

LITCHFIELD FIRE DEPARTMENT

AUDIT REPORT

JUNE 30, 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 LITCHFIELD FIRE DEPARTMENT		County HILLSDALE	
Fiscal Year End 6/30/2007		Opinion Date 11/20/2007		Date Audit Report Submitted to State 11/21/2007			

We affirm that:

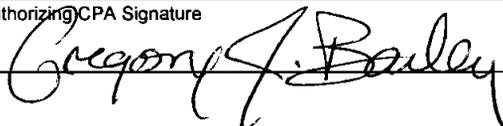
We are certified public accountants licensed to practice in Michigan.

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"/>			
Certified Public Accountant (Firm Name) BAILEY, HODSHIRE & COMPANY, PC		Telephone Number (517) 849-2410		
Street Address 479 E CHICAGO ST PO BOX 215		City JONESVILLE	State MI	Zip 49250
Authorizing CPA Signature 		Printed Name GREGORY J BAILEY		License Number 1101022915

CONTENTS

INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	2 - 3
BASIC FINANCIAL STATEMENTS	
<u>Government-Wide Financial Statements</u>	
Statement of Net Assets	4
Statement of Activities.....	5
<u>Fund Financial Statements</u>	
Balance Sheet - Governmental Funds	6
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of governmental Activities on the Statement of Net Assets	7
Statement of Revenue, Expenditures, and Changes in Fund Balance - Governmental Funds.....	8
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	9
NOTES TO THE FINANCIAL STATEMENTS	10 - 13
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	14

Bailey, Hodshire
& Company, P.C.
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INDEPENDENT AUDITOR'S REPORT

Litchfield Fire Department
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Litchfield Fire Department as of and for the year ended June 30, 2007, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Litchfield 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 opinions.

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 Litchfield Fire Department, as of June 30, 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 on pages 2 - 3 and page 14, 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bailey Hodshire + Company, P.C.
Jonesville, Michigan
November 20, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LITCHFIELD FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the annual financial report presents management's discussion and analysis of the Litchfield Fire Department's (Department) financial performance during the year ended June 30, 2007. Please read it in conjunction with the Department's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Department as a whole and present a longer-term view of the Department's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Fire Department's operations in more detail than the government-wide financial statements.

The Fire Department as a Whole

Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the Department's governmental activities.

<u>TABLE 1 - NET ASSETS</u>	<u>2006</u>	<u>2007</u>
Assets		
Current Assets	\$ 11,312	\$ 32,437
Noncurrent Assets	<u>57,782</u>	<u>52,185</u>
Total Assets	<u>\$ 69,094</u>	<u>\$ 84,622</u>
Liabilities		
Current Liabilities	\$ 6,476	\$ 10,586
Noncurrent Liabilities	<u>0</u>	<u>0</u>
Total Liabilities	<u>\$ 6,476</u>	<u>\$ 10,586</u>
Net Assets		
Invested in Capital Assets - Net of Related Debt	\$ 57,782	\$ 52,185
Unrestricted	<u>4,836</u>	<u>21,851</u>
Total Net Assets	<u>\$ 62,618</u>	<u>\$ 74,036</u>
Total Liabilities and Net Assets	<u>\$ 69,094</u>	<u>\$ 84,622</u>
 <u>TABLE 2 - CHANGES IN NET ASSETS</u>		
Program Revenue		
Capital Grants and Contributions	\$ 0	\$ 8,008
General Revenue		
Government Contributions	93,600	83,600
Other	<u>490</u>	<u>14</u>
Total Revenue	<u>\$ 94,090</u>	<u>\$ 91,622</u>
Expenses		
Public Safety	<u>\$ 112,452</u>	<u>\$ 80,204</u>
Total Expenses	<u>\$ 112,452</u>	<u>\$ 80,204</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (18,362)</u>	<u>\$ 11,418</u>

LITCHFIELD FIRE DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

The Department's governmental activities consist of providing fire protection service to the City of Litchfield, Litchfield Township, and parts of Scipio Township and Butler Township.

The Fire Department's Funds

Our analysis of the Department's major funds begins on page 6 following the government-wide financial statements. The fund financial statements provide detailed information about the General Fund, the only fund maintained by the Department at this time. The most significant expenditure items for the General Fund are capital outlay, wages, and insurance.

General Fund Budgetary Highlights

Over the course of the year, the Department amended the budget to take into account events during the year. Insurance costs are always difficult to predict, and they came in higher than expected. Costs for operating supplies, equipment maintenance and payroll are highly dependent on the number of fire runs for the year.

