

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Marathon Area Fire Authority	County Lapeer
Fiscal Year End December 31, 2007	Opinion Date May 15, 2008	Date Audit Report Submitted to State 7/22/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>	COMMUNICATION w/ THOSE CHARGED w/ GOVERNANCE.	
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Lehn L. King, C.P.A.			Telephone Number 989-635-3113	
Street Address 3531 Main Street			City Marlette	State MI
			Zip 48453	
Authorizing CPA Signature 		Printed Name Lehn L. King, C.P.A.		License Number A248781

# *Marathon Area Fire Authority*

**Lapeer County, Michigan**

Audited Financial Report  
December 31, 2007

*Lehn L. King*

Certified Public Accountant  
Marlette, Michigan

**Marathon Area Fire Authority**  
 Annual Financial Report  
 For The Fiscal Year Ended December 31, 2007

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Phone 989-635-3113  
Fax 989-635-5580

Members of the Township Board  
**Marathon Area Fire Authority**  
Lapeer County, Michigan

**Independent Auditor's Report**

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marathon Area Fire Authority, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Marathon Area Fire Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Marathon Area Fire Authority, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that the audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Marathon Area Fire Authority, Michigan as of December 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. I 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, I did not audit the information and express no opinion on it.

The Audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marathon Area Fire Authority, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the Marathon Area Fire Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2003.

*Lehn King*

Lehn L. King  
Certified Public Accountant

May 15, 2008

# Marathon Area Fire Authority

## Statement of Net Assets (Deficit)

December 31, 2007

	<b><u>Primary Government Governmental Activities</u></b>
<b><u>Assets</u></b>	
Cash & Cash Equivalents	\$ 144,101.17
Capital Assets (Net of Accumulated Depreciation)	<u>595,584.35</u>
Total Assets	739,685.52
<b><u>Liabilities</u></b>	
Accounts Payable	\$ 5,266.00
Accrued Wages	<u>11,443.86</u>
<b><u>Total Liabilities</u></b>	<b><u>16,709.86</u></b>
<b>Net Assets (Deficit)</b>	
Invested in Capital Assets - Net of Related Debt	595,584.35
Unrestricted	<u>127,391.31</u>
<b><u>Total Net Assets (Deficit)</u></b>	<b><u>\$ 722,975.66</u></b>

The notes are an integral part of the statements.

# Marathon Area Fire Authority

Statement of Activities  
For the Year Ended December 31, 2007

	Program Revenues			Net (Expense) Revenue & Changes in Net Assets	
Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Governmental Activities	
<b>Functions/Programs</b>					
Primary Government:					
Governmental Activities:					
Public Safety	\$ 187,252.95	\$ 38,330.00	\$ -	\$ 33,286.00	\$ (115,636.95)
Interest on Long-Term Debt	-	-	-	-	-
<u>Total Governmental Activities</u>	<u>\$ 187,252.95</u>	<u>\$ 38,330.00</u>	<u>\$ -</u>	<u>\$ 33,286.00</u>	<u>(115,636.95)</u>
 <b>General Revenues:</b>					
Special Assessments					\$ 141,540.00
Interest					3,033.91
Other Revenues					3,671.63
Total General Revenues, Special Items & Transfers					<u>148,245.54</u>
 <b>Change in Net Assets</b>					 32,608.59
<b>Net Assets (Deficit) - Beginning of Year</b>					<u>690,367.07</u>
 <b>Net Assets (Deficit) - End of Year</b>					<u>\$ 722,975.66</u>

The notes are an integral part of the statements.

# Marathon Area Fire Authority

Governmental Funds

Balance Sheet

December 31, 2007

	<b>Fire Authority Fund</b>	<b>Total Governmental Funds</b>
<b><u>Assets</u></b>		
Cash & Certificates of Deposit	\$ 144,101.17	\$ 144,101.17
<u>Total Assets</u>	<u>\$ 144,101.17</u>	<u>\$ 144,101.17</u>
<b><u>Liabilities &amp; Fund Equity</u></b>		
<b><u>Liabilities</u></b>		
Accounts Payable	\$ 5,266.00	\$ 5,266.00
Accrued Wages	11,443.86	11,443.86
<u>Total Liabilities</u>	<u>16,709.86</u>	<u>16,709.86</u>
<b><u>Fund Equity</u></b>		
Fund Balance		
- Designated for Capital Improvements	100,000.00	100,000.00
- Unreserved & Undesignated	27,391.31	27,391.31
<u>Total Fund Balances</u>	<u>127,391.31</u>	<u>127,391.31</u>
<u>Total Liabilities &amp; Fund Equity</u>	<u>\$ 144,101.17</u>	<u>\$ 144,101.17</u>

The notes are an integral part of the statements.

