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**Financial Report  
with Additional Information**

**December 31, 2003**

# South Haven Area Emergency Services Authority

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**Plante & Moran, PLLC**  
Suite 120  
511 Renaissance Drive  
St. Joseph, Michigan 49085  
Tel: 269.982.8000  
Fax: 269.982.2800  
www.plantemoran.com

## Independent Auditor's Report

Board Members  
South Haven Area Emergency Services Authority  
South Haven, Michigan

We have audited the accompanying balance sheet of South Haven Area Emergency Services Authority as of December 31, 2003, and the related statements of revenue, expenses and changes in retained earnings compared to budget and cash flows for the year then ended. 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 South Haven Area Emergency Services Authority at December 31, 2003, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended December 31, 2002 were audited by other accountants and they expressed an unqualified opinion on them in their report dated February 28, 2003, but they have not performed any auditing procedures since that date.

*Plante & Moran, PLLC*

March 23, 2004

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# South Haven Area Emergency Services Authority

## Balance Sheet

	December 31	
	2003	2002
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 518,070	\$ 451,566
Investments (Note 2)	122,652	119,948
Accounts receivable, net of allowance for contractual adjustments of \$43,162 in 2003 and \$51,302 in 2002	60,125	89,112
Prepaid expenses	24,761	10,463
Total current assets	725,608	671,089
<b>Property, Plant and Equipment</b> (Note 4)	<u>1,636,703</u>	<u>1,644,440</u>
Total assets	<u><b>\$ 2,362,311</b></u>	<u><b>\$ 2,315,529</b></u>
<b>Liabilities and Fund Equity</b>		
<b>Current Liabilities</b>		
Current portion of capital leases	\$ 12,027	\$ 11,817
Current portion of long-term debt	100,000	100,000
Accounts payable and other accrued liabilities	49,563	60,683
Total current liabilities	161,590	172,500
<b>Non-current Liabilities</b>		
Capital Leases (Note 6)	31,793	43,821
Long-term Debt (Note 6)	333,390	423,751
Total non-current liabilities	365,183	467,572
<b>Fund Equity</b> - Retained earnings	<u>1,835,538</u>	<u>1,675,457</u>
Total liabilities and fund equity	<u><b>\$ 2,362,311</b></u>	<u><b>\$ 2,315,529</b></u>

# South Haven Area Emergency Services Authority

## Statement of Revenue, Expenses and Changes in Retained Earnings Compared to Budget

	Year Ended December 31			
	2003 Budget	2003 Actual	Over (Under) Budget	2002 Actual
<b>Operating Revenue</b>				
Contributions - Municipalities	\$ 1,483,640	\$ 1,484,291	\$ 651	\$ 1,453,832
Ambulance service	375,000	465,326	90,326	486,693
Federal sources	-	17,704	17,704	-
Miscellaneous	17,000	333	(16,667)	87,309
Total operating revenue	1,875,640	1,967,654	92,014	2,027,834
<b>Operating Expenses</b>	<u>2,039,892</u>	<u>1,790,833</u>	<u>(249,059)</u>	<u>1,701,226</u>
<b>Net Operating Income (Loss)</b>	(164,252)	176,821	341,073	326,608
<b>Nonoperating Expenses - Interest</b>	<u>-</u>	<u>16,740</u>	<u>16,740</u>	<u>21,867</u>
<b>Net Income (Loss)</b>	(164,252)	160,081	324,333	304,741
<b>Retained Earnings - Beginning of year</b>	<u>1,675,457</u>	<u>1,675,457</u>	<u>-</u>	<u>1,370,716</u>
<b>Retained Earnings - End of year</b>	<u>\$ 1,511,205</u>	<u>\$ 1,835,538</u>	<u>\$ 324,333</u>	<u>\$ 1,675,457</u>

