

### Auditing Procedures Report

Issued under P.A. 2 of 1966, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Port Austin Area Sewer & Water Authority	County Huron
Fiscal Year End February 28, 2007	Opinion Date August 14, 2007	Date Audit Report Submitted to State August 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	Letter of Comments and Recommendations not issued - no items		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Brining & Nartker, P. C.		Telephone Number (989) 269-9909		
Street Address 64 Westland Drive		City Bad Axe	State MI	Zip 48413
Authorizing CPA Signature <i>Brining &amp; Nartker, P.C.</i> by: <i>Douglas Brining, CPA</i>	Printed Name Douglas Brining, CPA		License Number 08283	

**PORT AUSTIN AREA SEWER  
AND WATER AUTHORITY  
PORT AUSTIN, MICHIGAN**

**FINANCIAL REPORT  
FEBRUARY 28, 2007 AND 2006**

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
BUSINESS-TYPE ACTIVITIES  
TABLE OF CONTENTS  
FEBRUARY 28, 2007 AND 2006**

	<u>PAGE NUMBER</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	2 – 7
<b>FINANCIAL STATEMENTS:</b>	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Fund Net Assets	9
Statement of Cash Flows	10
Notes to the Financial Statements	11 – 17
<b>SUPPLEMENTARY INFORMATION:</b>	
Combining Statement of Net Assets	18
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Combining Statement of Cash Flows	20

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## INDEPENDENT AUDITORS' REPORT

To the Authority Members  
Port Austin Area Sewer and Water Authority  
Port Austin, Michigan

We have audited the accompanying financial statements of the business-type activities of the Port Austin Area Sewer and Water Authority as of and for the year ended February 28, 2007 and 2006. These financial statements are the responsibility of the management of the Port Austin Area Sewer and Water Authority. Our responsibility is to express our 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Port Austin Area Sewer and Water Authority as of February 28, 2007 and 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the business-type activities financial statements taken as a whole. The accompanying additional information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit 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.



BRINING & NARTKER, P.C.  
Certified Public Accountants

August 14, 2007

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

# PORT AUSTIN AREA SEWER & WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Port Austin Area Sewer & Water Authority (PAASWA) is presenting the following discussion and analysis in order to provide an overall review of the utility's financial activities for the fiscal years ending February 28, 2005 thru February 28, 2007. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the basic financial statements in order to enhance their understanding of the utility's financial performance.

### 2007 FINANCIAL HIGHLIGHTS

- The utility's operating revenues decreased \$2,420 or 0.05% from 2006 to 2007. Decreased consumption and fewer new connections contributed to this decrease.
- The utility's operating expenses increased \$87,387 or 14.2% from 2006 to 2007. The increase was due to the engineering costs that were incurred for the plant upgrade and a full year of purchasing water from the Huron Regional Water Authority. These engineering costs will be reimbursed with funds that will be received from the S2 Grant from the Michigan Department of Environmental Quality.
- The utility's total assets decreased \$122,788 or 2.95% from the 2006 to 2007. This was due to the net loss posted for fiscal year ending February 28, 2007.

### GENERAL INFORMATION ABOUT PAASWA

PAASWA was created in 1983 when the Village of Port Austin and Port Austin Township decided to construct a sewer system and wastewater treatment plant. EPA grants and a bond issue in the amount of \$2,225,000 were used to finance the project. Each property was assessed \$2,400 per REU to pay for the bond issue. In 2002 the interest rates decreased and it became feasible for PAASWA to reduce the debt. In November of 2005 the balance of the principal of the bond issue was paid in full thus leaving the authority with no debt.

In 1995 the Village of Port Austin water system was turned over to PAASWA. At that same time the Village of Port Austin bonded with USDA Rural Development to construct a 20 inch buried intake into Lake Huron. The total cost of the project was \$1,475,000 of which \$975,000 was financed through USDA Rural Development.

In January of 2002 PAASWA purchased the property at 76 W. Spring St. with the intent of constructing a new water plant. The formation of the Huron Regional Water Authority in December of 2002 removed the burden of constructing a new water plant. In August of 2004 the Huron Regional Water Authority purchased the water intake and the property from PAASWA by paying off the remaining principal.

# PORT AUSTIN AREA SEWER & WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

PAASWA currently serves approximately 680 customers in the Village of Port Austin and approximately 50 customers in Port Austin Township.

### RATES

The utility last increased its commodity rate for water in March of 2003. An increase to the Ready-to-serve charge went into effect in June of 2003. The current rates charged by PAASWA are about average of any like sized utility (less than 1,000 customers).

