

### 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 SANDUSKY COMM. FIRE DEPT. ASSOC.	County SANILAC
Fiscal Year End FEBRUARY 28, 2007	Opinion Date AUGUST 23, 2007	Date Audit Report Submitted to State AUGUST 27, 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.)

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) BRINING & NARTKER, P.C.		Telephone Number (810) 648-4931		
Street Address 47 AUSTIN STREET		City SANDUSKY	State MI	Zip 48471
Authorizing CPA Signature 		Printed Name JOE NARTKER, CPA		License Number 11752

**SANDUSKY COMMUNITY  
FIRE DEPARTMENT ASSOCIATION  
SANDUSKY, MICHIGAN**

**FINANCIAL REPORT  
FEBRUARY 28, 2007**

**Brining & Nartker, P.C.  
Certified Public Accountants**

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION**

**TABLE OF CONTENTS**

	<b><u>PAGE NUMBER</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1 - 2
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Assets	3
Statement of Activities	4
FUND FINANCIAL STATEMENTS:	
Balance Sheet – Governmental Fund	5
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	6
NOTES TO THE FINANCIAL STATEMENTS	7 - 14
<b><u>SUPPLEMENTAL INFORMATION</u></b>	
Budgetary Comparison Schedule	15

# BRINING & NARTKER, P.C.

*Certified Public Accountants*

DOUGLAS P. BRINING, CPA  
JOSEPH H. NARTKER, CPA

MARK W. BRINING, CPA  
SARA J. ESSENMACHER, CPA  
JOY A. KERR, CPA  
EDWARD J. MOORE, CPA

Members of  
Michigan Association of  
Certified Public Accountants  
American Institute of  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Administrative Board of the  
Sandusky Community Fire Department Association

We have audited the accompanying basic financial statements of the Sandusky Community Fire Department Association, as of February 28, 2007, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 Sandusky Community Fire Department Association has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

In our opinion, except for the omission of management's discussion and analysis as discussed in the previous paragraph, which results in an incomplete presentation, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Sandusky Community Fire Department Association as of February 28, 2007, and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information on page 15 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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.

*Brining & Nartker, P.C.*  
BRINING & NARTKER, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

August 23, 2007

## **BASIC FINANCIAL STATEMENTS**

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION**  
**STATEMENT OF NET ASSETS**  
**FEBRUARY 28, 2007**

	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 190,720
Receivable - fire runs (net of allowance of \$9,000)	4,733
Prepaid expense	1,958
Restricted cash	99,440
Total Current Assets	<u>296,851</u>
Noncurrent assets:	
Capital assets (net of accumulated depreciation)	409,566
<b>TOTAL ASSETS</b>	<u><u>706,417</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	1,697
Accrued payroll taxes	4,179
Current maturities of long-term debt	22,011
Total Current Liabilities	<u>27,887</u>
Noncurrent Liabilities:	-
Noncurrent portion of long-term debt	248,343
<b>TOTAL LIABILITIES</b>	<u><u>276,230</u></u>
<b>NET ASSETS</b>	
Investment in capital fixed assets, net of related debt	139,212
Reserved	99,440
Unreserved	191,535
<b>TOTAL NET ASSETS</b>	<u><u>\$ 430,187</u></u>

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

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

**PROGRAM EXPENSES:**

Public safety	
Payroll	\$ 27,313
Social security taxes	2,089
Operating supplies	9,222
Safety gear	4,403
Telephone	1,848
Gas and Oil	1,548
Insurance	14,083
Electricity	3,431
Heating	3,560
Rent	11,833
Sewer and water charges	1,225
Maintenance - building	11,092
Maintenance - vehicle	2,268
Education and training	34
Membership dues	750
Depreciation	49,956
Debt - interest	-
Professional fees	3,208
Bad debts - fire runs	9,831
Miscellaneous	115

