Tobin & Co.

Grand Traverse Fire Department

Administration Division

Audit Report

For the Year Ended December 31, 2004

Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

RECEIVED
DEPT. OF TREASURY
JUL 01 2005
AUDIT & FINANCE DIV.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☒ Other	Grand Traverse Fire Department - Administration Division	Grand Traverse

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
12/31/04	6/30/05	6/30/05

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)			
TOBIN & CO., P.C.			
Street Address: 400 E. EIGHTH ST.	City: TRAVERSE CITY, MI 49686-2668	State	ZIP
Accountant Signature: David L. Rasker		Date	

231-947-0151

Table of Contents

INTRODUCTORY SECTION

Comments and Recommendations 4 – 5

FINANCIAL SECTION

Accountant's Report 7

Basic Financial Statements:

Government-wide and Governmental Fund Financial Statements:

Statement of Net Assets and Governmental Fund Balance Sheet 8
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance 9

Notes to Financial Statements 10 – 16

SUPPLEMENTAL DATA SECTION

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund 18

INTRODUCTORY SECTION

Comments and Recommendations

In connection with our audit of the financial statements of the Grand Traverse Fire Department – Administration Division, for the year ended December 31, 2004, we submit the following comments and recommendations. This section is intended to take the place of a separate management letter.

General

The records were well maintained by the Fire Department's accountant. Bank accounts were reconciled monthly, journals and ledgers were properly posted, monthly reports were submitted to the Board and supporting documents and follow-up procedures were good. Your accountant's efforts in this area are commendable.

Budgets and Procedures

Budgets were adopted and amended for the General Fund as required. The public budget hearing was held prior to formal approval of the budget as prescribed by law.

Capital Assets

The Administration Division Fire Department owns some office equipment and a vehicle. In general, the Townships serviced by the Fire Department own and maintain their own fire stations. Most vehicles and equipment are purchased, owned and maintained by the Metro and Rural Divisions, which maintain records of their capital assets, while participating units maintain records of assets to which they have title.

Insurance and Bonds

The Department has a determination letter indicating that its Board members are covered under the General Liability coverage of the respective entities they represent. The insurer for the Grand Traverse Fire Department – Metro Division includes other coverages for the Administration Division in Metro's policies.

Receipting

Official pre-numbered receipts are not issued when income is received. However, the sources of income are limited and, with few or no exceptions, payments to the Fire Department are by check. Bank deposit slips, copies of payor checks and remittance advices are kept for support, and the system appears adequate at the present time. Should there be an increase in sources of income or should the Department begin receiving currency, the use of official pre-numbered receipts for all income should be implemented.

Board Minutes

Board minutes were maintained in good order.

Comments and Recommendations

General Fund

For the audit year, $218,720 of expenditures exceeded revenues of $202,347, and the fund balance was $47,110 at December 31, 2004.

Other Data

After the completion of our audit, we will mail two (2) copies of this report to the State Department of Treasury.

We appreciate the courtesy extended our field auditor in the course of this examination. Your confidence is respected, and please contact us if any questions arise.

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITOR

Grand Traverse Fire Department
Administration Division
Traverse City, MI 49684

We have audited the accompanying basic financial statements of Grand Traverse Fire Department – Administration Division as of and for the year ended December 31, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Department'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grand Traverse Fire Department – Administration Division at December 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedule, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The supplemental information has been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a Management's Discussion and Analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Tobin & Co., P.C.

Tobin & Co., P.C.
June 30, 2005

400 East Eighth
Traverse City
Michigan 49686
231 947-0151
231 947-1362 Fax

Certified Public Accountants

Tobin & Co.