The commodity rate for wastewater or sewer increased 5% or \$.30 per 1,000 gallons of water the customer was billed for. The previous rate of \$6.04 was increased to \$6.34 on March 1, 2006. The customer base was charged a minimum of \$24.16 prior to the increase and \$25.24 after the increase per bi-monthly billing period. This minimum charge allows the customer 4,000 gallons of usage and any amount over this minimum is billed based upon the \$6.34 per 1,000 rate. A subsequent rate increase occurred March 1, 2007.

### UTILITY FINANCIAL ANALYSIS

The statements of Net Assets include all of the utility's assets and liabilities and provide information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluations the capital structure and assessing the liquidity and financial flexibility of the utility.

A summary of the utility's Statement of Net Assets is presented in Table 1.

**Table 1**

#### Condensed Statements of Net Assets

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Current and Other Assets	\$190,150	\$183,216	\$209,963
Restricted Assets	505,799	354,420	277,231
Capital Assets	<u>3,753,603</u>	<u>3,619,277</u>	<u>3,546,931</u>
Total Assets	<u>4,449,552</u>	<u>4,156,913</u>	<u>4,034,125</u>
Debt Outstanding	166,762	108,622	122,353
Other Liabilities	<u>351,800</u>	<u>165,997</u>	<u>126,819</u>
Total Liabilities	<u>518,562</u>	<u>274,619</u>	<u>249,172</u>
Invested in Capital Assets			
Net of Related Debt	3,553,603	3,619,277	3,546,931
Restricted	540,420	188,423	150,412
Unrestricted	<u>(163,033)</u>	<u>74,594</u>	<u>87,610</u>
Total Net Assets	<u>\$3,930,990</u>	<u>\$3,882,294</u>	<u>3,784,953</u>

# PORT AUSTIN AREA SEWER & WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Assets decreased 2.51% in 2006 due to the net loss incurred during 2006. There is currently no outstanding debt. The deferred assessments will be received for the next 4 years.

### 2007 OPERATING RESULTS

Table 2

#### Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Revenues	\$520,990	\$510,275	\$507,855
Non-Operation Revenues	186,690	62,834	97,246
Total Revenues	<u>707,680</u>	<u>573,109</u>	<u>605,101</u>
Operating Expenses	457,921	475,917	563,949
Depreciation Expense	173,682	139,138	138,493
Non-Operating Expense	49,670	6,750	0
Total Expense	<u>681,273</u>	<u>621,805</u>	<u>702,442</u>
Income Before Capital Contributions and Transfers	26,407	(48,696)	(97,341)
Capital Contributions Transfers - Tax Equivalent	<u>153,831</u>	<u>0</u>	<u>0</u>
Changes in Net Assets	(127,424)	(48,696)	(97,341)
Beginning Net Assets	4,975,129	3,930,990	3,882,294
Adjustment to Net Assets	<u>916,715</u>	<u>          </u>	<u>          </u>
Ending Net Assets	<u>\$3,930,990</u>	<u>\$3,882,294</u>	<u>\$3,784,953</u>

The utility's operating revenues decreased by \$2,426 or 0.5% in 2006. This is attributed to the lower usage during the year. The Authority averages eight new connections each year but in FYE 2007 the Authority had ten new connections. Depreciation expense decreased slightly during 2007.

# PORT AUSTIN AREA SEWER & WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue from investment income has decreased over the last few years due to the low interest rates. The income from late fees and penalties has remained relatively constant.

**Table 3**

### OPERATING REVENUES AND EXPENSES

	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>OPERATING REVENUES:</b>			
User Fees	504,232	490,946	492,179
Other	<u>16,758</u>	<u>19,329</u>	<u>15,676</u>
Total Operating Revenue	<u>520,990</u>	<u>510,275</u>	<u>507,855</u>
<b>OPERATING EXPENSES:</b>			
Contractual services:			
Management Services	414,924	409,332	359,601
Legal	3,097	3,359	487
Audit and Engineering	4,897	13,938	8,600
Board Fees	2,340	2,380	2,566
Supplies & Maintenance	0	0	7,819
Insurance	21,455	21,559	20,706
Other	11,208	10,333	3,957
Huron Regional Water Authority	0	15,016	160,213
Depreciation	173,682	139,138	138,493
Total Operating Expenses	<u>631,603</u>	<u>615,055</u>	<u>702,442</u>
<b>NET OPERATING INCOME(LOSS)</b>	<u><u>\$ (110,613)</u></u>	<u><u>\$ (104,708)</u></u>	<u><u>\$ (194,587)</u></u>

#### Revenues

Total revenues increased from \$573,109 in 2006 to \$605,101 in 2007, an increase of \$31,992 or 5.58%. This is largely attributed to the grant monies received from the S2 Program associated with the State Revolving Fund. The amount of interest revenue is decreasing because the outstanding principal balance is decreasing. Also as the outstanding principal amount decreases some of the residents are paying off the principal. To off-set the continued decrease in the assessment revenues the sewer rate was increased from \$6.34 to \$6.64 per 1,000 gallons effective March 1, 2007.