<b>TOTAL PROGRAM EXPENSES</b>	<u>157,809</u>
-------------------------------	----------------

**PROGRAM REVENUES:**

Charges for services	33,000
Operating contributions	<u>156,763</u>

<b>TOTAL PROGRAM REVENUES</b>	<u>189,763</u>
-------------------------------	----------------

<b>NET PROGRAM REVENUE</b>	<u>31,954</u>
----------------------------	---------------

**GENERAL REVENUES:**

Interest	11,436
Other	<u>1,028</u>

<b>TOTAL GENERAL REVENUES</b>	<u>12,464</u>
-------------------------------	---------------

<b>CHANGE IN NET ASSETS</b>	<u>44,418</u>
-----------------------------	---------------

<b>NET ASSETS - BEGINNING OF YEAR</b>	385,769
---------------------------------------	---------

<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 430,187</u></u>
---------------------------------	--------------------------

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

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
GOVERNMENTAL FUND BALANCE SHEET  
FEBRUARY 28, 2007**

GENERAL FUND

**ASSETS**

Cash and cash equivalents	\$	190,720
Receivable - fire runs (net of allowance of \$9,000)		4,733
Prepaid expense		1,958
Restricted cash		99,440
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>296,851</u></b>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Accounts payable	\$	1,697
Accrued payroll taxes		4,179
<b>TOTAL LIABILITIES</b>		<b><u>5,876</u></b>

**FUND BALANCE**

Reserved		99,440
Unreserved		191,535
<b>TOTAL FUND BALANCE</b>		<b><u>290,975</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$</b>	<b><u>296,851</u></b>

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

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

**Total Fund Balance - Modified Accrual Basis** \$ 290,975

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 as assets in the governmental fund. Capital assets at year end consist of:

Capital asset cost	\$ 948,568	
Capital asset accumulated depreciation	<u>(539,002)</u>	
		409,566

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental fund. Long-term liabilities at year end consist of:

Note payable - Chase Equipment Leasing, Inc.	(270,354)
--	-----------

**Total Net Assets - Full Accrual Basis** \$ 430,187

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	GENERAL FUND
<b>REVENUES:</b>	
Contribution from City of Sandusky	\$ 75,451
Contribution from Watertown Township	44,572
Contribution from Custer Township	21,589
Contribution from Elmer Township	15,151
Fire Runs	33,000
Interest	11,436
Miscellaneous	1,028
<b>TOTAL REVENUES</b>	<b>202,227</b>
<b>EXPENDITURES:</b>	
Current:	
Public safety	107,852
Capital outlay	373,000
<b>TOTAL EXPENDITURES</b>	<b>480,852</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(278,625)</b>
<b>OTHER FINANCING SOURCES:</b>	
Proceeds of long-term capital related debt	270,354
<b>NET CHANGE IN FUND BALANCE</b>	<b>(8,271)</b>
<b>FUND BALANCE - MARCH 1, 2006</b>	<b>299,246</b>
<b>FUND BALANCE - FEBRUARY 28, 2007</b>	<b>\$ 290,975</b>

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

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

**Net change in fund balance** \$ (8,271)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expenses. In the current period, these amounts are:

Capital outlay	373,000
Depreciation	(49,957)

Repayment of notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.

Loan proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Debt issued	(270,354)
Repayments of long-term debt	-

<b>Change in net assets of governmental activities</b>	<b>\$ 44,418</b>
--	------------------

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Sandusky Community Fire Department Association conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Sandusky Community Fire Department Association.

**Description of Association Operations**

The Sandusky Community Fire Department Association was created on March 1, 2001, by the City of Sandusky and the Townships of Custer, Elmer and Watertown. All of the governmental entities are located in Sanilac County, Michigan. The department operates under a joint nine (9) member board consisting of two (2) representatives from each of the entities and one (1) member elected at large by the board, for the purpose of providing total fire protection to the City of Sandusky, all of Watertown Township, twenty-four (24) square miles of Custer Township, and sixteen (16) square miles of Elmer Township. The Association was established under Public Act 22, commonly known as the Fire Protection Act, which provides that adjoining cities with a population of not more than 15,000 and townships acting jointly may establish, fund, maintain and regulate a fire department for the benefit of the residents thereof.

**Reporting Entity**

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB 39, the definition of the reporting entity is based primarily on the premise of financial accountability. The Association is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed component units.

Based on these provisions, there are no organizations that are deemed to be component units of the Association.

**Government-Wide and Fund Financial Statements:**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the Association. For the most part, the effect of the Interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

(Continued)

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2007  
(CONTINUED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide and Fund Financial Statements: (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments 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. Items not properly included among program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (i.e., statement of net assets and statement of activities) are reported using the economic resource 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.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Association are considered to be cash equivalents.

