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CHELSEA AREA FIRE  
AUTHORITY

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS

FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

**CHELSEA AREA FIRE AUTHORITY**

**AUTHORITY BOARD**

Rod Anderson  
John Edwards  
John Francis  
LuAnn Koch  
Greg Williams

**AUDITORS**

Pfeffer, Hanniford & Palka  
Certified Public Accountants

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June 4, 2010

Authority Board  
Chelsea Area Fire Authority  
200 West Middle Street  
Chelsea, MI 48118

INDEPENDENT AUDITORS' REPORT

Honorable Authority:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Chelsea Area Fire Authority as of and for the 10 months ended December 31, 2009, which collectively comprise the Chelsea Area Fire Authority basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chelsea Area Fire Authority's management. Our responsibility is to express opinions 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Chelsea Area Fire Authority as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 9 and 36 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chelsea Area Fire Authority's financial statements taken as a whole. The combining and individual fund financial statements, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants

MANAGEMENT DISCUSSION  
AND  
ANALYSIS

Management Discussion and Analysis  
December 31, 2009

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Within this section of the Chelsea Area Fire Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the ten months ended December 31, 2009. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

***Government-Wide Financial Statements***

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Both government-wide financial statements distinguish governmental activities of the Authority that are intended to recover all or a significant portion of their costs through user fees and charges or by taxes collected. The Authority's financial reporting includes all the funds of the Authority and, additionally, organizations for which the Authority is accountable.

***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has two kinds of funds:

*Governmental funds* are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

*Fiduciary funds* are reported in the fiduciary fund financial statements, but are excluded from the government-wide statements. Fiduciary fund financial statements report resources that are not available to fund Authority activities.

**Notes to the financial statements**

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

**Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

Financial Analysis of the Authority as a Whole

The following tables provide a summary of the Authority’s financial activities and changes in net assets:

**Summary of Net Assets**

	Governmental Activities		
	12/31/2009	2/28/2009	Increase (Decrease)
Current and other assets	\$ 1,654,880	\$ 774,478	\$ 880,402
Capital assets	1,246,706	851,544	395,162
Total assets	<u>2,901,586</u>	<u>1,626,022</u>	<u>1,275,564</u>
Accounts payable	16,153	39,054	(22,901)
Accrued expenses	19,522	15,855	3,667
Deferred revenue	871,036	-	871,036
Debt payable	<u>851,995</u>	<u>440,834</u>	<u>411,161</u>
Total liabilities	<u>1,758,706</u>	<u>495,743</u>	<u>1,262,963</u>
Net Assets			
Invested in capital assets, net of related debt	394,711	410,710	(15,999)
Unrestricted	<u>748,169</u>	<u>719,569</u>	<u>28,600</u>
Total net assets	<u><u>\$ 1,142,880</u></u>	<u><u>\$ 1,130,279</u></u>	<u><u>\$ 12,601</u></u>



### Summary of Changes in Net Assets

	Governmental Activities		
	12/31/2009	2/28/2009	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	\$ 14,716	\$ 4,259	\$ 10,457
Operating grants and contributions	585,701	929,436	(343,735)
Capital grants and contributions	-	239,861	(239,861)
General revenues	437,815	(12,894)	450,709
Total revenues	1,038,232	1,160,662	(122,430)
Expenses for fire services	1,025,631	1,028,960	(3,329)
Increase in net assets	12,601	131,702	(119,101)
Beginning net assets	1,130,279	998,577	131,702
Ending net assets	\$ 1,142,880	\$ 1,130,279	\$ 12,601

#### Changes in Financial Status

The net assets of the Authority increased \$12,601 for the ten months ended December 31, 2009. This increase is lower than prior years due to a change in a fiscal year end and change in revenue generation.

#### Financial Analysis of the Authority's Funds

The Authority's General Fund had a net change in fund balance from current year operations and transfers totaling \$27,797 to add to its fund balance.

#### General Fund Budgetary Highlights

The original General Fund budget adopted by the Authority was created prior to the beginning of the fiscal year outlining the Authority's anticipated financial operations. No amendments were made during the year to this budget. The General Fund expenses exceeded budgeted appropriations during the year.

#### Change in Fiscal Year

During the year the Authority decided to change their fiscal year end to a calendar year. This audit was for a ten month period.

### Capital Asset and Debt Administration

The Authority added capital assets during the year totaling \$522,165.

The Authority did incur additional long-term debt of \$473,383, but paid principal of \$62,222 and interest of \$18,606 this year for capital lease agreements.

### Economic Conditions and Future Activities

In May 2009 the Chelsea Area Fire Authority passed a levy of 1.80 mills against all taxable real and tangible property within the limits of the Chelsea Area Fire Authority for a period of five (5) years (2009 - 2013). The City of Chelsea began collecting the Chelsea Area Fire Authority millage in the summer of 2009 and the Townships of Lima, Lyndon and Sylvan began collecting the Chelsea Area Fire Authority millage on the December 2009 tax bills. The anticipated revenues from this levy are approximately \$1,431,000 to be used for both operations and capital outlay purchases. The Chelsea Downtown Development Authority may receive a small portion of the mills collected from the Chelsea Downtown Development District only.

### Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact the Chelsea Area Fire Authority at 200 West Middle Street, Chelsea, Michigan 48118.

BASIC  
FINANCIAL  
STATEMENTS

GOVERNMENT - WIDE  
FINANCIAL  
STATEMENTS

CHELSEA AREA FIRE AUTHORITY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2009

<u>ASSETS</u>	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 745,565
Due from other governments	36,051
Taxes receivable	861,117
Prepaid expenses	12,147
Capital assets - net of depreciation	<u>1,246,706</u>
Total assets	\$ 2,901,586
 <b>LIABILITIES</b>	
<u>LIABILITIES</u>	
Accounts payable	16,153
Accrued liabilities	14,969
Deferred revenue	871,036
Vested employee benefits	
Due in more than one year	4,553
Capital leases payable	
Current	90,279
Non-current	<u>761,716</u>
Total liabilities	<u>1,758,706</u>
 <b>NET ASSETS</b>	
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	394,711
Unrestricted	<u>748,169</u>
Total net assets	<u>\$ 1,142,880</u>

The notes are an integral part of the financial statements.

