

### 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 SPRINGPORT CLARENCE REGION. FIRE	County JACKSON/CALHOUN
Fiscal Year End 02/28/2007	Opinion Date 11/08/2007	Date Audit Report Submitted to State 11/16/2007	

We affirm that:

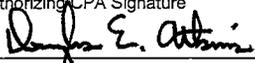
We are certified public accountants licensed to practice in Michigan.

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) MARKOWSKI & COMPANY CPAs		Telephone Number (517) 782-9351	
Street Address 2880 SPRING ARBOR RD.		City JACKSON	State MI
			Zip 49203
Authorizing CPA Signature 		Printed Name DOUGLAS E. ATKINS, CPA	
		License Number 1101016353	

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**

FINANCIAL STATEMENTS

FEBRUARY 28, 2007

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**

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# MARKOWSKI & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD • JACKSON • MICHIGAN • 49203

PHONE (517) 782-9351

FAX (517) 782-0599

K. LAVERNE MARKOWSKI, C.P.A.  
RONALD L. MARKOWSKI, C.P.A.  
DOUGLAS E. ATKINS, C.P.A.  
SCOTT O. McLANE.  
RANDALL D. BIDDIX, C.P.A.

**MEMBERS:**  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

ESTATE PLANNING COUNCIL OF  
SOUTH CENTRAL MICHIGAN

### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Springport/Clarence Regional Fire Board  
Springport, Michigan

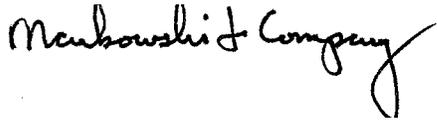
We have audited the accompanying financial statements of the governmental activities and the major fund of the **Springport/Clarence Regional Fire Board** as of February 28, 2007, and for the year then ended. These financial statements are the responsibility of the Springport/Clarence Regional Fire Board's 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.

The budgetary comparison information on page 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Springport Clarence Regional Fire Board as of February 28, 2007, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

The Township has elected not to present Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be a part of, the basic financial statements.



**MARKOWSKI & COMPANY CPAs**  
November 8, 2007

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**GOVERNMENTAL FUNDS BALANCE SHEETS/STATEMENT OF NET ASSETS**  
**FEBRUARY 28, 2007**

	GOVERNMENTAL FUND	RECONCILING ITEMS	STATEMENT OF NET ASSETS
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 13,317	-	\$ 13,317
Investments	29,000	-	29,000
Accounts receivable	20,425	-	20,425
Prepaid insurance	22,802	-	22,802
Equipment, (net of depreciation)	-	325,187 (a)	325,187
Total assets	\$ 85,544	\$ 325,187	410,731
<b>LIABILITIES:</b>			
Accounts payable	\$ 1,554	-	1,554
Accrued payroll	11,502	-	11,502
Total liabilities	13,056	-	13,056
<b>FUND BALANCES:</b>			
Reserved	22,802		
Unreserved/Undesignated	49,686		
Total fund balance	72,488		
Total liabilities and fund balance	\$ 85,544		
<b>NET ASSETS:</b>			
Invested in capital assets		325,187	325,187
Unrestricted		-	72,488
Total net assets		\$ 325,187	\$ 397,675

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

(a) Capital assets are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the government-wide statement of net assets.

At February 28, 2007, equipment can be summarized as follows:

Equipment at cost	\$ 380,003
Less: Accumulated depreciation	(54,816)
	\$ 325,187

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

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGED IN FUND BALANCES**  
**- GOVERNMENTAL FUND / STATEMENT OF ACTIVITIES**  
**YEAR ENDED FEBRUARY 28, 2007**

