

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

ANNUAL FINANCIAL REPORT
June 30, 2023

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

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CALKINS HEHL RAFKO
— CERTIFIED PUBLIC ACCOUNTANTS —

Independent Auditor's Report

Executive Committee
Milan Area Fire Department
Milan, Michigan 48160

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities and the major fund of Milan Area Fire Department (the "Fire Department") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fire Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Milan Area Fire Department as of June 30, 2023 and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fire Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fire Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, representations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fire Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fire Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, on pages 3 through 6 and page 21, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Callins Hebe Rayko

Monroe, Michigan
December 19, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Management's Discussion and Analysis
Year Ended June 30, 2023

Using this Annual Report

This section of the Milan Area Fire Department Executive Committee annual financial report presents the discussion and analysis of the Fire Department's financial performance for the fiscal year ended June 30, 2023. Please read this report in conjunction with the financial statements that follow this section.

This annual report consists of three parts-*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Fire Department.

- The *government-wide financial statement* provides both *long-term* and *short-term* information about the Fire Department's *overall* financial status. The Statement of Net Position and the Statement of Activities provide information about the activities of the Fire Department as a whole and present a longer-term view of the Fire Department's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The *fund financial statements* provide information on the Fire Department's operations under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Fire Department's sources and uses of funds.
- The reconciliation of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Management's Discussion and Analysis
Year Ended June 30, 2023

Condensed Financial Information

The table below compares key financial information of the government-wide financial statements in a condensed format between the current year and the prior year:

	Net Position	
	2023	2022
Current assets	\$695,533	\$593,435
Capital assets, net	1,050,550	1,103,215
Total assets	1,746,083	1,696,650
Current liabilities	75,280	66,523
Non-current liabilities	9,955	29,548
Total Liabilities	85,235	96,071
Net position:		
Invested in capital assets	1,021,263	1,054,750
Unrestricted	639,585	545,829
Total net position	\$1,660,848	\$1,600,579
	Changes in Net Position	
Revenue:		
Charges for services	\$107,652	\$117,660
Operating contributions	479,090	373,240
Capital contributions	100,000	100,000
Federal grant	0	28,541
Donations	2,800	911
Other	4,940	153
Total revenue	694,482	620,505
Expenses - Fire Department operations	634,213	588,752
Change in net position	\$60,269	\$31,753

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Management's Discussion and Analysis
Year Ended June 30, 2023

The Fire Department as a Whole

- The Milan Area Fire Department was established on July 1, 1980 by an agreement between the City of Milan, London Township, Milan Township, and York Township. The terms of this agreement were replaced with an agreement effective July 1, 2007. This agreement is intended to remain in full force and effect until terminated by the mutual agreement of all of the participating municipalities.
- The Fire Department's net position increased by \$60,269 this year compared to an increase of \$31,753 in the prior year.
- The Fire Department's primary source of revenue is from contributions received from the four different municipalities based on a formula derived from their relative state equalized values, square miles, populations, miles of roadway, and number of dwellings.
- Payroll, insurance, and rent are the Fire Department's most significant expenses, representing 52% of the Fire Department's total expenses.
- Depreciation and amortization expense of \$111,887 represents approximately 17.6% of the Fire Department's total expenses compare to only \$102,431 or 17.4% in the prior year. This increase was a result of depreciation on a new fire truck that the Fire Department purchased in the previous year and the implementation of lease reporting standards. The Fire Department upgrades or replaces equipment after inspections indicate it has reached its full useful life or needs to be replaced due to safety issues.
- In the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, an increase in the total expenses between the prior year and the current year is due primarily to the addition of firemen staff positions at the Fire Department.

