commissions; (2) court systems; (3) law enforcement; and (4) health, welfare and medical assistance.

Special Revenue Funds

These funds are used to account for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FIDUCIARY FUNDS

Trust and Agency Funds

These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The county has no trust funds.

ACCOUNT GROUPS

General Fixed Assets Account Group

This account group is used to account for the county's fixed assets other than those accounted for in proprietary or trust funds. Public domain (infrastructure) general fixed assets, consisting of certain improvements other than buildings, are not capitalized. The Keweenaw Park has not maintained its records of general fixed assets since 1987 as required by generally accepted accounting principles.

General Long-Term Debt Account Group

This account group presents the balance of general obligation long-term debt, which is not recorded in proprietary or trust funds.

The general fixed assets group of accounts and general long-term debt group of accounts are not funds and do not involve the measurement of the results of operations.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (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 accounting policies of Keweenaw County conform to generally accepted accounting principles as applicable to governmental units.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

All governmental funds utilize a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Measurable refers to the ability to quantify in monetary terms of the amount of the revenue. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due; and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Fiduciary Funds

The fiduciary funds are maintained on the cash basis, which is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting them on the accrual or modified accrual basis as required by generally accepted accounting principles.

Cash, Cash Equivalents, and Investments

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

Current Property Taxes

The county property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

The 2003 State equalized valuation of Keweenaw County amounted to $132,089,703 and the taxable valuation is $85,595,064, on which ad valorem taxes of 5.9975 allocated mills were levied for county operating purposes; special voted millage of .4452 mills for Sheriff Department operations; and 1.3358 mills for the care of Keweenaw County patients at the Houghton County Medical Care Facility. In addition, specific taxes are levied under the Commercial Forest Reserve Act. The current tax revenues reflected in the county's 2003 financial statements consist of the amount of the 2002 tax levy collected in addition to the Commercial Forest Reserve taxes.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes Receivable--Current

The taxes receivable--current of $568,303 in the General Fund; and $117,829 in the Medical Care Facility (Special Revenue Fund), consist of the 2003 current tax levies. The receivable amounts are recorded with an offsetting credit to deferred revenue--taxes.

Taxes Receivable--Delinquent

The taxes receivable--delinquent of $11,910 in the General Fund; and $2,682 in the Medical Care Facility (Special Revenue Fund), consist of unpaid real property taxes levied on the 2001 and 2002 tax rolls for County operating and sheriff department operations in the General Fund, and medical care facility services in the Medical Care Facility Fund. The receivable amounts are recorded with an offsetting credit to deferred revenue--taxes.

INVENTORIES

Road Commission (Component Unit)

County Road Fund inventories, consisting of road materials of $113,111 and equipment parts and materials of $65,637, are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance and to equipment repairs and operations, as used.

PROPERTY, PLANT AND EQUIPMENT

General Fixed Assets--Primary Government

Fixed assets of the county's governmental funds are recorded as capital outlay expenditures in the appropriate activity at the time of purchase, and are stated at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Governmental funds' fixed assets are capitalized in the general fixed assets account group and are not depreciated.

Fixed assets used in governmental fund type operations are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain (infrastructure) general fixed assets, consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, are not recorded.

The general fixed asset records of the Keweenaw Park have not been updated since December 31, 1987.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Fixed Assets and Depreciation--Road Commission (Component Unit)

Fixed assets are stated at historical costs or estimated historical costs if actual historical costs are not available. Donated fixed assets are valued at their estimated fair values on the date donated. Governmental fund fixed assets are recorded in the general fixed assets account group.

Fixed assets used in governmental fund type operations are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain (infrastructure) general fixed assets, consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, are not recorded.

Depreciation on the component unit (Road Commission) fixed assets is computed on the sum-of-the-years-digits method for road equipment and straight-line method for all other fixed assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Yard and Storage Equipment	4 to 10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years

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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Financing Sources (Uses)

The transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

Total Column on Combined Statements--Overview

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

NOTE B--LEGAL COMPLIANCE

Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, which requires the county board of commissioners to approve budgets for the General and Special Revenue Funds. The County Road Fund (special revenue--component unit) budget is adopted and administered by the board of county road commissioners. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budgets for the General and Special Revenue Funds are adopted at the function level and control is exercised at that level. Also, the board of county road commissioners has authorized its chief administrative officer to amend the County Road Fund budget when necessary by transferring up to 20% from one activity to another.

The budgeted revenues and expenditures for governmental fund types, as presented in Exhibit C, include any authorized amendments to the original budget as adopted.

NOTE B--LEGAL COMPLIANCE (Continued)

Excess of Expenditures Over Appropriations

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

During the fiscal year ended December 31, 2003, expenditures were incurred in excess of amounts appropriated in the amended budgets for the functions of the following Special Revenue Funds:

Fund/Function	Budget	Actual	Over Expenditures
Keweenaw Park Fund			
Recreation and Cultural	$925,000	$948,477	$23,477
County 911 Fund			
Public Safety	23,649	48,046	24,397
Jail Commissary Fund			
Public Safety		4,218	4,218
Law Library Fund			
Judicial	2,000	2,217	217
Medical Care Facility Fund			
Health and Welfare	100,000	100,978	978
Probate Child Care Fund			
Health and Welfare	54,999	63,763	8,764

NOTE C--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the county are at various banks in the name of the county treasurer. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The county's deposits are in accordance with statutory authority.