#### Expenses

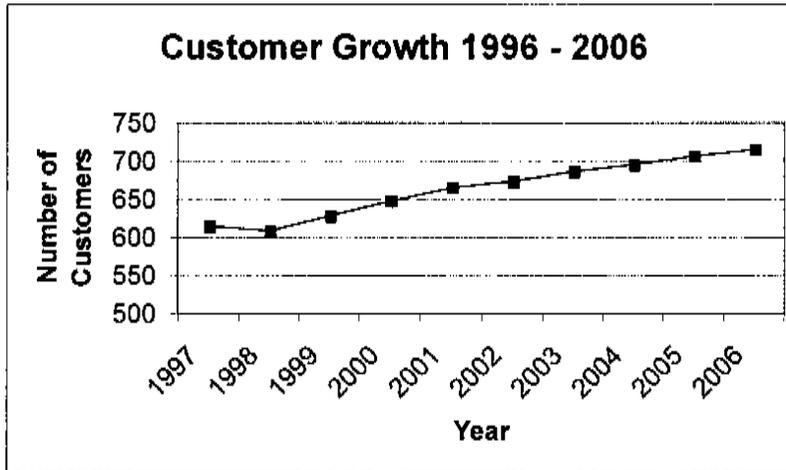
Operating expenses totaled \$563,949 for 2007 compared to \$475,917 in 2006, an increase of 18.49%. This increase is due to the engineering costs for the proposed

# PORT AUSTIN AREA SEWER & WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

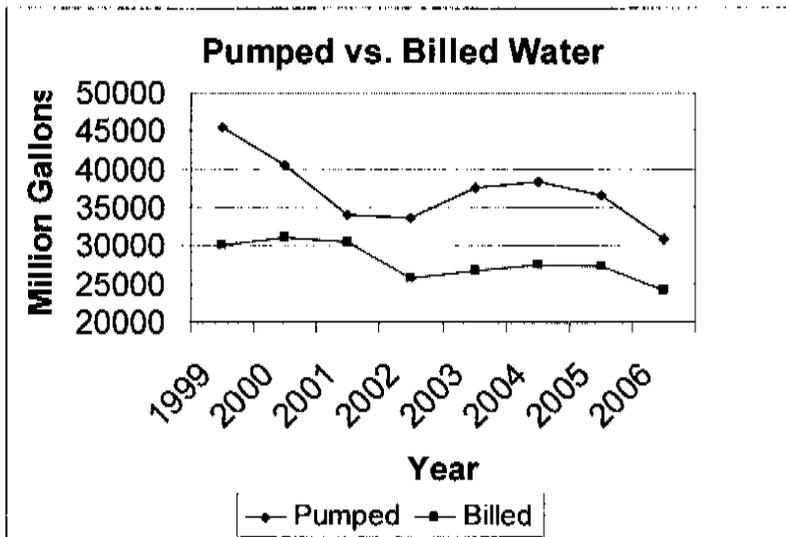
upgrade to the wastewater treatment plant and the cost of water purchased from the Huron Regional Water Authority.

Chart 1



The growth of customers has been steady for the last 10 years. The 618 customers the utility had in 1997 has grown to 716 in 2006. This is an increase of 16% over the last 10 years or 10 new customers per year. A large portion of the growth has been the development of Forest Creek Condominiums.

Chart 2



# PORT AUSTIN AREA SEWER & WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

You will note that even though the customer base has grown, the amount of water produced and billed out has dropped. This is due to the leak detection surveys that have been conducted on an annual basis.

### PROJECTED CAPITAL EXPENDITURES

The PAASWA is being mandated by the Michigan Department of Environmental Quality to upgrade its wastewater treatment plant. The current plant has limited facilities for removing ammonia from the water that is discharged. The MDEQ has stipulated a time line for compliance. The preliminary engineering plans are to be submitted by March 1, 2006; the financial plan for funding the project must be submitted by October 1, 2006; and final completion of the project is to be December 31, 2007. As a result of the awarding of the S2 Grant monies, the Authority has until October 31, 2009 for completion of the projected upgrades. The extension on the deadline is based upon the conditions of the S2 Grant.

Preliminary projections from the engineering firm place the estimated total project cost between \$1.5 and \$2.0 million.

### ECONOMIC FACTORS

PAASWA's service area is a resort town that has a year round population that has a high percentage of retirees on a fixed income. PAASWA also has a summer population that is double that of the year round population. A concern of PAASWA is the year round residents on a fixed income. Large rate increases could be a financial hardship on these customers.