Fire Department Budgetary Highlights for 2022-2023

- The 2022-2023 budget reflected amounts contributed for equipment purchases and capital outlays of \$100,000.
- There was a significant variation between the final amount budgeted and actual amount incurred for fire run wages, officer wages, and supplies, of (\$35,431), (\$6,467) and \$11,712, respectively. In addition, there were several other smaller variations between the final amounts budgeted and actual amounts incurred. The budget was also amended to increase capital outlay by \$110,000 for the purchase of a new fire truck. These variations will not have an effect on the Fire Department's future services or liquidity.
- Effective July 1, 2018, the Fire Department has adopted a General Fund Unrestricted Fund Balance Reserve Policy. The policy states that the reserve shall not fall below 2% of the General Fund expenditures in the Fire Department's prior year audited financial statements. Conversely, the reserve shall not exceed 15% of the General Fund expenditures in the Fire Department's prior year audited financial statements.
- The Fire Department beginning unassigned fund balance reserve was \$71,013 and had current year revenues over expenditures of \$94,231, which was added to the fund balance. Of this amount, \$10,141 was added to the fund balance for a total of 15.00% of the Fire Department's 2022-2023 operating expenses. Since this amount attained the maximum fund balance policy of \$81,154 (15% of the 2022-2023 operating expenses), it will be retained in the General Fund unassigned fund balance. The municipalities elected to retain the excess fund balance as committed to capital expenditures, bringing the balance to \$559,515. Of the unassigned fund balance of \$81,154 reported on the balance sheet, \$46,985 is nonspendable and \$34,169 unassigned.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Management's Discussion and Analysis
Year Ended June 30, 2023

Next Year's Funding (2023-2024)

- The 2023-2024 budget reflects amounts to be contributed for equipment purchases and capital outlays of \$100,000.
- Small equipment purchases will continue to be budgeted with operating expenses to properly reflect the Fire Department's capitalization policy.
- The total budgeted operating expenses less amounts budgeted for fire run wages, in the amount of \$586,061 will be billed quarterly to the four municipalities based on the percentages derived from current state equalized values, square miles, populations, miles of roadway, and number of dwellings. The percentages for each unit of government are as follows: the City of Milan – 36.54%, York Township – 29.80%, Milan Township – 20.53%, and London Township – 13.13%.
- Any unused amount of budgeted operating expenses will be retained in the General Fund unrestricted fund balance reserve until the fund balance exceeds the maximum fund balance policy at the end of the fiscal year. In the event the reserve exceeds the maximum balance requirement at the end of the fiscal year, the Executive Committee shall have the option to refund the municipalities in proportion to their share of the excess reserve or commit the excess reserve to capital improvements. Conversely, in the event the reserve falls below the minimum balance requirement at the end of the fiscal year, the Executive Committee shall incorporate an increase in the municipalities' annual payment total for the upcoming year's budget.

Contacting the Authority's Financial Management

This financial report is designed to provide an overview of the Fire Department's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Milan Area Fire Department at 45 Wabash St., Milan, MI 48160.

BASIC FINANCIAL STATEMENTS

GOVERNMENT - WIDE FINANCIAL STATEMENTS

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Statement of Net Position
June 30, 2023

	Governmental Activities
Assets	
Current assets:	
Cash	\$388,076
Accounts receivable others	3,421
Due from other governmental units - local	257,051
Prepays	46,985
Total Current Assets	695,533
Capital assets, net of accumulated depreciation and amortization	1,050,550
Total Assets	1,746,083
Liabilities	
Current liabilities:	
Accounts payable	13,922
Accrued payroll	30,396
Other accruals	1,373
Due to other governmental units - local	9,173
Accrued interest	823
Lease commitment - current portion	19,593
Total Current Liabilities	75,280
Non-current liabilities:	
Lease commitment - non-current portion	9,955
Total Liabilities	85,235
Net Position	
Net investment in capital assets:	
City of Milan	408,912
Milan Township	169,698
York Township	261,750
London Township	180,903
Total Net Investment in Capital Assets	1,021,263
Unrestricted:	
City of Milan	267,935
Milan Township	128,525
York Township	158,012
London Township	85,113
Total Unrestricted	639,585
Total Net Position	\$1,660,848

See accompanying notes to the basic financial statements

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Statement of Activities
Year Ended June 30, 2023

Function/Program	Program Revenue			Net Revenue and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Fire department services/operations	\$634,213	\$107,652	\$479,090	\$100,000	\$52,529
General Revenue:					
Interest					63
Other revenue					7,677
Total General Revenue					7,740
Change in Net Position					60,269
Net Position - Beginning of Year					1,600,579
Net Position - End of Year					\$1,660,848

