

### Auditing Procedures Report

Issued under P.A. 2 of 1988, 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 Luther Fire District #1	County Lake
Fiscal Year End March 31, 2007	Opinion Date May 31, 2007	Date Audit Report Submitted to State June 2007	

We affirm that:

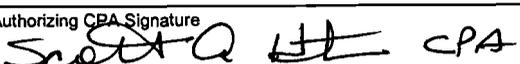
We are certified public accountants licensed to practice in Michigan.

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 type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, PC		Telephone Number 231-775-9789		
Street Address 134 West Harris Street		City Cadillac	State MI	Zip 49601
Authorizing CPA Signature 	Printed Name Scott A. Hunter, C.P.A.		License Number 1101009890	

**LUTHER FIRE DISTRICT NUMBER ONE**

**LAKE COUNTY, MICHIGAN**

**MARCH 31, 2007**

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

231.775.9789

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

MARCH 31, 2007

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*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

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June 1, 2007

INDEPENDENT AUDITORS' REPORT

To the Fire Board  
Luther Fire District Number One  
Lake County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Luther Fire District Number One, Lake County, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Fire District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fire District'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 Luther Fire District Number One, Lake County, Michigan, as of March 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 13 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Luther Fire District Number One, Lake County, Michigan's basic financial statements. The other supplementary information is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Luther Fire District Number One board's discussion and analysis of the financial results for the fiscal year ended March 31, 2007.

**Financial Highlights**

- ◆ The assets of the Fire District exceeded its liabilities at the close of the fiscal year by \$328,336. Of this amount, \$20,701 may be used to meet the Fire District's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$25,756.

**Overview of the 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 District 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 the overall financial status. These statements present governmental activities.

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

The notes to the financials 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.

**Government-Wide Financial Statements** The *government-wide financial statements* are designed to provide readers with a broad overview of the Fire Department's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Fire Department's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Department is improving or deteriorating.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

The *Statement of Activities* presents information showing how the Fire Department's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Fire Department's that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Fire Department include public safety. The fire department supports no business-type activities.

### **Fund Financial Statements**

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

The Fire District has the following types of funds:

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire Department's financial position over time. The Net Assets of the Fire Department are \$328,336 at March 31, 2007, meaning the Fire Department's assets were greater than its liabilities by this amount.

**Luther Fire District Number One**  
**Net Assets as of March 31, 2007**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current Assets	\$ 37,729
Non Current Assets	
Capital Assets	\$ 605,975
Less: Accumulated Depreciation	<u>(298,340)</u>
Total Non Current Assets	<u>\$ 307,635</u>
<b>Total Assets</b>	<u><u>\$ 345,364</u></u>
<b>Liabilities</b>	<u>\$ 17,028</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	\$ 307,635
Unrestricted	<u>20,701</u>
<b>Total Net Assets</b>	<u><u>\$ 328,336</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 345,364</u></u>

The most significant portions of the Fire Department's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire Department used to acquire or construct the asset.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

At the end of the current fiscal year, the Fire Department is able to report a positive balance in net assets for the government as a whole.

The total net assets of the Fire Department decreased by \$21,124 in this fiscal year.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire Department. The condensed information was derived from the government-wide Statement of Activities.

**Luther Fire District Number One**  
**Change in Net Assets**  
**for the Fiscal Year Ended March 31, 2007**

	<u>Governmental</u> <u>Activities</u>
<b><u>Revenues</u></b>	
<b>Operating Grants and Contributions</b>	\$ 79,647
<b>General Revenues</b>	
Investment Earnings	1,083
Other	<u>2</u>
Total Revenues	\$ 80,732
<b><u>Expenses</u></b>	
Public Safety	<u>101,856</u>
Changes in Net Assets	\$ (21,124)
NET ASSETS - Beginning of Year	<u>349,460</u>
NET ASSETS - End of Year	<u><u>\$ 328,336</u></u>

**Governmental Activities**

During the fiscal year ended March 31, 2007, the Fire Department's net assets decreased by \$21,124. The majority of this decrease represents the degree to which increases in ongoing revenues have not outstripped similar increases in ongoing expenses. This is partially true due to the fact that GASB 34 now requires the Fire Department to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Luther Fire District Number One comes from Ellsworth Township and Newkirk Township. Both townships levied fire protection millages this fiscal year. Ellsworth Township and Newkirk Township each levied 2.02 mills for fire protection. This revenue is shown as contributions from local units.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

The Fire Department's governmental activities expenses are dominated by public safety expenses that total 100% of total expenses. The Fire Department spent \$101,856 in fiscal year 2007 on public safety expenses. Expenses for depreciation represent a large portion of the public safety expenses at \$27,437.

**Financial Analysis of the Fire District as a Whole**

During the year \$5,792 was spent on new equipment. All other General Fund money was spent for operating expenses of the Fire District.

**Financial Analysis of the Fire District's Funds**

The General Fund pays for the Fire District's governmental services. The most significant are salaries which accounted for \$23,125.