Investments

Investments with an initial maturity of more than three months are reported as investments.

Accounting Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(Continued)

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED FEBRUARY 28, 2007  
 (CONTINUED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements. Capital assets are defined by the Association as assets with an initial individual cost of \$10,000 or more and an estimated life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation is recorded on capital assets on a government-wide basis using the straight-line method using the following estimated useful lives:

<u>DESCRIPTION</u>	<u>GOVERNMENTAL ACTIVITIES ESTIMATED LIVES</u>
Equipment	5-10 years
Fire Trucks	10 years

**NOTE 2 – BUDGET INFORMATION**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Sandusky Community Fire Department Association's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budget of Sandusky Community Fire Department Association was adopted at the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

For the year ending February 28, 2007, total actual expenditures exceeded budgeted amounts as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Total Expenditures	<u>\$ 136,763</u>	<u>\$ 480,852</u>	<u>\$ (344,089)</u>

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

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2007  
(CONTINUED)**

**NOTE 3 – FIRE PROTECTION AGREEMENT**

Effective March 1, 2001, the City of Sandusky and the Townships of Custer, Elmer and Watertown, entered into an agreement to create the Sandusky Community Fire Department Association for the purpose of providing fire protection services. The Fire Department operates under a nine (9) member board composed of City and Township representative who have the power to purchase, maintain and operate the department as they see necessary. Under the agreement, each municipality shall pay its proportional share of the operating expenses, a retainer, and a sinking fund contribution according to a formula agreed upon by the Board.

**NOTE 4 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which matures 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 that are legal for direct investment by local units of government in Michigan.

The Association has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as listed above. The Association's deposits and investment policies are in accordance with statutory authority.

The Association's cash and investments are subject to custodial credit risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk. At February 28, 2007, the Association had \$191,930 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Association believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Association evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2007  
(CONTINUED)**

**NOTE 5 – RECEIVABLES – FIRE RUNS**

Receivables, as of year end, consist of unpaid fire runs incurred by property owners during the past year in the amount of \$13,733. An allowance equal to 100% of the accounts turned over to the collections agency has been established.

**NOTE 6 – RESTRICTED CASH**

**Sinking Fund**

The original capital contributions received in cash by the Association from the constituent units and interest earned on these contributions was restricted for the purchase of vehicles and fire fighting equipment and apparatus. The constituent units also make annual contributions to the sinking fund based upon budgeted amounts. The balances in the restricted savings account at February 28, 2007 and 2006, was \$99,440 and \$57,514, respectively.

**NOTE 7 - CAPITAL ASSETS**

Capital assets activity for the current year was as follows:

	<u>BALANCE MARCH 1, 2006</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>BALANCE FEBRUARY 28, 2007</u>
Capital Assets Being Depreciated				
Fire vehicles	\$ 575,568	\$ 373,000	\$ -	\$ 948,568
Less Accumulated Depreciation for				
Fire vehicles	489,046	49,956	-	539,002
Governmental Activity Net				
Capital Assets Being				
Depreciated	<u>\$ 86,522</u>	<u>\$ 323,044</u>	<u>\$ None</u>	<u>\$ 409,566</u>

Depreciation expense, in the amount of \$49,956, was charged to the public safety function of the Department.

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2007  
(CONTINUED)**

**NOTE 8 – LONG-TERM DEBT**

Changes in long-term debt for the year ended February 28, 2007 were as follows:

	<u>BALANCE MARCH 1, 2006</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>BALANCE FEBRUARY 28, 2007</u>
Notes payable:				
Chase Equipment Leasing, Inc. 2006 tanker	\$ -	\$ 270,354	\$ -	\$ 270,354
Totals	<u>\$ None</u>	<u>\$ 270,354</u>	<u>\$ None</u>	<u>\$ 270,354</u>

The annual requirements to amortize long-term debt outstanding at February 28, 2007, including interest at 4.49% are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$ 22,011	\$ 12,139	\$ 34,150
2009	23,000	11,150	34,150
2010	24,032	10,118	34,150
2011	25,111	9,039	34,150
2012	26,239	7,911	34,150
2013	27,417	6,733	34,150
2014	28,648	5,502	34,150
2015	29,934	4,216	34,150
2016	31,279	2,871	34,150
2017	32,683	1,467	34,150
	<u>\$ 270,354</u>	<u>\$ 71,146</u>	<u>\$ 341,500</u>