CHELSEA AREA FIRE AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Fire protection	\$ (1,007,025)	\$ 14,716	\$ 585,701	\$ (406,608)
Interest on long-term debt	<u>(18,606)</u>			<u>(18,606)</u>
 Total governmental activities	 <u>\$ (1,025,631)</u>	 <u>\$ 14,716</u>	 <u>\$ 585,701</u>	 <u>(425,214)</u>
General Revenues:				
Property taxes levied for general purpose				430,376
Investment earnings				2,025
Other income				<u>5,414</u>
Total general revenues				<u>437,815</u>
Changes in net assets				12,601
Net assets, March 1, 2009				<u>1,130,279</u>
Net assets, December 31, 2009				<u>\$ 1,142,880</u>

The notes are an integral part of the financial statements.

FUND  
FINANCIAL  
STATEMENTS

CHELSEA AREA FIRE AUTHORITY  
BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2009

	Major Fund General Fund
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents	\$ 745,565
Due from other governments	36,051
Taxes receivable	861,117
Prepaid expenses	12,147
Total current assets	\$ 1,654,880
<u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES	
Accounts payable	\$ 16,153
Payroll liabilities	7,914
Accrued payroll	7,055
Deferred revenue	871,036
Total liabilities	902,158
FUND BALANCES	
Reserved for:	
Fire trucks	81,512
Building	168,531
Unreserved	502,679
Total fund balances	752,722
Total liabilities and fund balances	\$ 1,654,880

The notes are an integral part of the financial statements.



CHELSEA AREA FIRE AUTHORITY  
RECONCILIATION OF STATEMENT OF NET ASSETS OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

Amount reported for governmental activities in the Statement  
of Net Assets are different because:

Total fund balance per balance sheet		\$ 752,722
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		
Historical costs	\$ 1,802,555	
Accumulated depreciation	<u>(555,849)</u>	
Capital assets net of depreciation		1,246,706
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These include:		
Capital leases payable	(851,995)	
Vested employer benefits	<u>(4,553)</u>	
Total		<u>(856,548)</u>
Net assets of governmental activities		<u><u>\$ 1,142,880</u></u>

The notes are an integral part of the financial statements.

CHELSEA AREA FIRE AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

	<u>General Fund</u>
<b>REVENUES</b>	
Local unit - Contributions	
City of Chelsea	\$ 144,194
Dexter Township	53,779
Lima Township	122,598
Lyndon Township	105,097
Sylvan Township	159,058
Tax Revenue	430,376
Contributions	975
Charges for services	14,716
Interest	2,025
Reimbursements	5,274
Miscellaneous	140
	<u>1,038,232</u>
Total revenue	<u>1,038,232</u>
<b>EXPENDITURES</b>	
Current	
Fire protection	880,825
Capital outlay	
Fire	522,165
Debt service	
Principal	62,222
Interest	18,606
	<u>1,483,818</u>
Total expenditures	<u>1,483,818</u>
Excess of revenues over (under) expenditures	(445,586)
<b>OTHER FINANCING SOURCES (USES)</b>	
Lease proceeds	473,383
	<u>473,383</u>
Net change in fund balance	<u>27,797</u>
FUND BALANCE, MARCH 1, 2009	<u>724,925</u>
FUND BALANCE, DECEMBER 31, 2009	<u>\$ 752,722</u>

The notes are an integral part of the financial statements.

CHELSEA AREA FIRE AUTHORITY  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - governmental funds	\$	27,797
<p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their useful lives as depreciation expense. The amount by which depreciation exceeded capital outlay is as follows:</p>		
Capital outlay	\$	522,165
Depreciation expense		<u>(127,003)</u>
Total		395,162
Proceeds from lease purchase agreements are not considered current revenues in the Statement of Activities		(473,383)
<p>Repayment of capital lease contracts is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets</p>		
Installment contracts		62,222
<p>Vested employee benefits reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds - net decrease in accrual for vested employee benefits</p>		
		<u>803</u>
Change in net assets of governmental activities	\$	<u><u>12,601</u></u>

The notes are an integral part of the financial statements.

CHELSEA AREA FIRE AUTHORITY  
FIDUCIARY FUND  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2009

	<u>ASSETS</u>	<u>Agency Fund</u>
ASSETS		
Cash and investments		<u>\$ 2,859</u>
	<u>LIABILITIES</u>	
LIABILITIES		
Due to others		<u>\$ 2,859</u>

The notes are an integral part of the financial statements.

NOTES  
TO  
FINANCIAL  
STATEMENTS

CHELSEA AREA FIRE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Chelsea Area Fire Authority was established under the provisions of Act 57, Public Acts of 1988. The incorporating municipalities currently include the Townships of Dexter, Lima, Lyndon and Sylvan. The Authority is governed by a five (5) person Board of Trustees plus one at large trustee, and one trustee from each incorporating municipality. The Authority provides fire protection and emergency services within the total territory of the incorporating municipalities pursuant to a contract with the Authority. The accompanying financial statements present the Authority's entities for which the Authority is considered to be financially accountable. The Authority has no component units.

The Authority receives its funding from each of the five (5) municipality's it provides fire protection and emergency services. The municipality's annual contribution is paid throughout the year in twelve (12) monthly installments. The municipality's contribution percentage is based upon a five (5) year sliding average of man hours.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 39 "The Financial Reporting Entity", these financial statements present all activities of the Authority. There are no component units of the Authority using the criteria established by the GASB for determining the reporting entity.

B. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the Authority as a whole. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Assets reports all financial and capital resources of the Authority. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expense between governments that allocate direct expenses and those that do not. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

CHELSEA AREA FIRE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The Authority reports the following major governmental fund:

- The General Fund accounts for all financial resources of the Authority not accounted for in another fund.

Additionally, the Authority reports the following fund type:

- Agency Funds - The Agency Funds account for assets held by the Authority in a trustee capacity for the Chelsea Fireman's Association, which is a fraternal organization of the Authority.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

1. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues, (including motor vehicle license fees), charges for services, fines, forfeits and penalties, and interest.
2. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
3. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

CHELSEA AREA FIRE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated under the straight line method, over the remaining useful lives of the related capital assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 to 20 years
Vehicles and trucks	7 to 30 years
Buildings	20 years

E. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. BUDGETS

An annual operating budget on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America is formally adopted for the General Fund and all Special Revenue funds. The budget can be amended by approval from the Authority's Board. If necessary, budget amendments can be presented to the Board at the regular meetings. The budget amounts shown in the financial statements can be presented to the Board at the regular meetings. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. All annual appropriations lapse at the fiscal year end.

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss pertaining 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 these claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage.