Hume, Port Austin, and Pointe Aux Barques Townships border the PAASWA service area. All of these Townships have indicated they would like to become water customers of PAASWA. This will be a great benefit to the current PAASWA customers since it will spread the cost of the bonds for the Huron Regional Water Plant across many more users, thus lowering the cost to each customer.

Pointe Aux Barques Township has subsequently entered into an agreement with PAASWA to receive treated drinking water by early in the summer of 2007.

### UTILITY CONTACT INFORMATION

We designed this financial report to provide our customers and creditors with a general overview of the utilities finances and to demonstrate the utilities accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Port Austin Area Sewer and Water Authority, 8747 Hellems Rd., P.O. Box 367, Port Austin, Michigan 48475 or by phone at (989) 738-8366 or email at [paaswa@airadvantage.net](mailto:paaswa@airadvantage.net).

**FINANCIAL STATEMENTS**

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
BUSINESS-TYPE ACTIVITIES  
STATEMENT OF NET ASSETS  
FEBRUARY 28, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,871	\$ 11,239
Receivables:		
Usage	79,808	87,683
Special assessment	38,417	34,154
Other	19,988	19,846
Capital Grant - Department of Environmental Quality	47,695	-
Inventory	6,348	13,987
Prepaid expense	14,836	16,307
<b>TOTAL CURRENT ASSETS</b>	<b>209,963</b>	<b>183,216</b>
NONCURRENT ASSETS:		
Investments-savings (restricted)	150,412	188,423
Special assessments	126,819	165,997
Capital assets - net of accumulated depreciation	3,546,931	3,619,277
<b>TOTAL NONCURRENT ASSETS</b>	<b>3,824,162</b>	<b>3,973,697</b>
<b>TOTAL ASSETS</b>	<b>4,034,125</b>	<b>4,156,913</b>
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	83,936	74,468
Current portion of deferred assessment revenue	38,417	34,154
<b>TOTAL CURRENT LIABILITIES</b>	<b>122,353</b>	<b>108,622</b>
NONCURRENT LIABILITIES:		
Long-term portion of deferred assessment revenue	126,819	165,997
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>126,819</b>	<b>165,997</b>
<b>TOTAL LIABILITIES</b>	<b>249,172</b>	<b>274,619</b>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	3,546,931	3,619,277
Restricted	150,412	188,423
Unrestricted	87,610	74,594
<b>TOTAL NET ASSETS</b>	<b>\$ 3,784,953</b>	<b>\$ 3,882,294</b>

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

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
BUSINESS-TYPE ACTIVITIES  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 492,179	\$ 490,946
Other	15,676	19,329
<b>TOTAL OPERATING REVENUES</b>	<b>507,855</b>	<b>510,275</b>
<b>OPERATING EXPENSES:</b>		
Contractual services:		
Management services	359,601	409,332
Legal	487	3,359
Audit and engineering	8,600	13,938
Board fees	2,566	2,380
Supplies and maintenance	7,819	-
Insurance	20,706	21,559
Other	3,957	10,333
Depreciation	138,493	139,138
Water purchases - Huron Regional Water Authority	160,213	15,016
<b>TOTAL OPERATING EXPENSES</b>	<b>702,442</b>	<b>615,055</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(194,587)</b>	<b>(104,780)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Capital Grant - Department of Environmental Quality	47,695	-
Special assessments	34,915	42,942
Interest income	14,636	19,892
Interest expense	-	(6,750)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>97,246</b>	<b>56,084</b>
<b>CHANGE IN NET ASSETS</b>	<b>(97,341)</b>	<b>(48,696)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>3,882,294</b>	<b>3,930,990</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 3,784,953</b>	<b>\$ 3,882,294</b>

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

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
BUSINESS-TYPE ACTIVITIES  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers and users	\$ 515,588	\$ 500,337
Payments to suppliers	(545,371)	(483,487)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(29,783)</u>	<u>16,850</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Interest expense	-	(6,750)
Payment of borrowing	-	(200,000)
Special assessments received	34,915	42,942
Acquisition of capital assets	(66,147)	(5,204)
Capital Grant - Department of Environmental Quality	47,695	-
Capital Grant Receivable	(47,695)	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(31,232)</u>	<u>(169,012)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	58,593	133,180
Purchase of investments	(20,582)	(17,678)
Interest revenue	14,636	19,892
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>52,647</u>	<u>135,394</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<u>(8,368)</u>	<u>(16,768)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	11,239	28,007
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,871</u>	<u>\$ 11,239</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (194,587)	\$ (104,780)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	138,493	139,138
(Increase) decrease in receivables	7,733	(9,938)
(Increase) decrease in inventory	7,639	-
(Increase) decrease in prepaid expenses	1,471	103
Increase (decrease) in accounts payable	9,468	(7,673)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (29,783)</u>	<u>\$ 16,850</u>

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

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. DESCRIPTION OF AUTHORITY OPERATIONS**

The Authority operates under an appointed board (four by the Village of Port Austin and one by Port Austin Township) and provides wastewater collection and treatment services to Village and Township residents and the surrounding area as authorized by its ordinance.