NOTE C--CASH AND INVESTMENTS (Continued)

The county has designated two banks for deposit of county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and includes all of the above investments.

The risk disclosures for the county's deposits at December 31, 2003, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	Carrying Amounts		
	Primary Government	Component Units	Reporting Entity Total
Cash and Deposits			
Imprest Cash	$ 570		$ 570
Insured (FDIC)	153,707	$100,000	253,707
Uninsured and Uncollateralized	1,095,911	534,904	1,630,815
Total	$1,250,188	$634,904	$ 1,885,092

	Bank Balances		
	Primary Government	Component Units	Reporting Entity Total
Insured (FDIC)	$ 117,132	$100,000	$ 217,132
Uninsured and Uncollateralized	1,225,857	534,904	1,760,761
Total	$1,342,989	$634,904	$ 1,977,893

NOTE D--ACCOUNTS RECEIVABLE

Keweenaw County (Primary Government)

The accounts receivable of the county consist primarily of charges to other agencies, businesses and individuals for services and materials provided by the Probate Court Child Care Division and Keweenaw Park on a contract or cost reimbursement basis. All accounts are current and collectible.

Road Commission (Component Unit)

The accounts receivable of the County Road Fund consist primarily of charges to other agencies, businesses and individuals for services and materials provided by the Road Commission on a cost reimbursement basis. All accounts are current and collectible.

NOTE E--TRANSFERS IN AND TRANSFERS (OUT)

Fund	Transfers In	Fund	Transfers (Out)
Primary Government		Primary Government	
Courthouse Improvements	$3,312	General	$6,312
Budget Stabilization	2,000		
Social Welfare	1,000		
Total Primary Government	$6,312	Total Primary Government	$6,312

NOTE F--GENERAL FIXED ASSETS ACCOUNT GROUP

Following are summaries of changes in the County's and Road Commission's (component unit) general fixed assets account groups:

General Fixed Assets Account Group--Primary Government

	Account Balances 01/01/2003	Additions	Deductions	Account Balances 12/31/2003
Fixed Assets Accounts				
Land and Improvements				
General County	$ 261,954			$ 261,954
Keweenaw Park	201,400			201,400
Buildings				
General County	537,850			537,850
Keweenaw Park	1,458,583			1,458,583
Improvements Other Than Buildings				
Keweenaw Park	260,373			260,373
Equipment				
General County	298,717	$38,601		337,318
Keweenaw Park	405,865			405,865
Total Fixed Assets	3,424,742	38,601	$ -	3,463,343
Investment in General Fixed Assets				
General County	1,098,521	38,601		1,137,122
Keweenaw Park (A)	2,326,221			2,326,221
Total Investment in General Fixed Assets	$3,424,742	$38,601	$ -	$3,463,343

(A) The general fixed asset account balances for the Keweenaw Park are as of December 31, 1987. The records have not been updated since that date.

NOTE F--GENERAL FIXED ASSETS ACCOUNT GROUP (Continued)

General Fixed Assets Account Group--Road Commission (Component Unit)

	Account Balances 01/01/2003	Additions	Deductions	Account Balances 12/31/2003
Fixed Asset Accounts				
Land and Improvements	$ 589,980			$ 589,980
Buildings	244,589			244,589
Road Equipment	2,489,410	$342,574	$ 69,114	2,762,870
Shop Equipment	110,562	2,799		113,361
Yard and Storage Equipment	2,258			2,258
Office Equipment	42,112	493		42,605
Engineers' Equipment	90,111	3,640		93,751
Total	3,569,022	349,506	69,114	3,849,414
Reserve for Depreciation Accounts				
Buildings	199,398	7,590		206,988
Road Equipment	1,992,695	224,272	69,289	2,147,678
Shop Equipment	86,591	10,320		96,911
Yard and Storage Equipment	2,258			2,258
Office Equipment	37,047	3,235		40,282
Engineers' Equipment	76,534	5,151		81,685
Total Reserve for Depreciation Accounts	2,394,523	250,568	69,289	2,575,802
Plant and Equipment Equity				
Road Commission Funds	1,174,499	349,506	250,393	1,273,612
Total Plant and Equipment Equity	$ 1,174,499	$349,506	$ 250,393	$1,273,612

NOTE G--LONG-TERM DEBT

The general long-term debt and other general long-term obligations of Keweenaw County, and changes therein, may be summarized as follows:

	Balance 01/01/2003	Additions (Reductions)	Balance 12/31/2003
Primary Government			
Accrued Employee Benefits Payable			
County General Employees (See Note H)	$ 41,068	$ 2,193	$ 43,261
Total Primary Government	$ 41,068	$ 2,193	$ 43,261
Component Unit--Road Commission			
Vested Employee Benefits Payable (See Note H)	$ 208,926	$ (37,810)	$ 171,116
Total Component Unit--Road Commission	$ 208,926	$ (37,810)	$ 171,116
Total Primary Government and Component Unit General Long-Term Debt Account Group	$ 249,994	$ (35,617)	$ 214,377

NOTE H--COMPENSATED ABSENCES

The County and the Road Commission (component unit) have an accrued liability to their employees for accumulated vested vacation and sick leave benefits which are recorded in their respective general long-term debt account groups at December 31, 2003.