See accompanying notes to the basic financial statements

GOVERNMENTAL FUND FINANCIAL STATEMENTS

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

General Fund
Balance Sheet
June 30, 2023

Assets

Cash	\$388,076
Accounts receivable	3,421
Due from other governmental units - local	257,051
Prepays	46,985
	<hr/>
Total Assets	<u>\$695,533</u>

Liabilities and Fund Balances

Liabilities

Accounts payable	\$13,922
Accrued payroll	30,396
Due to other governmental units - local	9,173
Other accruals	1,373
	<hr/>
Total Liabilities	54,864

Fund Balances

Nonspendable:	
Prepaid expenses	46,985
Committed to:	
Capital expenditures	559,515
Unassigned fund balance	34,169
	<hr/>
Total Fund Balance	640,669
	<hr/>
Total Liabilities and Fund Balance	<u>\$695,533</u>

See accompanying notes to the basic financial statements

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

General Fund
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2023

Total Fund Balance	\$640,669
Amounts reported in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and are not reported in the funds	2,270,288
Accumulated depreciation and amortization on capital assets does not represent a current outflow of resources and therefore is not reported in the funds	(1,219,738)
Long-term liabilities, including lease commitments and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
Lease commitments	(29,548)
Accrued interest	(823)
Total Net Position	<u><u>\$1,660,848</u></u>

See accompanying notes to the basic financial statements

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2023

Revenues	
Intergovernmental operating contributions	479,090
Intergovernmental capital contributions	100,000
Charges for services	107,652
Interest	63
Donations	2,800
Other revenue	4,877
Total Revenues	694,482
Expenditures	
Public Safety:	
Bookkeeper	17,500
Business meetings, training, and mutual aid wages	43,982
Fire run wages	130,569
Officers' wages	63,073
Training and meeting wages	25,595
Dispatcher - traffic control	27,918
Payroll preparation	2,496
Payroll taxes	20,508
Gas and oil	6,725
Supplies	18,312
Audit and accounting	7,500
Attorney	120
Medical exams	9,980
Telephone	4,771
Insurance	41,235
Pagers and cell phones	3,416
Utilities	11,328
Building maintenance	604
Vehicle maintenance	15,518
Equipment maintenance	6,795
Equipment check and housekeeping	20,388
Rent	20,000
Training	3,540
Bad debt	1,450
Small equipment	37,706
Capital outlay	59,222
Total Expenditures	600,251
Net Change in Fund Balance	94,231
Fund Balance - Beginning of Year	546,438
Fund Balance - End of Year	\$640,669

See accompanying notes to the basic financial statements

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
Year Ended June 30, 2023*

Net Change in Fund Balance		\$94,231
Amounts reported in the statement of activities are different because:		
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Capital outlay	\$59,222	
Depreciation and amortization	<u>(111,887)</u>	(52,665)
Long-term liabilities, including lease obligations payable, are not due and payable in the current period and therefore are not reported in the funds:		
Lease commitment reduction	<u>19,177</u>	19,177
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		
		<u>(474)</u>
Change in Net Position		<u><u>\$60,269</u></u>

See accompanying notes to the basic financial statements

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2023

Note 1

Reporting Entity

The Milan Area Fire Department (the “Fire Department”) was established July 1, 1980 by an agreement dated March 20, 1980, between the City of Milan, London Township, Milan Township, and York Township, all located in the Counties of Monroe and Washtenaw. Effective July 1, 2007, all prior agreements were replaced with a new agreement between the participating municipalities. This agreement is intended to remain in full force and effect until terminated by the mutual agreement of all of the participating municipalities. This agreement provides the means for operating and financing the Milan Area Fire Department. The Fire Department is governed by an Executive Committee consisting of the Chief Executive of each of the participating units together with one additional member of the governing body from each unit. The purpose of the Fire Department is to provide fire protection to the City and Townships in accordance with the authorization of Act 33, Public Acts of Michigan, 1951.

In accordance with the provisions of the National Council on Governmental Accounting (NCGA) Statement 3 and subsequently given authoritative status by the Governmental Accounting Standards Board (GASB) in its Statement 1, the Fire Department is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by NCGA for determining the organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, and special relationships. Oversight responsibility considers the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public services. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens. On this basis, the financial statements of certain other entities are not included in the financial statements of the Milan Area Fire Department.