From 1981 through 1984, grant monies and construction were recorded in a construction fund of Port Austin Area Sewer and Water Authority. As of June 1983, assets constructed, along with related obligations, were transferred by action of the Authority to the enterprise fund, concurrent with initiation of facility operations.

As is discussed in Note 6, the Authority entered into a water supply system management contract with the Village of Port Austin, effective March 1, 1996, giving them management responsibility for 40 years.

**B. REPORTING ENTITY**

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, certain other governmental organizations are not considered to be part of the Authority entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements are discussed in the following paragraph.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

On this basis, the financial statements of the Village of Port Austin, which operates autonomously, are not included in the financial statements of the Authority and the Authority is not considered to be a component unit of the Village.

**C. BASIS OF PRESENTATION**

The financial activities of the Authority are recorded in a fund categorized and described as follows:

**PROPRIETARY FUND TYPE:**

Enterprise Funds – Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

Property, Plant, and Equipment – Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the respective class of assets, ranging from 10 to 50 years.

Inventory – Inventory in the Enterprise Fund is valued at the lower of cost (first-in, first-out) or market. The cost is recorded as an expense at the time individual inventory items are consumed.

(Continued)

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006  
(CONTINUED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

Restricted Investments and Assessments – A portion of the investments and special assessments of the Water System and Sewer System Funds are classified as restricted because their use is limited. The restrictions are due to bond resolution requirements or to segregate funds for specific purposes.

**D. MEASUREMENT FOCUS**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital assets (net of related debt), restricted and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**E. BASIS OF ACCOUNTING**

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

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

**F. ACCOUNTING ESTIMATES**

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - CASH AND TEMPORARY INVESTMENTS:**

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended), authorizes a local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority and the Authority has no investments as of February 28, 2007.

**Custodial Credit Risk of Bank Deposits:**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority's investment policy does not directly address a deposit policy for custodial credit risk. At February 28, 2007 the Authority had \$53,223 of bank deposits (certificates of deposit, checking, and savings accounts) that were 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 deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006  
(CONTINUED)**

**NOTE 3 - CAPITAL ASSETS:**

Capital asset activity for the year ended February 28, 2007, was as follows:

	BALANCE MARCH 1, <u>2006</u>	ADDITIONS	DELETIONS	BALANCE FEBRUARY 28, <u>2007</u>
<b>SANITARY SEWER SYSTEM:</b>				
Capital assets not being depreciated:				
Land - at cost	\$ 51,225	\$ -	\$ -	\$ 51,225
Engineering costs - sewer improvement	-	52,995	-	52,995
Total capital assets not being depreciated	<u>51,225</u>	<u>52,995</u>	<u>-</u>	<u>104,220</u>
Capital assets being depreciated - at cost:				
Sewer facility planning and system	4,142,886	-	-	4,142,886
Sewer plant	2,200,415	-	-	2,200,415
Equipment	172,230	13,152	-	185,382
Furniture and fixtures	61,706	-	-	61,706
	<u>6,577,237</u>	<u>13,152</u>	<u>-</u>	<u>6,590,389</u>
Less accumulated depreciation:				
Sewer facility planning and system	1,835,124	84,073	-	1,919,197
Sewer plant	991,058	44,513	-	1,035,571
Equipment	151,103	5,553	-	156,656
Furniture and fixtures	61,201	-	-	61,201
	<u>3,038,486</u>	<u>134,139</u>	<u>-</u>	<u>3,172,625</u>
Total capital assets being depreciated - net	<u>3,538,751</u>	<u>(120,987)</u>	<u>-</u>	<u>3,417,764</u>
<b>WATER SYSTEM:</b>				
Capital assets not being depreciated:				
Land - at cost	-	-	-	-
Capital assets being depreciated - at cost:				
Water treatment plant	368,446	-	-	368,446
Water tower	146,100	-	-	146,100
Equipment	94,760	-	-	94,760
	<u>609,306</u>	<u>-</u>	<u>-</u>	<u>609,306</u>
Less accumulated depreciation:				
Water treatment plant	360,266	1,320	-	361,586
Water tower	130,643	2,015	-	132,658
Equipment	89,096	1,019	-	90,115
	<u>580,005</u>	<u>4,354</u>	<u>-</u>	<u>584,359</u>
Total capital assets being depreciated - net	<u>29,301</u>	<u>(4,354)</u>	<u>-</u>	<u>24,947</u>
<b>TOTAL CAPITAL ASSETS - NET</b>	<u><b>\$ 3,619,277</b></u>	<u><b>\$ (72,346)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 3,546,931</b></u>

