Brown City Area Fire Authority

Sanilac County, Michigan

Annual Financial Report
March 31, 2006

Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Brown City Fire Authority	Sanilac County

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
March 31, 2006	June 1, 2006	November 22, 2006

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	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
Lehn L. King, C.P.A.	989-635-3113		
Street Address	**City**	**State**	**Zip**
3531 Main Street	Marlette	MI	48453

Authorizing CPA Signature	Printed Name	License Number
	Lehn King	A248781

Brown City Area Fire Authority

Annual Financial Report
For The Fiscal Year Ended March 31, 2006

Table of Contents

	Page Number
I. Independent Audit Report	1
II. Management's Discussion & Analysis (Required Supplementary Information)	MDA 1-3
III. Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	2
Statement of Activities	3
Fund Financial Statements:	
Government Funds	
Balance Sheet	4
Reconciliation of Fund Balances to the Statement of Net Assets	5
Statement of Revenue, Expenditures, & Changes in Fund Balance	6
Reconciliation of the Statement of Revenue, Expenditures, & Changes In Fund Balances of Governmental Funds to the Statement of Activities	7
Notes to Financial Statements	8-13
IV. Required Supplemental Information	14
Budgetary Comparison Schedule	
Fire Operating Fund	15
Equipment Reserve Fund	16
V. Other Supplemental Information	17
Schedule of Indebtedness	18

LEHN L. KING
Certified Public Accountant

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Board Members
Brown City Area Fire Authority
Sanilac County, Michigan

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown City Area Fire Authority, Michigan as of and for the year ended March 31, 2006 which collectively comprise the Brown City Area Fire Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Brown City Area Fire Authority, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that the audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown City Area Fire Authority, Michigan as of March 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

The Audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brown City Area Fire Authority, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the Brown City Area Fire Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Lehn King

Lehn L. King
Certified Public Accountant

June 1, 2006

Brown City Area Fire Authority

Brown City, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS LETTER

Our discussion and analysis of the Brown City Area Fire Authority's financial performance provides an overview of the Fire Authority's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Fire Authority's financial statements.

Financial Highlights

The Fire Authority is in good financial position. The Fire Authority's fund balance in the Operating Fund and Equipment Reserve Fund as of March 31, 2006, was $52,982 and $84,943, respectively. The Fire Authority received a FEMA Grant in the amount of $24,939 which was used to purchase handheld radios.

Using this Report

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No.34. GASB Statement 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the Fire Authority's annual report.

The Fire Authority as a Whole

The Brown City Area Fire Authority's fund balances are as follows:

	March 31, 2006	March 31, 2005
Fire Operating	$ 52,982	$ 40,964
Equipment Reserve Fund	84,943	69,805
Total for Fire Authority	$ 137,925	$ 110,769

Brown City Area Fire Authority
Brown City, Michigan

Governmental Activities

The Brown City Area Fire Authority's Revenues and Expenditures can be summarized as follows:

	Fire Operating Fund March 31,		Equipment Reserve Fund March 31,	
	2006	2005	2006	2005
Fund Balance - Beginning of Year	$ 40,964	$ 32,234	$ 69,805	$ 89,438
Revenue Collected				
Operating Fees	97,205	95,083	-	-
Equipment Reserve Fees	-	-	13,170	13,170
Interest Earnings	2,411	1,214	1,969	847
Donations	3,230	3,089	-	45,000
Other	23,560	3,160	-	-
Transfers	-	78,650	-	-
Total Revenue Collected	126,406	181,196	15,139	59,017
Expenditures				
Public Safety - Fire	73,670	77,942	-	-
Capital Outlay	27,633	78,650	-	-
Debt Service	15,842	15,874	-	-
Transfers	-	-	-	78,650
Total Expenditures	117,145	172,466	-	78,650
Fund Balance - End of Year	$ 50,225	$ 40,964	$ 84,944	$ 69,805

Brown City Area Fire Authority

Brown City, Michigan

Economic Factors and Next Year's Budget and Rates

The Brown City Area Fire Authority's 2006/2007 adopted budget is as follows:

	Fire Operating Fund		Equipment Reserve Fund	
	March 31,		March 31,	
	2007	2006	2007	2006
Revenue				
Operating Fees	95,020	97,210	-	-
Equipment Reserve Fees	-	-	13,170	13,170
Interest Earnings	3,000	2,950	800	730
Other	4,730	29,580	-	-
Tranfers	-	-	-	-
Total Revenue Collected	102,750	129,740	13,970	13,900
Expenditures				
Public Safety - Fire	80,850	88,490	13,970	13,900
Capital Outlay	6,000	25,350	-	-
Debt Service	15,900	15,900	-	-
Transfers	-	-	-	-
Total Expenditures	102,750	129,740	13,970	13,900
Net Over/Under Budget	$ -	$ -	$ -	$ -

Contacting the Fire Authority

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Fire Authority's finances and to demonstrate the Fire Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Fire Authority at the Brown City Hall located in Brown City, Michigan or by telephone at (810) 346-2325.

