

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 CHELSEA AREA FIRE AUTHORITY	County WASHTENAW
Fiscal Year End 2/28/2007	Opinion Date 8/22/2007	Date Audit Report Submitted to State 8/23/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

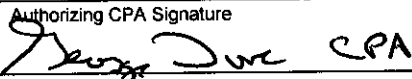
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name) DOVE & HICKEY, P.L.C.		Telephone Number (517)796-8880
Street Address 209 E. WASHINGTON AVE., SUITE 255		City JACKSON
		State MI
		Zip 49201
Authorizing CPA Signature 	Printed Name GEORGE DOVE	License Number 1101011397

CHELSEA AREA FIRE AUTHORITY
WASHTENAW COUNTY - MICHIGAN
FINANCIAL STATEMENTS
Year Ended February 28, 2007

TABLE OF CONTENTS

	<u>PAGE</u>
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS	1
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	2
Statement of Activities	3
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	4
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Statement of Net Assets	5
Statement of Revenue, Expenditures, and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities	7
Fiduciary Fund - Statement of Net Assets	8
Notes to Financial Statements	9 - 17
REQUIRED SUPPLEMENTAL INFORMATION:	
Budgetary Comparison Schedule - General Fund	18
Budgetary Comparison Schedule - Public Improvement Fund	19

Dove & Hickey, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

209 E. Washington Ave., Suite 255 • Jackson, Michigan 49201
Phone (517) 796-8880 • Fax (517) 796-8777

MEMBERS:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

GEORGE DOVE, C.P.A.
PAUL T. HICKEY, C.P.A.
NANNETTE M. SPONSLER, C.P.A.
ALLISON I. COLE, C.P.A.

INDEPENDENT AUDITOR'S REPORT

Authority Board
Chelsea Area Fire Authority
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund information of Chelsea Area Fire Authority as of and for the year ended February 28, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chelsea Area Fire Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund information of Chelsea Area Fire Authority as of February 28, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Chelsea Area Fire Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the financial statements.



August 22, 2007

CHELSEA AREA FIRE AUTHORITY
 GOVERNMENT-WIDE STATEMENT OF NET ASSETS
 Year Ended February 28, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS:</u>	
Cash and investments	\$ 372,006
Due from other governments	81,168
Prepaid expenses	4,231
Capital assets - net	<u>1,033,576</u>
Total assets	<u>1,490,981</u>
<u>LIABILITIES:</u>	
Accounts payable	23,097
Accrued liabilities	13,934
Accrued interest	2,223
Due to other governments	33,436
Vested employee benefits:	
Due in more than one year	23,279
Long-term debt:	
Due within one year	60,414
Due in more than one year	<u>539,690</u>
Total liabilities	<u>696,073</u>
<u>NET ASSETS:</u>	
Invested in capital assets, net of related debt	431,249
Unrestricted	<u>363,659</u>
Total net assets	<u>\$ 794,908</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended February 28, 2007

<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>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
GOVERNMENTAL ACTIVITIES:					
Public Safety	\$ <u>808,506</u>	\$ <u>23,937</u>	\$ <u>849,528</u>	\$ <u>125,000</u>	\$ <u>189,959</u>
Total governmental activities	\$ <u>808,506</u>	\$ <u>23,937</u>	\$ <u>849,528</u>	\$ <u>125,000</u>	<u>189,959</u>
GENERAL REVENUES:					
Investment earnings					1,380
Loss on sale of asset					(470)
Miscellaneous					<u>1,011</u>
Total general revenues					<u>1,921</u>
CHANGES IN NET ASSETS					191,880
NET ASSETS - BEGINNING OF YEAR					<u>603,028</u>
NET ASSETS - END OF YEAR					<u>\$ 794,908</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
GOVERNMENTAL FUNDS -
BALANCE SHEET
February 28, 2007