**Capital Asset and Long-Term Debt Activity**

The Fire District's spent \$5,792 on new capital assets.

*Luther Fire District Number One*  
*Capital Assets as of March 31, 2007*

	<b>Governmental Activities</b>
Buildings	\$ 13,230
Building Improvements	71,500
Machinery and Equipment	<u>521,245</u>
	\$ 605,975
Less Accumulated Depreciation	<u>(298,340)</u>
<b>Net Capital Assets</b>	<u><u>\$ 307,635</u></u>

**Long-Term Debt.** As of March 31, 2007, the Fire Department had no outstanding debt.

**Budgetary Highlights**

For the 2005-2007 fiscal year, the budget was amended to reflect the receipt of a grant to be used for the purchase of equipment. The equipment was not purchased until the 2007-2008 fiscal year.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

**Economic Condition and Outlook**

The Fire District is expected to be supported by the Townships in the future.

The mills to be levied for the 2007 tax roll for fire protection are expected to be similar to 2006.

These factors were considered in preparing the Fire District's budgets for the 2007-08 fiscal year.

**Contacting the Fire District's Management**

This financial report is designed to provide our taxpayers, creditors, investors, and customers with a general overview of the Fire District's finances and to demonstrate the Fire District's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Fire District Secretary-Treasurer at 812 Elm Street, Luther, Michigan 49656 or call (231) 797-5402.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN  
STATEMENT OF NET ASSETS  
MARCH 31, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 30,935
Prepaid Expenditures	6,794
Total Current Assets	\$ 37,729
 <u>NONCURRENT ASSETS</u>	
Capital Assets	\$ 605,975
Less: Accumulated Depreciation	(298,340)
Total Noncurrent Assets	\$ 307,635
TOTAL ASSETS	\$ 345,364
 <u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 622
Payroll Withholdings	134
Deferred Revenue	5,055
Accrued Wages	5,055
Total Liabilities	\$ 10,866
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 307,635
Unrestricted	20,701
Total Net Assets	\$ 328,336
TOTAL LIABILITIES AND NET ASSETS	\$ 339,202

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

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2007

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>
				<u>TOTALS</u>
<u>PRIMARY GOVERNMENT</u>				
<u>GOVERNMENTAL ACTIVITIES</u>				
Public Safety	\$ 101,856	\$	79,647	\$ (22,209)
<u>GENERAL REVENUES</u>				
Other Revenue				\$ 2
Interest				1,083
Total General Revenues				\$ 1,085
Change in Net Assets				\$ (21,124)
<u>NET ASSETS</u> - Beginning of Year				349,460
<u>NET ASSETS</u> - End of Year				\$ 328,336

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

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

GOVERNMENTAL FUND

BALANCE SHEET  
MARCH 31, 2007

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 30,935
Prepaid Expenditures	<u>6,794</u>
 TOTAL ASSETS	 <u>\$ 37,729</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts Payable	\$ 622
Payroll Withholdings	134
Deferred Revenue	11,217
Accrued Wages	<u>5,055</u>
 Total Liabilities	 <u>\$ 17,028</u>
 <u>FUND BALANCE</u>	
Reserved	
Prepaid Expenditures	\$ 6,794
Unreserved	
Undesignated	<u>13,907</u>
 Total Fund Balance	 <u>\$ 20,701</u>
 TOTAL LIABILITIES AND FUND BALANCE	  <u>\$ 37,729</u>

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

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

GOVERNMENTAL FUND

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2007

Total Fund Balance for Governmental Fund	\$ 20,701
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	605,975
Accumulated Depreciation	<u>(298,340)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 328,336</u></u>

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

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

GOVERNMENTAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2007

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Township of Ellsworth	\$ 39,433
Township of Newkirk	40,214
Miscellaneous	2
Interest	1,083
	<hr/>
Total Revenues	\$ 80,732
 <u>EXPENDITURES</u>	
Public Safety	
Fire Protection	
Wages	\$ 23,125
Employee Benefits	2,973
Office Supplies	162
Gas and Oil	1,266
Other Operating Supplies	2,412
Insurance	15,262
Transportation	537
Utilities	6,851
Repairs and Maintenance	16,603
Building Improvements	925
Miscellaneous	152
Education	3,842
Capital Outlay	6,101
	<hr/>
Total Expenditures	\$ 80,211
	 <hr/>
Excess (Deficiency) of Revenues Over Expenditures	\$ 521
 <u>FUND BALANCE</u> - Beginning of Year	 <hr/> 20,180
<u>FUND BALANCE</u> - End of Year	 <hr/> <hr/> \$ 20,701

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

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

GOVERNMENTAL FUND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2007

Net change in Fund Balance - Total Governmental Fund	\$ 521
Amounts reported for governmental 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	(27,437)
Capital Outlay	<u>5,792</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (21,124)</u></u>

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

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Luther Fire District Number One, Lake County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

**A. Reporting Entity**

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

Luther Fire District Number One is a joint venture fire department supported by Ellsworth Township and Newkirk Township. Each township levies millage to support the fire department. The property tax collections and taxes receivable are recognized by the individual townships. The Fire District recognizes the funds received from the two townships as contributions from other local units.