(Continued)

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006  
(CONTINUED)**

**NOTE 3 - CAPITAL ASSETS:** (Continued)

Capital asset activity for the year ended February 28, 2006, was as follows:

	BALANCE MARCH 1, <u>2005</u>	ADDITIONS	DELETIONS	BALANCE FEBRUARY 28, <u>2006</u>
<b>SANITARY SEWER SYSTEM:</b>				
Capital assets not being depreciated:				
Land - at cost	\$ 51,225	\$ -	\$ -	\$ 51,225
Capital assets being depreciated - at cost:				
Sewer facility planning and system	4,142,886	-	-	4,142,886
Sewer plant	2,200,415	-	-	2,200,415
Equipment	168,126	4,604	500	172,230
Furniture and fixtures	61,706	-	-	61,706
	<u>6,573,133</u>	<u>4,604</u>	<u>500</u>	<u>6,577,237</u>
Less accumulated depreciation:				
Sewer facility planning and system	1,751,052	84,072	-	1,835,124
Sewer plant	946,545	44,513	-	991,058
Equipment	146,331	5,076	304	151,103
Furniture and fixtures	61,201	-	-	61,201
	<u>2,905,129</u>	<u>133,661</u>	<u>304</u>	<u>3,038,486</u>
Total capital assets being depreciated - net	<u>3,668,004</u>	<u>(129,057)</u>	<u>196</u>	<u>3,538,751</u>
<b>WATER SYSTEM:</b>				
Capital assets not being depreciated:				
Land - at cost	-	-	-	-
Capital assets being depreciated - at cost:				
Water treatment plant	368,446	-	-	368,446
Water tower	146,100	-	-	146,100
Equipment	94,660	600	500	94,760
Water intake	-	-	-	-
	<u>609,206</u>	<u>600</u>	<u>500</u>	<u>609,306</u>
Less accumulated depreciation:				
Water treatment plant	358,134	2,132	-	360,266
Water tower	128,627	2,016	-	130,643
Equipment	88,071	1,329	304	89,096
Water intake	-	-	-	-
	<u>574,832</u>	<u>5,477</u>	<u>304</u>	<u>580,005</u>
Total capital assets being depreciated - net	<u>34,374</u>	<u>(4,877)</u>	<u>196</u>	<u>29,301</u>
<b>TOTAL CAPITAL ASSETS - NET</b>	<u><u>\$ 3,753,603</u></u>	<u><u>\$ (133,934)</u></u>	<u><u>\$ 392</u></u>	<u><u>\$ 3,619,277</u></u>

(Continued)

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006  
(CONTINUED)**

**NOTE 3 - CAPITAL ASSETS:** (Continued)

Included in expenses were depreciation charges totaling the following:

	<u>2007</u>	<u>2006</u>
Sanitary Sewer Enterprise Fund	<u>\$ 134,139</u>	<u>\$ 133,631</u>
Water Systems Enterprise Fund	<u>\$ 4,354</u>	<u>\$ 5,477</u>

**NOTE 4 - ASSESSMENTS RECEIVABLE:**

In conjunction with the construction of the sanitary sewer facilities, the Port Austin Area Sewer and Water Authority sold bonds to finance 20% of said construction. To retire these bonds, assessments have been assigned to the benefited properties.

Assessments receivable are carried as accounts receivable from the benefited property owners. The receivables carry an interest rate of 6% and amounted to \$165,236 and \$200,151 at February 28, 2007 and 2006, respectively. The assessments receivable were restricted for payment of the outstanding Sewage Disposal System Limited Tax General Obligation Bonds, which were paid off as of February 28, 2007.

**NOTE 5 - LONG-TERM DEBT:**

The following is a summary of changes in long-term debt of the Authority's business-type activities for the year ended February 28, 2006:

	BALANCE MARCH 1, <u>2005</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	BALANCE FEBRUARY 28, <u>2006</u>
<b>SEWER SYSTEM FUND:</b>				
Sewage Disposal System Bonds	\$ 200,000	\$ -	\$ 200,000	\$ -
<b>TOTAL</b>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ -</u>

The Sewage Disposal System bonds were paid off during the fiscal year ended February 28, 2006.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006  
(CONTINUED)**

**NOTE 6 - WATER SUPPLY SYSTEM MANAGEMENT CONTRACT:**

Effective March 1, 1996 the Port Austin Area Sewer and Water Authority entered into a water supply system management contract with the Village of Port Austin and the Township of Port Austin. Major elements of the agreement are as follows:

- The Authority will manage, operate, maintain and administer the water system for the Village and the Township and will comply with all requirements of the Rural Economic and Community Development Agency of the United States Department of Agriculture relative to outstanding Village bonds.
- Rates charged to customers will be recommended by the Authority and adopted by ordinance in each local unit.
- The Authority will prepare the annual budget.
- The Authority will prepare an annual report of its management of the water system and have an annual audited financial report.
- The local units will hold legal title to the system for assets transferred at the onset of the agreement.
- The term of the agreement is 40 years.