	<u>GENERAL FUND</u>	<u>PUBLIC IMPROVEMENT FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS:</u>			
Cash and investments	\$ 371,999	\$ 7	\$ 372,006
Due from other governments	81,168	-0-	81,168
Prepaid expenses	<u>4,231</u>	<u>-0-</u>	<u>4,231</u>
Total assets	<u>\$ 457,398</u>	<u>\$ 7</u>	<u>\$ 457,405</u>
 <u>LIABILITIES AND FUND BALANCES:</u>			
Liabilities:			
Accounts payable	\$ 23,097	\$ -0-	\$ 23,097
Accrued liabilities	13,934	-0-	13,934
Due to other governments	<u>33,436</u>	<u>-0-</u>	<u>33,436</u>
Total liabilities	<u>70,467</u>	<u>-0-</u>	<u>70,467</u>
Fund Balances:			
Reserved for:			
Fire trucks	45,116	-0-	45,116
Building	93,631	-0-	93,631
Unreserved/undesignated	<u>248,184</u>	<u>7</u>	<u>248,191</u>
Total fund balances	<u>386,931</u>	<u>7</u>	<u>386,938</u>
Total liabilities and fund balances	<u>\$ 457,398</u>	<u>\$ 7</u>	<u>\$ 457,405</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
RECONCILIATION OF FUND BALANCES ON THE
BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS -
GOVERNMENTAL FUNDS
February 28, 2007

Fund balances - total Governmental funds	\$ 386,938
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 therefore are not reported in the fund	1,033,576
Accrued interest payable is not included as a liability in governmental fund	(2,223)
Long-term liabilities not due and payable in the current period and not reported in the governmental fund:	
Capital leases	(600,104)
Vested employee benefits	<u>(23,279)</u>
Net assets of governmental activities	<u>\$ 794,908</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended February 28, 2007

	<u>GENERAL FUND</u>	<u>PUBLIC IMPROVEMENT FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:			
Local unit contributions for operations	\$ 847,663	\$ -0-	\$ 847,663
Charges for services	23,937	-0-	23,937
Interest	1,380	-0-	1,380
Contributions	1,865	-0-	1,865
Refunds and reimbursements	1,011	-0-	1,011
Other	<u>2,037</u>	<u>-0-</u>	<u>2,037</u>
Total revenues	<u>877,893</u>	<u>-0-</u>	<u>877,893</u>
EXPENDITURES:			
Current:			
Public Safety	717,424	-0-	717,424
Capital outlay	527,941	-0-	527,941
Debt service	<u>96,445</u>	<u>-0-</u>	<u>96,445</u>
Total expenditures	<u>1,341,810</u>	<u>-0-</u>	<u>1,341,810</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(463,917)</u>	<u>-0-</u>	<u>(463,917)</u>
OTHER FINANCING SOURCES (USES):			
Local unit contributions for capital outlay	125,000	-0-	125,000
Capital lease proceeds	<u>516,036</u>	<u>-0-</u>	<u>516,036</u>
Total other financing sources (uses)	<u>641,036</u>	<u>-0-</u>	<u>641,036</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPEN- DITURES AND OTHER USES	177,119	-0-	177,119
FUND BALANCE - BEGINNING OF YEAR	<u>209,812</u>	<u>7</u>	<u>209,819</u>
FUND BALANCE - END OF YEAR	<u>\$ 386,931</u>	<u>\$ 7</u>	<u>\$ 386,938</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended February 28, 2007

Net change in fund balances - total governmental funds	\$ 177,119
Amount reported for governmental activities in the statement of activities are different because:	
Proceeds from capital lease recorded as other financing sources in governmental funds; it is reported as long-term debt in statement of net assets	(516,036)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	527,941
Depreciation on capital assets are reported as part of governmental activities	(76,163)
Proceeds from sale of capital assets are reported as revenue in the governmental funds; in the statement of activities, the loss on sale of capital assets is reported	(2,507)
Repayment of capital lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	71,282
Interest expense is reported in statement of activities when incurred; it is not reported in governmental funds until paid. Amount represents change in accrued interest.	1,073
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	<u>9,171</u>
Change in net assets of governmental activities	<u>\$ 191,880</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
FIDUCIARY FUNDS -
STATEMENT OF NET ASSETS
February 28, 2007

	<u>AGENCY FUND TYPE</u>
<u>ASSETS:</u>	
Cash and investments	\$ <u>2,000</u>
Total assets	<u>2,000</u>
<u>LIABILITIES:</u>	
Due to others	<u>2,000</u>
Total liabilities	<u>2,000</u>
NET ASSETS	\$ <u><u>-0-</u></u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Chelsea Area Fire Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Chelsea Area Fire Authority.