James Groat, Jr.
Brown City Area Fire Authority Chief

Brown City Area Fire Authority

Statement of Net Assets (Deficit)

March 31, 2006

	Primary Government Governmental Activities
Assets	
Cash & Cash Equivalents	$ 145,988.76
Capital Assets (Net of Accumulated Depreciation)	375,398.15
Total Assets	521,386.91
Liabilities	
Accounts Payable	$ 8,063.36
Current Portion of Long-Term Debt	13,718.00
Long-Term Debt	32,954.38
Total Liabilities	54,735.74
Net Assets (Deficit)	
Invested in Capital Assets - Net of Related Debt	328,725.77
Unrestricted	137,925.40
Total Net Assets (Deficit)	$ 466,651.17

The notes are an integral part of the statements.

Brown City Area Fire Authority

Statement of Activities

For the Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Contributions	Program Revenues: Capital Grants & Contributions	Net (Expense) Revenue & Changes in Net Assets: Primary Government: Governmental Activities
Primary Government:					
Governmental Activities:					
Public Safety	$ 98,672.92	$ 110,375.11	$ -	$ 24,939.00	$ 36,641.19
Interest on Long-Term Debt	2,649.83	-	-	-	(2,649.83)
Total Governmental Activities	$ 101,322.75	$ 110,375.11	$ -	$ 24,939.00	33,991.36
General Revenues:					
Interest					4,380.14
Donations					3,229.87
Other Revenues					1,378.50
Transfers					-
Total General Revenues, Special Items & Transfers					8,988.51
Change in Net Assets					42,979.87
Net Assets (Deficit) - Beginning of Year					423,671.30
Net Assets (Deficit) - End of Year					$ 466,651.17

The notes are an integral part of the statements.

Brown City Area Fire Authority

Governmental Funds
Balance Sheet
March 31, 2006

	Fire Operating Fund	Equipment Reserve Fund	Total Governmental Funds
Assets			
Cash & Certificates of Deposit	$ 61,045.37	$ 84,943.39	$ 145,988.76
Total Assets	$ 61,045.37	$ 84,943.39	$ 145,988.76
Liabilities & Fund Equity			
Liabilities			
Accounts Payable	$ 8,063.36	$ -	$ 8,063.36
Total Liabilities	8,063.36	-	8,063.36
Fund Equity			
Fund Balances			
- Unreserved & Undesignated	52,982.01	84,943.39	137,925.40
Total Fund Balances	52,982.01	84,943.39	137,925.40
Total Liabilities & Fund Equity	$ 61,045.37	$ 84,943.39	$ 145,988.76

The notes are an integral part of the statements.

Brown City Area Fire Authority

Governmental Funds
Reconciliation of Fund Balances to the
Statement of Net Assets (Deficit)
For The Year Ended March 31, 2006

Total Fund Balances for Governmental Funds	$ 137,925.40
Amounts reported for Governmental Activities in the Statement of Net Assets (Deficit) are different because:	
Capital Assets used in Governmental Activities are not Financial Resources and are not reported in the Funds	375,398.15
Long-Term Bonds Payable are not due and payable in the current period and are not reported in the Funds	(46,672.38)
Accrued Interest Payable is not reported in the Funds	-
Net Assets of Governmental Activities	$ 466,651.17

The notes are an integral part of the statements.

Brown City Area Fire Authority

Governmental Funds
Statement of Revenues, Expenditures, And Changes
in Fund Balances
For The Year Ended March 31, 2006

	Fire Operating Fund	Equipment Reserve Fund	Total Governmental Funds
Revenues			
Operating Fees	$ 97,205.11	$ -	$ 97,205.11
Equipment Reserve Fees	-	13,170.00	13,170.00
Interest Earnings	2,411.33	1,968.81	4,380.14
Donations	3,229.87	-	3,229.87
Grant Proceeds	24,939.00	-	24,939.00
Other Revenues	1,378.50	-	1,378.50
Total Revenues	129,163.81	15,138.81	144,302.62
Expenditures			
Public Safety	73,669.67	-	73,669.67
Capital Outlay	27,633.40	-	27,633.40
Debt Service - Prineipal	13,192.62	-	13,192.62
Debt Service - Interest	2,649.83	-	2,649.83
Total Expenditures	117,145.52	-	117,145.52
Excess of Revenues Over (Under) Expenditures	12,018.29	15,138.81	27,157.10
Other Financing Sources (Uses)			
Operating Transfers In (Out)	-	-	-
Net Change in Fund Balances	12,018.29	15,138.81	27,157.10
Fund Balances - Beginning of Year	40,963.72	69,804.58	110,768.30
Fund Balances - End of Year	$ 52,982.01	$ 84,943.39	$ 137,925.40

The notes are an integral part of the statements.