Because of the term of the agreement, the former Water Fund in the Village of Port Austin is now being reported upon in the financial statements of the Port Austin Area Sewer and Water Authority.

**NOTE 7 – REGIONAL WATER AUTHORITY MANAGEMENT CONTRACT:**

On April 1, 2004 the Village of Port Austin (with which the Authority has an exclusive water supply management contract) and the City of Bad Axe entered into a management contract with a newly formed Huron Regional Water Authority. The purpose of the contract is to supply lake water to the City, the Village and immediate surrounding areas. Major provisions of the 40 year contract include the following:

- 1) Construction of shared facilities, primarily a new treatment plant and a new pumping station.
- 2) The Authority deeded the water intake system and land to the Huron Regional Water Authority.
- 3) The Huron Regional Water Authority paid off bonds related to the intake system totaling \$923,000 and also paid off a land contract on the land totaling \$149,650.
- 4) The Huron Regional Water Authority reimbursed the Authority for \$119,168 of prior period costs advanced.
- 5) The Huron Regional Water Authority will be responsible for operation and maintenance of all shared facilities (water intake, treatment plant and pumping and transmission lines to the local units of government).
- 6) The City of Bad Axe and the Port Austin Area Sewer and Water Authority will purchase water from the Huron Regional Water Authority and will be responsible for their own local distribution and billing.

The facilities at the new Huron Regional Water Authority became operational on January 1, 2006.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006  
(CONTINUED)**

**NOTE 8 - SERVICE AGREEMENT:**

During the year ended February 28, 2002, the Authority entered into an agreement with Wade-Trim Operations Services to provide operational services. The initial term of the agreement was for three years, commencing June 5, 2001, and has renewal options which have been exercised. The annual base fee at February 28, 2007 for the water system and the wastewater system is \$365,544 (billed \$30,462 monthly). Future adjustments to the contract can be negotiated if the Consumer Price Index exceeds 4% or for a greater than 5% increase in utility rates. Additionally, the Authority will pay for all capital expenditures and will maintain general liability, personal injury and property insurance on the facilities. Major services provided by Facilities Management, Inc. include:

- 1) Day to day operational costs of the water and wastewater system, including labor costs, utility costs and chemical costs.
- 2) Preventative and corrective maintenance and repairs, up to \$40,000 per year.
- 3) Perform reading, billing and collection services.
- 4) Acting as the Authority's liaison with local, state, and federal regulatory agencies.

**NOTE 9 – RISK MANAGEMENT:**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The Authority participates with Michigan Community Underwriters for claims related to property loss, natural disasters, general liability, errors and omissions and auto liability. The Insurer operates as a common risk-sharing management program for governmental units in Michigan. Member premiums are used to purchase insurance coverage and to pay member claims in excess of deductible amounts.

**NOTE 10 – CONTINGENCY:**

On June 8, 2005, the Authority received correspondence from the Department of Environmental Quality at the State of Michigan (D.E.Q.), mandating that the Authority upgrade its facilities to reduce unwanted elements in the discharge of water from its sewage treatment plant.

The timetable for this upgrade is as follows:

- March 31, 2006 – Submit a preliminary engineering report and develop a funding and financing plan.
- October 31, 2006 – Submit final plans for the facility.
- January 31, 2007 – Receive construction bids.
- December 31, 2007 – Complete construction and obtain appropriate operational level.

As of February 28, 2007, this timetable has not been met. Final project plans have not been approved by the D.E.Q. Although formal approval has not been received from the D.E.Q. it is anticipated by the Authority that deviation from this timetable will be granted. It is also anticipated that funding for the project will be approved through the D.E.Q.

**NOTE 11 – SUBSEQUENT EVENT:**

In March, 2007 the Authority received approval from the D.E.Q. to receive grants totaling \$218,700 for engineering costs related to the sewer upgrade mentioned in Note 10.