General Asset and Debt Administration

The Department does not have title to any real property or rescue vehicles. The City of Litchfield and Litchfield Township have title, either jointly or individually, to all fire rescue vehicles used in the Department's operations. The Department does have \$77,228 invested in turn-out gear, air packs and hoses purchased over the last few years. The Department has no formal debt as of June 30, 2007.

Factors Bearing on the Fire Department's Future

As always, activity will drive everything, more fire runs equals more expenditure. Insurance rates continue to be unpredictable, and rising fuel costs will no doubt add to the cost of operations. State of Michigan standards for training and safety become more demanding each year, and new fire personnel require further training. The condition of the State of Michigan's economy and its effect on revenue sharing to local governments will have a significant impact on the level of funding for the Department's annual operations and long term capital asset needs.

Contacting the Fire Department's Management

This report is designed to give an overview of the financial conditions of the Litchfield Fire Department. If you have questions about this report or need further information, please contact the Department at 221 Jonesville Street, Litchfield, Michigan. You may also call Board Chairman Mike Burns (517) 542-3869 or Fire Chief Dan Pitts (517) 398-3022.

BASIC FINANCIAL STATEMENTS

LITCHFIELD FIRE DEPARTMENT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 30,982
Prepaid Expense	1,455
Capital Assets - Net	<u>52,185</u>
Total Assets	<u>\$ 84,622</u>
LIABILITIES	
Accounts Payable	\$ 3,231
Accrued Payroll	<u>7,355</u>
Total Liabilities	<u>\$ 10,586</u>
NET ASSETS	
Invested in Capital Assets	
Net of Related Debt	\$ 52,185
Unrestricted	<u>21,851</u>
Total Net Assets	<u>\$ 74,036</u>
Total Liabilities and Net Assets	<u>\$ 84,622</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD FIRE DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Program Revenues			
Functions/Programs	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Governmental Activities:				
Public Safety	\$ 80,204	\$ 0	\$ 8,008	\$ (72,196)
Total Governmental Activities	\$ 80,204	\$ 0	\$ 8,008	\$ (72,196)
General Revenues:				
Government Contributions				\$ 83,600
Miscellaneous				14
Total General Revenues				\$ 83,614
Change in Net Assets				\$ 11,418
Net Assets - Beginning				62,618
Net Assets - Ending				\$ 74,036

The accompanying notes are an integral part of this statement.

LITCHFIELD FIRE DEPARTMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 30,982	\$ 30,982
Prepaid Expense	<u>1,455</u>	<u>1,455</u>
Total Assets	<u>\$ 32,437</u>	<u>\$ 32,437</u>
 LIABILITIES		
Accounts Payable	\$ 3,231	\$ 3,231
Accrued Payroll	<u>7,355</u>	<u>7,355</u>
Total Liabilities	<u>\$ 10,586</u>	<u>\$ 10,586</u>
 FUND BALANCE		
Unreserved	<u>\$ 21,851</u>	<u>\$ 21,851</u>
Total Fund Balance	<u>\$ 21,851</u>	<u>\$ 21,851</u>
Total Liabilities and Fund Balance	<u>\$ 32,437</u>	<u>\$ 32,437</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD FIRE DEPARTMENT
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets

Fund balance - total governmental funds	\$ 21,851
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 are not reported in the funds	
Add: Capital Assets	77,228
Deduct: Accumulated Depreciation	<u>(25,043)</u>
Net assets of governmental activities	<u>\$ 74,036</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD FIRE DEPARTMENT
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>Total Governmental Funds</u>
REVENUE		
Government Contributions		
City of Litchfield	\$ 30,000	\$ 30,000
Litchfield Township	30,000	30,000
Scipio Township	15,095	15,095
Butler Township	8,505	8,505
TIFA Donation	8,008	8,008
Other	<u>14</u>	<u>14</u>
Total Revenue	<u>\$ 91,622</u>	<u>\$ 91,622</u>
EXPENDITURES		
Salaries and Wages	\$ 22,264	\$ 22,264
Payroll Taxes	1,703	1,703
Workers Compensation	1,733	1,733
Office Supplies	406	406
Operating Supplies	1,809	1,809
Uniforms	22	22
Professional Fees	1,745	1,745
Memberships	142	142
Utilities	4,724	4,724
Training	1,342	1,342
Insurance	9,901	9,901
Advertising	119	119
Building & Equipment Maintenance	12,336	12,336
Capital Outlay - Nondepreciable	14,235	14,235
Capital Outlay - Depreciable	<u>2,126</u>	<u>2,126</u>
Total Expenditures	<u>\$ 74,607</u>	<u>\$ 74,607</u>
Excess of Revenue Over (Under) Expenditures	\$ 17,015	\$ 17,015
FUND BALANCE - July 1, 2006	<u>4,836</u>	<u>4,836</u>
FUND BALANCE - June 30, 2007	<u><u>\$ 21,851</u></u>	<u><u>\$ 21,851</u></u>

The accompanying notes are an integral part of this statement.