Brown City Area Fire Authority

Governmental Funds
Reconciliation of Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For The Year Ended March 31, 2006

Net Change in Fund Balances - Total Governmental Funds	$ 27,157.10
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental Funds report Capital Outlays as Expenditures in the Statement of Activities, these costs are capitalized and allocated over their estimated useful lives as Depreciation	27,633.40
Repayment of Bond Principal is an Expenditure in the Governmental Funds, but not in the Statement of Activities (where it reduces Long-Term Debt)	13,192.62
Interest Expense is reported in the Statement of Activities when a Liability is incurred; they are reported in the Governmental Funds only when payment is due	-
Depreciation is an Expenditure for the Statement of Activities, but is not reported in the Governmental Funds	(25,003.25)
Net Assets of Governmental Activities	$ 42,979.87

The notes are an integral part of the statements.

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2006

The accounting methods and procedures adopted by the Brown City Area Fire Authority, Sanilac County, Michigan, conform to generally accepted accounting principles as applied to governmental entities. The following notes to the financial statements are an integral part of the Fire Authority's Comprehensive Annual Financial Report.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Brown City Area Fire Authority was created on February 10, 1995, by the City of Brown City and the Townships of Burnside, Flynn, Lynn, and Maple Valley. The Authority operates under a joint five member boards consisting of one (1) representative from the City and four (4) from the Townships, for the purpose of providing total fire protection to the City and various Townships.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) in its Statement No. 14, the Brown City Area Fire Authority is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, fiscal independence, financial accountability, imposition of will and financial benefit or burden. On this basis, the financial statements of other governmental organizations are not included in the financial statements of the Brown City Area Fire Authority.

Government-wide and Fund Statements Fund

The Government-wide Financial Statements (i.e., the Statement of Net Assets (Deficit) and the Statement of Activities) report information on all the nonfiduciary activities of the Fire Authority (the primary government). The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. 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 activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Fire Authority reports the following major governmental funds:

> **General Fund** - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.
>
> **Equipment Reserve Fund** - The Equipment Reserve Fund is used to account for equipment acquisitions.

Measurement Focus and Basis of Accounting

The Government-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become 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, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenues, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the Fire Authority. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments are recorded only when payment is due.

Cash - The Fire Authority does not pool cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the Fire Authority's investments.

Investments - Debt securities are valued at cost since it is generally the policy of the Fire Authority to hold such investments until they mature.

Due to and Due from Other Funds - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Capital Assets - Capital assets, which include buildings and equipment, are reported in the applicable governmental column in the Government-wide Financial Statements. Capital assets are defined by the Fire Authority as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings & Building Improvements	20 to 40 years
Machinery & Equipment	3 to 10 years

Long-Term Obligations - In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period. Actual results could differ from those estimates.

Accounting Changes

GASB Statement No. 34 – Effective April 1, 2004, the Fire Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the Fire Authority's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Fire Authority's overall financial position and results of operations has been included.
- Government-wide Financial Statements (statement of net assets (deficit) and statement of activities) prepared using full accrual accounting for all of the Fire Authority's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets (deficit) includes assets not previously accounted for by the Fire Authority as well as assets previously reported in the General Fixed Assets Account Group. In addition, the governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

2. Fire Protectiou Agreement

On February 10, 1993, the City of Brown City and the Townships of Burnside, Flynn, Lynn, and Maple Valley, entered into an agreement to create the Brown City Area Fire Authority for the purpose of providing fire protection services. The Fire Authority operates under a five (5) member board composed of City and Township representatives who have the power to purchase, maintain, and operate the Authority as they see necessary.

Under the agreement, each municipality shall pay its proportional share of the operating expenses, excluding depreciation, plus any fixed assets purchased during the period, based upon a formula of population, state equalized evaluation and fire usage.

2. Fire Protection Agreement - Continued

The agreement was renegotiated effective April 1, 1995. The agreement specifies the proportional cost sharing annual fund contributions. The agreement will remain in force unless terminated by a vote of three (3) of the municipalities.

