

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2007

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 Omer Arenac Fire Department	County Arenac
Fiscal Year End March 31, 2007	Opinion Date September 21, 2007	Date Audit Report Submitted to State September 24, 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.)
- 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.
 - 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.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - 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.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - 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).
 - 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.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - 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"/>	N/A	
Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			Telephone Number (989) 894-1040	
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686			City Bay City	State MI
			Zip 48707	
Authorizing CPA Signature 		Printed Name Mark J. Campbell		License Number 1885282

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT

September 21, 2007

To the Fire Department
Omer Arenac Fire Department
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Omer Arenac Fire Department, Arenac County, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Fire Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Omer Arenac Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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 respective financial position of the governmental activities and each major fund of the Omer Arenac Fire Department, Arenac County, Michigan as of March 31, 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 Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries 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.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2007

The Management's Discussion and Analysis report of the Omer Arenac Fire Department covers the Fire Department's financial performance during the year ended March 31, 2007.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2007, totaled \$213,418.09 for governmental activities.

Overall revenues were \$26,018.85.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Fire Department and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Fire Department in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Fire Department as a whole using accounting methods used by private companies. The statement of net assets includes all of the Fire Department's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Fire Department are reported as governmental activities. These include the General Fund.

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2007

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Fire Department's funds, focusing on significant (major) funds not the Fire Department as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Fire Department also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Fire Department has the following types of funds:

Governmental funds: All of the Fire Department's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Fire Department's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Fire Department's governmental activities include the General Fund.

FINANCIAL ANALYSIS OF THE FIRE DEPARTMENT AS A WHOLE

Expenditures in the General Fund were \$26,257.04 for the fiscal year ended March 31, 2007.

FINANCIAL ANALYSIS OF THE FIRE DEPARTMENT'S FUNDS

The General Fund pays for all of the Fire Department's governmental services.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Fire Department's governmental activities invested \$850.00 in capital assets.

The Fire Department has no long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Fire Department is dependent upon funding from the Township of Arenac and the City of Omer.

CONTACTING THE FIRE DEPARTMENT'S MANAGEMENT

This financial report is designed to provide our investors and customers with a general overview of the Fire Department's finances and to demonstrate the Fire Department's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Fire Department Secretary.

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2007

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	3 942 84
Total Current Assets	<u>3 942 84</u>
NON-CURRENT ASSETS:	
Capital Assets	239 686 93
Less: Accumulated Depreciation	<u>(30 211 68)</u>
Total Non-current Assets	<u>209 475 25</u>
TOTAL ASSETS	<u><u>213 418 09</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	209 475 25
Unrestricted	<u>3 942 84</u>
Total Net Assets	<u>213 418 09</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>213 418 09</u></u>

The accompanying notes are an integral part of these financial statements.

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2007

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Public safety	<u>36 017 74</u>	<u>25 200 22</u>	<u>(10 817 52)</u>
Total Governmental Activities	<u><u>36 017 74</u></u>	<u><u>25 200 22</u></u>	<u><u>(10 817 52)</u></u>
General Revenues:			
Interest			53 96
Miscellaneous			<u>764 67</u>
Total General Revenues			<u>818 63</u>
Change in net assets			(9 998 89)
Net assets, beginning of year			<u>223 416 98</u>
Net Assets, End of Year			<u><u>213 418 09</u></u>

The accompanying notes are an integral part of these financial statements.

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

BALANCE SHEET – GOVERNMENTAL FUND
March 31, 2007

	<u>Total (General)</u>
<u>Assets</u>	
Cash in bank	<u>3 942 84</u>
Total Assets	<u><u>3 942 84</u></u>
<u>Liabilities and Fund Equity</u>	
Liabilities	<u>-</u>
Total liabilities	<u>-</u>
Fund equity:	
Fund balance:	
Unreserved:	
Undesignated	<u>3 942 84</u>
Total fund equity	<u><u>3 942 84</u></u>
Total Liabilities and Fund Equity	<u><u>3 942 84</u></u>

The accompanying notes are an integral part of these financial statements.

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
March 31, 2007

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	3 942 84
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 governmental funds balance sheet:	
Capital assets at cost	239 686 93
Accumulated depreciation	<u>(30 211 68)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>213 418 09</u>

The accompanying notes are an integral part of these financial statements.

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
Year ended March 31, 2007

	Total (General)
Revenues:	
Charges for services:	
City of Omer	7 567 00
Township of Arenac	15 133 22
Other	2 500 00
Interest	53 96
Miscellaneous	764 67
Total revenues	26 018 85
Expenditures:	
Public safety:	
Fire protection:	
Contracted services	2 565 00
Insurance	9 212 00
Dues	150 00
Repairs and maintenance	4 088 15
Supplies	5 172 72
Telephone	1 197 02
Utilities	2 384 11
Training	300 00
Miscellaneous	338 04
Capital outlay	850 00
Total expenditures	26 257 04
Excess (deficiency) of revenues over expenditures	(238 19)
Fund balance, April 1	4 181 03
Fund Balance, March 31	3 942 84

The accompanying notes are an integral part of these financial statements.