	GOVERNMENTAL FUND	RECONCILING ITEMS	STATEMENT OF ACTIVITIES
<b>REVENUES</b>			
Local unit contributions	\$ 40,000	\$ -	\$ 40,000
Fire and rescue	82,300	-	82,300
Interest income	169	-	169
Donations	1,959	-	1,959
Miscellaneous	2,767	-	2,767
Total revenues	<u>127,195</u>	<u>-</u>	<u>127,195</u>
<b>EXPENDITURES</b>			
Firefighter Wages	36,538	-	36,538
Training Wages	10,465	-	10,465
Administrative Wages	1,500	-	1,500
Social security	3,666	-	3,666
Office supplies	1,624	-	1,624
Professional fees	960	-	960
Gasoline & Oil	597	-	597
Mileage Reimbursement	2,385	-	2,385
Utilities	8,182	-	8,182
Repairs and maintenance	6,243	-	6,243
Repair and maintenance - Radios	3,049	-	3,049
Uniforms	338	-	338
Training supplies	2,367	-	2,367
Insurance	31,071	-	31,071
Insurance Building	443	-	443
Miscellaneous	1,465	-	1,465
Depreciation	-	26,691 (a)	26,691
Equipment expense	1,683	-	1,683
Dues & licenses	500	-	500
Other expenses	1,500	-	1,500
Capital outlay	14,236	(14,236) (a)	-
Total expenditures/expenses	<u>128,812</u>	<u>12,455</u>	<u>141,267</u>
<b>EXCESS OF REVENUE OVER</b>			
EXPENDITURES/CHANGE IN NET ASSETS	(1,617)	(12,455)	(14,072)
<b>FUND BALANCES/NET ASSETS - Beginning</b>			
	<u>74,105</u>	<u>337,642</u>	<u>411,747</u>
<b>FUND BALANCES/NET ASSETS - Ending</b>			
	<u>\$ 72,488</u>	<u>\$ 325,187</u>	<u>\$ 397,675</u>

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

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND  
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 28, 2007

(a) Capital outlays are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the statement of activities.

The difference can be summarized as follows:

Excess of Expenditures over Revenues	\$	(1,617)
Add: Depreciation Expense		26,691
Subtract: Capital Outlay		(14,236)
Change in Net Assets	<u>\$</u>	<u>12,455</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**INDEX TO NOTES TO THE FINANCIAL STATEMENTS**

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**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Description of Organization’s Operations:**

The Springport/Clarence Regional Fire Board (the Fire Board) was formed in September 2003 under the provisions of Act 33 of the Public Acts of 1951 and an agreement between Springport and Clarence Townships. The purpose of the agreement was to organize a fire department with sufficient equipment and personnel to provide fire protection to the residents of the two townships.

The Springport/Clarence Regional Fire Board is governed by a five member board. Each township board appoints two members; the fifth member is appointed by the four township appointed members, and must be a resident of one of the townships.

**B. Measurement Focus/Basis of Accounting:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

**C. Budget and Budgetary Accounting:**

Formal budgetary integration is employed as a management control device during the year for the General Fund. The budget was adopted on a cash basis. The difference between the cash basis and modified accrual, which is consistent with the Fire Board’s financial reporting, will be an immaterial amount. The budget can be amended by a majority vote of the Fire Board, subject to the approval of the two townships.

**D. Capital Assets:**

All capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental fund financial statements. Depreciation is computed using the straight-line method, over the estimated useful life of the asset.

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**D. Capital Assets: (Continued)**

Capital assets are defined as assets with an initial individual cost of \$1,000 or greater and an estimated useful life of more than one year. Capital assets are recorded at their cost, or fair market value for donated assets. The Springport/Clarence Regional Fire Board elected to begin capitalizing and depreciating capital assets effective March 1, 2004.

The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives.

**E. Fund Equity:**

The unreserved fund balances for governmental funds represent the amount available for financing future operations.

A portion of the fund balance has been reserved and not available for spending. This amount equals the insurance premiums paid during the current fiscal year, for insurance coverage in the next fiscal year (prepaid insurance).

**F. Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**G. Risk Financing:**

The Fire Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the year.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**BUDGET VIOLATIONS:**

Public Act #621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Fire Board's actual and budgeted expenditures for the budgetary funds have been shown on a functional basis. To provide a more accurate picture of the Fire Board's operating costs, certain revenues and expenditures have been reclassified.

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:** (Continued)

BUDGET VIOLATIONS: (continued)

As an example, training costs are budgeted as one item, while the financial statements break these costs into wages and supplies. For determining variations to be considered as violations of Public Act 621, the budgeted amounts were treated as spread to the appropriate items. For example, the \$10,465 over expenditure for training wages is not reported, as it is covered by the \$11,433 under expenditure of training supplies. For the year ended February 28, 2007 the Board incurred expenditures which were in excess of the amounts appropriated. These variances are as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>EXPENDITURE</u>
Incident wages	\$ 22,200	\$ 28,063	\$ (5,863)
Mileage Reimbursement	\$ -	\$ 2,385	\$ (2,385)
Equipment expense	\$ -	\$ 1,683	\$ (1,683)
Treasurers salary	\$ -	\$ 1,350	\$ (1,350)
Repair & Maintenance - Radios	\$ 1,100	\$ 3,049	\$ (1,949)
Uniforms, dues & licenses	\$ -	\$ 838	\$ (838)

**NOTE 3 – CASH:**

The Board's Treasurer is authorized by state law and a resolution from the Board of Trustees to invest surplus funds as follows:

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a federally insured bank or credit union, but only if the bank, or credit union meets all criteria as a depository of public funds contained in state law.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's cash and cash equivalents are as follows:

<u>CASH AND INVESTMENTS</u>	<u>FINANCIAL STMT.</u>	
	<u>AMOUNT</u>	<u>BANK BALANCE</u>
Insured (FDIC)	\$ 42,317	\$ 42,602
Uninsured	-	-
	<u>\$ 42,317</u>	<u>\$ 42,602</u>

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3 – CASH: (continued)**

The Fire Board’s investments consist of a certificate of deposit with an original maturity of six months.