CHELSEA AREA FIRE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. VESTED EMPLOYEE BENEFITS

Accrued Severance Pay - The Authority maintains a severance pay plan for regular firefighters, permanent employees, and investigators. To be eligible for severance pay, an employee must have completed ten (10) years of service. An employee may use five (5) years of reserve duty toward qualifying severance time. A reserve member must meet the requirements of the residence policy of the Authority for the reserve time to qualify. At the completion of the tenth year, an employee will have earned one thousand dollars (\$1,000) toward his/her severance fund. For each additional year completed, one hundred dollars (\$100) per year will be added to the employee's severance fund. Severance pay is accrued when the employees are vested in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only for employees terminated as of year end. The current severance plan has been closed to future additional employees.

Compensated Absences - It is the Authority's policy to not permit employees to accumulate earned but unused sick pay benefits if the time is not used within the budget year. There is no liability for unpaid sick pay since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. It is the policy to permit eligible employees to accumulate earned but unused vacation pay benefits. Vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

I. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

J. RECEIVABLES

Receivables in governmental activities are all primarily due from other governments. No allowance for doubtful accounts is provided for.

CHELSEA AREA FIRE AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the ten months ended December 31, 2009 was as follows:

	<u>Balance 2/29/2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/2009</u>
Depreciable Assets				
Fire Protection Equipment	\$ 1,280,390	\$ 522,165	\$	\$ 1,802,555
Accumulated Depreciation				
Fire Protection Equipment	<u>(428,846)</u>	<u>(127,003)</u>		<u>(555,849)</u>
Total capital assets at historical cost	<u>851,544</u>	<u>395,162</u>	<u>\$</u>	1,246,706
Related long term debt outstanding at December 31, 2009				<u>(851,995)</u>
Governmental assets, net related long-term debt				<u>394,711</u>

Depreciation expense is charged to the following activities:

Public Safety	<u>127,003</u>
---------------	----------------

The Authority utilizes the straight line method to depreciate capital assets over their useful lives.

CHELSEA AREA FIRE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

NOTE 3 - LONG-TERM DEBT

The following is a summary of long-term debt activity for the Authority:

	Balance 3/1/2009	Additions	Deletions	Balance 12/31/2009	Due within one year
Vested employee benefits	\$ 5,356	\$	\$ 803	\$ 4,553	\$
Capital lease payable	440,834	473,383	62,222	851,995	90,279
	<u>\$ 446,190</u>	<u>\$ 473,383</u>	<u>\$ 63,025</u>	<u>\$ 856,548</u>	<u>\$ 90,279</u>

Capital Leases - The Authority has entered into several capital leases to purchase fire equipment, trucks, and a modular building. The interest rates on these leases range from 4.38% to 6.25% with maturity dates ranging from March 2009 until December 2019.

The Authority's outstanding lease agreements include a rescue truck for \$45,050, 2 pumper trucks for \$333,562 and \$473,383 respectively. These leases qualify as capital leases. During this year the Authority entered into a new agreement to purchase a new Pierce Pumper truck. The first payment on this lease is due December 2010. The accumulated depreciation for these assets as of December 31, 2009, was \$299,098.

The debt service for capital leases are as follows:

Year Ended December 31,	Principal	Interest	Total
2010	\$ 90,279	\$ 53,615	\$ 143,894
2011	107,480	36,414	143,894
2012	112,490	31,404	143,894
2013	101,316	26,162	127,478
2014	106,051	21,427	127,478
Thereafter	<u>334,379</u>	<u>45,365</u>	<u>379,744</u>
Total	<u>\$ 851,995</u>	<u>\$ 214,387</u>	<u>\$ 1,066,382</u>

Total interest paid for the ten months ended December 31, 2009, was \$19,387

CHELSEA AREA FIRE AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

**NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Authority 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, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; 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; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority deposits are in accordance with statutory authority.

As of December 31, 2009 cash and cash equivalents consist of the following:

Cash and cash equivalents	
Deposits with financial institutions	\$ 256,513
Money market accounts	491,911
Total cash and cash equivalents	\$ 748,424

Cash is presented in the financial statements in the following areas:

Statement of Net Assets	
Cash and cash equivalents	\$ 745,565
Fiduciary Funds	
Cash and cash equivalents	2,859
Total cash and cash equivalents	\$ 748,424

The Authority's cash and investments are subject to various types of risk, which are examined in more detail below:

**Custodial Credit Risk**

This is the risk that in the event of a bank failure, the Authority will not be able to recover its deposits. The Authority does not have a deposit policy for custodial credit risk. At year end, all cash and cash equivalents held by the Authority were fully insured at financial institutions. 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.

**Concentration of Credit Risk**

Concentration of credit risk is the risk attributed to the magnitude of the Authority's investment in a single issuer. The Authority does not have a policy to address this risk.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair values of investments and cash deposits. The Authority's investment policy requires this risk to be minimized by investing primarily in short term deposits and investments thus avoiding the need to sell prior to maturity. As of December 31, 2009, the maturities of the investments held were less than 90 days. As a result, management does not believe the authority is significantly exposed to interest rate risk.

CHELSEA AREA FIRE AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE TEN MONTHS ENDED DEEMBER 31, 2009

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The authority investment policy limits investments to those authorized by Public Act 20 of 1943. Commercial paper must be rated within the two (2) highest classifications established by not less than two (2) standard ratings services. Ratings are not required for U.S. Treasuries and money market accounts. As of June 30, 2009, the Authority's investments were exposed to credit risk as follows:

Investment Type	Rating by S & P	Amount
Money Market Funds	unrated	\$ 491,911

NOTE 5 - INTERFUND TRANSFERS

There were no interfund transfers during the year.

NOTE 6 - FUND BALANCE DESIGNATION

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 7 - DEFINED BENEFIT PLAN -  
 MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)

Effective August 2007 the Authority provides a defined benefit pension plan under MERS. MERS is an agent multiple-employer; state-wide, defined benefit public employee retirement plan created under Public Act 135 of 1945 and now operates under Public Act 220 of 1996. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. Under Public Act 220, MERS became an independent public non-profit corporation independent from State government. The effective date of independence was August 16, 1996, at which time MERS ceased to be a part of the State of Michigan, Department of Management and Budget.

As of December 31, 2009 the Authority had seven (7) covered employees and twenty-seven (27) total employees. Covered and total payrolls for the year then ended were \$331,652 and \$408,999 respectively. Currently there are no retirants receiving benefits from the plan. Total employer contributions made to the plan during the year ended was \$26,867. Total employee contributions were \$17,080.

CHELSEA AREA FIRE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

NOTE 7 - DEFINED BENEFIT PLAN -  
MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) continued

As of the date of our audit report, the December 31, 2009 actuary report was not yet available. We used the most recent report dated December 31, 2008.