Note 2

Summary of Significant Accounting Policies

The accounting principles of the Fire Department conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Fire Department’s reporting entity applies all relevant GASB pronouncements. The Fire Department’s basic financial statements include both government-wide (reporting the Fire Department as a whole) and fund financial statements. Both statements categorize primary activities as governmental only. The Fire Department does not have any business-type activities. The following are the more significant of the Fire Department’s accounting policies.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2023

Note 2 **Summary of Significant Accounting Policies (Continued)**

A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
Government-Wide Financial Statements

The Government-Wide Financial Statements (i.e., the Statement of Net Position and the Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned, and expenses are recorded when incurred, regardless of the timing of the related cash flows.

The Statement of Net Position includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Fire Department's net position is reported in two parts: Net investment in capital assets, and unrestricted.

The Statement of Activities demonstrates the degree to which the expenses of the Fire Department are offset by revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) Charges to local units who use or directly benefit from goods, services, or other 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. Interest and donations are not included among program revenues but are properly reported as general revenues.

Fund Financial Statements

Governmental Fund Financial Statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fire Department 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 claims and judgments, are recorded only when payment is due.

The operations of the Milan Area Fire Department are accounted for in one general fund with its own set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenditures.

When both restricted and unrestricted resources are available for use, it is the Fire Department's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Funds

General Fund - The General Fund is the general operating fund of the Fire Department. It is the only fund used to account for all financial resources and is presented as a major fund.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2023

Note 2 **Summary of Significant Accounting Policies (Continued)**

B. Cash

The Fire Department has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Deposits are carried at cost.

C. Receivables

All receivables are recorded net of any uncollectible amounts.

D. Capital Assets

Capital assets are defined by the Fire Department as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical costs. 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:

Equipment	5 - 15 years
Vehicles	20 years

E. Accrued Liabilities

All payables, accrued payroll, and amounts due to other governments are reported in the fund financial statements.

F. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

G. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2023, the Fire Department did not have deferred outflows or deferred inflows.

H. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The components of net position are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Restricted resources should be used first, followed by unrestricted amounts.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2023

Note 2 **Summary of Significant Accounting Policies (Concluded)**

I. Fund Balance Non-spendable and Committed

The fund balance is categorized as non-spendable, restricted, committed, assigned, or unassigned based on the relative strength of the spending constraints. The Executive Committee has the authority to place funds under the committed or assigned categories. Restricted resources should be used first, followed by committed funds, assigned amounts, and then unassigned amounts. According to the Fire Department's agreement, all funds that have not been expended are committed to capital improvements by the participating units of government.

The Milan Area Fire Department Executive Committee and its appointed designee has sole control over placing funds under the committed and assigned categories through a specified board action.

Effective, July 1, 2018, the Milan Area Fire Department adopted a policy to maintain a minimum and maximum unrestricted fund balance. The unrestricted fund balance shall not fall below 2% of General Fund expenditures and is not to exceed 15% of General Fund expenditures.

J. Budget

A budget is adopted by the Fire Department Executive Committee. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect the actual revenues and expenditures for this fund. The budget is adopted at the activity level. The executive committee is authorized to transfer budget amounts within an activity and to make authorized amendments to the original approved budget. Appropriations unused at June 30, are not carried forward to the following fiscal year.

K. Estimates

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

L. Subsequent Events

The Fire Department's management has evaluated subsequent events from June 30, 2023 through December 19, 2023, the date the financial statements were available to be issued.

Note 3 **Stewardship, Accountability and Compliance**

The Fire Department shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State law for the General Fund.

In the required supplemental information, the Fire Department's actual expenditures and budgeted expenditures have been shown on a functional basis, which is the adopted legal level of control.

During the year ended June 30, 2023, the Fire Department incurred expenditures in certain budgetary functions which were within the amounts appropriated.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2023

Note 4 **Cash Deposits**

Statutes authorize the Fire Department to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. Banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposits with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds may not be deposited in financial institutions located in states other than Michigan.