	Vacation	Sick Leave	Total
Primary Government			
County General Employees	$ 5,297	$ 37,964	$ 43,261
Component Unit			
Road Commission Employees		171,116	171,116
Total Reporting Entity	$ 5,297	$ 209,080	$214,377

NOTE H--COMPENSATED ABSENCES (Continued)

VACATION BENEFIT POLICIES

County General Employees--(Primary Government)

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are credited with their annual vacation benefits earned on their employment anniversary, and are required to use all vacation within one year.

Road Commission Employees--(Component Unit)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are required to use all vacation leave in the same calendar year in which it is earned.

SICK LEAVE BENEFIT POLICIES

County General Employees--(Primary Government)

The county's employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day per month, with a maximum accumulation of 90 days. Upon separation from employment with the county, the employee shall be paid for 50 percent of his/her accumulated unused sick leave at the current wage rate.

Road Commission Employees--(Component Unit)

Road Commission sick leave benefit policies provide that each employee earns one day of sick leave for each month of employment, to a maximum accumulation of 180 days. Employees not using any sick leave during the year will be paid a bonus equivalent to one week at their regular rate at the end of the year. An employee's accumulated sick leave will be paid upon leaving, or death at 100%, up to a maximum of 90 days based on the employee's pay rate at that time, providing the employee has at least 5 years employment with the Road Commission.

The amount recorded as vested employee sick leave benefits represents only the accumulated days, up to a maximum of 90, for those employees with 5 or more years of employment with the Road Commission.

NOTE I--EMPLOYEE PENSION PLAN--PRIMARY GOVERNMENT

Description of Plan and Plan Assets

Keweenaw County is an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The county's service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2% times the final average compensation (FAC).

MERS was organized pursuant to Section 12a, Public Act 156 of 1851 (MSA 5.333(a); MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. 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.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the county's competitive bargaining units. The county requires an employee contribution of 1.0%. The county's pension contributions were 10.02% and 9.99% of covered payroll for the General and Sheriff collective bargaining units, respectively, at December 31, 2001.

Annual Pension Cost

For the calendar year ended December 31, 2003, the county's annual pension cost was $45,681 which was equal to the county's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001. The employer contribution rate has been determined based on the entry age normal funding method.

Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required 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 5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

NOTE I--EMPLOYEE PENSION PLAN--PRIMARY GOVERNMENT (Continued)

Three Year Trend Information for GASB Statement No. 27

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2000	$31,476	100%	$0
2001	33,834	100%	0
2002	40,989	100%	0

Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/00	$ 557,058	$ 806,693	$ 249,635	69%	$403,459	62%
12/31/01	630,702	897,138	266,436	70%	440,912	60%
12/31/02	694,917	1,031,414	336,497	67%	472,853	71%

NOTE J--EMPLOYEE PENSION PLAN--ROAD COMMISSION (COMPONENT UNIT)

Description of Plan and Plan Assets

The Keweenaw County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-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 2.25% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2002.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. 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 MERS at 1134 Municipal Way, Lansing, Michigan 48917.

NOTE J--EMPLOYEE PENSION PLAN--ROAD COMMISSION (COMPONENT UNIT) (Continued)

Funding Policy

The Road Commission does not obligate the employees to contribute any portion of their salary to the plan. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 7.03% of annual compensation at December 31, 2002.

Annual Pension Cost

During the fiscal year ended December 31, 2002, the Road Commission's contributions totaling $45,346 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2000. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
2000	$ 47,458	100%	$0
2001	9,481	100%	$0
2002	44,456	100%	$0

Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/00	$3,309,303	$3,249,198	$ (60,105)	102%	$ 758,381	0%
12/31/01	3,459,604	3,492,838	33,234	99%	756,929	4%
12/31/02	3,506,836	3,659,227	152,391	96%	791,912	19%

NOTE K--DEFERRED COMPENSATION PLANS

Primary Government

The Keweenaw County Board of Commissioners has a deferred compensation plan which is offered to all regular employees and elected officials and was created in accordance with the Internal Revenue Code, Section 457. The plan is administered by the Public Benefit Services Corporation (PEBSCO). During 2003, all of the plan assets were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and the beneficiaries of the Section 457 plan. The assets may not be diverted to any other use. The administrators are the agent of the employer for the purpose of providing direction to the custodians of the custodial accounts from time to time for the investment of the funds held in the accounts, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the county's financial statements.

Road Commission (Component Unit)

The Keweenaw County Road Commission offers all Road Commission employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. During 2003, the assets of the plan were held in a trust in a custodial account as described in IRS Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is agent of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to, or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission’s financial statements.