Grand Traverse Fire Department – Administration Division

Statement of Net Assets and Governmental Fund Balance Sheet

December 31, 2004

Assets	General Fund	Adjustments (Note 3)	Statement of Net Assets
Cash in Bank	$ 53,690	$ -	$ 53,690
Accounts Receivable	6,385	-	6,385
Capital Assets, net of accumulated depreciation	-	37,431	37,431
Total Assets	$ 60,075	$ 37,431	$ 97,506
Liabilities			
Accounts Payable	$ 1,911	$ -	$ 1,911
Accrued Payroll	11,054	-	11,054
Compensated Absences	-	987	987
Total Liabilities	12,965	987	13,952
Fund Balances/Net Assets			
Fund Balance			
Unrestricted	47,110	(47,110)	-
Total Fund Balances	47,110	(47,110)	-
Total Liabilities and Fund Balances	$ 60,075		
Net Assets			
Invested in Capital Assets		37,431	37,431
Unrestricted		46,123	46,123
		$ 83,554	$ 83,554

The notes to the financial statements are an integral part of this statement.

Grand Traverse Fire Department – Administration Division

Statement of Activities and
Governmental Fund Revenues, Expenditures and Changes in Fund Balance

For the Year Ended December 31, 2004

Expenditures/expenses:	General Fund	Adjustments (Note 4)	Statement of Activities
Personnel	$ 105,976	$ 207	$ 106,183
Commodities	43,614	-	43,614
Contractual Services	33,056	-	33,056
Other Charges	16,810	-	16,810
Capital Outlay	19,264	(7,889)	11,375
Total Expenditures/expenses	218,720	(7,682)	211,038
General Revenues:			
Contributions from Local Units	199,391	-	199,391
Interest	469	-	469
Other	2,487	-	2,487
Total General Revenues	202,347	-	202,347
Excess Revenues (Expenditures)	(16,373)		
Change in Net Assets		7,682	(8,691)
Fund Balance/Net Assets:			
Beginning of the Year	68,021	-	96,783
Prior Period Adjustment	(4,538)	-	(4,538)
End of the Year	$ 47,110	$ 7,682	$ 83,554

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Administration Division's basic financial statements include the accounts of all its Division operations. The criteria for including organizations within the Division's reporting entity, as set forth in GASB No. 14, *"The Financial Reporting Entity"*, is financial accountability. Financial Accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based on the above criteria, there are no other organizations included in these financial statements.

B. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the Department. The effect of interfund activity, within the governmental activities column, has been removed from these statements.

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

Fund Financial Statements:

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Department has presented the following governmental funds:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

General Fund – This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Department. Revenues are derived primarily from local distributions or grants.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenue susceptible to accrual are charges for service, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets

The General Fund is under formal budgetary control. Budgets shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budgets approved and amended by the Board.

In the body of the financial statements, the actual and budgeted expenditures for the budgetary fund has been shown on a function basis. The approved budget for this fund was adopted on a function basis.

For budgetary purposes appropriations lapse at fiscal year end.

E. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest is capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of $5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Vehicles	5 years
Equipment	5 years

F. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. We noted no violations of legal provisions and/or contractual provision of various agreements related to financial matters.

B. All funds had positive fund balances at December 31, 2004.

C. Public Act 621 of 1978, Section 18, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2004, the Contractual Services function exceeded its budget by $1,021 without formal amendment by the Board.

NOTE 3 –EXPLANATION OF CERTAIN ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET ASSETS

Net capital assets of $37,431 used in governmental activities are not financial resources and therefore are not reported in the fund.

Long-term liabilities (compensated absences of $987) applicable to the Department's governmental activities are not due and payable in the current period and accordingly are not recorded as fund liabilities. All liabilities, both current and long-term, are reported in the statements of net assets.

NOTE 4 –EXPLANATION OF CERTAIN ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE STATEMENT OF ACTIVITIES

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. Capital Outlay for Department equipment exceeded depreciation by $9,889 for the year.

Compensated absence expenditures in the general fund required the use of $207 of current financial resource over those reported in the statement of activities.

NOTE 5 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. Legal Provisions for Deposits and Investments

Act 20, Public Acts of 1943, as amended by Act 217, Public Acts of 1982, and Act 196, Public Acts of 1998, states that the Board, by resolution, may authorize the Treasurer to invest surplus funds as follows:

1. In bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States.

2. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).

3. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after date of purchase.

4. In repurchase agreements consisting of instruments defined in (1) above.

5. In bankers' acceptances of United States Banks.

6. In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

7. In mutual funds registered under the investment company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by local units of government in Michigan.