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 City of Chelsea, the Townships of Dexter, Lima, Lyndon and Sylvan. The Authority is governed by a five (5) person Board of Trustees, 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.

Pursuant to the Pre-Incorporation Agreement, signed May 25, 1999 by the Village President and Clerk, the Village of Chelsea agreed to transfer the equipment of the Chelsea Fire Department. The recorded value of the equipment in the Village of Chelsea's Capital Assets was \$927,983. The Village has since incorporated into a City. As of February 28, 2007, the City of Chelsea has not relinquished title to the equipment, as such, the equipment is not reflected in Chelsea Area Fire Authority's Capital Assets.

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 nonfiduciary activities of the primary government. For the most part, 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.

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 or segment. 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 segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead 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.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 flows. 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. 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 Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: Local unit contributions, fire run fees and interest associated with the current fiscal period. All other revenue items are considered to be available only when cash is received by the Authority.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Authority reports the following major governmental funds:

General Fund - The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Public Improvement Fund - The Public Improvement Fund is used to account for revenue earmarked for capital outlay requiring separate accounting because of legal provisions.

Additionally, the Authority reports the following fund types:

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.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, and Net Assets or Fund Balance

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the 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:

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

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Assets, Liabilities, and Net Assets or Fund Balance (Continued)

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

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 years of service. An employee may use five 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.

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.

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.

Fund Balance - 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.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end. Before February 1, the proposed budget is submitted to the Authority Board and the member municipalities for review. Public hearings are held, and a final budget is adopted no later than February 28. The Authority Board must approve any budget amendments.

The appropriated budget is prepared by fund, activity, and line items. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended February 28, 2007, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Debt service	\$ 8,514	\$ 96,445	(\$ 87,931)

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classification, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the board of trustees in accordance with Public Act 20 of 1943, as amended, has authorized investment in the investments in the preceding paragraph. The Authority's deposit and investment policy is in accordance with statutory authority.

At year end, the Authority's cash was reported in the basic financial statements under the heading of cash and cash equivalents in the amount of \$374,006.

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$388,167 of bank deposits (checking accounts), of which \$100,000 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

4. CAPITAL ASSETS

Capital asset activity of the Authority's governmental activities was as follows:

	Balance <u>March 1, 2006</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>February 28, 2007</u>
Governmental Activities:				
Capital assets being depreciated:				
Equipment	\$ 272,012	\$ 9,718	\$ -0-	\$ 281,730
Vehicles and trucks	468,282	492,513	4,000	956,795
Buildings	<u>-0-</u>	<u>25,710</u>	<u>-0-</u>	<u>25,710</u>
Total capital assets being depreciated	<u>740,294</u>	<u>527,941</u>	<u>4,000</u>	<u>1,264,235</u>
Less: accumulated depreciation:				
Equipment	77,465	23,502	-0-	100,967
Vehicles and trucks	78,524	51,483	1,493	128,514
Buildings	<u>-0-</u>	<u>1,178</u>	<u>-0-</u>	<u>1,178</u>
Total accumulated depreciation	<u>155,989</u>	<u>76,163</u>	<u>1,493</u>	<u>230,659</u>
Total capital assets being depreciated - net	<u>584,305</u>	<u>451,778</u>	<u>2,507</u>	<u>1,033,576</u>
Total capital assets - net	<u>\$ 584,305</u>	<u>\$ 451,778</u>	<u>\$ 2,507</u>	<u>\$ 1,033,576</u>

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

Governmental activities:	
Public Safety	\$ <u>76,163</u>
Total governmental activities	\$ <u>76,163</u>

5. LEASE COMMITMENTS

Capital Leases

The Authority has entered into several capital leases to purchase fire equipment, trucks, and a modular building. The capital lease for fire equipment at an original cost of \$45,381 was paid in full during the current fiscal year.