NOTE L--POST-EMPLOYMENT BENEFITS

Road Commission (Component Unit)

In addition to the pension benefits described in Note J, the Keweenaw County Road Commission provides post-employment health care benefits and life insurance coverage, in accordance with Article 16, Section B, and Article 17 of their working agreement. The health care benefit provides that any permanent employee who becomes disabled or retires at any age after 5 years of service with the Road Commission shall have their hospitalization insurance premium paid for a period of 3 years by the Road Commission. Currently, 5 retirees are eligible for this post-employment benefit. The life insurance benefit provides that the Road Commission will pay for group term life insurance coverage in the amount of $2,000 for each retired employee. Currently, 10 retirees are covered by this benefit. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis.

During the year 2003, expenditures of approximately $32,873 were recognized for post-employment health care benefits and $317 for life insurance benefits.

NOTE M--RISK MANAGEMENT

Primary Government

The county 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. The county (including the Keweenaw Mountain Lodge) has purchased commercial insurance for risks of loss related to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. The county is uninsured for acts of god and environmental cleanup losses. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

The Michigan Township Participating Plan operates as an insurance-purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Road Commission (Component Unit)

The Road Commission 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. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions for the performance of these contracts.

NOTE M--RISK MANAGEMENT (Continued)

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At December 31, 2003, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE N--EXPENDITURES OF FEDERAL AWARDS

Entities that expend $300,000 or more in a fiscal year in Federal awards are subject to the Single Audit Act and OMB Circular A-133 and, therefore, must have a single or program specific audit. Keweenaw County expended $104,110 in Federal awards during this fiscal year that were passed through various State agencies. The Keweenaw County Road Commission expended $281,910 in Federal awards that were contracted and administered by and passed through the Michigan Department of Transportation (MDOT). Contracted projects administered by MDOT will be included in its Single Audit. Since the Road Commission’s Federal expenditures were not for projects negotiated by the Road Commission, they are not considered in determining total entity Federal expenditures. The county (total entity) did not expend more than $300,000 in Federal awards and, therefore, is not subject to Single Audit requirements.

NOTE O--RESTATED FUND BALANCE--ROAD COMMISSION (COMPONENT UNIT)

In the past, the February distribution for the December Michigan Transportation Fund (MTF) collections were recorded as revenue in the period received. However, as recommended by the Michigan Department of Treasury Numbered Letter 2002-5 and in accordance with the definition of the modified accrual basis of accounting, the Road Commission is recognizing the February 2003 revenue of $81,660 in the fiscal year ending December 31, 2002. A restatement of fund balance was necessary to remove the February 2003 MTF revenue that was recognized during 2003 and apply it to 2002.

Restatements of fund balance were also necessary to correct prior year accounts receivable errors of $25,462 and to remove from inventory $56,046 of road materials that were actually used in 2002 or prior years.

Listed below is the net effect of the restatements on the fund balances at December 31, 2002:

	Primary	Local	County	Total
Fund Balance at January 1, 2003	$344,484	$10,651	$648,114	$ 1,003,249
Restatements to Beginning Fund Balance	70,701	10,959	(81,495)	165
Restated Fund Balance January 1, 2003	$415,185	$21,610	$566,619	$ 1,003,414

KEWEENAW COUNTY **EXHIBIT D**
STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Taxes			
Current Property Taxes	$ 440,000	$ 430,047	$ (9,953)
Delinquent Real Property Tax	30,000	30,524	524
Delinquent Personal Property Tax	100	7,301	7,201
Tax Reverted Lands		119	119
Commercial Forest Tax	70,000	70,733	733
Swamp Lands Tax	2,787	2,787	-
Federal Payments-in-Lieu of Taxes	150,000	178,795	28,795
Interest on Taxes	2,500	3,144	644
Tax Collection Fees	4,000	6,705	2,705
Expense of Sale	1,000	1,285	285
Total Taxes	700,387	731,440	31,053
Licenses and Permits			
Marriage Licenses	100	220	120
Marriage License Counseling Fees	165	330	165
Dog Licenses	50	56	6
Pistol Permits	150	315	165
Zoning Variance	500		(500)
Total Licenses and Permits	965	921	(44)
Federal Grants			
FEMA Supplemental Planning Grant	15,243	11,483	(3,760)
Domestic Preparedness Equipment Grant	32,660	38,742	6,082
ADC Incentive Program	800	527	(273)
Total Federal Grants	48,703	50,752	2,049
State Grants			
Probate Judge Salary	20,000	20,000	
Judges' Salary Standardization	14,544	11,694	(2,850)
Judges' FICA		2,689	2,689
Caseflow Assistance	300	349	49
Court Equity Fund	6,000	7,458	1,458
Secondary Road Patrol	25,971	23,024	(2,947)
Marine Safety Program	3,000	1,231	(1,769)
Snowmobile Safety Program	15,400	10,877	(4,523)
Diverted Felons Program		9,570	9,570
Juvenile Officer Salary	27,317	27,317	-
Act 302 Officer Training	1,000	1,302	302
Liquor License Fees	14	69	55
Voter Registrations	20	38	18
State Cigarette Tax	1,356	1,384	28
Convention Facilities Tax	8,001	8,151	150
State Income Tax	40,000	38,156	(1,844)
State Remonumentation Grant	32,591	32,046	(545)
Total State Grants	195,514	195,355	(159)