# Marathon Area Fire Authority

Governmental Funds

Reconciliation of Fund Balances to the  
Statement of Net Assets (Deficit)

For The Year Ended December 31, 2007

**Total Fund Balances for Governmental Funds** \$ 127,391.31

Amounts reported for Governmental Activities in the Statement of  
Net Assets (Deficit) are different because:

Capital Assets used in Governmental Activities are not Financial  
Resources and are not reported in the Funds

595,584.35

**Net Assets of Governmental Activities**

\$ 722,975.66

The notes are an integral part of the statements.

**Marathon Area Fire Authority**  
 Governmental Funds  
 Statement of Revenues, Expenditures, And Changes  
 in Fund Balances  
 For The Year Ended December 31, 2007

<u>Revenues</u>	<u>Fire Authority Fund</u>	<u>Total Governmental Funds</u>
Special Assessments	\$ 141,540.00	\$ 141,540.00
Standby Fees	25,000.00	25,000.00
Charges for Fire Runs	13,330.00	13,330.00
Interest Earnings	3,033.91	3,033.91
Grant Proceeds	33,286.00	33,286.00
Miscellaneous	3,671.63	3,671.63
<u>Total Revenues</u>	<u>219,861.54</u>	<u>219,861.54</u>
<u>Expenditures</u>		
Public Safety	123,575.07	123,575.07
Capital Outlay	133,345.22	133,345.22
Debt Service	-	-
<u>Total Expenditures</u>	<u>256,920.29</u>	<u>256,920.29</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	(37,058.75)	(37,058.75)
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In (Out)	-	-
<b>Net Change in Fund Balances</b>	(37,058.75)	(37,058.75)
<b><u>Fund Balance - Beginning of Year</u></b>	<u>164,450.06</u>	<u>164,450.06</u>
<b><u>Fund Balance - End of Year</u></b>	<u>\$ 127,391.31</u>	<u>\$ 127,391.31</u>

The notes are an integral part of the statements.

# Marathon Area Fire Authority

Governmental Funds

Reconciliation of Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities

For The Year Ended December 31, 2007

**Net Change in Fund Balances - Total Governmental Funds** \$ (37,058.75)

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 capitalized and  
allocated over their estimated useful lives as Depreciation 133,345.22

Depreciation is an Expenditure for the Statement of  
Activities, but is not reported in the Governmental Funds (63,677.88)

**Change in Net Assets of Governmental Activities** \$ 32,608.59

# Marathon Area Fire Authority

Notes to the Financial Statements  
For The Year Ended December 31, 2007

The accounting methods and procedures adopted by the Fire Authority of Marathon Area Fire Authority, Lapeer County, Michigan, conform to generally accepted accounting principles as applied to executive entities. The following notes to the financial statements are an integral part of the Fire Authority's Comprehensive Annual Financial Report.

## 1. Summary of Significant Accounting Policies

### Financial Reporting Entity

The Marathon Area Fire Authority was created in November of 1993 to provide fire protection to the residents of Marathon Township, the Village of Columbiaville, and the Village of Otter Lake. The agreement was adopted pursuant to authority granted the Township under P.A. 7 of 1967, known as the Urban Cooperation Act of 1967.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) in its Statement No. 14, the Marathon Area Fire Authority is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by GASB for determining the various organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, fiscal independence, financial accountability, imposition of will and financial benefit or burden. On this basis, the financial statements of other governmental organizations are not included in the financial statements of the Marathon Area Fire Authority.

**Component Units** - In accordance with generally accepted accounting principles, there are no component units of Government required to be included in the Financial Reporting Entity either as blended component units or discretely presented component units.

### Government-wide and Fund Statements Fund

The Government-wide Financial Statements (i.e., the Statement of Net Assets (Deficit) and the Statement of Activities) report information on all the nonfiduciary activities of the Fire Authority (the primary government). The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, and Fiduciary Funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Fire Authority reports the following major governmental funds:

**Fire Authority Fund** – This fund accounts for resources devoted to financing the general services that the Fire Authority performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the Fire Authority are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

# Marathon Area Fire Authority

Notes to the Financial Statements  
For The Year Ended December 31, 2007

## Measurement Focus and Basis of Accounting

The Government-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. 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, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenues, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the Fire Authority. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments are recorded only when payment is due.