The Fire Department believes that due to deposits that sometimes exceed the limits of FDIC insurance and since the State of Michigan legislation does not require that all deposits be collateralized, it is not always practical to insure all bank deposits. As a result, the Fire Department evaluates each financial institution with which it deposits Fire Department funds and assesses the level of risk at each institution; only these institutions with an acceptable estimated risk level are used as depositories. The Milan Area Fire Department Executive Board has adopted a deposit and investment policy, and has authorized two depositories: Chase, N.A. and First Merchants Bank.

Interest rate risk. The Fire Department's deposit and investment policy does not address interest rate risk.

Credit risk. The Fire Department's deposit and investment policy does not address 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 Fire Department's investment policy.

Concentration of credit risk. The Fire Department does not have limits on the amount the Fire Department may deposit in any one financial institution. The Fire Department had nearly all deposits at First Merchants Bank at June 30, 2023.

Custodial credit risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Fire Department's deposits may not be returned or the Fire Department will not be able to recover the collateral securities in the possession of an outside party. As of June 30, 2023, the Fire Department had a carrying amount of \$388,076, which was invested in checking accounts, savings accounts, and money markets. The bank balances totaled \$338,110. The Fire Department's deposits are insured by the FDIC in the amount of \$250,000, which left \$88,110 uninsured. The Fire Department board approves and designates a list of authorized depository institutions. The Fire Department's policy does not address deposit risk.

Foreign currency risk. State of Michigan legislation does not permit the Fire Department to make investments which have this type of risk.

MILAN AREA FIRE DEPARTMENT
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Notes to Financial Statements
Year Ended June 30, 2023

Note 5 **Capital Assets**

The following is a summary of the changes in capital assets of the Fire Department for the fiscal year ended June 30, 2023:

	Balance at July 1, 2022	Additions	Deletions	Balance at June 30, 2023
Non-Depreciable Assets:				
Construction in Process	\$20,600	\$0	\$0	\$20,600
Depreciable Assets:				
Equipment	147,383	0	0	147,383
Vehicles	1,984,923	59,222	0	2,044,145
	2,152,906	59,222	0	2,212,128
Less: Accumulated Depreciation for:				
Equipment	(105,652)	(5,892)	0	(111,544)
Vehicles	(992,506)	(86,608)	0	(1,079,114)
	(1,098,158)	(92,500)	0	(1,190,658)
Intangible Right-to-Use Assets				
Right-to-Use Asset - Building	58,160	0	0	58,160
Less Accumulated Amortization	(9,693)	(19,387)	0	(29,080)
Net Intangible Right-to-Use Assets	48,467	(19,387)	0	29,080
Net Capital Assets	\$1,103,215	(\$52,665)	\$0	\$1,050,550

Note 6 **Intergovernmental Contributions**

The Fire Department receives a substantial amount of its revenue in the form of operating and capital contributions from the participating municipalities. The amount of these contributions are calculated annually on a predetermined percentage basis of the Fire Department's budget. These percentages are calculated on the basis of taxable value (70%), service area in acres (5%), population as determined by latest decennial census (10%), miles of roads (5%), and dwelling units, commercial units, industries, schools, and churches (10%).

The following is a summary of amounts contributed by the local municipalities for the fiscal year ended June 30, 2023:

Unit	Percentages	Operating Contributions	Capital Contributions
City of Milan	36.76%	\$176,113	\$36,760
Milan Township	20.76%	99,459	20,760
London Township	13.76%	65,923	13,760
York Township	28.72%	137,595	28,720
	100.00%	\$479,090	\$100,000

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2023

Note 7 **Due From Other Units of Government – Local**

The amount due from the participating municipalities and unbilled fire runs as of June 30, 2023 was \$257,051. Below is a breakdown of total amounts by municipality:

Unit	Amounts Due
City of Milan	\$143,005
Milan Township	78,600
London Township	12,880
York Township	22,566
	\$257,051

Note 8 **Due To Other Units of Government – Local**

The amount due to the participating municipalities for refund amounts as of June 30, 2023 was \$9,173. Below is a breakdown of total amounts by municipality:

Unit	Amounts Due
Milan Township	\$2,126
London Township	9
York Township	7,038
	\$9,173

Note 9 **Lease Commitment**

The Milan Area Fire Department entered into a lease with the City of Milan on January 1, 2022 through December 31, 2024, for the use of a fire building, with four equal installments of \$5,000 during each year. Under the lease, the Fire Department shall assume and pay all expenses necessary for the operation of the fire station. Rent expense for the fiscal year ended June 30, 2023 was \$20,000. For purposes of discounting the future payments of the lease, the Fire Department used an interest rate of 2.15%. This lease is in effect until December 31, 2024.