3. Stewardship, Compliance, and Accountability

Budgetary Information

The Fire Authority is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds, Debt Service Funds, Capital Project Funds.

2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.

3. The budgets must be amended when necessary.

4. Debt cannot be entered into unless permitted by law.

5. Expenditures cannot exceed budget appropriations.

6. Expenditures cannot be made unless authorized in the budget.

7. Public hearings must be held before budget adoptions.

In the body of the financial statements, the Fire Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The budget is used by the Fire Authority Board as a management tool during the year for all budgetary funds. The budgets are adopted on a cash basis, which is not consistent with generally accepted accounting principles. Budgetary control is exercised at the departmental level. Budgets for the General Fund and the major Special Revenue Funds, Debt Service Funds, and Capital Project Funds are presented in the required supplemental information.

During the year ended March 31, 2006, the Fire Authority incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
Fire Operating Fund			
Salaries	$ 19,500	$ 20,343	$ 843
Utilities	6,400	7,786	1,386
Maintenance - Vehicle	1,000	2,818	1,818
Debt Service - Principal	13,130	13,193	63

4. Cash and Cash Equivalents

In accordance with Michigan Compiled Laws, the Authority is authorized to invest as follows:

a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the Government National Mortgage Association.

b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union is eligible to be a depository of surplus funds belonging to the State under Sections 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

c) In commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.

d) In the United States government or federal agency obligations repurchase agreements.

e) In bankers acceptances of United States Banks.

f) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits

Michigan Public Acts authorize the units of local government in Michigan to deposit in the accounts of federally insured banks, insured credit union, and savings and loan association. Deposits of the Authority are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Authority.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of $100,000 for deposits in an insured bank for savings deposits and $100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of $100,000. Michigan Compiled Laws do not allow collateralization of governmental deposits.

As of March 31, 2006, the Authority's cash and cash equivalents consist of checking, savings, and certificates of deposit accounts with a carrying balance of $145,989, of which $100,000 is insured by the FDIC.

5. Capital Assets

Capital Assets activity of the Fire Authority's governmental activities (and business-type) was as follows:

	Balance April 1, 2005	Additions	Disposals & Adjustments	Balance March 31, 2006
Governmental Activities:				
Capital Assets Being Depreciated:				
Buildings & Building Improvements	$ 188,712	$ -	$ -	$ 188,712
Machinery & Equipment	335,879	27,633	-	363,512
Total Capital Assets being Depreciated	524,591	27,633	-	552,224
Accumulated Depreciation:				
Buildings & Building Improvements	45,218	3,774	-	48,992
Machinery & Equipment	106,605	21,229	-	127,834
Total Accumulated Depreciation	151,823	25,003	-	176,826
Net Capital Assets	$ 372,768	$ 2,630	$ -	$ 375,398

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
Public Safety	$ 25,003
Total Governmental Activities	$ 25,003

6. Long-Term Debt

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General Obligation Bonds & Contracts						
Fire Hall Construction						
Amount of Issue - $163,500						
Maturing through 2009	4.50%	$15,842	$ 59,883	$ (13,193)	$ 46,690	$ 13,718
Total			$ 59,883	$ (13,193)	$ 46,690	$ 13,718

Annual debt service requirements to maturity for the above governmental bond and contract obligations are as follows:

Years Ending March 31,	Governmental Activities		
	Principal	Interest	Total
2006	13,718	2,124	15,842
2007	14,357	1,485	15,842
2008	15,003	839	15,842
2009	3,612	164	3,776
Total	$ 46,690	$ 4,612	$ 51,302