# South Haven Area Emergency Services Authority

## Statement of Cash Flows

	Year Ended December 31	
	2003	2002
<b>Cash Flows from Operating Activities</b>		
Operating income	\$ 176,821	\$ 326,608
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	108,967	112,422
Bad debts and contractual adjustments	245,020	213,007
(Increase) decrease in assets:		
Accounts receivable	(216,033)	(230,807)
Prepays	(14,298)	(1,419)
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	(11,120)	10,684
Accrued employee benefits	9,639	11,490
Net cash provided by operating activities	298,996	441,985
<b>Cash Flows from Capital and Related Financing Activities</b>		
(Gain) loss on sale of property, plant and equipment	12,234	(62,000)
Purchase of capital assets	(113,464)	(274,090)
Proceeds from sale of fixed assets	-	62,000
Principal payments on capitalized leases	(11,818)	(81,245)
Principal payments on long-term debt	(100,000)	(150,118)
Interest expense	(16,740)	(21,867)
Net cash used in capital and related financing activities	(229,788)	(527,320)
<b>Long-term Debt (Note 6)</b>		
Purchase of investment securities	(2,704)	(5,221)
<b>Net Increase (Decrease) in Cash</b>	66,504	(90,556)
<b>Cash and Cash Equivalents</b> - Beginning of year	451,566	542,122
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 518,070</u>	<u>\$ 451,566</u>
<b>Supplemental Cash Flows Information</b>		
Cash paid for interest	<u>\$ 17,435</u>	<u>\$ 21,867</u>

# South Haven Area Emergency Services Authority

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Notes to Financial Statements  
December 31, 2003

## Note 1 – Summary of Significant Accounting Policies

**Reporting Entity** - The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity's financial statements include oversight responsibility, scope of public services and special financial relationships. Using this criteria as a basis, the South Haven Area Emergency Services Authority which is funded by the City of South Haven, Casco Township, Geneva Township and South Haven Charter Township, includes all functions and activities of the entity that are deemed includable.

**Fund Accounting/Basis of Accounting** - The accounts of the South Haven Area Emergency Services Authority (the "Authority") are organized as an Enterprise Fund, which is used to account for its operations as a provider of fire and ambulance services. These services are financed primarily by contributions from the municipalities which it serves and user charges.

The accrual basis of accounting is used to account for the operations of this Enterprise Fund. Revenue is recognized when it is earned and expenses are recognized when they are incurred.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Cash and Cash Equivalents** – For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered cash equivalents.

**Investments** – Investments are recorded at fair value, based on quoted market prices.

**Accounts Receivable** – Accounts receivable are due primarily from insurance carriers and individuals. Amounts included in accounts receivable are net of an estimated allowance for contractual adjustments.

**Fixed Assets** – Property, plant and equipment are stated at cost at the date of acquisition. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

# South Haven Area Emergency Services Authority

## Notes to Financial Statements December 31, 2003

### Note 2 – Deposits and Investments

The Authority's deposits and investments are included on the balance sheet under the following classifications:

	<u>2003</u>	<u>2002</u>
Cash and cash equivalents	\$ 518,070	\$ 451,566
Investments	<u>122,652</u>	<u>119,948</u>
Total	<u>\$ 640,722</u>	<u>\$ 571,514</u>

The Authority's deposits included on the balance sheet are classified by Governmental Accounting Standards Board Statement Number 3 as follows:

	<u>2003</u>	<u>2002</u>
Bank deposits (checking accounts, savings accounts and certificates of deposit)	<u>\$ 640,722</u>	<u>\$ 571,514</u>

**Deposits** - The above deposits were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at \$660,953 and \$580,218 for December 31, 2003 and 2002, respectively. Of that amount, approximately \$200,000 and \$150,000 at December 31, 2003 and 2002, respectively, was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution it deposits Authority funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# South Haven Area Emergency Services Authority

## Notes to Financial Statements December 31, 2003

### Note 3 – Sick and Vacation Leave Policies

Full-time employees of the Authority are entitled to sick leave of one work day with pay for each completed month of service. The number of days that may be accumulated is limited to a maximum of 60 days. At retirement or death, these employees will be paid up to the maximum accumulated sick leave at a rate of 50 percent of base pay. Employees are not entitled to any payment if termination occurs prior to retirement or death. No liability was recorded for accrued sick pay at December 31, 2003 or 2002, as that amount cannot be determined. The maximum liability is \$125,104 and \$141,248, respectively.

Full-time employees are permitted an annual paid vacation of from three to ten days depending upon seniority. An employee is allowed to accrue up to 30 days. The amount of liability recorded for accrued vacation pay at December 31, 2003 and 2002 amounted to \$83,390 and \$73,751, respectively.