The Authority's outstanding lease agreements include the acquisition and corresponding cost of a rescue truck for \$230,000, a brush truck for \$69,376, a pumper truck for \$492,513, and a modular building for \$25,710. These leases qualify as capital leases. The accumulated depreciation for these assets as of February 28, 2007, was \$108,220.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

5. LEASE COMMITMENTS (Continued)

Capital Leases (Continued)

The debt service for capital leases are as follows:

Governmental Activities:

Year Ending <u>February 28</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 60,414	\$ 26,711
2009	77,712	23,827
2010	72,548	20,400
2011	74,982	17,183
2012	67,001	13,826
Thereafter	<u>247,447</u>	<u>26,617</u>
Total	\$ <u>600,104</u>	\$ <u>128,564</u>

Total interest paid for the fiscal year ended February 28, 2007, was \$25,163.

Operating Leases

The Authority leases equipment. The lease is recorded as an operating lease. Total rental expense under operating lease agreement is \$1,842. There are no future minimum payments under noncancelable leases at February 28, 2007.

6. LONG-TERM DEBT

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Vested employee benefits	\$ 38,550	\$ 6,529	(\$ 21,800)	\$ 23,279	\$ -0-
Lease obligations payable	<u>155,350</u>	<u>516,036</u>	<u>(71,282)</u>	<u>600,104</u>	<u>60,414</u>
Total governmental activities	\$ <u>193,900</u>	\$ <u>522,565</u>	(\$ <u>93,082</u>)	\$ <u>623,383</u>	\$ <u>60,414</u>

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

7. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2007, the Authority carried commercial insurance to cover all risks of losses. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

CHELSEA AREA FIRE AUTHORITY
 REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 Year Ended February 28, 2007

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES:				
Local unit contributions				
for operations	\$ 869,100	\$ 869,100	\$ 847,663	(\$ 21,437)
Charges for services	-0-	-0-	23,937	23,937
Interest	-0-	-0-	1,380	1,380
Contributions	-0-	-0-	1,865	1,865
Refunds and reimbursements	-0-	-0-	1,011	1,011
Other	<u>-0-</u>	<u>-0-</u>	<u>2,037</u>	<u>2,037</u>
Total revenues	<u>869,100</u>	<u>869,100</u>	<u>877,893</u>	<u>8,793</u>
EXPENDITURES:				
Current:				
Public Safety	814,300	808,586	717,424	91,162
Capital outlay	52,000	568,036	527,941	40,095
Debt service	<u>2,800</u>	<u>8,514</u>	<u>96,445</u>	<u>(87,931)</u>
Total expenditures	<u>869,100</u>	<u>1,385,136</u>	<u>1,341,810</u>	<u>43,326</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-0-</u>	<u>(516,036)</u>	<u>(463,917)</u>	<u>52,119</u>
OTHER FINANCING SOURCES (USES):				
Local unit contributions for capital outlay	-0-	-0-	125,000	125,000
Capital lease proceeds	<u>-0-</u>	<u>516,036</u>	<u>516,036</u>	<u>-0-</u>
Total other financing sources (uses)	<u>-0-</u>	<u>516,036</u>	<u>641,036</u>	<u>125,000</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-0-	-0-	177,119	177,119
FUND BALANCE - BEGINNING OF YEAR	<u>209,812</u>	<u>209,812</u>	<u>209,812</u>	<u>-0-</u>
FUND BALANCE - END OF YEAR	<u>\$ 209,812</u>	<u>\$ 209,812</u>	<u>\$ 386,931</u>	<u>\$ 177,119</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
 REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE -
 PUBLIC IMPROVEMENT FUND
 Year Ended February 28, 2007