KEWEENAW COUNTY **EXHIBIT D**
STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE **(CONTINUED)**
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Contributions From Local Units			
Township Contributions--Public Safety	-	4,100	4,100
Charges for Services			
Circuit Court Costs		600	600
District Court Costs	8,000	11,056	3,056
Bond Costs		675	675
Circuit Court Services	500	1,164	664
Friend of the Court Services	500	687	187
Probate Court Services	1,000	1,339	339
Treasurer Services	350	687	337
Clerk Services	700	1,112	412
Register of Deeds Services	8,000	15,832	7,832
Land Transfer Tax	11,000	22,645	11,645
District Court Civil Fees	300	679	379
Sheriff Services	600	972	372
Tax Department Services	1,000	1,661	661
Prisoners Board and Care	8,000	4,705	(3,295)
Boat Livery Inspections	80	68	(12)
Prescription Program Fees		84	84
Telephone Calls	150	191	41
Sale of Supplies	100	665	565
Sale of Plat Books and Maps	50	72	22
Total Charges For Services	40,330	64,894	24,564
Interest and Rents			
Interest Earned on Deposits	13,000	23,677	10,677
Insurance Dividends	1,200	2,464	1,264
Rental Income		1,200	1,200
Total Interest and Rents	14,200	27,341	13,141
Other Revenue			
Sale of Fixed Assets		500	500
Reimbursements			
Election Expenses	100	140	40
Wage and Benefits	2,100	2,338	238
Transporting Patients		375	375
Insurance Damage Recoveries	2,284	2,284	-
General Reimbursements and Refunds	14,650	57	(14,593)
Total Other Revenue	19,134	5,694	(13,440)
Total Revenues and Other Sources	$1,019,233	$1,080,497	$ 61,264

KEWEENAW COUNTY **EXHIBIT E**
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Legislative			
Board of Commissioners	$ 26,234	$ 26,014	$ 220
Judicial			
Circuit Court	28,465	18,253	10,212
District Court	32,282	30,714	1,568
District Court Magistrate	3,850	3,266	584
Friend of the Court	4,500	2,053	2,447
Jury Commission	1,000	197	803
Probate Court	41,833	41,564	269
Juvenile Officer	22,819	22,419	400
Total Judicial	134,749	118,466	16,283
General Government			
Elections	695	283	412
Audit Services	11,200	10,584	616
Clerk	38,280	35,432	2,848
Equalization Department	52,370	47,093	5,277
Prosecuting Attorney	36,457	36,086	371
Register of Deeds	2,430	2,754	(324)
Remonumentation Commission	32,591	32,206	385
Treasurer	52,110	50,715	1,395
Cooperative Extension Service	1,250	529	721
Courthouse and Grounds	36,628	33,417	3,211
istrict	300	300	
Record Copying	1,700	1,168	532
Total General Government	266,011	250,567	15,444
Public Safety			
Sheriff	191,050	191,113	(63)
Act 302 Officer Training	1,000	853	147
Marine Safety Program	4,000	829	3,171
Snowmobile Safety Program	20,545	11,863	8,682
Secondary Road Patrol	34,000	36,509	(2,509)
Jail	54,660	46,475	8,185
Mine Inspector	4,815	4,815	
Zoning Commission	7,800	5,100	2,700
Emergency Services Program	3,643	3,063	580
FEMA Supplemental Planning Grant	12,000	11,483	517
Domestic Preparedness Equipment Grant	40,000	38,742	1,258
Total Public Safety	373,513	350,845	22,668

KEWEENAW COUNTY **EXHIBIT E**
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY **(CONTINUED)**
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Health and Welfare			
District Health Department	7,394	7,394	
District Health--Cigarette Tax	978	977	1
Substance Abuse Coordinating Agency	4,076	4,076	
Medical Examiner	8,000	4,163	3,837
Community Mental Health Authority	8,500	8,500	
Human Services Coordinating Body	300		300
Veterans' Burials	1,500	1,200	300
UPCAP	200		200
Western UP Planning and Development Region	4,659	4,659	
Keweenaw Industrial Council	500	500	
Total Health and Welfare	36,107	31,469	4,638
Recreation and Cultural			
UP Travel and Recreation Association	200	200	-
Other			
Insurance and Bonds	26,000	23,532	2,468
Workers' Compensation Insurance	28,000	14,796	13,204
Employee Hospitalization Insurance	120,000	117,797	2,203
Employee Prescriptions	2,500	2,739	(239)
Payments in-Lieu-of Insurance	9,800	9,600	200
Employee Life Insurance	400	359	41
Employee Retirement	45,000	45,681	(681)
Social Security and Medicare	46,700	40,490	6,210
Unemployment Tax	7,000	4,505	2,495
Other Employee Benefits	175	168	7
YSI Closure Oversight		180	(180)
Total Other	285,575	259,847	25,728
Capital Outlay	35,163	27,030	8,133
Total Expenditures	1,157,552	1,064,438	93,114
Other Uses			
Operating Transfers (Out)--Primary Government			
Law Library	1,000		1,000
Construction Codes	9,000		9,000
Budget Stabilization	2,000	2,000	
Courthouse Improvements	3,312	3,312	
Social Welfare	8,700	1,000	7,700
Probate Child Care	20,000		20,000
Total Other Uses	44,012	6,312	37,700
Total Expenditures and Other Uses	$ 1,201,564	$ 1,070,750	$ 130,814