At December 31, 2008, the unfunded pension benefit obligation was \$33,538, determined as follows:

Actuarial accrued liability		
Retirees and beneficiaries currently receiving benefits	\$	0
Terminated employees not yet receiving benefits		0
Non-vested terminated employees pending (pending refunds of accumulated member contributions)		1,020
Current employees		
Accumulated employee contribution, including allocated investment income		15,195
Employer financed		<u>68,630</u>
Total actuarial accrued liabilities		84,845
Net assets available for benefits, at cost (at market \$36,872)		<u>51,307</u>
Unfunded (overfunded) actuarial accrued liabilities	<u>\$</u>	<u>33,538</u>
Fiscal Year Beginning		40,238
Annual Required Contribution (ARC)		23,748
Amortization factor used - Under funded Liabilities (30 years)		0.060002

REQUIRED  
SUPPLEMENTARY  
INFORMATION

CHELSEA AREA FIRE AUTHORITY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Local unit contributions for operations	\$	\$	\$ 584,726	\$
Tax Revenue			430,376	
Charges for services			14,716	
Interest			2,025	
Contributions			975	
Refunds and reimbursements			5,274	
Miscellaneous			140	
			<u>1,038,232</u>	
Total revenues	<u>1,012,785</u>	<u>1,012,785</u>	<u>1,038,232</u>	<u>25,447</u>
<b>EXPENDITURES</b>				
Current:				
Public Safety			1,277,436	
Debt service				
Principal			62,222	
Interest			18,606	
Capital outlay			125,554	
			<u>1,483,818</u>	
Total expenditures	<u>897,785</u>	<u>897,785</u>	<u>1,483,818</u>	<u>(586,033)</u>
Excess of revenues over (under) expenditures	115,000	115,000	(445,586)	(560,586)
<b>OTHER FINANCING SOURCES (USES)</b>				
Lease proceeds			473,383	473,383
			<u>473,383</u>	
Net change in fund balance	115,000	115,000	27,797	(87,203)
FUND BALANCE, MARCH 1, 2009	<u>724,925</u>	<u>724,925</u>	<u>724,925</u>	
FUND BALANCE, DECEMBER 31, 2009	<u>\$ 839,925</u>	<u>\$ 839,925</u>	<u>\$ 752,722</u>	<u>\$ (87,203)</u>



CHELSEA AREA FIRE AUTHORITY  
 SCHEDULES OF PENSION FUNDING PROGRESS (UNAUDITED)  
 FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

In accordance with the Governmental Accounting Standards Board Statements No. 25 and 27, the following information is a required part of the basic financial statements.

The most recent actuarial report available was December 31, 2008.

FIRE EMPLOYEES

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability(AAL)</u>	<u>Unfunded (Over funded) Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
December 31, 2007	\$ 5,461	\$ 41,910	\$ 36,449	13.06%	\$ 239,152	15.24%
December 31, 2008	\$ 51,307	\$ 84,845	\$ 33,538	60.47%	\$ 365,374	9.18%

SUPPLEMENTARY  
INFORMATION

INDIVIDUAL FUNDS

GENERAL FUND

CHELSEA AREA FIRE AUTHORITY  
GENERAL FUND  
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
FOR THE TEN MONTHS ENDED DECEMBER 31, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>			
Contributions from local units	\$	\$ 584,726	\$
Fire runs		14,716	
Tax revenue		430,376	
Reimbursements		5,274	
Donations		975	
Miscellaneous		140	
Interest		2,025	
	<u>1,012,785</u>	<u>1,038,232</u>	<u>25,447</u>
<b>EXPENDITURES AND TRANSFERS OUT</b>			
Personnel		530,085	
Supplies		20,630	
Insurance		46,469	
Utilities		21,961	
Contracted services		67,792	
General administration		125,554	
Debt service			
Principal		62,222	
Interest		18,606	
Capital outlay		522,165	
Grant expense		68,334	
	<u>897,785</u>	<u>1,483,818</u>	<u>(586,033)</u>
Excess of revenues over (under) expenditures	115,000	(445,586)	(560,586)
<b>OTHER FINANCING SOURCES (USES)</b>			
Lease proceeds		473,383	473,383
Net change in fund balance	115,000	27,797	(87,203)
FUND BALANCE, MARCH 1, 2009	<u>724,925</u>	<u>724,925</u>	
FUND BALANCE, DECEMBER 31, 2009	<u>\$ 839,925</u>	<u>\$ 752,722</u>	<u>\$ (87,203)</u>

TRUST AND AGENCY  
FUND

CHELSEA AREA FIRE AUTHORITY  
TRUST AND AGENCY FUND  
STATEMENT OF ASSETS AND LIABILITIES  
DECEMBER 31, 2009

ASSETS

ASSETS	
Cash and cash equivalents	<u>\$ 2,859</u>

LIABILITIES

LIABILITIES	
Due to others	<u>\$ 2,859</u>



**PFEFFER ■ HANNIFORD ■ PALKA**  
*Certified Public Accountants*

**John M. Pfeffer, C.P.A.**  
**Patrick M. Hanniford, C.P.A.**  
**Kenneth J. Palka, C.P.A.**

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June 4, 2010

Chelsea Area Fire Authority  
200 West Middle Street  
Chelsea, MI 48118

Dear Honorable Authority Members:

During our audit of the Chelsea Area Fire Authority we came across the following matters that we would like to discuss with you as part of our audit presentation for the ten months ending December 31, 2009.

The matter which we would like to discuss with you is as follows:

Auditing standards require us to formally communicate to you deficiencies in your internal controls and accounting procedures.

There are certain issues (deficiencies) which were previously considered general comments but under the current standards are now considered significant deficiencies.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's or detected by the entity's internal control.

We consider the following to be a material weakness of the Authority:

- Historically, the Authority has relied on independent external auditors in the preparation of their financial statements and required disclosures. The Authority has determined that the cost/benefit of preparing the financial statements and disclosures are best served by continuing this practice.
- As in most small organizations, the Authority has a lack of segregation of duties in its accounting department.