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2007  
(CONTINUED)**

**NOTE 9 – LEASE AGREEMENT**

Sandusky Community Fire Department Association leases the fire hall and adjacent parking lot for use in the on-going operation of the Association. The lease is classified as an operating lease. Terms of the lease agreements are as follows:

<u>LEASE</u>	<u>DATE OF ORIGINAL LEASE</u>	<u>INITIAL NON-CANCELABLE OPERATING LEASE COMMITMENT</u>	<u>BALANCE AT 2/28/07 NON-CANCELABLE OPERATING LEASE COMMITMENT</u>
Fire Hall & Adjacent Parking Lot	March 1, 2005	\$ 69,140	\$ 44,520

Total rent expense for the years February 28, 2007 and 2006, was \$11,833 and \$13,083, respectively. The rent expense for the year ending February 28, 2008 will be \$1,237 a month. Future rental payments may change annually as a result of including a percentage of the annual insurer established replacement value, 2001 roof repair costs, annual insurance costs on the structures, plus an annual sinking fund commitment.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of February 28, 2007.

<u>YEAR ENDING</u>	<u>AMOUNT</u>
February 28, 2008	\$ 14,840
February 28, 2009	14,840
February 28, 2010	14,840
Total Scheduled Maturities	<u>\$ 44,520</u>

**NOTE 10 – RELATED PARTY TRANSACTIONS**

The Association rents the fire hall and adjacent parking lot on a yearly basis from the City of Sandusky. The City of Sandusky is a member of the Association.

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2007  
(CONTINUED)**

**NOTE 11 - RISK MANAGEMENT**

The Sandusky Community Fire Department Association 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. The Association, together with other municipalities, is a member of the Michigan Municipal Risk Management Authority (MMRMA). A public entity risk pool currently operating as a common risk management and insurance program which charges an annual premium to its members for insurance coverage. The pool is self-sustaining through member premiums and provides reinsurance through commercial companies for claims. The MMRMA provides general liability, property, crime and fleet coverage to the Association.

The Association does not provide employee health or life insurance coverage. The Association does provide workers compensation insurance coverage. Workers compensation and employers liability insurance policy is through Accident Fund Company.

**NOTE 12 – SUBSEQUENT EVENTS**

On June 25, 2007, the Association sold the 1988 GMC Pumper for \$25,000.

**SUPPLEMENTAL INFORMATION**

**SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	ORIGINAL/ AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>REVENUES:</b>			
Contribution from City of Sandusky	\$ 75,451	\$ 75,451	\$ -
Contribution from Watertown Twp.	44,572	44,572	-
Contribution from Custer Twp.	21,589	21,589	-
Contribution from Elmer Twp.	15,151	15,151	-
Fire Runs	-	33,000	33,000
Interest	-	11,436	11,436
Miscellaneous	-	1,028	1,028
<b>TOTAL REVENUES</b>	<u>156,763</u>	<u>202,227</u>	<u>45,464</u>
<b>EXPENDITURES:</b>			
Payroll	25,700	27,313	(1,613)
Social security taxes	2,200	2,089	111
Operating supplies	4,000	9,222	(5,222)
Safety gear	4,000	4,403	(403)
Telephone	1,500	1,848	(348)
Gas and oil	2,000	1,548	452
Insurance	11,719	14,083	(2,364)
Electricity	2,500	3,431	(931)
Heating	6,900	3,560	3,340
Rent	15,000	11,833	3,167
Sewer and water charges	1,300	1,225	75
Maintenace - building	4,100	11,092	(6,992)
Maintenance - vehicle	9,000	2,268	6,732
Education and training	3,500	33	3,467
Membership dues	800	750	50
Miscellaneous	3,044	115	2,929
Capital outlay - equipment	3,000	373,000	(370,000)
Debt - principal and interest	35,000	-	35,000
Professional services - financial	1,300	2,946	(1,646)
Professional services - legal	200	263	(63)
Bad debts - fire runs	-	9,830	(9,830)
<b>TOTAL EXPENDITURES</b>	<u>136,763</u>	<u>480,852</u>	<u>(344,089)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>20,000</u>	<u>(278,625)</u>	<u>(298,625)</u>
<b>OTHER FINANCING SOURCES:</b>			
Proceeds of long-term debt	-	270,354	270,354
<b>NET CHANGE IN FUND BALANCE</b>	<u>20,000</u>	<u>(8,271)</u>	<u>(28,271)</u>
<b>FUND BALANCE - MARCH 1, 2006</b>	299,246	299,246	-
<b>FUND BALANCE - FEBRUARY 28, 2007</b>	<u>\$ 319,246</u>	<u>\$ 290,975</u>	<u>\$ (28,271)</u>