KEWEENAW COUNTY
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
December 31, 2003

EXHIBIT F

	Park	Friend of the Court	Courthouse Improvements	Building Inspection	Register of Deeds Automation	Budget Stabilization	County 911	Jail Commissary	Law Library
ASSETS									
Cash	$ 120,750	$ 3,138	$ 380	$ 7,556	$ 4,174	$ 16,000	$ 123,729	$ 269	$ 1,613
Receivables									
Taxes--Current Levy									
Taxes--Delinquent									
Accounts	2,436								
Due From Townships									
Due From State of Michigan							17,269		
Due From Federal Goverment									
Prepaid Expense	41,683								
Total Assets	$ 164,869	$ 3,138	$ 380	$ 7,556	$ 4,174	$ 16,000	$ 140,998	$ 269	$ 1,613
LIABILITIES AND FUND EQUITY									
Liabilities									
Accounts Payable	$ 319		$ 380	$ 42			$ 15,239		
Accrued Liabilities	16,402								
Deferred Revenue--Other									
Deferred Revenue--Taxes									
Total Liabilities	16,721	$ -	380	42	$ -	$ -	15,239	$ -	$ -
Fund Equity									
Fund Balance									
Unreserved--Undesignated	148,148	3,138	-	7,514	4,174	16,000	125,759	269	1,613
Total Fund Equity	148,148	3,138	-	7,514	4,174	16,000	125,759	269	1,613
Total Liabilities and Fund Equity	$ 164,869	$ 3,138	$ 380	$ 7,556	$ 4,174	$ 16,000	$ 140,998	$ 269	$ 1,613

KEWEENAW COUNTY
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
December 31, 2003

EXHIBIT F
(CONTINUED)

	Rental Housing Rehabilitation Grants	Housing Rehabilitation Grants 2000-02	Housing Rehabilitation Grants 2003-04	Economic Development	Social Welfare	Medical Care Facility	Probate Child Care	Veterans' Trust	Total
ASSETS									
Cash			$53,707	$ 124,627	$ 939	$ 84,482	$ 4,389	$477	$546,230
Receivables									
Taxes--Current Levy						117,829			117,829
Taxes--Delinquent						2,682			2,682
Accounts							6,606		9,042
Due From Townships						3,882			3,882
Due From State of Michigan							7,203		24,472
Due From Federal Government				1,800					1,800
Prepaid Expense									41,683
Total Assets	$ -	$ -	$53,707	$ 126,427	$ 939	$ 208,875	$18,198	$477	$747,620
LIABILITIES AND FUND EQUITY									
Liabilities									
Accounts Payable						$ 27,031	$13,211		$ 56,222
Accrued Liabilities									16,402
Deferred Revenue--Other			$53,707						53,707
Deferred Revenue--Taxes						120,511			120,511
Total Liabilities	$ -	$ -	53,707	$ -	$ -	147,542	13,211	$ -	246,842
Fund Equity									
Fund Balance									
Unreserved--Undesignated	-	-	-	126,427	939	61,333	4,987	477	500,778
Total Fund Equity	-	-	-	126,427	939	61,333	4,987	477	500,778
Total Liabilities and Fund Equity	$ -	$ -	$53,707	$ 126,427	$ 939	$ 208,875	$18,198	$477	$747,620

KEWEENAW COUNTY **EXHIBIT G**

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE--SPECIAL REVENUE FUNDS

For the Year Ended December 31, 2003

	Keweenaw Park	Friend of the Court	Courthouse Improvements	Building Inspection	Register of Deeds Automation	Budget Stabilization	County 911	Jail Commissary	Law Library
Revenues									
Taxes			$ 76						
Licenses and Permits				$46,522					
Federal Grants									
State Grants							$ 67,744		
Charges for Services	$961,186	$ 170			$4,130			$ 4,342	
Fines and Forfeits									$ 2,000
Interest and Rents	5,353				44				
Other	4,176								
Total Revenues	970,715	170	76	46,522	4,174	$ -	67,744	4,342	2,000
Expenditures									
Current									
Judicial									2,217
General Government			35,709						
Public Safety				38,961			48,046	4,218	
Health and Welfare									
Recreation and Cultural	948,477								
Other									
Capital Outlay	10,203		10,701	870					
Total Expenditures	958,680	-	46,410	39,831	-	-	48,046	4,218	2,217
Excess of Revenue Over (Under) Expenditures	12,035	170	(46,334)	6,691	4,174	-	19,698	124	(217)
Other Financing Sources (Uses)									
Operating Transfers In			3,312			2,000			
Operating Transfers (Out)									
Total Other Financing Sources (Uses)	-	-	3,312	-	-	2,000	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	12,035	170	(43,022)	6,691	4,174	2,000	19,698	124	(217)
Fund Balance--January 1, 2003	136,113	2,968	43,022	823	-	14,000	106,061	145	1,830
Fund Balance--December 31, 2003	$148,148	$ 3,138	$ -	$ 7,514	$4,174	$16,000	$125,759	$ 269	$ 1,613

KEWEENAW COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE--SPECIAL REVENUE FUNDS
For the Year Ended December 31, 2003