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

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

Year ended March 31, 2007

NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUND (238 19)

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

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(10 610 70)
Capital Outlay	<u>850 00</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (9 998 89)

The accompanying notes are an integral part of these financial statements.

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Omer Arenac Fire Department, Arenac County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Fire Department contain all the Fire Department funds that are controlled by or dependent on the Fire Department's executive or legislative branches.

The reporting entity is the Omer Arenac Fire Department. The Fire Department is governed by an appointed Fire Board. As required by generally accepted accounting principles, these financial statements present the Fire Department as the primary government.

The Fire Department includes the City of Omer and the Township of Arenac. The governing Fire Board consists of 5 members including one appointed by each local unit of government. The Fire Department provides fire protection services to the local units and is considered a separate entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, 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. All the Fire Department's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

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. 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. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

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

considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Fire Department reports only one fund as follows:

- The General Fund is used to record the operations of the Fire Department which pertain to maintaining and operating the Fire Department. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

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

Receivables

Receivables have been recognized for all significant amounts due to the Fire Department. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

The Fire Department does not levy property taxes.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Fire Department as assets with an initial cost of more than \$750.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	30 years
Vehicles	5-30 years
Equipment	3-10 years

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Fire Department provides no post-employment benefits to past employees.

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.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Fire Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Fire Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Fire Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Fire Board during the fiscal year.

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Fire Department 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; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date 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. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Fire Department has designated two banks for the deposit of Fire Department funds.

The Fire Department's deposits and investments are in accordance with statutory authority.

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

	<u>Carrying Amounts</u>
Total Deposits	3 942 84

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	4 314 91
Uninsured and Uncollateralized	-
Total Deposits	4 314 91

The Fire Department did not have any investments as of March 31, 2007.

Note 4 – Capital Assets

Capital asset activity of the Fire Department's Governmental activities for the current year was as follows:

	<u>Balance 4/1/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/07</u>
<u>Governmental Activities:</u>				
Land	1 080 00	-	-	1 080 00
Buildings	5 313 00	-	-	5 313 00
Equipment	232 443 93	850 00	-	233 293 93
Total	238 836 93	850 00	-	239 686 93
Accumulated Depreciation	(19 600 98)	(10 610 70)	-	(30 211 68)
Net Capital Assets	219 235 95	(9 760 70)	-	209 475 25

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 5 – Deferred Compensation Plan

The Fire Department does not have a deferred compensation plan.

Note 6 – Risk Management

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

Note 7 – Pension Plan

The Fire Department does not have a pension plan.

Note 8 – Budget Variances

The actual expenses exceeded the budgeted amounts in the following activity.

<u>Activity</u>	<u>Budgeted Amount</u>	<u>Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Fire protection	21 700 00	25 407 04	3 707 04

OMER ARENAC FIRE DEPARTMENT
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Charges for services:				
City of Omer	7 567 00	7 567 00	7 567 00	-
Township of Arenac	15 133 00	15 133 00	15 133 22	22
Other	-	-	2 500 00	2 500 00
Interest	-	-	53 96	53 96
Miscellaneous	-	-	764 67	764 67
	<u>22 700 00</u>	<u>22 700 00</u>	<u>26 018 85</u>	<u>3 318 85</u>
Total revenues				
Expenditures:				
Public safety:				
Fire protection	21 700 00	21 700 00	25 407 04	3 707 04
Capital outlay	1 000 00	1 000 00	850 00	(150 00)
	<u>22 700 00</u>	<u>22 700 00</u>	<u>26 257 04</u>	<u>3 557 04</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	-	-	(238 19)	(238 19)
Fund balance, April 1	-	-	4 181 03	4 181 03
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>3 942 84</u>	<u>3 942 84</u>

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

September 21, 2007

To the Fire Department
Omer Arenac Fire Department
Arenac County, Michigan

We have audited the financial statements of the Omer Arenac Fire Department for the year ended March 31, 2007. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Omer Arenac Fire Department in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Fire Department
Omer Arenac Fire Department
Arenac County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

BUDGET VARIANCES

Actual expenditures exceeded budgeted amounts for the fiscal year ended March 31, 2007. We recommend that the Fire Department adopt and amend the budget in compliance with State law.

INVESTMENT POLICY

The Fire Department has not adopted an investment policy. We recommend that the Fire Board adopt an investment policy as soon as possible.

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

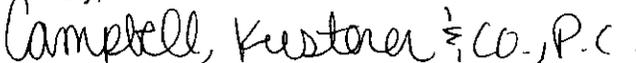
We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Fire Department's financial statements and this communication of these matters does not affect our report on the Fire Department's financial statements, dated March 31, 2007.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.

Certified Public Accountants