Required Supplemental Information

Brown City Area Fire Authority

Required Supplemental Information
Budgetary Comparison Schedule
Fire Authority Operating Fund
For The Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Amended Budget
Revenues				
Operating Fees	$ 88,472.00	$ 97,210.00	$ -	$ (97,210.00)
Burnside Township	-	-	32,515.11	32,515.11
Flynn Township	-	-	12,043.71	12,043.71
Lynn Township	-	-	6,094.76	6,094.76
Maple Valley Township	-	-	20,510.28	20,510.28
City of Brown City	-	-	26,041.25	26,041.25
Interest	1,210.00	2,950.00	2,411.33	(538.67)
Grant Proceeds	-	24,950.00	24,939.00	(11.00)
Donations	3,100.00	3,230.00	3,229.87	(0.13)
Other	2,000.00	1,400.00	1,378.50	(21.50)
Total Revenues	94,782.00	129,740.00	129,163.81	(576.19)
Expenditures				
Salaries	20,000.00	19,500.00	20,343.16	(843.16)
Payroll Taxes	3,300.00	3,400.00	1,620.85	1,779.15
Operating Supplies	5,825.00	6,225.00	5,573.70	651.30
Professional Services	1,000.00	1,000.00	1,000.00	-
Telephone	950.00	950.00	734.77	215.23
Gas & Oil	2,500.00	4,000.00	3,537.54	462.46
Insurance	18,862.00	18,450.00	18,354.08	95.92
Utilities	4,500.00	6,400.00	7,786.05	(1,386.05)
Administrative Fee	2,100.00	2,100.00	2,100.00	-
Maintenance Supplies	9,000.00	11,000.00	8,724.12	2,275.88
Maintenance - Building	500.00	500.00	-	500.00
Maintenance - Vehicle	4,000.00	1,000.00	2,818.15	(1,818.15)
Miscellaneous	3,800.00	1,800.00	1,077.25	722.75
Capital Outlay	2,600.00	37,515.00	27,633.40	9,881.60
Debt Service - Principal	12,505.00	13,130.00	13,192.62	(62.62)
Debt Service - Interest	3,340.00	2,770.00	2,649.83	120.17
Total Expenditures	94,782.00	129,740.00	117,145.52	12,594.48
Excess of Revenues Over (Under) Expenditures	-	-	12,018.29	12,018.29
Other Financing Sources				
Operating Transfers In (Out)	-	-	-	-
Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses	-	-	12,018.29	12,018.29
Fund Balance - Beginning of Year	-	-	40,963.72	40,963.72
Fund Balance - End of Year	$ -	$ -	$ 52,982.01	$ 52,982.01

Brown City Area Fire Authority

Required Supplemental Information
Budgetary Comparison Schedule
Equipment Reserve Fund
For The Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Equipment Reserve Fees	$ 13,170.00	$ 13,170.00	$ -	$ (13,170.00)
Burnside Township	-	-	3,870.00	3,870.00
Flynn Township	-	-	2,400.00	2,400.00
Lynn Township	-	-	900.00	900.00
Maple Valley Township	-	-	3,500.00	3,500.00
City of Brown City	-	-	2,500.00	2,500.00
Interest	730.00	730.00	1,968.81	1,238.81
Donations	-	-	-	-
Sale of Fixed Assets	-	2,950.00	-	(2,950.00)
Other Revenue	-	-	-	-
Total Revenues	13,900.00	16,850.00	15,138.81	(1,711.19)
Expenditures				
Miscellaneous	13,900.00	16,850.00	-	16,850.00
Total Expenditures	13,900.00	16,850.00	-	16,850.00
Excess of Revenues Over (Under) Expenditures	-	-	15,138.81	15,138.81
Other Financing Sources				
Operating Transfers In (Out)	-	-	-	-
Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses	-	-	15,138.81	15,138.81
Fund Balance - Beginning of Year	-	-	69,804.58	69,804.58
Fund Balance - End of Year	$ -	$ -	$ 84,943.39	$ 84,943.39

Other Supplemental Information

Brown City Area Fire Authority

Other Supplemental Information
Schedule of Indebtedness
March 31, 2006

Fire Hall Construction

Dated October 13, 1993
Original Issue $163,500

Interest Rate	Date of Maturity	Principal Outstanding March 31, 2006	Principal Outstanding March 31, 2005	Remaining Annual Interest Payable
4.50%	5/1/2005	$ -	$ 13,193	$ -
4.50%	5/1/2006	13,718	13,718	2,124
4.50%	5/1/2007	14,357	14,357	1,485
4.50%	5/1/2008	15,003	15,003	839
4.50%	5/1/2009	3,612	3,612	164
Total Revenue Bonds		$ 46,690	$ 59,883	$ 4,612

LEHN L. KING
CERTIFIED PUBLIC ACCOUNTANT

3531 MAIN STREET
MARLETTE, MICHIGAN 48453

Phone 989-635-3113
Fax 989-635-5580

June 2, 2006

Brown City Area Fire Authority
Sanilac County, Michigan

Fire Authority Board:

In accordance with your request, I have made an examination of the financial statements of the Brown City Area Fire Authority for the fiscal year ended March 31, 2006. During the course of my examination, no material items came to my attention.

From an overall viewpoint, the Brown City Area Fire Authority is in very good financial condition. The financial records maintained by the Fire Authority are in good order.

I have mailed two (2) copies of the audit report to the State of Michigan.

I thank the Fire Authority officials for the cooperation I received in the completion of this examination.

Sincerely,

Lehn King

Lehn L. King
Certified Public Accountant