**Cash** - The Fire Authority does not pool cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the Fire Authority's investments.

**Investments** - Debt securities are valued at cost since it is generally the policy of the Fire Authority to hold such investments until they mature.

**Vacation, Sick Leave, & Other Compensated Absences** - The Fire Authority does not have any contracts or agreements with its employees or elected officials which require the payment of compensation during absence from duty nor do any such benefits vest to the right of the employee or elected official.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Government-wide and Fund Financial Statements.

**Capital Assets** - Capital assets, which include buildings and equipment, are reported in the applicable governmental column in the Government-wide Financial Statements. Capital assets are defined by the Fire Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one 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.

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

Buildings & Building Improvements	35 to 40 years
Machinery & Equipment	3 to 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, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding 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 and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

# Marathon Area Fire Authority

Notes to the Financial Statements  
For The Year Ended December 31, 2007

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. 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.

**Fund Equity** - 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.

**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.

## Accounting Changes

**GASB Statement No. 34** – Effective January 1, 2003, the Fire Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the Fire Authority's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Fire Authority's overall financial position and results of operations has been included.
- Government-wide Financial Statements (statement of net assets (deficit) and statement of activities) prepared using full accrual accounting for all of the Fire Authority's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets (deficit) includes assets not previously accounted for by the Fire Authority. In addition, the governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

# Marathon Area Fire Authority

Notes to the Financial Statements  
For The Year Ended December 31, 2007

## 2. Stewardship, Compliance, and Accountability

### Budgetary Information

The Fire Authority is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Prior to January 1, the Fire Authority Chief Administrative Officer submits to the Fire Authority Board a proposed operating budget for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted.
4. The budget is used by the Fire Authority Board as a management tool during the year for all budgetary funds. The budgets are adopted on a cash basis which is not consistent with generally accepted accounting principles. Budgetary control is exercised at the departmental level.
5. Budget amounts are as originally adopted, and as amended by the Fire Authority Board.

In the body of the financial statements, the Fire Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budget was adopted to the department level. Budgets for these funds are shown in the supplemental schedules to this statement.

During the year ended December 31, 2007, the Fire Authority incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Vehicle Expense	\$ 7,500	\$ 8,441	\$ 941
Equipment Repairs & Supplies	15,000	19,552	4,552

# Marathon Area Fire Authority

Notes to the Financial Statements  
For The Year Ended December 31, 2007

### 3. Cash and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit 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 Fire Authority has designated two banks for the deposit of Fire Authority funds. The Board has authorized investment in bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Fire Authority's deposits are in accordance with statutory authority. All cash deposits and investments of the Fire Authority are held by the Fire Authority in the Fire Authority's name.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Total Primary Government</u>
Cash & Cash Equivalents	\$ 144,101	\$ 144,101

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking & Savings Accounts, CDs)	\$ 144,101

The bank balance of the primary government's deposits is \$144,101, of which \$144,101 is covered by federal depository insurance and \$-0- is collateralized with U.S. Treasury securities held by the pledging financial institution's trust department in the Fire Authority's name.

### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Fire Authority's deposits may not be returned to it. The Fire Authority does not have a deposit policy for custodial credit risk. At year end, the Fire Authority did not have any bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Fire Authority's investment policy does not further limit its investment choices.

At year end, there were no investments reported in the basic financial statements

# Marathon Area Fire Authority

Notes to the Financial Statements  
For The Year Ended December 31, 2007

## 4. Interfund Receivables, Payables, & Transfers

There was no interfund activity.

## 5. Capital Assets

Capital Assets activity of the Fire Authority's governmental activities (and business-type) was as follows:

	<u>Balance</u> <u>January 1, 2007</u>	<u>Additions</u>	<u>Disposals &amp;</u> <u>Adjustments</u>	<u>Balance</u> <u>December 31, 2007</u>
<b>Governmental Activities:</b>				
Capital Assets Being Depreciated:				
Buildings & Improvements	\$ 32,790	\$ 25,883	\$ -	\$ 58,673
Machinery & Equipment	852,464	107,462	-	959,926
Office Equipment	3,388	-	-	3,388
Total Capital Assets being Depreciated	<u>888,642</u>	<u>133,345</u>	<u>-</u>	<u>1,021,987</u>
Accumulated Depreciation:				
Buildings & Improvements	2,870	1,353	-	4,223
Machinery & Equipment	356,467	62,325	-	418,792
Office Equipment	3,388	-	-	3,388
Total Accumulated Depreciation	<u>362,725</u>	<u>63,678</u>	<u>-</u>	<u>426,403</u>
<b>Net Capital Assets</b>	<u>\$ 525,917</u>	<u>\$ 69,667</u>	<u>\$ -</u>	<u>\$ 595,584</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
Public Safety	<u>\$ 63,678</u>
Total Governmental Activities	<u>\$ 63,678</u>