	ORIGINAL <u>BUDGET</u>	FINAL <u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE WITH <u>FINAL BUDGET</u>
REVENUES:				
Charges for services	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Interest	-0-	-0-	-0-	-0-
Federal grants	-0-	-0-	-0-	-0-
Contributions	-0-	-0-	-0-	-0-
Refunds and reimbursements	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total revenues	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
EXPENDITURES:				
Current:				
Public Safety	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES				
	-0-	-0-	-0-	-0-
FUND BALANCE - BEGINNING OF YEAR				
	<u>7</u>	<u>7</u>	<u>7</u>	<u>-0-</u>
FUND BALANCE - END OF YEAR				
	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ -0-</u>

See accompanying notes to financial statements.

Dove & Hickey, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

209 E. Washington Ave., Suite 255 • Jackson, Michigan 49201
Phone (517) 796-8880 • Fax (517) 796-8777

MEMBERS:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

GEORGE DOVE, C.P.A.
PAUL T. HICKEY, C.P.A.
NANNETTE M. SPONSLER, C.P.A.
ALLISON I. COLE, C.P.A.

August 22, 2007

Board of Trustees
Chelsea Area Fire Authority
Washtenaw County, Michigan

Board Members:

In planning and performing our audit of the financial statements of the governmental activities, and each major fund, of the Chelsea Area Fire Authority as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Chelsea Area Fire Authority's internal control over financial reporting 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

Participating Municipality Billing Issues

As noted during last year's audit, the Authority received a grant from the Michigan State Police, which was posted against the wages it was reimbursing, which resulted in understating both revenue and actual expenditures. This caused an over-billing to the governmental units, since per the old contracts, units are billed for budgeted expenditures less any miscellaneous revenue. We suggest that this adjustment be made to all units as soon as possible.

As discussed with Board Chairperson, even though the Municipalities are now being billed on a five-year rolling average, starting this fiscal year, the understanding is still that the amounts collected for fire runs will be used to off-set the corresponding Municipalities billings. This has not been done for the 2006-2007 collections. We suggest that this adjustment be made to all units as soon as possible.

We discussed the fire run billing process with management and determined that the fire run information that is forwarded to the outside billing company was not being retained by the Authority. We suggest that a copy of all fire run billing requests be retained by the Authority and reconciled with amounts billed by the outside billing company, to help insure the appropriate amounts are being billed.

We also noted that the documentation substantiating the man-hours used to calculate the 2006-2007 percentages for the rolling average spreadsheet was not retained by the Authority. We suggest that these documents be retained to provide a record of how the percentages were calculated.

During the audit we noted several deposits that were not recorded correctly. We noted that refunds and fire run receipts were credited directly against Municipality accounts receivable balances. We suggest more care be taken to appropriately record receipts and management monitor Municipality's accounts receivable balances to help ensure the balances are accurate. We also suggest management reconcile the outstanding balances or credits for each participating Municipality. We noted several accounts contain old credits that should be applied to current billings, as well as some outstanding balances that are due from the prior year.

Payroll Issues

During inquires of management it was noted that the approved rate of pay is not documented in the employee files. We suggest that the personnel files include signed documentation of the position and current rate of pay for each employee.

While performing our audit we noted several instances where the incorrect incident pay amount was paid to employees. We suggest that the payroll be reviewed before it is printed and management also review the payroll before the checks are distributed.

Chelsea Area Fire Authority
August 22, 2007
Page 3

This report is intended solely for the information and use of the Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve you.

Respectfully yours,

Dove + Hickey P.L.C.

Dove & Hickey, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

209 E. Washington Ave., Suite 255 • Jackson, Michigan 49201
Phone (517) 796-8880 • Fax (517) 796-8777

MEMBERS:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

GEORGE DOVE, C.P.A.
PAUL T. HICKEY, C.P.A.
NANNETTE M. SPONSLER, C.P.A.
ALLISON I. COLE, C.P.A.