LITCHFIELD FIRE DEPARTMENT
Reconciliation of the Statement of Revenue, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities

Net changes in fund balances - total governmental funds \$ 17,015

Amounts reported for governmental activities in the statement of net assets 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

Add: Capital Outlay	2,126
Deduct: Depreciation Expense	<u>(7,723)</u>

Change in net assets of governmental activities \$ 11,418

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

LITCHFIELD FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Litchfield Fire Department (the "Department") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The following is a summary of the significant accounting policies used by the Department:

Financial Reporting Entity

The Litchfield Fire Department is a joint venture between the City of Litchfield and Litchfield Township in Hillsdale County, Michigan. It is governed by a seven-member board comprised of two members of the Litchfield City Council, two members of the Litchfield Township Board, one member of the Scipio Township and Butler Township Boards, and one member from the community at large.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Department as a whole. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Department's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Department, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Department.

Fund Financial Statements - Fund financial statements report detailed information about the Department. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column. The Department records all activities within the General Fund - - no other funds are required.

Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the 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 measureable and available. Revenue is considered to be available if it is to be collected with the current period or soon enough thereafter to pay liabilities of the current period. For this

LITCHFIELD FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

purpose, the Department considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. Under the modified accrual basis, government contributions and grants are considered to be both measurable and available at fiscal year-end.

Financial Statement Presentation

The Department uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Department functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Department reports the following major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Department maintains a capitalization threshold of \$1,000. The Department does not possess any infrastructure. As of June 30, 2007, the Department does not have title to any real property or rescue vehicles. The City of Litchfield and Litchfield Township have title, either jointly or individually, to the fire station and all rescue vehicles used in the Department's operations.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Fire Equipment	10 years

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The

LITCHFIELD FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

legal level of budgetary control has been established by the Fire Board at the line-item level. Any budgetary modifications may only be made by resolution of the Fire Board. Encumbrance accounting is not used, and all annual appropriations lapse at fiscal year end.

The Department follows these procedures in establishing the budget as reflected in the financial statements:

- 1) Prior to June 30, the Department submits a proposed operating budget for the upcoming fiscal year to the Litchfield City Council and the Litchfield Township Board for approval.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) The Fire Board is authorized to transfer budgeted amounts between line items; however, the Litchfield City Council and the Litchfield Township Board must approve any revisions that change the total expenditures of the Department.
- 5) During the year the budget is monitored, and amendments to the budget are made when deemed necessary.

During the year, the following accounts had expenditures in excess of budgeted amounts, which is a violation of State of Michigan budgeting laws:

	<u>Budget</u>	<u>Actual</u>	<u>Over Budget</u>
Building & Equipment Maintenance	\$ 10,000	\$ 12,336	\$ 2,336

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes authorize the 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 obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated 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. As of June 30, 2007, the Department's deposits are in accordance with statutory authority.

The Department's deposits and investments are subject to several types of risk, which are examined in more detail as follows:

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department minimizes credit risk by limiting investments to the types of securities allowed by State law. The Department has no policy that would further limit its investment choices.

LITCHFIELD FIRE DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk - The Department places no limit on the amount the Department may invest in any one issuer.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Department does not have a formal policy for custodial credit risk. At March 31, 2007, the carrying amount of the Department's bank deposits was \$30,882 and the bank's balance was \$31,015. The entire bank balance was covered by federal depository insurance.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Department has no policy that specifically identifies interest rate risk.

Foreign Currency Risk - The Department is not authorized to invest in investments which have this type of risk.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	Ending <u>Balance</u>
Equipment	\$ 75,102	\$ 2,126	\$ 0	\$ 77,228
Less: accumulated depreciation	<u>(17,320)</u>	<u>(7,723)</u>	<u>0</u>	<u>(25,043)</u>
Total capital assets, net	<u>\$ 57,782</u>	<u>\$ (5,597)</u>	<u>\$ 0</u>	<u>\$ 52,185</u>

NOTE 5 - UNEMPLOYMENT TAXES

The Department is a reimbursing employer to the Michigan Unemployment Insurance Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of June 30, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfiled.