# BRINING & NARTKER, P.C.

*Certified Public Accountants*

DOUGLAS P. BRINING, CPA  
JOSEPH H. NARTKER, CPA

MARK W. BRINING, CPA  
SARA J. ESSENMACHER, CPA  
JOY A. KERR, CPA  
EDWARD J. MOORE, CPA

Members of  
Michigan Association of  
Certified Public Accountants  
American Institute of  
Certified Public Accountants

August 23, 2007

Sandusky Community Fire Department Board  
Sandusky Community Fire Department Association  
Sandusky, MI 48471

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the Sandusky Community Fire Department Association for the year ended February 28, 2007, and are submitted for your evaluation and consideration. We would like to emphasize that, since our audit was conducted for the purpose of expressing an opinion on the aforementioned financial statements, these comments are not necessarily all inclusive.

## **Budget**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. For the year ending February 28, 2007, total actual expenditures exceeded budgeted amounts. The Association failed to appropriate the following key elements in its budget:

	<u>Actual Expenditures</u>
1. capital outlay for the 2006 pumper	\$373,000
2. fire run income	33,000
3. interest earned	11,436
4. loan proceeds	270,354

We recommend that the board review the current year's budget to include all estimated revenues and expenditures for the current fiscal year.

## **Sandusky Fire Hall Lease**

The Association does not have a signed lease for use of the fire hall and adjacent parking lot located at 161 S. Elk Street.

We recommend that the board review the lease agreement and obtain a signed copy.

### **Monthly Bank Reconciliation**

During the audit year, the monthly financial statements were not balanced to the bank statements.

We recommend that management balance the bank accounts on a monthly basis.

### **Fire Protection Agreement – Sinking Fund**

The fire protection agreement requires a contribution to the sinking fund for capital outlay as determined by the board annually. Currently, any fire run revenues are being deposited into the sinking fund.

The Association earmarks \$20,000 annually to be transferred to the Sinking Fund. As of February 28, 2007, no transfer had taken place.

We recommend that the board review their policy regarding the sinking fund. Questions for review include:

1. Should we make up last year's missed transfer?
2. Is \$20,000 still appropriate?
3. Does the \$20,000 represent partial payment on the 2006 pumper bought in 2006?
4. Should another fund be started for the next major purchase?

### **Chase Equipment Leasing, Inc. – Prepayment Option**

The Association entered in a financing agreement with Chase Equipment Leasing, Inc. for a 2006 pumper truck. Annual installments require payment of \$34,150, beginning April 13, 2007.

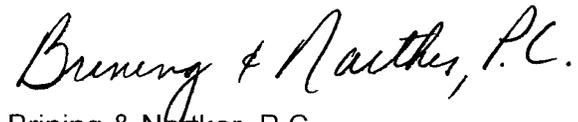
The Association made 2 payments toward the loan in April of 2007.

Upon review of the financing agreement with Chase Equipment Leasing, Inc. it was noticed that Chase's amortization schedule included a "Termination Value". Paragraph 15 of the Master Lease – Purchase Agreement, discloses the rules pertaining to a prepayment option and the "Termination Value").

We recommend that the Association obtain clarification in writing from a representative of Chase Equipment Leasing, Inc., regarding the prepayment option clause before it makes its next annual payment (s).

Page 3  
August 23, 2007  
Sandusky Community Fire Department Association

We wish to take this opportunity to thank the officials with whom we have worked for the cooperation we received throughout our audit. As always, our firm will be happy to assist in implementing any recommendations approved by the Board.



Brining & Nartker, P.C.  
Certified Public Accountants