The following are other comments relating to the Authority's accounting and record keeping procedures:

- We were unable to find several invoices and receipts to support payments made and money received during the year. It is important to maintain supporting documentation for all Authority disbursements and receipts.
- Currently it is the policy to capitalize any individual asset with a cost of more than \$1,000 and an estimated useful life greater than one year. We recommend this value be increased to \$5,000.
- The Authority is holding assets in a trustee capacity for the Chelsea Fireman's Association. There has been no activity regarding these assets for several years. We recommend the Board take action to dispose of these assets or have them absorbed into the Authority.
- The General Fund exceeded their budgeted expenditures.
- The building for the Authority is located on land owned by the City of Chelsea. There is no formal document agreement regarding the terms of this agreement.
- There are several state checks still being carried on the bank reconciliation and should be reissued. There is also a voided check still showing as a reconciling item.
- Cash that belongs to the Trust and Agency Fund is co-mingled with General Fund cash and is shown as a reconciling item. A separate fund should be created in the accounting program to separate the funds.
- It appears there was a pay increase from the prior year but no approval could be found in the minutes.
- It was noted that sales tax was paid on credit card purchases. The Authority is tax exempt and should not be paying sales tax.
- There are inconsistencies with regard to the purchase form the Authority uses. It doesn't always appear to be filled out entirely. A policy should be created and enforced to ensure all payments are approved.
- Late fees and finance charges are being incurred by the Authority. Invoices need to be approved and paid in a timely manner.
- There were several instances where checks were made out to "cash". There was no supporting documentation as to what this was for and there is no safeguarding of Authorities assets when anyone can deposit these checks.
- There has been the same balance in accounts receivable that has been carried over for several years. The Authority should research why this hasn't been collected and determine if it is still deemed to be collectable.

Conclusion

Thank you for your assistance and hospitality toward our firm while conducting the audit of the Chelsea Area Fire Authority.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Fire Authority Board and management of the Chelsea Area Fire Authority and is not intended to be and should not be used by anyone other than the specified parties.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants

**DEXTER  
AREA FIRE  
DEPARTMENT**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**KARL L. DRAKE  
CERTIFIED PUBLIC ACCOUNTANT**

# DEXTER AREA FIRE DEPARTMENT

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Dexter Area Fire Department  
Dexter, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Dexter Area Fire Department, as of and for the year ended December 31, 2009, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dexter Area Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Dexter Area Fire Department as of December 31, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2010, on our consideration of Dexter Area Fire Department's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 22 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dexter Area Fire Department's basic financial statements. The accompanying other supplemental 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. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.  
Certified Public Accountant

March 2, 2010

# DEXTER AREA FIRE DEPARTMENT

## Management's Discussion and Analysis

This section of Dexter Area Fire Department's annual financial report presents our discussion and analysis of the Department's financial performance during the fiscal year ended December 31, 2009. It is best read in conjunction with the Department's financial statements that follow this section.

### Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Dexter Area Fire Department financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the entire Department, presenting both an aggregate view of the Department's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Department's operations in more detail than the government-wide financial statements by providing information about the Department's most significant fund - the General Fund - with all other funds presented in one column as non-major funds.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### Basic Financial Statements

*Government-Wide Financial Statements*

*Fund Financial Statements*

Notes to the Basic Financial Statements

Budgetary Information for the General Fund  
(Required Supplemental Information)

Other Supplemental Information

### Reporting the Department As A Whole - Government-Wide Financial Statements

One of the most important questions asked about the Department is, "As a whole, what is the Department's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Department's financial statements, report information on the Department as a whole and its activities in a way that helps answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

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These two statements report the Department's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Department's financial health or financial position. Over time, increases or decreases in the Department's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the Department's operating results. However, the Department's goal is to provide services to residents, not to generate profits as commercial entities do. One must consider many other non-financial factors to assess the overall health of the Department.

The statement of net assets and statement of activities report the governmental activities for the Department, which encompass all of the Department's services, including resources and community enrichment. Revenue from other governments finance most of these activities.

### **Reporting the Department's Most Significant Funds - Fund Financial Statements**

The Department's fund financial statements provide detailed information about the most significant funds - not the Department as a whole. Some funds are required to be established by State law and by bond covenants. However, the Department establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Department use the following accounting approach:

Governmental Funds - All of the Department's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflow and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Department and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.



# DEXTER AREA FIRE DEPARTMENT

## Management's Discussion and Analysis

### The Department as a Whole

Recall that the statement of net assets provides the perspective of the Department as a whole. Table 1 provides a summary of the Department's net assets as of December 31, 2009 and 2008:

<b>TABLE 1</b>	Governmental Activities (In Thousands)	
	2009	2008
<b>ASSETS</b>		
Current and other assets	\$ 279.4	\$ 265.3
Capital assets - Net of accumulated depreciation	706.5	966.8
<b>TOTAL ASSETS</b>	<b>985.9</b>	<b>1,232.1</b>
<b>LIABILITIES</b>		
Current liabilities	124.6	144.7
Long-term liabilities	455.6	592.2
<b>TOTAL LIABILITIES</b>	<b>580.2</b>	<b>736.9</b>
<b>NET ASSETS &lt;DEFICIT&gt;</b>		
Invested in property and equipment - Net of related debt	332.7	510.7
Restricted	0.0	0.0
Unrestricted <Deficit>	73.0	-15.5
<b>TOTAL NET ASSETS</b>	<b>\$ 405.7</b>	<b>\$ 495.2</b>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Department's governmental activities is discussed below. The Department's net assets were \$405.7 thousand at December 31, 2009. Capital assets, net of related debt totaling \$332.7 thousand compares the original cost, less depreciation of the Department's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Department's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$73.0 thousand) was unrestricted.

The \$73.0 thousand in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Department as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2009 and 2008.

<b>TABLE 2</b>	Governmental Activities	
	(In Thousands)	
	2009	2008
<b>REVENUE</b>		
Program Revenue		
Charges for Services	\$ 964.1	\$ 937.4
Grants and Categoricals	0.0	70.8
General Revenue		
Property Taxes	0.0	0.0
State Aid	0.0	0.0
Interest	0.2	0.4
Other	91.5	20.9
<b>TOTAL REVENUE</b>	<b>\$ 1,055.8</b>	<b>\$ 1,029.5</b>
<b>FUNCTION/PROGRAM EXPENSES</b>		
General Government	\$ 0.0	\$ 0.0
Public Safety	866.0	1,022.6
Public Works	0.0	0.0
Community Enrichment	0.0	0.0
Interest	19.0	22.4
Depreciation (unallocated)	260.3	99.3
<b>TOTAL FUNCTION/PROGRAM EXPENSES</b>	<b>1,145.3</b>	<b>1,144.3</b>
<b>INCREASE &lt;DECREASE&gt; IN NET ASSETS</b>	<b>\$ -89.5</b>	<b>\$ -114.8</b>

# DEXTER AREA FIRE DEPARTMENT

## Management's Discussion and Analysis

As reported in the statement of activities, the cost of all of governmental activities this year was \$1,145.3 thousand. Certain activities were partially funded from those who benefited from the programs (\$964.1 thousand) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$0.0 thousand). The remaining "public benefit" portion of our governmental activities was paid with other revenues, such as interest and general entitlements.