The leased building space, and the related accumulated amortization of the right-to-use asset is outlined in Note 5. The following is a summary of the change in the lease commitment for the year ended June 30, 2023:

	Beginning Balance	Additions	Payments	Ending Balance	Due in One Year
City of Milan - fire building	\$48,725	\$0	\$19,177	\$29,548	\$19,593

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2023

Note 9 **Lease Commitment (Concluded)**

Obligations of governmental activities under operating leases at June 30, 2023 were as follows:

<u>Fiscal Year</u>	<u>City of Milan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$19,593	\$407	\$20,000
2025	9,955	45	10,000
	<u>\$29,548</u>	<u>\$452</u>	<u>\$30,000</u>

Note 10 **Dispatching Services**

Emergency Health Partners provides dispatching services for the Milan Area Fire Department. Dispatching expense for the fiscal year ended June 30, 2023 was \$27,918.

Note 11 **Risk Management**

The Milan Area Fire Department is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries for which the Fire Department carries commercial insurance.

Note 12 **Related Party Transaction**

As stated in Note 8, the Fire Department leases the fire barn from the City of Milan. The City of Milan maintains an ownership interest in the Fire Department.

Note 13 **Accounting Prououncements**

In May 2020, the Governmental Accounting Standards Board issued GASB Statement Number 96, *Subscription-Based Information Technology Arrangements* (SBITA). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITA’s are based on the standards established in Statement No. 87, Leases, as amended. The Fire Department implemented this standard effective July 1, 2022; however, there was no material effect to the financial statements as a whole.

REQUIRED SUPPLEMENTAL INFORMATION

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

*General Fund
Required Supplementary Information
Budgetary Comparison Schedule
Year Ended June 30, 2023*

	Original Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenues				
Intergovernmental operating contributions	\$399,090	\$479,090	\$479,090	\$0
Charges for services	102,916	95,000	107,652	12,652
Other revenue	0	0	4,877	4,877
Total Revenues	502,006	574,090	591,619	17,529
Expenditures				
Bookkeeper	17,500	17,500	17,500	0
Mutual aid	45,000	45,000	43,982	1,018
Fire run wages	95,000	166,000	130,569	35,431
Officers' wages	69,540	69,540	63,073	6,467
Training and meeting wages	25,000	25,000	25,595	(595)
Dispatcher - traffic control	27,950	27,950	27,918	32
Payroll preparation	2,100	2,100	2,496	(396)
Payroll taxes	16,000	25,000	20,508	4,492
Gas and oil	5,500	5,500	6,725	(1,225)
Supplies	6,600	6,600	18,312	(11,712)
Audit and accounting	7,500	7,500	7,500	0
Attorney	1,500	1,500	120	1,380
Medical exams	9,000	9,000	9,980	(980)
Telephone	5,600	5,600	4,771	829
Insurance	37,000	37,000	41,235	(4,235)
Pagers and cell phones	3,000	3,000	3,416	(416)
Utilities	11,000	11,000	11,328	(328)
Building maintenance	1,000	1,000	604	396
Vehicle maintenance	20,000	20,000	15,518	4,482
Equipment maintenance	5,200	5,200	6,795	(1,595)
Equipment check and housekeeping	16,600	16,600	20,388	(3,788)
Rent	20,000	20,000	20,000	0
Training	8,000	8,000	3,540	4,460
Bad debt	0	0	1,450	(1,450)
Small equipment	38,500	38,500	37,706	794
Total Expenditures	494,090	574,090	541,029	33,061
Excess of Expenditures over Revenues	7,916	0	50,590	50,590
Other Financing Sources (Uses)				
Intergovernmental capital contributions	100,000	100,000	100,000	0
Interest	0	0	63	63
Donations for capital outlay	0	0	2,800	2,800
Capital outlay	0	(110,000)	(59,222)	50,778
Total Other Financing Sources (Uses)	100,000	(10,000)	43,641	53,641
Net Change in Fund Balance	107,916	(10,000)	94,231	104,231
Fund Balance - Beginning of Year	473,093	546,438	546,438	0
Fund Balance - End of Year	\$581,009	\$536,438	\$640,669	\$104,231



