

**Watervliet Joint Fire Board
Berrien County, Michigan**

Financial Report

March 31, 2009

RENDEL ELIE
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ASSOCIATES PLC
CERTIFIED PUBLIC ACCOUNTANTS

Watervliet Joint Fire Board

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Independent Auditors' Report

Board of Trustees
Watervliet Joint Fire Board
Watervliet, Michigan

We have audited the accompanying basic financial statements of the Watervliet Joint Fire Board as of March 31, 2009 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the management of the Watervliet Joint Fire Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Watervliet Joint Fire Board as of March 31, 2009 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Watervliet Joint Fire Board. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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Independent Auditors' Report (continued)

The management discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Watervliet Joint Fire Board. We did not examine this data and, accordingly, do not express an opinion thereon.

Rendel Elie & Associates

RENDEL ELIE & ASSOCIATES, PLC
CERTIFIED PUBLIC ACCOUNTANTS

September 28, 2009

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**Watervliet Joint Fire Board
Management's Discussion and Analysis
March 31, 2009**

Using this Annual Report

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Fire Board:

- The first column of the financial statements includes information on the Fire Board's General Fund under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Fire Board's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Fire Board's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Fire Board as a whole and present a longer-term view of the Fire Board's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

**Watervliet Joint Fire Board
Management's Discussion and Analysis
March 31, 2009**

Condensed Financial Information

The table below compares key financial information as of March 31, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Assets:		
Current assets	\$ 389,028	\$ 295,915
Non-current assets	<u>745,448</u>	<u>758,088</u>
Total assets	1,134,476	1,054,003
Liabilities:		
Current liabilities	19,729	17,146
Non-current liabilities	<u>226,000</u>	<u>245,000</u>
Total liabilities	245,729	262,146
Net assets:		
Invested in capital, net of related debt	519,448	513,088
Unrestricted	<u>369,299</u>	<u>278,769</u>
Total net assets	<u>\$ 888,747</u>	<u>\$ 791,857</u>
Revenue:		
Property taxes	\$ 291,396	\$ 281,850
Local unit contributions	20,762	26,282
Grant revenue	-	13,536
Donations	3,608	2,000
In-kind donations	2,577	4,500
Charges for services	1,530	4,630
Other	<u>6,054</u>	<u>5,535</u>
Total revenue	325,927	338,333
Expenses	<u>229,037</u>	<u>228,374</u>
Change in net assets	<u>\$ 96,890</u>	<u>\$ 109,959</u>

**Watervliet Joint Fire Board
Management's Discussion and Analysis
March 31, 2009**

The Fire Board as a Whole

- The Fire Board's net assets increased by \$96,890 compared to \$109,959 the prior year. The primary reason for the decrease is due to a decrease in grant revenue.
- The Fire Board's primary source of revenue is from property taxes, which represents 89% of the current year revenue and 84% of the prior year revenue. In August 2006, the Township of Watervliet passed an additional tax of 1 mill effective for the period of 2007 through 2010, raising an additional estimated annual tax of \$106,606.
- Personnel costs continue to be a significant expense of the Fire Board, representing 25% of the current year expenses and 27% of the prior year expenses.

Capital Asset and Debt Administration

The Fire Board continues to make payments to Watervliet Township for the construction of the addition to the fire station. Final payment on this loan is scheduled to be paid on September 1, 2015.

The financial statements include an accrual for a MIOSHA citation that is currently being contested.

Capital assets increased by \$61,876 for the acquisition of equipment.

Fire Board Budgetary Highlights

Over the course of the year, the Fire Board amended the budget to take into accounts events that occurred during the year. The most significant amendments occurred in repairs and maintenance, supplies and capital outlay.

Budget variances included property taxes and other revenue received during the year, personnel, repairs and maintenance, capital outlay and debt service expenditures.

Contacting the Fire Board's Management

This financial report is intended to provide a general overview of the Fire Board's finances and to show the Fire Board's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Fire Board treasurer, David Brinker at the Watervliet Fire Department.