The Department experienced a decrease in net assets of \$89.5 thousand. The key reason for the change in net assets was increased fringe benefit costs. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 13.

As discussed above, the net cost shows the financial burden that was placed on the State and the Department's taxpayers by each of these functions. Since charges for services constitute the vast majority of the Department's operating revenue sources, the Board of Directors must annually evaluate the needs of the Department and balance those needs with available unrestricted resources.

### **The Department's Funds**

As we noted earlier, the Department uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the Department is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Department's overall financial health.

As the Department completed this year, the governmental funds reported a combined fund balance of \$252.1 thousand, which is an increase of \$35.6 thousand from last year. The primary reason for the increase is controlling expenditures. The General Fund, the principal operating fund, saw the fund balance increase \$35,543 to \$252,086, which is better than the budgeted increase of \$1,500.

### **General Fund Budgetary Highlights**

Over the course of the year, the Department amends its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Department's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

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## Capital Asset and Debt Administration

### Capital Asset

At December 31, 2009, the Department had \$706.5 thousand invested in capital assets that include vehicles and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$260,301 or 27 percent from last year.

	2009	2008
Vehicles	\$ 1,263,600	\$ 1,585,526
Equipment	178,263	178,263
Total Capital Assets	1,441,863	1,763,789
Less Accumulated Depreciation	-735,321	-796,946
Net Capital Assets	\$ 706,542	\$ 966,843

Other obligations include employee-compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration considered many factors when setting the Department's 2010 fiscal year budget.

The Department's budget is very similar to the prior year. Personnel costs will increase, and governmental revenue will be increased to compensate. Revenue and expenditures will be very consistent with last year.

### **Contacting the Department's Financial Management**

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors of Dexter Area Fire Department with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fire Chief, 8140 Main Street, Dexter, Michigan 48130.

# DEXTER AREA FIRE DEPARTMENT

## Government-Wide Financial Statements

### STATEMENT OF NET ASSETS

DECEMBER 31, 2009

	<u>Governmental Activities</u>
<b>ASSETS</b>	
CURRENT ASSETS	
Cash	\$ 29,699
Accounts Receivable	3,040
Due from Other Governmental Units	222,640
Prepaid Expenditures	24,007
TOTAL CURRENT ASSETS	<u>279,386</u>
NON-CURRENT ASSETS	
Capital Assets	1,441,863
Less: Accumulated Depreciation	<u>-735,321</u>
TOTAL NON-CURRENT ASSETS	<u>706,542</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 985,928</b></u>
<b>LIABILITIES AND NET ASSETS</b>	
CURRENT LIABILITIES	
Accounts Payable	\$ 27,300
Current Portion of Notes and Bonds Payable	83,698
Accrued Interest	13,629
Deferred Revenue	<u>---</u>
TOTAL CURRENT LIABILITIES	<u>124,627</u>
NON-CURRENT LIABILITIES	
Notes and Bonds Payable	276,499
Compensated Absences and Severance Pay	<u>179,098</u>
TOTAL NON-CURRENT LIABILITIES	<u>455,597</u>
<b>TOTAL LIABILITIES</b>	<u>580,224</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	332,716
Restricted for Debt Service	<u>---</u>
Unrestricted	72,988
TOTAL NET ASSETS	<u>405,704</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 985,928</b></u>

See Accompanying Notes to Financial Statements

# STATEMENT OF ACTIVITIES

**YEAR ENDED DECEMBER 31, 2009**

		Program Revenues		Governmental Activities
	Expenses	Charges For Services	Operating Grants	Net <Expense> Revenue and Changes in Net Assets
<b>FUNCTIONS/PROGRAMS</b>				
Governmental Activities				
General Government	\$ ---	\$ ---	\$ ---	\$ ---
Public Safety	865,965	964,050	---	98,085
Public Works	---	---	---	---
Community Enrichment	---	---	---	---
Interest on Long-Term Debt	19,016	---	---	-19,016
Depreciation (Unallocated)	260,301	---	---	-260,301
Total Governmental Activities	\$ 1,145,282	\$ 964,050	\$ ---	\$ -181,232
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				\$ ---
Property Taxes, Levied for Debt Service				---
State of Michigan Aid, Unrestricted				---
Interest Earnings				187
Other				91,510
Total General Revenue				91,697
<b>CHANGE IN NET ASSETS</b>				-89,535
NET ASSETS - BEGINNING OF YEAR				495,239
<b>NET ASSETS - END OF YEAR</b>				<b>\$ 405,704</b>

See Accompanying Notes to Financial Statements.

# DEXTER AREA FIRE DEPARTMENT

## Fund Financial Statements

### BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2009

	General	Other Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Investments	\$ 29,699	\$ ---	\$ 29,699
Accounts Receivable	3,040	---	3,040
Due from Other Governmental Units	222,640	---	222,640
Due from Other Funds	---	---	---
Inventories	---	---	---
Prepaid Expenditures	24,007	---	24,007
<b>TOTAL ASSETS</b>	<b>\$ 279,386</b>	<b>\$ ---</b>	<b>\$ 279,386</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 14,458	\$ ---	\$ 14,458
Accrued Salaries and Withholdings	12,842	---	12,842
Due to Other Funds	---	---	---
Deferred Revenue	---	---	---
<b>TOTAL LIABILITIES</b>	<b>27,300</b>	<b>---</b>	<b>27,300</b>
<b>FUND BALANCES</b>			
Reserved for Inventories	---	---	---
Reserved for Future Purchases	---	---	---
Unreserved and Undesignated	252,086	---	252,086
<b>TOTAL FUND BALANCES</b>	<b>252,086</b>	<b>---</b>	<b>252,086</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 279,386</b>	<b>\$ ---</b>	<b>\$ 279,386</b>
<b>TOTAL GOVERNMENTAL FUND BALANCES</b>			<b>\$ 252,086</b>
Amounts reported for governmental activities in the statement of net assets are different because:			
- Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
Cost of the Capital Assets			\$ 1,441,863
Accumulated Depreciation			<u>-735,321</u>
			706,542
- Long-term Liabilities are not due and payable in the current period and are not reported in the fund.			
Loans Payable			-360,197
Compensated absences			<u>-179,098</u>
			-539,295
- Accrued interest is not included as a liability in governmental fund.			<u>-13,629</u>
			-552,924
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>			<b>\$ 405,704</b>

See Accompanying Notes to Financial Statements.

# STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

**YEAR ENDED DECEMBER 31, 2009**

	General	Other Funds	Totals
<b>REVENUE</b>			
Federal Grants	\$ ---	\$ ---	\$ ---
Property Taxes	---	---	---
State Grants	---	---	---
Governmental Revenue	964,050	---	964,050
Investment	187	---	187
Other	91,510	---	91,510
<b>TOTAL REVENUE</b>	<b>1,055,747</b>	<b>---</b>	<b>1,055,747</b>
<b>EXPENDITURES</b>			
General Government	---	---	---
Public Safety	918,866	---	918,866
Public Works	---	---	---
Recreational and Cultural	---	---	---
Debt Service	101,338	---	101,338
Capital Outlay	---	---	---
<b>TOTAL EXPENDITURES</b>	<b>1,020,204</b>	<b>---</b>	<b>1,020,204</b>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<b>35,543</b>	<b>---</b>	<b>35,543</b>
<b>OTHER FINANCING SOURCES</b>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>---</b>	<b>---</b>	<b>---</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>35,543</b>	<b>---</b>	<b>35,543</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>216,543</b>	<b>---</b>	<b>216,543</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 252,086</b>	<b>\$ ---</b>	<b>\$ 252,086</b>

See Accompanying Notes to Financial Statements.



# DEXTER AREA FIRE DEPARTMENT

## Fund Financial Statements

### RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2009

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 35,543

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-260,301	
Capital Outlay	---	
	<hr/>	-260,301

- Loan proceeds are included as other financing sources in the governmental funds, but not in the statement of activities ( where it increases long-term debt) ---

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 2,532

- Repayment of note and bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 79,790

- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds 

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52,901

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ -89,535

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

The accounting policies of the Department conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

**A. REPORTING ENTITY**

The Dexter Area Fire Department provides fire protection and rescue services to the Village of Dexter and the Townships of Webster, Dexter, and Lima, of Washtenaw County, Michigan operating under an intergovernmental service agreement. The Department is directed by a Board consisting of representatives from each of the participating governmental entities.

**B. BASIS OF PRESENTATION**

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

**Government-Wide Statements**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

# DEXTER AREA FIRE DEPARTMENT

## Notes to Financial Statements

### B. BASIS OF PRESENTATION (CONTINUED)

#### Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### GOVERNMENTAL FUND

General Fund - The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund.

### C. BUDGETS AND BUDGETARY ACCOUNTING

The General Fund is under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Department's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Department for these budgetary funds were adopted at the functional level.

### D. CASH EQUIVALENTS

The Department considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

### E. FINANCIAL INSTRUMENTS

The Department does not require collateral to support financial instruments subject to credit risk.

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## **F. FUND EQUITY**

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

## **G. CAPITAL ASSETS**

Capital assets, which include equipment and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Vehicles	5-20 years
Equipment	5-10 years

## **H. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

## **I. TOTAL COLUMNS ON COMBINED STATEMENTS**

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with United States generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

# DEXTER AREA FIRE DEPARTMENT

## Notes to Financial Statements

### J. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

#### A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Department, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Department is in compliance with State law regarding their cash deposits.

The Department maintains its cash deposits at one bank.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Department's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 29,699	\$ 30,699
Uninsured & Uncollateralized	---	---
Total Deposits	<u>\$ 29,699</u>	<u>\$ 30,699</u>

Deposits in transit and outstanding checks cause the differences between the book value and the bank carrying amounts.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department does have a policy for custodial credit risk, requiring diligence and prudence of investment officials when considering investments in obligations other than those of an agency of the United States. At year end, the Department had no investment securities that were uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Department's name.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Department's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the Department had no such investments.

Concentration of Credit Risk - The Department does limit the amount the Department may invest in any one issuer. The Department currently has no one investment which exceeds 20 percent of its total investments.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The Department restricts the amount of investments in foreign currency and, thus, at year end had no securities subject to foreign currency risk.

**NOTE 3 - ACCUMULATED FUND DEFICITS**

There were no accumulated fund deficits at December 31, 2009.

# DEXTER AREA FIRE DEPARTMENT

## Notes to Financial Statements

### NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Department's Governmental activities was as follows:

	Balance January 1, 2009	Additions	Disposals and Adjustments	Balance December 31, 2009
Capital assets being depreciated:				
Vehicles	\$ 1,585,526	\$ ---	\$ 321,926	\$ 1,263,600
Equipment	178,263	---	---	178,263
Subtotal	1,763,789	---	321,926	1,441,863
Accumulated depreciation:				
Vehicles	-696,586	-242,474	321,926	-617,134
Equipment	-100,360	-17,827	---	-118,187
Subtotal	-796,946	-260,301	321,926	-735,321
Net capital assets	\$ 966,843	\$ -260,301	\$ ---	\$ 706,542

Depreciation expense was not charged to activities as the Department considers its assets to impact multiple activities and allocation is not practical.

### NOTE 5 - EXPENDITURES IN EXCESS OF BUDGET

PA 621 of 1978, Sect. 186(1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Department's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Department for these budgetary funds are adopted at the activity level.

During the year ended December 31, 2009, there were no expenditures in excess of the amounts appropriated.

### NOTE 6 - LEASES

The Department leases a garage and office space from the Village of Dexter. The term of the lease is indefinite. The lease may be terminated when the Fire Department ceases to exist or at such time that the Village ceases to hold an interest in the Department. Rent is \$693.38 per month. Total lease expense for this lease was \$0 in 2009. The Department expects to be invoiced sometime in 2010.

The Department leases garage space from the Multi-Lakes Water and Sewer Authority for \$400 per month. Total lease expense was \$4,800 in 2009.

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**NOTE 7 - ACCUMULATED UNPAID BENEFITS**

Volunteer employees are paid annually for excess vacation and sick pay. Full-time employees are allowed to accumulate sick and vacation pay. The amount accrued at December 31, 2009 was \$179,098, and is included in Long-Term Debt.

**NOTE 8 - POST-EMPLOYMENT BENEFITS**

The Department provides no post-employment benefits to retirees.

**NOTE 9 - RISK MANAGEMENT**

The Department is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (worker's compensation). The Department has purchased commercial insurance for property loss, torts and workers' compensation claims, settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

**NOTE 10 - LONG-TERM DEBT**

The Department purchased a 2001 Pierce Dash Pumper Truck on March 7, 2001 for \$332,956. The truck was financed through Banc One Leasing Corporation. An initial payment of \$32,956 was made on March 7, 2001. Thereafter, annual payments of \$54,363.53 including interest at 5.7% were due beginning July 7, 2002 for seven years. The final three payments of this loan were refinanced in 2006. No future obligations exist.