EXHIBIT G (CONTINUED)

	Rental Housing Rehabilitation Grants	Housing Rehabilitation Grants 2000-02	Housing Rehabilitation Grants 2003-04	Economic Development	Social Welfare	Medical Care Facility	Probate Child Care	Veterans' Trust	Total
Revenues									
Taxes						$119,990			$ 120,066
Licenses and Permits									46,522
Federal Grants	$31,871	$ 1,000	$10,488				$ 9,999		53,358
State Grants							34,665		102,409
Charges for Services		2,100	13,098						985,026
Fines and Forfeits									2,000
Interest and Rents				$ 30,820					36,217
Other	9,512	4,848		513			19,098		38,147
Total Revenues	41,383	7,948	23,586	31,333	$ -	119,990	63,762	$ -	1,383,745
Expenditures									
Current									
Judicial									2,217
General Government									35,742
Public Safety									91,225
Health and Welfare	41,383	7,948	23,586		1,790	100,978	63,763		239,448
Recreation and Cultural									948,477
Other				23,435					23,435
Capital Outlay									21,774
Total Expenditures	41,383	7,948	23,586	23,435	1,790	100,978	63,763	-	1,362,285
Excess of Revenue Over (Under) Expenditures	-	-	-	7,898	(1,790)	19,012	(1)	-	21,460
Other Financing Sources (Uses)									
Operating Transfers In					1,000				6,312
Operating Transfers (Out)									-
Total Other Financing Sources (Uses)	-	-	-	-	1,000	-	-	-	6,312
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	7,898	(790)	19,012	(1)	-	27,772
Fund Balance--January 1, 2003	-	-	-	118,529	1,729	42,321	4,988	477	473,006
Fund Balance--December 31, 2003	$ -	$ -	$ -	$126,427	$ 939	$ 61,333	$ 4,987	$ 477	$ 500,778

KEWEENAW COUNTY **EXHIBIT H**
COMBINING BALANCE SHEET
AGENCY FUNDS
December 31, 2003

	Trust and Agency	Library	Total
ASSETS			
Cash and Investments	$271,465	$2,695	$274,160
Total Assets	$271,465	$2,695	$274,160
LIABILITIES			
Due to State of Michigan	$19,964		$19,964
Undistributed Penal Fines		$2,695	2,695
Undistributed Tax Collections	251,131		251,131
Other Trust Items Payable	370		370
Total Liabilities	$271,465	$2,695	$274,160

KEWEENAW COUNTY **EXHIBIT I**

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS

For the Year Ended December 31, 2003

	Balance 01/01/03	Additions	Deductions	Balance 12/31/03
TRUST AND AGENCY FUND				
Assets				
Cash	$381,260	$1,920,253	$2,030,048	$271,465
Total Assets	$381,260	$1,920,253	$2,030,048	$271,465
Liabilities				
Due to Other Funds		$ 636,723	$ 636,723	
Due to Schools		98,747	98,747	
Due to Townships		75,129	75,129	
Due to Villages		1,479	1,479	
Due to State	$106,716	785,914	872,666	$ 19,964
Due to Federal		106,983	106,983	
Undistributed Tax Collections	273,732	930,618	953,219	251,131
Other Trust Payable	812	127,769	128,211	370
Total Liabilities	$381,260	$2,763,362	$2,873,157	$271,465
LIBRARY (PENAL FINE) FUND				
Assets				
Cash and Investments	$ 2,239	$ 3,985	$ 3,529	$ 2,695
Liabilities				
Undistributed Penal Fines	$ 2,239	$ 3,985	$ 3,529	$ 2,695

JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

August 6, 2004

Keweenaw County Board of Commissioners
Keweenaw County Courthouse
5095 Fourth Street
Eagle River, Michigan 49950

RE: Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of Keweenaw County as of and for the year ended December 31, 2003, and have issued our report thereon dated August 6, 2004. As described more fully in Note A, the county has not fully maintained its general fixed assets records except for those recorded by the Road Commission and, accordingly, the statement of general fixed assets included in this report does not include all of the general fixed assets of the county, as required by generally accepted accounting principles. Determination of the value of the county's general fixed assets was not possible. 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.

Compliance--As part of obtaining reasonable assurance about whether Keweenaw County's financial statements are free of material misstatement, we 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 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. However, we did note other instances of noncompliance described in the accompanying Report of Comments and Recommendations as findings 03-4 and 03-5.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Keweenaw County'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to

our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Keweenaw County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying report of comments and recommendations as items 97-2, 03-1, 03-2, and 03-3.

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. Our 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, of the reportable conditions described above we do not consider any to be material weaknesses.

This report is intended solely for the information of the board of commissioners, management, 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. However, this report is a matter of public record and its distribution is not limited.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

PRIOR AUDIT REPORTABLE CONDITIONS

The following reportable condition was included in our previous (1999) Keweenaw County "Report of Comments and Recommendations," and is being repeated in this report because we found no significant improvements in the reported condition.

Fixed Assets Records--Keweenaw Park *Finding 97-2*

Condition: Previous Keweenaw County audit reports included comments and recommendations relative to the county's failure to update the general fixed assets of the Keweenaw Park since 1987.