August 22, 2007

Board of Trustees
Chelsea Area Fire Authority
Washtenaw County, Michigan

Board Members:

In planning and performing our audit of the financial statements of Chelsea Area Fire Authority for the year ended February 28, 2007, we considered its internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not provide assurance on the internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and other operating efficiency. This letter does not affect our report dated August 22, 2007, on the financial statements of Chelsea Area Fire Authority.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with appropriate members of management and we will be please to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Budgets

P.A. 621 of 1978, as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated. The Authority incurred expenditures in excess of the amount appropriated in one activity. The Authority should amend its budget before this occurs.

Vacation Accruals

GASB 34 requires that long-term accruals be recorded in the Government-Wide statements. The accountant provided the vacation hours accrued as of February 28, 2007, calculated on the calendar year. We suggest that management review the Authority's vacation policy and if the intent was for the accrual to be based on the calendar year, then no action needs to be taken, but if the intent was for the accrual to be on the budget year, then the accountant needs to be informed. We also suggest that the policy be amended to state the year intended for the accrual.

Car Allowance

During the audit, we noted that the Chief was being paid a car allowance, under a non-accountable plan. Per the IRS this type of plan requires that the allowance be added to the Chief's taxable wages, which it was not for 2006. We suggest the Authority review the two types of plans allowable by the IRS, then adopt and account for the plan as required by the IRS.

An accountable plan is not taxable to the employee. The IRS requires under this type of plan, the employee must provide a detailed bill noting the Authority related mileage and evidence supporting the Authority business. Per the IRS, at a minimum, the employee should keep a record of each trip, number of miles, and its business purpose. This information should be submitted to the employer, who maintains these records to support the exclusion of the auto allowance from the employee's wages. The employee would then be reimbursed for total actual number of miles submitted.

A nonaccountable plan is taxable to the employee and subject to FICA and income tax withholding. Under this plan, the Authority reimburses a reasonable amount to the employee, but the employee does not account to the Authority for the business use of his auto. This type of plan allows the Board to approve the allowance taxable to the employee. It then becomes the employee's responsibility to claim the allowable deductions on his personal taxes as an employee business expense.

Payroll and Withholdings

Per the State of Michigan, they have not received a MI-W3 Annual Withholding Return for both 2005 and 2006. We suggest that the Authority file these forms as soon as possible.

We again noted that an employee's direct deposits for net payroll checks were returned to CAFA for April 2006. They are shown as a liability on the balance sheet. We suggest that management repay the employee as soon as possible.

We also noted that an employee's pension 457(b) withholding for June 2006 was not remitted to Aetna in the amount of \$113.72. We suggest that this be paid as soon as possible.

We also suggest, to help account for miscellaneous employee withholdings, liability accounts be used to record amounts withheld from employees for personal items, such as pagers, cell phones, and other items that are not the Authority's responsibility to fund. Then the disbursements are posted against the amounts withheld to help insure that amounts withheld cover the amounts disbursed.

Payroll and Withholdings (continued)

We suggest that the Authority consider adopting a cafeteria plan for health insurance premiums. The amounts withheld from employee's checks for health insurance would then reduce taxable earnings.

Other Accounting Issues

As noted in the prior year's audit, we commented that bank reconciliation contains many old outstanding checks. We suggest that management review these checks to see if they are valid, to determine if they need to be reissued or written-off.

During the audit we noted several journal entries that were made to reconcile the checking account balance to the general ledger. We suggest more care be taken throughout the month to properly account for the activity so that corrections are not necessary to reconcile the bank account.

During the audit we requested the void checks for the audit year. We were informed by the accountant that they were shredded. We suggest that the void checks be retained to document that all checks are accounted for and that they were properly voided.

We also commented last audit that management should review monthly bank reconciliations, approve journal entries, and scan bank statements for unusual items. We again suggest that additional oversight procedures be instituted to strengthen the internal controls of the Authority.

This report is intended solely for the information and use of the Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve you.

Respectfully yours,

Dove + Hechey P.C.