## 6. Long -Term Debt

The Fire Authority has no Long-Term Debt

## 7. Deficit Fund Balance or Retained Earnings Balances of Individual Funds

None

## 8. Post Employment Benefits

The Fire Authority does not provide any post employment benefits.

# Marathon Area Fire Authority

Notes to the Financial Statements  
For The Year Ended December 31, 2007

## 9. Risk Management

The Fire Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees. The Fire Authority has purchased commercial insurance for the various risks of loss stated above.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through commercial insurance during the past year.

## 10. Leases of Fire Halls and Equipment

The Fire Authority has entered into a lease agreement with the Village of Columbiaville whereby the Fire Authority has leased the land and building comprising the Village of Columbiaville fire hall and all active fire trucks, equipment, machinery, apparatus, uniforms, clothing, furnishings and personal property of the Columbiaville Fire Department. The lease expires on December 31, 2019 and calls for an annual lease payment of one (\$1.00) dollar.

The Fire Authority has also entered into a lease agreement with the Village of Otter Lake whereby the Fire Authority has leased the land and building comprising the Village of Otter Lake fire hall and all fire trucks, equipment, machinery, apparatus, uniforms, clothing, furnishings and personal property of the Village of Otter Lake Fire Department. The lease expires on December 31, 2019 and calls for an annual lease payment of one thousand nine hundred and one (\$1,901.00) dollars for each of the first ten years and an annual lease payment of one (\$1.00) dollar thereafter.

## 11. Reserves, Designations, and Restrictions of Fund Balance and Net Assets

*Reserves*- Reserved fund balances are legal restrictions on fund balance imposed by sources outside the Fire Authority, which typically involve donor restrictions for specific purposes on Fire Authority financial resource.

*Designations* - Designated fund balances are restrictions imposed by the Fire Authority on the use of fund balance for specific purposes.

*Restricted Net Asset* - Restricted Net Assets on the Statement of Net Assets are similar to reserved fund balance in that a portion of net assets are legally restricted for a specific purpose as imposed by sources outside of the Fire Authority.

The schedule of reserved, designated and restricted fund balance and net assets is as follows:

	<u>Designated Fund Balance</u>	<u>Restricted Net Assets</u>
<b>Governmental Activities:</b>		
Capital Improvements	\$ 100,000	\$ -
	<u>\$ 100,000</u>	<u>\$ -</u>

The Fire Authority has Designated the budgeted Capital Outlay for 2008 as of December 31, 2007. The amount to be designated for Capital Improvements, which includes vehicle replacement and building improvements, is \$100,000.

## 12. Subsequent Events

The Marathon Area Fire Authority purchased two (2) fire trucks after the year ended December 31, 2007. One truck was purchased with a five percent matching grant. The total purchase price for the fire truck was \$174,400, with the Authority responsible for \$8,720. The second fire truck was purchased for \$174,736. The Authority paid \$69,500 as a down payment and financed the remaining \$105,236 through a lease purchase arrangement with Marathon Township. The Authority used a portion of the fund balance that had been designated for capital improvements for the fire truck purchases.