NOTE 6 - RISK MANAGEMENT

The Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Department has purchased commercial insurance for claims relating to general liability, excess liability, auto liability, physical damage, workers compensation, and other appropriate coverages. There has been no significant reduction in insurance coverages and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 7 - COMMITMENTS

At its November, 2006, meeting, the Fire Board approved the purchase of a new Equipment Truck with a base price of \$35,647. Financing for the truck, along with related equipment, was provided through a \$25,000 donation and a \$25,000 loan from the Tax Increment Financing Authority (TIFA) of the City of Litchfield. The truck was not completed and delivered to the Department until after June 30, 2007. Lights and radio equipment totaling \$8,134 were purchased separately, prior to June 30. Title to this truck and all related equipment will be held jointly by the City of Litchfield and Litchfield Township.

REQUIRED SUPPLEMENTARY INFORMATION

LITCHFIELD FIRE DEPARTMENT
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget amounts</u>		<u>Actual</u>	Actual
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
REVENUE				
Government Contributions:				
City of Litchfield	\$ 30,000	\$ 30,000	\$ 30,000	\$ 0
Litchfield Township	30,000	30,000	30,000	0
Scipio Township	15,095	15,095	15,095	0
Butler Township	8,505	8,505	8,505	0
TIFA Donation	0	25,000	8,008	(16,992)
TIFA Loan	0	25,000	0	(25,000)
Other	<u>0</u>	<u>0</u>	<u>14</u>	<u>14</u>
Total Revenue	<u>\$ 83,599</u>	<u>\$ 133,600</u>	<u>\$ 91,622</u>	<u>\$ (41,978)</u>
EXPENDITURES				
Salaries and Wages	\$ 28,500	\$ 25,300	\$ 22,264	\$ (3,036)
Payroll Taxes	1,750	2,850	1,703	(1,147)
Workers Compensation	1,900	1,900	1,733	(167)
Office Supplies	600	600	406	(194)
Operating Supplies	1,500	1,900	1,809	(91)
Uniforms	2,500	1,800	22	(1,778)
Professional Fees	3,000	2,500	1,745	(755)
Firemen Wellness	300	300	0	(300)
Membership Dues	1,000	500	142	(358)
Utilities	6,000	6,000	4,724	(1,276)
Training	3,000	3,000	1,342	(1,658)
Insurance	10,520	10,520	9,901	(619)
Advertising	300	300	119	(181)
Building and Equipment Maintenance	6,900	10,000	12,336	2,336
Capital Outlay - Nondepreciable	5,000	55,300	14,235	(41,065)
Capital Outlay - Depreciable	<u>3,000</u>	<u>3,000</u>	<u>2,126</u>	<u>(874)</u>
Total Expenditures	<u>\$ 75,770</u>	<u>\$ 125,770</u>	<u>\$ 74,607</u>	<u>\$ (51,163)</u>
Excess of Revenue Over (Under) Expenditures	\$ 7,829	\$ 7,830	\$ 17,015	\$ 9,185
FUND BALANCE - July 1, 2006	<u>4,836</u>	<u>4,836</u>	<u>4,836</u>	<u>0</u>
FUND BALANCE - June 30, 2007	<u>\$ 12,665</u>	<u>\$ 12,666</u>	<u>\$ 21,851</u>	<u>\$ 9,185</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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November 20, 2007

Litchfield Fire Department
Litchfield, Michigan

In planning and performing our audit of the financial statements of Litchfield Fire Department of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

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. We consider the following deficiency to be a significant deficiency in internal control.

Financial Statement Preparation

The Department does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenue and expenditures, to track changes in capital assets, and to present required financial statement disclosures. We recognize the time and expense that would be required to obtain the necessary training and expertise to perform this task internally. We recommend that you continue to carefully review the draft financial statements and notes prepared by your external auditors prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

In addition, we noted other matters involving the internal control and its operation that we did not consider to be significant deficiencies or material weaknesses.

Annual Budget

There was one account which had expenditures in excess of the budget for the year which was the result of an auditor journal entry for accounts payable. We recommend that the budget be carefully and amended to prevent over-expenditure, including instances where expenditures are incurred prior to year-end but paid for afterwards.

Investment Policy

State law requires governmental units to adopt an Investment Policy to address custody and safekeeping of public funds. It is our understanding that the Department did adopt a policy subsequent to June 30, 2007.

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



Jonesville, Michigan
November 20, 2007