CALKINS HEHL RAFKO
— CERTIFIED PUBLIC ACCOUNTANTS —

Executive Committee
Milan Area Fire Department
Milan, Michigan 48160

Dear Members of the Executive Committee:

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the Milan Area Fire Department as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Fire Department's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fire Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fire Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Fire Department's internal control to be a material weakness:

Financial Statements

As is common with smaller entities, the Fire Department has relied on its independent auditors to assist in the preparation of the government-wide financial statements and footnotes. The Fire Department has decided it is more cost effective to outsource the preparation of its financial statements to the auditors. The result is that the Fire Department does not have controls in place to prepare the government-wide financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America. The Fire Department does carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Executive Committee
Milan Area Fire Department

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The following comment is not a significant deficiency or material weakness, but a suggestion to improve your existing accounting and control systems:

Fund Balance Policy

Effective July 1, 2018 the Fire Department adopted a General Fund Unrestricted Fund Balance Reserve Policy. Any amount of budgeted operating expenses which goes unused will be retained in the General Fund unrestricted fund balance reserve until the reserve exceeds the maximum balance requirement at the end of the fiscal year. The Executive Committee shall have the option to refund the municipalities in proportion to their share of the excess reserve or commit the excess reserve to capital improvements. Conversely, in the event the reserve falls below the minimum balance requirement at the end of the fiscal year, the Executive Committee shall incorporate an increase in the municipalities' annual payment total for the upcoming year's budget.

It was noted during our audit for the 2022-2023 fiscal year that actual operating charges in the amount of \$479,090 exceeded the actual operating expenditures, net of fire run fees and other revenue, in the amount of \$428,499. The Fire department had a total excess of revenues over expenditures of \$50,591. Since this excess would cause the unassigned fund balance to exceed its maximum fund balance policy of \$81,154 or 15% of the previous fiscal year's operating expenditures, \$44,449 of the excess above will be refunded to the local units if government, and the remaining excess of \$10,141 will be retained in the General Fund Unrestricted Fund Balance Reserve. Accordingly, \$519,066 is reported as committed to capital expenditures, \$46,985 is reported as nonspendable fund balance, and \$34,169 is reported as unassigned fund balance in the General Fund balance sheet.

This communication is intended solely for the information and use of the Executive Committee, management, others within the organization, and the applicable departments of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



December 19, 2023



CALKINS HEHL RAFKO
— CERTIFIED PUBLIC ACCOUNTANTS —

Executive Committee
Milan Area Fire Department
Milan, Michigan 48160

Dear Members of the Executive Committee:

We have audited the financial statements of the Milan Area Fire Department for the year ended June 30, 2023, and have issued our report thereon dated December 19, 2023. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards (and if applicable, *Government Auditing Standards* and Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 17, 2023. Professional Standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Milan Area Fire Department are described in Note 2 to the financial statements. During the fiscal year ended June 30, 2023, the Milan Area Fire Department adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. We noted no transactions entered into by the Milan Area Fire Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of amounts invested in capital assets is based on historical costs and management's estimated useful lives of vehicles and equipment. We have evaluated the key factors and assumptions used to develop the estimated useful lives of assets in determining that they are reasonable in relation to the financial statements as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of intergovernmental contributions in Note 5 to the financial statements are adjusted to reflect budgeted operating contributions that were in excess of actual operating expenditures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. A list of the adjustments approved by management is attached to this letter, some of which were material to the financial statements.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2023.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the major fund budget and actual statement, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of the Executive Committee and management of Milan Area Fire Department and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



December 19, 2023