### Note 4 – Property, Plant and Equipment

Cost of property, plant and equipment and depreciable lives are summarized as follows:

	2003	2002	Depreciable Life-Years
Land	\$ 14,814	\$ 14,814	-
Land Improvements	12,184	11,984	20
Building	222,669	222,669	40
Equipment	<u>2,003,776</u>	<u>1,916,512</u>	5-15
	2,253,443	2,165,979	
Less accumulated depreciation (including \$386,001 in 2003 and \$390,434 in 2002 for equipment under capital lease)	<u>(616,740)</u>	<u>(521,539)</u>	
Undepreciated cost	<u>\$ 1,636,703</u>	<u>\$ 1,644,440</u>	

The total cost of equipment under capital leases at December 31, 2003 and 2002 was \$918,890 and \$1,157,854, respectively.

# South Haven Area Emergency Services Authority

## Notes to Financial Statements December 31, 2003

### Note 5 – Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all of the above claims. The Authority is self-insured for chiropractic claims up to a maximum of \$500 per family per year.

### Note 6 – Long-Term Debt

Outstanding debt at December 31, 2003 and 2002 consists of the following:

Loan payable, collateralized by specific equipment, bearing interest at 1.9% to 15.2%, due in biannual installments ranging from \$50,975 to \$56,825, including interest, due April 2007	\$ 350,000	\$ 450,000
Lease payable, collateralized by specific equipment, bearing interest ranging from 1.255% to 15.113%, due in annual installments ranging from \$22,279 to \$10,206, including interest, due January 2007	41,391	50,850
Lease payable, collateralized by specific equipment bearing interest ranging from 1.724% to 15.054%, due in annual installments ranging from \$60,516 to \$2,500, including interest, due January 2004	2,429	4,788
Accumulated employee benefits	<u>83,390</u>	<u>73,751</u>
Total	477,210	579,389
Less current portion	<u>(112,027)</u>	<u>(111,817)</u>
Long-term debt	<u>\$ 365,183</u>	<u>\$ 467,572</u>

# South Haven Area Emergency Services Authority

## Notes to Financial Statements December 31, 2003

### Note 6 – Long-Term Debt (Continued)

**Debt Service Requirements** - The annual requirements to service all debt outstanding as of December 31, 2003 (excluding employee benefits), including both principle and interest, are as follows:

2004	\$	125,381
2005		118,981
2006		115,081
2007		61,181
2008		<u>2,176</u>
Total payments on debt	\$	<u>422,800</u>

**Capital Leases** - The future minimum lease payments for all capital leases included above as of December 31, 2003 are as follows:

2004	\$	12,706
2005		10,206
2006		10,206
2007		10,206
2008		<u>2,176</u>
Total minimum lease payments		45,500
Less portion representing interest		<u>(1,680)</u>
Present value at December 31, 2003	\$	<u>43,820</u>

### Note 7 – Defined Benefit Pension Plan

#### Plan Description

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report can be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

# South Haven Area Emergency Services Authority

## Notes to Financial Statements December 31, 2003

### Note 7 – Defined Benefit Pension Plan (Continued)

#### Funding Policy

The Authority is required to contribute at an actuarially determined rate at various percentages of payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of the plan members, if any, are established and may be amended by the Authority, depending on the MERS contribution program adopted by the Authority.

For the year ended December 31, 2003, the Authority's annual pension expense of \$24,809 for MERS was equal to the Authority's actual and required contribution. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent, (b) projected salary increases of 4.5 percent per year, compounded annually, 2.5 percent attributable to inflation, and (c) additional projected salary increases of 0.00 to 4.16 percent per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the last actuarial valuation was 30 years.

	Fiscal Year Ended December 31		
	2001	2002	2003
Annual pension cost	\$ -	\$ -	\$ 24,809
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

  

	Valuation dated December 31		
	2000	2001	2002
Actuarial value of assets	\$ 1,234,594	\$ 1,412,940	\$ 1,571,107
Actuarial Accrued Liability (entry age)	1,204,446	1,580,879	1,810,148
Overfunded (Unfunded) AAL	30,147	(167,939)	(239,041)
Funded ratio	103%	89%	87%
Covered payroll	582,130	633,132	665,165
UAAL as percentage of covered payroll	(5%)	26%	36%

# South Haven Area Emergency Services Authority

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Notes to Financial Statements  
December 31, 2003

## Note 8 – Upcoming Reporting Change

For the year beginning January 1, 2004, the Authority plans to adopt GASB Statement Number 34. This will dramatically revise the information being reported in these financial statements. Enterprise funds will no longer report capital contributions as a direct increase to equity. Information is not available to present pro-forma data that would show the effect of this future change.