The reporting entity is the Luther Fire District Number One. The Fire District is governed by an elected Fire Board. As required by generally accepted accounting principles, these financial statements present the Fire District as the primary government.

Under the criteria established by accounting principles generally accepted in the United States of America, the Fire Department has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., 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, which normally are 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 District's government-wide activities are considered governmental activities.

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

The government-wide focus is more on the sustainability of the Fire Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

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

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible 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, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Fire District reports only one fund as follows:

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

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Fire Department's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The investment policy adopted by the Fire Department states that the fire district treasurer may invest fire department funds in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union meeting all criteria as a depository of public funds contained in state law.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

**2. *Receivables and Payables***

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

**3. *Inventories and Prepaid Items***

Inventories of supplies are considered to be immaterial and are not recorded. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Property Taxes***

The Fire District does not levy any property taxes.

**5. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**6. *Capital Assets***

Capital assets are defined by the Fire District as assets with an initial cost of more than \$2,500 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:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	75
Equipment	5-20

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

**7. *Compensated Absences (Vacation and Sick Leave)***

Employees are not allowed to accumulate vacation and sick pay.

**8. *Post-employment Benefits***

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

**9. *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.

**10. *Deferred Revenue***

Deferred revenue represents a grant for equipment to be spent in the 2007-2008 fiscal year.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The annual budget is adopted on the modified cash basis based on the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act." A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted in March 2006, or as amended by the Fire District Board from time to time throughout the year.

The appropriated budget is prepared by activity. The Fire District Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire District because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The District's deposits are all on deposit with Lake Osceola State Bank in Baldwin, Michigan.

*Investment rate risk.* The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

*Foreign currency risk.* The District is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

*Concentration of credit risk.* The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2007, \$202,518 of the government's bank balance of \$31,003 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end, the District held no investments.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

**B. Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, being depreciated				
Buildings and improvements	\$ 84,730	\$ 0	\$ 0	\$ 84,730
Machinery and equipment	515,453	5,792	0	521,245
Total capital assets, being depreciated	<u>\$600,183</u>	<u>\$ 5,792</u>	<u>\$ 0</u>	<u>\$605,975</u>
Less accumulated depreciation for:				
Buildings	\$ 37,491	\$ 1,865	\$ 0	\$ 39,356
Machinery and equipment	233,412	25,572	0	258,984
Total accumulated depreciation	<u>\$270,903</u>	<u>\$ 27,437</u>	<u>\$ 0</u>	<u>\$298,340</u>
Governmental activities capital assets, net	<u>\$329,280</u>	<u>\$(21,645)</u>	<u>\$ 0</u>	<u>\$307,635</u>

**IV. OTHER INFORMATION**

**A. Risk Management**

The Fire District is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Fire District 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.

LUTHER FIRE DISTRICT NUMBER ONE  
LAKE COUNTY, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2007

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Township of Ellsworth	\$ 39,915	\$ 39,433	\$ 39,433
Township of Newkirk	39,855	40,214	40,214
Miscellaneous	0	11,000	2
Interest	200	800	1,083
Total Revenues	\$ 79,970	\$ 91,447	\$ 80,732
<u>EXPENDITURES</u>			
Fire Protection			
Wages	\$ 28,265	\$ 28,265	\$ 23,125
Employee Benefits	3,650	3,650	2,973
Office Supplies	500	500	162
Gas and Oil	2,300	2,300	1,266
Other Operating Supplies	10,000	6,300	2,412
Insurance	16,100	16,100	15,262
Transportation	4,000	7,500	537
Utilities	7,800	7,800	6,851
Repairs and Maintenance	7,500	17,000	16,603
Building Improvements	2,500	1,000	925
Miscellaneous	2,576	176	152
Education	4,000	4,000	3,842
Capital Outlay	16,000	14,000	6,101
Total Expenditures	\$ 105,191	\$ 108,591	\$ 80,211
Excess (Deficiency) of Revenues Over Expenditures	\$ (25,221)	\$ (17,144)	\$ 521
<u>FUND BALANCE</u> - Beginning of Year	25,221	25,221	20,180
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 8,077	\$ 20,701

# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

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PHONE: 231-775-9789 FAX: 231-775-9749

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June 1, 2007

### COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

To the Fire Board  
Luther Fire District Number One  
Lake County  
Luther, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Luther Fire District Number One, Lake County, Luther, Michigan as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Luther Fire District Number One's internal control over financial reporting 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 governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit'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 that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

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 deficiencies to be significant deficiencies in internal control.

1. The relatively small number of people involved in the accounting functions of the Fire District and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

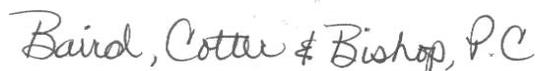
2. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As in the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

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

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

A handwritten signature in cursive script that reads "Baird, Cotter & Bishop, P.C." The signature is written in dark ink and is positioned below the printed name of the firm.