**Custodial Credit Risk**

At this time there is no risk of losing cash deposited into the bank account. The Fire Board’s total cash balance is below the \$100,000 amount, which would be insured by FDIC standards.

**NOTE 4 – CAPITAL ASSETS:**

The Fire Board elected to capitalize and depreciate only items bought in fiscal 2005 and thereafter in according with GASB 34. Activity for fixed assets which have been capitalized by the Fire Board is summarized below:

	BALANCE 03/01/06	ADDITIONS	DELETIONS	BALANCE 02/28/07
Vehicles	\$ 313,502	\$ -	\$ -	\$ 313,502
Machinery & Equipment	52,265	14,236	-	66,501
Total Capital Assets	365,767	14,236	-	380,003
Accumulated Depreciation	(28,125)	-	(26,691)	(54,816)
Net Capital Assets	<u>\$ 337,642</u>	<u>\$ 14,236</u>	<u>\$ (26,691)</u>	<u>\$ 325,187</u>

**NOTE 5 – LEASE COMMITMENTS:**

The Fire Board has an operating lease with the Village of Springport for its fire station. There is no set expiration date, and the rent is set at \$1 annually. Rent paid by the SCFB during the year ended February 28, 2007 totaled \$1.

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2007**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Beginning of Year Fund Balance	\$ 74,105	\$ 74,105	\$ 74,105	\$ -
Resources (Inflows)				
Local unit contributions	40,000	40,000	40,000	-
Fire and rescue runs	93,625	87,595	82,300	(5,295)
Interest income	200	150	169	19
Miscellaneous	-	1,500	2,767	1,267
Contributions	-	-	1,959	1,959
Grants	4,000	2,100	-	(2,100)
Subtotal - Current revenues	<u>137,825</u>	<u>131,345</u>	<u>127,195</u>	<u>(4,150)</u>
Amounts available for appropriation	<u>211,930</u>	<u>205,450</u>	<u>201,300</u>	<u>(4,150)</u>
Charges to Appropriations (Outflows)				
Officers salary	8,400	8,500	8,474	26
5th Board Member	210	210	150	60
Incident wages	34,000	22,200	28,063	(5,863)
Training wages	-	-	10,465	(10,465)
Treasurers salary	-	-	1,350	(1,350)
Social security	9,000	7,000	3,666	3,334
Office supplies	2,000	3,000	1,624	1,376
Professional fees	1,000	1,000	960	40
Gasoline & Oil	3,000	820	597	223
Mileage Reimbursement	-	-	2,385	(2,385)
Utilities	7,700	8,400	8,183	217
Repairs and maintenance	8,441	6,243	6,243	-
Repair and maintenance - Radios	600	1,100	3,049	(1,949)
Uniforms	-	-	338	(338)
Training supplies	10,000	13,800	2,367	11,433
Insurance	33,000	31,300	31,071	229
Insurance Building	459	458	443	15
Miscellaneous	4,700	3,200	1,465	1,735
Contingencies	4,315	3,640	1,500	2,140
Account 206	4,000	2,000	-	2,000
Equipment expense	-	-	1,683	(1,683)
Dues and licenses	-	-	500	(500)
Capital outlay	7,000	14,400	14,236	164
Grant Expense	-	-	-	-
Total Charges to Appropriations	<u>137,825</u>	<u>127,271</u>	<u>128,812</u>	<u>(1,541)</u>
Budgetary Fund Balance-February 28, 2007	<u>\$ -</u>	<u>\$ 78,179</u>	<u>\$ 72,488</u>	<u>\$ (5,691)</u>

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

# MARKOWSKI & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD • JACKSON • MICHIGAN • 49203

PHONE (517) 782-9351

FAX (517) 782-0599

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ESTATE PLANNING COUNCIL OF  
SOUTH CENTRAL MICHIGAN

November 8, 2007  
Board of Directors  
Springport/Clarence Regional Fire Board

We have audited the financial statements of Springport/Clarence Regional Fire Board for the year ended February 28, 2007, and have issued our report thereon dated November 8, 2007. Professional standards require that we provided you with the following information related to our audit.