## Note 9 – Subsequent Event

During 2003, the Authority placed a deposit of approximately \$105,000 on a new Tanker Truck. Possession of the Truck will be taken by the Authority during 2004. At that time, an additional payment of approximately \$110,000 will be due.

## Additional Information

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**Plante & Moran, PLLC**  
Suite 120  
511 Renaissance Drive  
St. Joseph, Michigan 49085  
Tel: 269.982.8000  
Fax: 269.982.2800  
www.plantemoran.com

Board Members  
South Haven Area Emergency Services Authority  
South Haven, Michigan

We have audited the financial statements of South Haven Area Emergency Services Authority for the year ended December 31, 2003. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 13 and 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

March 23, 2004

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# South Haven Area Emergency Services Authority

## Schedule of Operating Revenue Compared to Budget Year Ended December 31, 2003

	2003 Budget	2003 Actual	Over (Under) Budget	2002 Actual
Casco Township	\$ 260,547	\$ 260,547	\$ -	\$ 258,978
Geneva West	212,896	212,896	-	215,130
City of South Haven	605,962	605,962	-	585,456
South Haven Charter Township	290,719	290,719	-	287,134
Van Buren County	<u>113,516</u>	<u>114,167</u>	<u>651</u>	<u>107,134</u>
Total contributions	1,483,640	1,484,291	651	1,453,832
Ambulance service	375,000	465,326	90,326	486,693
Federal Sources	-	17,704	17,704	-
Miscellaneous	<u>17,000</u>	<u>333</u>	<u>(16,667)</u>	<u>87,309</u>
Total operating revenue	<b><u>\$ 1,875,640</u></b>	<b><u>\$ 1,967,654</u></b>	<b><u>\$ 92,014</u></b>	<b><u>\$ 2,027,834</u></b>

# South Haven Area Emergency Services Authority

## Schedule of Operating Expenses Compared to Budget Year Ended December 31, 2003

	2003 Budget	2003 Actual	Over (Under) Budget	2002 Actual
<b>Fire Expenses</b>				
Salaries and fringe benefits	\$ 504,475	\$ 486,129	\$ (18,346)	\$ 469,775
Office supplies	2,500	1,211	(1,289)	1,005
Operating supplies	32,150	32,041	(109)	16,457
Rent	190,972	59,142	(131,830)	58,050
Professional services	15,000	14,318	(682)	9,034
Uniforms	19,800	21,052	1,252	8,073
Travel, conferences and training	6,000	5,496	(504)	2,236
Printing and publishing	1,500	777	(723)	530
Insurance	22,000	22,051	51	17,830
Utilities	22,654	24,607	1,953	23,208
Repairs and maintenance	30,400	47,701	17,301	25,682
Hydrant rental	15,000	10,176	(4,824)	10,176
Dispatcher	48,119	48,119	-	42,473
Office assistance	14,304	13,851	(453)	12,717
Depreciation	-	91,832	91,832	96,932
Miscellaneous	193,278	2,482	(190,796)	39,514
Total fire expenses	1,118,152	880,985	(237,167)	833,692
<b>Ambulance Expenses</b>				
Salaries and fringe benefits	504,399	480,477	(23,922)	469,059
Office supplies	1,500	907	(593)	494
Operating supplies	15,825	7,923	(7,902)	9,928
Rent	19,100	18,450	(650)	18,450
Professional services	9,300	9,074	(226)	7,362
Long-term Debt (Note 6)	4,800	2,707	(2,093)	2,941
Travel, conferences and training	6,000	3,195	(2,805)	1,425
Printing and publishing	850	755	(95)	566
Insurance	18,350	10,368	(7,982)	14,887
Utilities	10,130	10,385	255	9,350
Repairs and maintenance	11,000	13,536	2,536	8,597
Bad debts and contractual adjustments	172,000	245,020	73,020	213,007
Dispatcher	48,119	48,119	-	42,473
Office assistance	14,304	13,716	(588)	12,716
Other contractual services	25,000	27,431	2,431	26,181
Depreciation	-	17,135	17,135	15,490
Miscellaneous	61,063	650	(60,413)	14,608
Total ambulance expenses	921,740	909,848	(11,892)	867,534
Total operating expenses	<u>\$ 2,039,892</u>	<u>\$ 1,790,833</u>	<u>\$ (249,059)</u>	<u>\$ 1,701,226</u>