The Department purchased a 2006 Pierce Dash Tanker Truck on May 2, 2006 for \$505,958. The truck was financed through Oshkosh Capital, and the financing included the 3 remaining payments on the 2001 Pierce Dash Pumper Truck purchase. The financing calls for 7 annual payments (beginning in March 2007) of \$101,337.85, including interest at 4.897%. Future annual obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 83,697.56	\$ 17,640.29	\$ 101,337.85
2011	87,796.56	13,541.29	101,337.85
2012	92,096.31	9,241.54	101,337.85
2013	96,606.64	4,731.21	101,337.85
	<u>\$ 360,197.07</u>	<u>\$ 45,154.33</u>	<u>\$ 405,351.40</u>



# **DEXTER AREA FIRE DEPARTMENT**

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## **REQUIRED SUPPLEMENTAL INFORMATION**

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**Budgetary Comparison Schedule****GENERAL FUND****YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
<b>REVENUE</b>				
Federal Grants	\$ ---	\$ ---	\$ ---	\$ ---
State Revenue	---	---	---	---
Governmental Revenue	964,050	964,050	964,050	---
Investment	1,100	1,100	187	-913
Other	400	400	91,510	91,110
Loan Proceeds	---	---	---	---
Transfers In	---	---	---	---
<b>TOTAL REVENUE</b>	<b>965,550</b>	<b>965,550</b>	<b>1,055,747</b>	<b>90,197</b>
<b>EXPENDITURES</b>				
General Government	---	---	---	---
Public Safety	845,450	935,882	918,866	17,016
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	101,400	101,400	101,338	62
Capital Outlay	17,200	4,500	---	4,500
Other Uses - Operating Transfers Out	---	---	---	---
<b>TOTAL EXPENDITURES</b>	<b>964,050</b>	<b>1,041,782</b>	<b>1,020,204</b>	<b>21,578</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	1,500	-76,232	35,543	111,775
<b>BUDGETARY FUND BALANCE - JANUARY 1, 2009</b>	216,543	216,543	216,543	---
<b>BUDGETARY FUND BALANCE - DECEMBER 31, 2009</b>	<b>\$ 218,043</b>	<b>\$ 140,311</b>	<b>\$ 252,086</b>	<b>\$ 111,775</b>

# DEXTER AREA FIRE DEPARTMENT

All Governmental Funds

## OTHER SUPPLEMENTAL INFORMATION

### COMPARATIVE BALANCE SHEET

DECEMBER 31, 2009 AND 2008

	2009	2008
<b>ASSETS</b>		
Cash	\$ 29,699	\$ 195,630
Accounts Receivable	3,040	19,241
Due from Other Governments	222,640	26,417
Prepaid Expenses	24,007	24,031
<b>TOTAL ASSETS</b>	<b>\$ 279,386</b>	<b>\$ 265,319</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 14,458	\$ 42,308
Accrued Payroll and Payroll Taxes	12,842	6,468
<b>TOTAL LIABILITIES</b>	27,300	48,776
<b>FUND BALANCE</b>	252,086	216,543
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 279,386</b>	<b>\$ 265,319</b>

**All Governmental Funds**

**COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND  
CHANGES IN FUND BALANCE**

**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>REVENUE</b>		
Grant Revenue	\$ 3,372	\$ 70,800
Governmental Revenue		
Village of Dexter	303,758	330,647
Township of Webster	310,795	273,834
Township of Dexter	239,253	227,248
Township of Lima	110,244	105,671
Investment Revenue	187	414
Miscellaneous Revenue	21,509	824
Insurance Reimbursements	66,629	20,154
<b>TOTAL REVENUE</b>	<b>1,055,747</b>	<b>1,029,592</b>
<b>OPERATING EXPENDITURES</b>		
Salaries	463,334	440,798
Professional Fees	12,913	8,475
Dues and Memberships	2,589	2,730
Payroll Taxes	34,811	34,028
Insurance	38,818	42,654
Benefits	163,613	142,974
Workers Compensation	18,064	17,478
Supplies	8,671	8,821
Quarters	1,911	2,754
Training	4,632	5,774
Equipment Rental	2,761	1,902
Utilities	6,234	4,277
Repairs and Maintenance	95,301	28,599
Building Rent	4,800	14,261
Gas, Oil and Fuel	15,395	23,248
Telephone	15,498	13,966
Dispatch	12,042	13,471
Clothing Allowance	5,864	82,782
Medical	493	3,123
Miscellaneous	11,122	834
Capital Outlay	---	29,429
Debt Service	101,338	101,338
<b>TOTAL EXPENDITURES</b>	<b>1,020,204</b>	<b>1,023,716</b>
<b>INCREASE IN FUND BALANCE</b>	<b>35,543</b>	<b>5,876</b>
FUND BALANCE - BEGINNING OF YEAR	216,543	210,667
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 252,086</b>	<b>\$ 216,543</b>

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

To the Township Board  
Dexter Area Fire Department

We have audited the financial statements of the governmental activities and each major fund of the Dexter Area Fire Department, as of and for the year ended December 31, 2009, which collectively comprise the Dexter Area Fire Department's basic financial statements and have issued our report thereon dated March 2, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Dexter Area Fire Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Dexter Area Fire Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Dexter Area Fire Department's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Dexter Area Fire Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Dexter Area Fire Department's financial statements that are more than inconsequential will not be prevented or detected by the Dexter Area Fire Department's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

The Department does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record changes in capital assets and to present required financial statement disclosures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Dexter Area Fire Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dexter Area Fire Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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.

This report is intended solely for the information and use of management, the Fire Department, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake PC  
Certified Public Accountant

March 2, 2010

**Karl L. Drake, P.C.**  
**Certified Public Accountant**

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**3775 Kimmel Road**  
**Horton, Michigan 49246**

**(517) 937-9333 Phone / 563-2552 Fax**  
**Email: kdrakecpa@gmail.com**

March 2, 2010

To the Board of Directors of  
Dexter Area Fire Department

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Dexter Area Fire Department for the year ended December 31, 2009, and have issued our report thereon dated March 2, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 5, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements, prepared by management with your oversight, are fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planned matters on March 2, 2010.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Dexter Area Fire Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial

statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statement was:

Management's estimate of the useful lives of its fixed assets is based on historical information. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of insured cash in Note 2 to the financial statements.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 2, 2010.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Dexter Area Fire Department and management of Dexter Area Fire Department and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Karl L. Drake". The signature is written in black ink and is positioned below the closing "Very truly yours,".

Karl L. Drake, P.C.