### **Our responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated July 9, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Springport/Clarence Regional Fire Board. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Springport/Clarence Regional Fire Board are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended February 28, 2007. We noted no transactions entered into by Springport/Clarence Regional Fire Board during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Springport/Clarence Regional Fire Board's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Springport/Clarence Regional Fire Board, either individually or in the aggregate, indicate matters that could have a significant effect on the Springport/Clarence Regional Fire Board's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

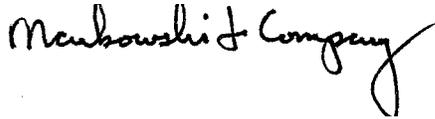
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Springport/Clarence Regional Fire Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit. We did discover some information regarding Springport/Clarence Regional Fire Board controls and policies which we believe warrant Board attention. These are discussed in depth in the accompanying memorandum of comments and recommendations.

This information is intended solely for the use of the Board of Directors and management of Springport/Clarence Regional Fire Board and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



**MARKOWSKI & COMPANY CPAs**

**SPRINGPORT/CLARENCE REGIONAL FIRE BOARD  
MEMORANDUM OF COMMENTS AND RECOMMENDATIONS  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

**SEGREGATION OF DUTIES**

Because the Springport/Clarence Regional Fire Board's administrative staff consists of one person, proper segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Springport/Clarence Regional Fire Board, and will be a concern every year.

To counter this weakness, the Board needs to continue its involvement in financial activities. As an example, approval of bills for payment should take place at each meeting. A copy of the treasurer's report should be attached to the minutes, which indicates the bills to be paid (and those paid in advance of the meeting under Board policy). After Board members have reviewed the treasurer's report and approved it and the payment of bills, the approval should be documented in the minutes.

Another means to achieve some segregation of duties would be for a board member independent of the treasurer to receive the bank statements directly from the bank. This member should promptly review the transactions and cancelled checks for any unusual activity. Upon completion of this review, the statement should be given to the treasurer for processing.

The Board should also consider requiring a second signature on all checks. This allows independent review prior to payment, which minimizes the risk for unauthorized disbursements.

A Board policy should be developed giving the Treasurer the authority to pay certain bills, such as utilities, prior to Board meetings. Supporting documentation (invoices, pay sheets, etc.) should be available at the meeting for review for all bills, including those paid in advance. At this time management is doing the above without a formal policy in place. This is a common practice to avoid incurring late charges, and does not create control problems as long as documentation is presented to the Board when requesting approval of these payments.

**AUTHORIZATIONS OF BANK ACCOUNTS AND INVESTMENTS**

Board approval should be required when opening or closing bank accounts or purchasing investments. This approval should be documented in the minutes. A new account was opened during the year ended February 28, 2007 with no mention of this in the Board minutes.

If it is possible for new accounts to be opened without Board knowledge, this provides a means to deposit checks payable to the Fire Board in an account outside the control system. Such an account was recently used to embezzle over \$200,000 from a local governmental unit.

### **EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated (budgeted). When creating the budget, the Board should keep in mind that the financial statements will be prepared using the modified accrual method. Therefore, the budget should also be based on the modified accrual method.

This means that revenues for the fiscal year will include charges for February runs, even though the Fire Board doesn't receive this money until March. Accordingly, expenses for the fiscal year will include accruals for February bills received and paid after the fiscal year end, and for February payroll hours paid after fiscal year end. With this in mind, we recommend that the Board continue to monitor and amend the budget as necessary.

### **APPROVED VENDOR LIST**

A recent trend in fraud cases has been for the perpetrator to either create a fictitious vendor, or replace a check written to an approved vendor, or replace a check written to an approved vendor with one to someone else. As a means of protecting yourself, we recommend that the Board approve a list of vendors (and limit issuance of checks to only persons or companies named on that list).

### **PAYROLL ACCOUNTING**

The current practice for payroll accounting is to record the net pay amount as payroll expense, with the employee withholdings and required match of payroll taxes both charged to payroll tax expense. The preferred method of accounting would be to charge the gross pay to payroll expense, and the required payroll tax match to the payroll tax account.

Also, training wages are presently combined with other training expenses in a single general ledger account for training. It would allow better reconciliation of payroll expenses to the governmental payroll reports (and therefore improve controls) if a separate account were established for training wages to be recorded in.

### **CONDITION OF RECORDS**

The accounting records continue to improve and the treasurer is most helpful and cooperative. Her willingness to implement our suggested changes is also appreciated. We look forward to continuing our work with the Fire Board in the future.