B. Types of Deposits and Investments

The Administration Division had $54,359 deposited with local banks at December 31, 2004 with a carrying value of $53,690. Interpreting the FDIC insurance coverage of $100,000 per demand deposit account and $100,000 per time deposit account in each depository, the Administration Division had no uninsured deposits at December 31, 2004.

NOTE 6 - CAPITAL ASSETS

	12/31/03	Additions	Deletions	12/31/04
Governmental Activities:				
Vehicles	$ 15,500	$ -	$ -	$ 15,500
Equipment	38,699	10,703	-	49,402
	54,199	10,703	-	64,902
Less Accumulated Depreciation	(16,096)	(11,375)	-	(27,471)
Governmental Activities Capital Assets, Net	$ 38,103	$ (672)	$ -	$ 37,431

NOTE 7 - LONG-TERM LIABILITIES AND COMPENSATED ABSENCES

Full-time leased employees earn vacation leave, which may either be taken or accumulated, with a maximum carryover to a succeeding year of 5 days (more if approved by the lessor), until paid upon termination or retirement. Leased employees earn personal leave that may either be taken or accumulated and carried over to a maximum of 24 days. Unused accumulated personal leave shall be paid to the leased employee upon termination or retirement. In accordance with generally accepted accounting principles, an accrual for compensated absences of unused vacation pay and personal leave of $987 is reflected in the accompanying government-wide financial statements as a long-term liability.

NOTE 8 - POST RETIREMENT BENEFITS

Full-time leased employees who retire are provided health care insurance for the retiree and their spouse. This coverage is provided for retirees at a minimum age of 60. In addition, Medicare "filler" coverage is provided for all retirees and their spouses who are covered under the Medicare benefits program. The cost of these benefits will be forwarded to the Administrative Division by the lessor on a pay-as-you-go- basis. Because of variations in retiree conditions and benefits usage, the present value of future benefits is not determined, but may be material.

NOTE 9 - INVENTORIES

The Administration Division does not maintain a substantial inventory of supplies or materials. Purchases are normally made as needed, and the items are recorded as expenses at time of purchase.

NOTE 10-RISK MANAGEMENT

The Department has a determination letter indicating that its Board members are covered under the General Liability coverage of the respective entities they represent. The insurer for the Grand Traverse Fire Department – Metro Division includes other coverages for the Administration Division in Metro's policy.

NOTE 11-CONTINGENT LIABILITIES

Fire Administration Division officials are not aware of any contingent liabilities at December 31, 2004.

NOTE 12-PRIOR PERIOD ADJUSTMENT

Prior period adjustment resulted from unrecorded accrued compensation for the public education officer at December 31, 2003.

SUPPLEMENTAL DATA SECTION

Grand Traverse Fire Department – Administration Division

Schedule 1
Page 1

Statement of Revenues, Expenditures and Changes in Fund Balance

General Fund

For the Year Ended December 31, 2004

	Budgetary Amounts Original	Budgetary Amounts Final	Actual	Variance Favorable (Unfavorable)
Revenues				
Contributions from Local Units:				
Grand Traverse County	$ 78,580	$ 78,580	$ 78,580	$ -
Grand Traverse Fire Dept – Metro Division	64,030	64,030	64,030	-
Grand Traverse Fire Dept. – Rural Division	56,781	56,781	56,781	-
Interest and Rent:				
Interest	-	-	469	469
Other:				
Donations and Miscellaneous	-	-	2,487	2,487
Total	199,391	199,391	202,347	2,956
Expenditures				
Personnel	117,641	110,062	105,976	4,086
Commodities	33,750	44,050	43,614	436
Contractual Services	28,100	32,035	33,056	(1,021)
Other Charges	20,800	18,850	16,810	2,040
Capital Outlay	21,700	19,394	19,264	130
Contingency	2,400	-	-	-
Total	224,391	224,391	218,720	5,671
Excess Revenues (Expenditures)	$ (25,000)	$ (25,000)	(16,373)	$ 8,627
Fund Balance – Beginning of Year			68,021	
Prior Period Adjustment			(4,538)	
Fund Balance – End of Year			$ 47,110	

The Notes to the Financial Statements are an integral part of this statement.