Watervliet Joint Fire Board
Governmental Fund Balance Sheet / Statement of Net Assets
March 31, 2009

	General Fund Modified <u>Accrual Basis</u>	<u>Adjustments</u>	Statement of <u>Net Assets</u>
Assets			
Cash	\$ 228,204	\$ -	\$ 228,204
Investments	123,103	-	123,103
Prepaid insurance	11,836	-	11,836
Due from other governmental units	22,885	-	22,885
Advances to employees	3,000	-	3,000
Capital assets, net	-	745,448	745,448
Total assets	<u>\$ 389,028</u>	<u>745,448</u>	<u>1,134,476</u>
Liabilities			
Accounts payable	\$ 9,389	-	9,389
Accrued wages and payroll taxes	10,340	-	10,340
Accrued MIOSHA liability		5,000	5,000
Long-term debt:			
Due within one year	-	26,000	26,000
Due after one year	-	195,000	195,000
Total liabilities	<u>19,729</u>	<u>226,000</u>	<u>245,729</u>
Fund Balance/Net Assets			
Fund balance - unreserved, undesignated	<u>369,299</u>	<u>(369,299)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 389,028</u>		
Net assets:			
Invested in capital assets, net of debt		524,448	524,448
Unrestricted		<u>364,299</u>	<u>364,299</u>
Total net assets		<u>\$ 888,747</u>	<u>\$ 888,747</u>

See auditors' report and notes to financial statements.

Watervliet Joint Fire Board
Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance /
Statement of Activities
Year Ended March 31, 2009

	General Fund Modified <u>Accrual Basis</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues:			
Property taxes:			
Township of Watervliet	\$ 237,806	\$ -	\$ 237,806
City of Watervliet	53,590	-	53,590
Receipts from other governmental units:			
Township of Bainbridge	20,762	-	20,762
Donations	3,608	-	3,608
In-kind donations	2,577	-	2,577
Charges for services	1,530	-	1,530
Other revenue	6,054	-	6,054
Total revenue	<u>325,927</u>	-	<u>325,927</u>
Expenditures:			
Personnel	58,541	-	58,541
Insurance	19,391	-	19,391
Repairs and maintenance	11,480	-	11,480
Utilities	10,924	-	10,924
Supplies	17,461	-	17,461
Professional services	4,706	-	4,706
Medical	496	-	496
Fuel	3,881	-	3,881
Education and training	4,789	-	4,789
Board fees	6,522	-	6,522
Dues and subscriptions	1,253	-	1,253
Capital outlay	61,876	(61,876)	-
Other charges	-	5,000	5,000
Debt service:			
Principal	24,000	(24,000)	-
Interest	10,077	-	10,077
Depreciation	-	74,516	74,516
Total expenditures	<u>235,397</u>	<u>(6,360)</u>	<u>229,037</u>
Excess of Revenue over Expenditures /			
Change in Net Assets	90,530	6,360	96,890
Fund Balance/Net Assets - beginning of year	<u>278,769</u>	<u>513,088</u>	<u>791,857</u>
Fund Balance/Net Assets - end of year	<u>\$ 369,299</u>	<u>\$ 519,448</u>	<u>\$ 888,747</u>

See auditors' report and notes to financial statements.

Watervliet Joint Fire Board
Notes to Financial Statements
March 31, 2009

Summary of Significant Accounting Policies

Reporting Entity

The Watervliet Joint Fire Board is a joint venture between the City of Watervliet and the Township of Watervliet. The purpose of the Fire Board is to operate, maintain, provide and supervise fire service. The Fire Board operates under a Board of Trustees and consists of members appointed by the City and Township.

The Fire Board is defined as a governmental unit under criteria set forth by AICPA'S Audits of State and Local Governmental Units (ASLGU). These criteria include; a Board of Trustees consisting of representative members appointed or elected from the governmental units served and, the power to enact and enforce a tax levy.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity.

The accounting policies of the Watervliet Joint Fire Board conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion an Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Fire Board's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Fire Board's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements, including notes to the financial statements.

**Watervliet Joint Fire Board
Notes to Financial Statements
March 31, 2009**

Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Fire Board's basic financial statements include both government-wide (reporting the Fire Board as a whole) and fund financial statements (reporting the Fire Board's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resource 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 flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Fire Board's net assets are reported in four parts – invested in capital assets; designated net assets; restricted net assets; and unrestricted net assets.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resource 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 Fire Board considers revenue to be available if they are collected within ninety 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 claims and judgments, are recorded only when payment is due.

Property taxes 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 collected.

**Watervliet Joint Fire Board
Notes to Financial Statements
March 31, 2009**

Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Fire Board reports only one major governmental fund, the General Fund.

Financial Statement Amounts

Bank Deposits and Investments – The Fire Board has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables – Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The Fire Board receives an advance from the Berrien County Revolving Fund for delinquent property taxes. The County collects the delinquent property taxes on behalf of the Fire Board.

Capital Assets – Capital assets are defined by the Fire Board as assets with an initial cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	40-50 years
Furniture and equipment	5-7 years
Vehicles	5-20 years

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 statement of net assets.