**Required Supplemental Information**

# Marathon Area Fire Authority

Required Supplemental Information

Budgetary Comparison Schedule

Fire Authority Fund

For The Year Ended December 31, 2007

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Amended Budget</b>
<b><u>Revenues</u></b>				
Special Assessments	\$ 139,000.00	\$ 139,000.00	\$ 141,540.00	\$ 2,540.00
Standby Fees	25,000.00	25,000.00	25,000.00	-
Charges for Fire Runs	15,000.00	15,000.00	13,330.00	(1,670.00)
Interest Earnings	500.00	500.00	3,033.91	2,533.91
Grant Proceeds	-	33,300.00	33,286.00	(14.00)
Miscellaneous	300.00	300.00	3,671.63	3,371.63
<b><u>Total Revenues</u></b>	<b>179,800.00</b>	<b>213,100.00</b>	<b>219,861.54</b>	<b>6,761.54</b>
<b><u>Expenditures</u></b>				
Fire Protection:				
Wages	68,888.00	69,888.00	52,383.34	17,504.66
Payroll Taxes	5,120.00	5,120.00	3,818.52	1,301.48
Building & Equipment Leases	2.00	2.00	2.00	-
Office Supplies	1,200.00	1,200.00	468.97	731.03
Vehicle Expense	7,500.00	7,500.00	8,440.57	(940.57)
Utilities	13,500.00	13,500.00	11,046.03	2,453.97
Insurance	31,600.00	30,250.00	19,502.00	10,748.00
Training	5,000.00	5,000.00	2,785.00	2,215.00
Professional Fees	2,000.00	2,000.00	1,097.50	902.50
Equipment Repairs & Supplies	15,056.00	15,000.00	19,552.16	(4,552.16)
Repairs & Maintenance - Buildings	4,000.00	4,000.00	2,224.04	1,775.96
Safety Promotion	800.00	1,050.00	934.00	116.00
Physicals	1,000.00	1,000.00	86.00	914.00
Dues & Subscriptions	1,200.00	1,200.00	936.90	263.10
Miscellaneous	1,510.00	1,510.00	298.04	1,211.96
Capital Outlay	60,500.00	141,500.00	133,345.22	8,154.78
Debt Service	-	-	-	-
<b><u>Total Expenditures</u></b>	<b>218,876.00</b>	<b>299,720.00</b>	<b>256,920.29</b>	<b>42,799.71</b>
<b><u>Excess Revenues Over (under) Expenditures</u></b>	<b>(39,076.00)</b>	<b>(86,620.00)</b>	<b>(37,058.75)</b>	<b>49,561.25</b>
<b>Fund Balance - Beginning of Year</b>	-	-	164,450.06	164,450.06
<b>Fund Balance - End of Year</b>	<b>\$ (39,076.00)</b>	<b>\$ (86,620.00)</b>	<b>\$ 127,391.31</b>	<b>\$ 214,011.31</b>

LEHN L. KING  
CERTIFIED PUBLIC ACCOUNTANT

3531 MAIN STREET  
MARLETTE, MICHIGAN 48453

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Phone 989-635-3113  
Fax 989-635-5580

May 15, 2008

**Marathon Area Fire Authority**  
4575 Pine Street, P.O. Box 457  
Columbiaville, Michigan 48421

To Members of the Board:

I 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 the Marathon Area Fire Authority for the year ended December 31, 2007, and have issued my report thereon dated May 15, 2008. Professional standards require that I provide you with the following information related to my audit.

**My Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in my engagement letter dated September 25, 2007, my 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. My audit of the financial statements does not relieve you or management of your responsibilities.

**Planned Scope and Timing of the Audit**

I performed the audit according to the planned scope and timing previously communicated to you.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Marathon Area Fire Authority 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 ending December 31, 2007. I 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.

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

I encountered no significant difficulties in dealing with management in performing and completing my audit.

#### **Audit Adjustments (Corrected and Uncorrected Misstatements)**

Professional standards require me 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 my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

#### *Management Representations*

I have requested certain representations from management that are included in the management representation letter dated May 15, 2008.

#### *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, professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

I 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 my professional relationship and my responses were not a condition to my retention.

### ***Communication of Significant Deficiencies and Material Weaknesses***

In planning and performing my audit of the financial statements, as of and for the year ended December 31, 2007, 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, I considered the Marathon Area Fire Authority's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, I do not express an opinion on the effectiveness of the governmental unit's internal control.

My 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, I identified certain deficiencies in internal control that I consider to be significant deficiencies and other deficiencies that I 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I considered the following deficiency to be a significant deficiency in internal control:

**Segregation of Duties** - The relative size of the Marathon Area Fire Authority limits the extent to which the officials can segregate duties and responsibilities which impairs the basic premise that no one individual should have access to both the physical assets and the related accounting records (or all recording tasks of a transaction from inception to completion).

The Fire Authority has implemented mitigating controls to strengthen internal controls and the segregation of duties; however, it must be recognized that the risk of intentional or unintentional errors could be made and not detected in a timely manner.

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 Marathon Area Fire Authority's internal control.

My 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, I believe the significant deficiency described above to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Marathon Area Fire Authority's financial statements are free of material misstatement, I 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, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Sincerely,

*Lehn King*

Lehn L. King  
**Certified Public Accountant**