**SUPPLEMENTARY INFORMATION**

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
BUSINESS-TYPE ACTIVITIES  
COMBINING STATEMENT OF NET ASSETS  
FEBRUARY 28, 2007**

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 293,510	\$ (290,639)	\$ 2,871
Receivables:			
Usage	50,538	29,270	79,808
Special assessment	-	38,417	38,417
Other	19,988	-	19,988
Capital Grant - Department of Environmental Quality	-	47,695	47,695
Inventory	4,000	2,348	6,348
Prepaid expense	4,147	10,689	14,836
<b>TOTAL CURRENT ASSETS</b>	<b>372,183</b>	<b>(162,220)</b>	<b>209,963</b>
<b>NONCURRENT ASSETS:</b>			
Investments-savings (restricted)	61,508	88,904	150,412
Special assessments	-	126,819	126,819
Capital assets - net of accumulated depreciation	24,947	3,521,984	3,546,931
<b>TOTAL NONCURRENT ASSETS</b>	<b>86,455</b>	<b>3,737,707</b>	<b>3,824,162</b>
<b>TOTAL ASSETS</b>	<b>458,638</b>	<b>3,575,487</b>	<b>4,034,125</b>
<b><u>LIABILITIES</u></b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	42,187	41,749	83,936
Current portion of deferred assessment revenue	-	38,417	38,417
<b>TOTAL CURRENT LIABILITIES</b>	<b>42,187</b>	<b>80,166</b>	<b>122,353</b>
<b>NONCURRENT LIABILITIES:</b>			
Long-term portion of deferred assessment revenue	-	126,819	126,819
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>-</b>	<b>126,819</b>	<b>126,819</b>
<b>TOTAL LIABILITIES</b>	<b>42,187</b>	<b>206,985</b>	<b>249,172</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	24,947	3,521,984	3,546,931
Restricted	61,508	88,904	150,412
Unrestricted	329,996	(242,386)	87,610
<b>TOTAL NET ASSETS</b>	<b>\$ 416,451</b>	<b>\$ 3,368,502</b>	<b>\$ 3,784,953</b>

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY  
BUSINESS-TYPE ACTIVITIES  
COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 281,920	\$ 210,259	\$ 492,179
Other	15,549	127	15,676
<b>TOTAL OPERATING REVENUES</b>	<u>297,469</u>	<u>210,386</u>	<u>507,855</u>
<b>OPERATING EXPENSES:</b>			
Contractual services:			
Management services	115,156	244,445	359,601
Legal	487	-	487
Audit and engineering	6,790	1,810	8,600
Board fees	1,283	1,283	2,566
Supplies and maintenance	7,819	-	7,819
Insurance	6,358	14,348	20,706
Other	1,598	2,359	3,957
Depreciation	4,354	134,139	138,493
Water purchases - Huron Regional Water Authority	160,213	-	160,213
<b>TOTAL OPERATING EXPENSES</b>	<u>304,058</u>	<u>398,384</u>	<u>702,442</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(6,589)</u>	<u>(187,998)</u>	<u>(194,587)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Capital Grant - Department of Environmental Quality	-	47,695	47,695
Special assessments	-	34,915	34,915
Interest income	682	13,954	14,636
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>682</u>	<u>96,564</u>	<u>97,246</u>
<b>CHANGE IN NET ASSETS</b>	<u>(5,907)</u>	<u>(91,434)</u>	<u>(97,341)</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>	422,358	3,459,936	3,882,294
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 416,451</u>	<u>\$ 3,368,502</u>	<u>\$ 3,784,953</u>

**PORT AUSTIN SEWER AND WATER AUTHORITY  
BUSINESS-TYPE ACTIVITIES  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 296,789	\$ 218,799	\$ 515,588
Payments to suppliers	(284,702)	(260,669)	(545,371)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>12,087</u>	<u>(41,870)</u>	<u>(29,783)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Special assessments received	-	34,915	34,915
Acquisition of capital assets	-	(66,147)	(66,147)
Capital Grant - Department of Environmental Quality	-	47,695	47,695
Capital Grant receivable	-	(47,695)	(47,695)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>-</u>	<u>(31,232)</u>	<u>(31,232)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sale of investments	58,593	-	58,593
Purchase of investments	-	(20,582)	(20,582)
Interest revenue	682	13,954	14,636
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>59,275</u>	<u>(6,628)</u>	<u>52,647</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<u>71,362</u>	<u>(79,730)</u>	<u>(8,368)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	222,148	(210,909)	11,239
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 293,510</u>	<u>\$ (290,639)</u>	<u>\$ 2,871</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (6,589)	\$ (187,998)	\$ (194,587)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	4,354	134,139	138,493
(Increase) decrease in receivables	(680)	8,413	7,733
(Increase) decrease in inventory	7,640	(1)	7,639
(Increase) decrease in prepaid expenses	1,047	424	1,471
Increase (decrease) in accounts payable	6,315	3,153	9,468
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 12,087</u>	<u>\$ (41,870)</u>	<u>\$ (29,783)</u>