**Watervliet Joint Fire Board
Notes to Financial Statements
March 31, 2009**

Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Property Taxes –

Township of Watervliet – In November of 2002, the electors of the Township of Watervliet approved a .9803 millage levy on the taxable property in the Township. The levy was renewed at 1 mill and an additional 1 mill was approved in August of 2006 and both will expire in 2010.

City of Watervliet – On July 15, 2004, the electors of the City of Watervliet approved a 2 millage levy on the taxable property in the City. The levy was renewed in August of 2006 and will expire in 2009.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period. Actual results could differ from those estimates.

Budget Information

The annual budget is prepared by the Fire Board Director and adopted by the Fire Board of Trustees; subsequent amendments are approved by the Fire Board of Trustees. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (combined statement of revenue, expenditures and changes in fund balances – budget and actual – general fund types) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a line item basis; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. A comparison of the actual results of operations, as adopted by the Fire Board, is presented in these financial statements.

**Watervliet Joint Fire Board
Notes to Financial Statements
March 31, 2009**

Budget Information – (Continued)

During the year, the Fire Board incurred expenditures that were in excess of budget by more than \$5,000 in the following category:

	<u>Budget</u>	<u>Actual</u>
Interest	\$ 5,000	\$ 10,077

Deposits and Investments

The Fire Board has designated two banks for the deposit of its funds. The investment policy adopted by the Fire Board is in accordance with Public Act 196 of 1997 and has authorized investments as authorized by state statute, including bonds, CD's, commercial paper, repurchase agreements, and mutual fund accounts. The Fire Board's deposits and investment policies are in accordance with statutory authority.

Capital Assets

Capital asset activity was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and improvements	\$ 20,179	\$ -	\$ -	\$ 20,179
Building under capital lease	521,118	-	-	521,118
Vehicles	527,127	34,789	-	561,916
Equipment	<u>488,288</u>	<u>27,087</u>	-	<u>515,375</u>
Total	1,556,712	61,876	-	1,618,588
Accumulated depreciation	<u>(798,624)</u>	<u>(74,516)</u>	-	<u>(873,140)</u>
Net book value	<u>\$ 758,088</u>	<u>\$ (12,640)</u>	<u>\$ -</u>	<u>\$ 745,448</u>

Long-term Debt

Debt service requirements - On July 12, 2000, the Fire Board entered into an agreement to finance the construction of the building addition. The following is a summary of changes in long-term debt for the year ended March 31, 2009:

	<u>Interest Rate</u>	<u>Principal Maturity</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance</u>	<u>Due Within One Yr.</u>
Capital lease	4.325%	2015	<u>\$245,000</u>	<u>\$ -</u>	<u>\$ 24,000</u>	<u>\$221,000</u>	<u>\$ 26,000</u>

Watervliet Joint Fire Board
Notes to Financial Statements
March 31, 2009

Risk Management

The Fire Board is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Fire Board has purchased commercial insurance for property, liability and workers' compensation.

The Fire Board estimates the liability for a citation by Michigan Occupational Safety and Health Administration, for safety standard violations incurred during the year is \$5,000. The claim has not been paid and is currently being appealed by the Fire Board.

Subsequent Events

Grant award – In April 2009, the Fire Board was awarded a federal grant to be administered by the Michigan Department of Natural Resources. It is a matching grant in which the Fire Board will be reimbursed for half of the expenditures for firefighting gear up to \$7,000.

Service area – Starting in October 2009, the Watervliet Fire Department will increase their coverage of Bainbridge Township without any extra charge. In addition, the Department will do fire-charge billing on the township's behalf.

Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Fire Board's governmental fund differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance.

**Watervliet Joint Fire Board
Notes to Financial Statements
March 31, 2009**

Reconciliation of Fund Financial Statements to Government-wide Financial Statements (Continued)

The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified Accrual Basis	\$ 369,299
Differences in the statement of net assets:	
Capital assets are not financial resources and are not reported in the funds	745,448
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(226,000)</u>
Net Assets of General Fund – Full Accrual Basis	<u>\$ 888,747</u>
Net Change in Fund Balances – Modified Accrual Basis	\$ 90,530
Differences in the statement of net assets:	
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	61,876
Depreciation	(74,516)
Accrued liabilities are reported as an expenditure in the statement of activities, but not in the fund statements	(5,000)
Repayments of principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>24,000</u>
Change in Net Assets of General Fund – Full Accrual Basis	<u>\$ 96,890</u>