Recommendation: We recommend that the county take appropriate action to update the existing detailed general fixed assets records of the Keweenaw Park by taking a physical inventory of their fixed assets, establishing records for those assets which are not presently recorded and recording the disposition of those assets which have been disposed of. The general fixed asset totals by category should then be properly recorded in the Keweenaw Park Fund general ledger and the detailed records and general ledger control accounts should be adjusted at least annually for changes in the general fixed assets.

Management's Response–Corrective Action Plan: Contact person is Frank Stubenrauch, Chairperson, Keweenaw County Board of Commissioners, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-2229.

The Keweenaw Parks Board and the park's manager have been sent a copy of this reportable condition requesting that action be finally taken on this manner. Our liaison person to the Keweenaw Park Board will also attend the Park Board meeting on October 14 to urgently press this issue. Hopefully, there will have been movement on this matter by the time of your next visit.

OTHER REPORTABLE CONDITIONS

In addition to the prior audit reportable condition disclosed above, we wish to point out certain other reportable conditions for consideration by the management of Keweenaw County.

Fixed Assets Records--General County *Finding 03-1*

Condition: Although the general fixed assets account group has been updated annually for additions and deletions, the general county detailed fixed assets inventory has not been updated since 2000.

OTHER REPORTABLE CONDITIONS (Continued)

Recommendation: We recommend that the county take appropriate action to update the existing detailed general county fixed assets records. The detailed records and general ledger control accounts should be adjusted at least annually for changes in the general fixed assets. We also recommend the county periodically take a physical inventory of the fixed assets records.

Management's Response–Corrective Action Plan: Contact person is Marilyn Winquist, Keweenaw County Clerk, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-2229.

I intend to update the general county detailed fixed assets records for the fiscal year ended December 31, 2004.

Personnel Files *Finding 03-2*

Condition: Currently, personnel files are not maintained for county employees, although much of the information that belongs in a personnel file is recorded or noted in other records.

Criteria: A personnel file should be created for each employee and should include, at a minimum, the following: employment application and new employee investigation, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, earnings records, W-4 form, authorization to work in the U.S. (INS Form I-9), and termination date, where appropriate.

Recommendation: We recommend the county establish and maintain personnel files for each employee.

Management's Response–Corrective Action Plan: Contact person is Marilyn Winquist, Keweenaw County Clerk, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-2229.

I intend to establish and maintain personnel files for each employee.

Accounting for Grants *Finding 03-3*

Condition: The county contracts out the administrative work on numerous grants it receives, but the county does not record the financial activity of those grants on its accounting system.

Recommendation: We recommend the county record all grant financial activity in appropriate funds on its accounting system.

Management's Response–Corrective Action Plan: Contact person is Geri Hall, Keweenaw County Treasurer, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-1625.

I intend to record all grant activity on the county general ledger beginning in 2004.

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS

Proper Fund Type *Finding 03-4*

Condition: The Keweenaw Park and Jail Commissary Funds are recorded as Special Revenue Funds.

Criteria: The *Michigan Department of Treasury Uniform Chart of Accounts for Counties and Local Units of Government* provides that they be enterprise funds.

Recommendation: We recommend the county maintain and recognize the Keweenaw Park and Jail Commissary Funds as enterprise funds.

Management's Response–Corrective Action Plan: Contact person is Geri Hall, Keweenaw County Treasurer, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-1625.

The county intends to record the Keweenaw Park and Jail Commissary Funds as enterprise funds on the county general ledger and report them as enterprise funds in the county financial statements beginning in 2004.

Expenditures in Excess of Appropriations--County's Budgetary Funds *Finding 03-5*

Condition: Our examination of procedures used by the County to adopt and maintain operating budgets for the county's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the "Uniform Budgeting and Accounting Act."

The County's 2003 General Appropriations Act (budget) provided for expenditures of the General Fund and Special Revenue Funds to be controlled to the function level by the county.

As detailed in Note B to the financial statements, actual 2003 expenditures exceeded the board's approved budget allocations for 6 Special Revenue Fund functions.

As stated in previous reports, the expenditures of funds in excess of appropriations is contrary to the provisions of the "Uniform Budgeting and Accounting Act."

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

Recommendation: We recommend that the county's chief administrative officer (county clerk) and those boards, commissions, and administrative personnel responsible for administering the activities of the various funds of the county, develop budgetary control procedures for the general fund activity or special revenue function which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof. These procedures should include a requirement that each county department head be responsible for monitoring the budgetary status of his or her activity(ies) monthly. Department heads must also be required to make formal requests to the county clerk for budget amendments prior to incurring expenditures in excess of board authorized amounts.

Management's Response--Corrective Action Plan: Contact person is Marilyn Winquist, Keweenaw County Clerk, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-2229.

Management has agreed to correct the problem by monitoring the budgets more closely and making budget amendments on a timely basis.

GASB No. 34 Implementation Information

The Governmental Accounting Standards Board has issued Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," which will significantly change the way local governments are required to prepare financial reports and infrastructure information. We take this opportunity to inform you that Keweenaw County, including the County Road Commission, is required to implement the new reporting model for the fiscal year ending December 31, 2004.