**Watervliet Joint Fire Board
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended March 31, 2009**

	<u>Originally Adopted Budget</u>	<u>Final Amended Budget</u>	<u>Actual Balances</u>	<u>Over (Under)</u>
Revenues:				
Property taxes:				
Township of Watervliet	\$ 230,638	\$ 230,638	\$ 237,806	\$ 7,168
City of Watervliet	53,000	53,000	53,590	590
Receipts from other governmental units:				
Township of Bainbridge	19,000	19,000	20,762	1,762
Donations	-	-	3,608	3,608
In-kind donations	-	-	2,577	2,577
Charges for services	3,000	3,000	1,530	(1,470)
Other revenue	-	-	6,054	6,054
Total revenue	<u>305,638</u>	<u>305,638</u>	<u>325,927</u>	<u>20,289</u>
Expenditures:				
Personnel	69,400	69,095	58,541	(10,554)
Insurance	20,000	20,514	19,391	(1,123)
Repairs and maintenance	28,500	23,701	11,480	(12,221)
Utilities	10,000	10,833	10,924	91
Supplies	21,400	22,123	17,461	(4,662)
Professional services	4,000	4,706	4,706	-
Medical	4,500	4,500	496	(4,004)
Fuel	3,000	3,874	3,881	7
Education and training	8,500	8,411	4,789	(3,622)
Board fees	6,600	6,880	6,522	(358)
Dues and subscriptions	1,300	1,300	1,253	(47)
Miscellaneous	938	938	-	(938)
Capital outlay	93,000	94,263	61,876	(32,387)
Debt service:				
Principal	29,500	29,500	24,000	(5,500)
Interest	5,000	5,000	10,077	5,077
Total expenditures	<u>305,638</u>	<u>305,638</u>	<u>235,397</u>	<u>(70,241)</u>
Excess of Revenue over Expenditures / Change in Net Assets	-	-	90,530	90,530
Fund Balance/Net Assets - beginning of year	<u>278,769</u>	<u>278,769</u>	<u>278,769</u>	-
Fund Balance/Net Assets - end of year	<u>\$ 278,769</u>	<u>\$ 278,769</u>	<u>\$ 369,299</u>	<u>\$ 90,530</u>

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September 28, 2009

Watervliet Joint Fire Board
217 W Pleasant Street, PO Box 558
Watervliet, MI 49098

We have audited the financial statements of the Watervliet Joint Fire Board for the year ended March 31, 2009, and have issued our report thereon dated September 28, 2009. 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 September 25, 2007, 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 on April 18, 2009 about planning matters.

Significant Audit Findings

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Watervliet Joint Fire Board are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

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.

Audit Adjustments

Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). We proposed numerous adjusting journal entries, which in our judgment, had a material effect on the Watervliet Joint Fire Board's financial reporting process.

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 September 28, 2009.

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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 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.

Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of the Watervliet Joint Fire Board and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Rendel Elie & Associates

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Audit Results Communication

September 28, 2009

Watervliet Joint Fire Board
217 W Pleasant Street, PO Box 558
Watervliet, MI 49098

We completed our audit of the financial statements of the Watervliet Joint Fire Board for the year ended March 31, 2009 and expect to issue our report thereon dated September 28, 2009. The following comments summarize the results of our audit:

In planning and performing our audit of the financial statements of the Watervliet Joint Fire Board, in accordance with auditing standards generally accepted in the United States of America, we considered Watervliet Joint Fire Board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fire Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fire Board's internal control.

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

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 a combination of control deficiencies, that adversely affects the organization'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 organization's financial statements that is more than inconsequential will not be prevented or detected by the Fire Board's internal control.

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A material weakness is a significant deficiency, or a 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 internal control. We believe the following deficiency constitutes a material weakness:

Controls over Financial Reporting Process - The Fire Board has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, non-cash donations and grants. This year, as in the past, the auditing firm has recorded audit adjustments at the time of the audit. The computerized accounting software was not complete with all the manual accounting transactions and delayed the completion of the audit. This service is allowable under current auditing standards and ethical guidelines, and may be the most efficient and effective method for preparation of the Fire Board's financial statements. However, reliance on your *external* auditors cannot by definition be considered a part of the Fire Board's *internal* controls. We would recommend that an individual is responsible for the accounting records and the financial reports from the accounting software are presented to the board monthly to keep your accounting records complete and current.

Repeated comments from prior years, not considered to be deficiencies in internal controls:

Budget amendments - The budget process includes a great deal of estimating and it is not unusual for significant variances to develop throughout the year. We recommend that the board continue to monitor actual financial results to the original budgets and amend the budget as needed. The budget was not amended this year for all of the interest scheduled and paid.

Insurance coverage - The insurance coverage should be routinely compared to the asset listing for adequate coverage. You may want to increase the coverage for equipment as the insurance coverage is less than the cost of the equipment used in your organization.

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We wish to express our appreciation for the friendliness and cooperation extended to us during this audit.

Sincerely,

Rendel Elie & Associates

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