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June 3, 2009

Board of Directors  
Fire Department of Liberty Township  
Hendricks County Indiana, Inc.  
111 E. Kentucky St.  
Clayton, IN 46118

We have reviewed the audit report prepared by Dunton & Co., P.C., Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Fire Department of Liberty Township Hendricks County Indiana, Inc., as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. The report on internal control contains two comments.

STATE BOARD OF ACCOUNTS

**Fire Department of Liberty Township  
Hendricks County Indiana, Inc.**

Financial Statements

December 31, 2007 and 2006



Indianapolis, Indiana

**Fire Department of Liberty Township  
Hendricks County Indiana, Inc.**

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December 31, 2007 and 2006

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Indianapolis, Indiana

Independent Auditor's Report

Board of Directors  
Fire Department of Liberty Township  
Hendricks County Indiana, Inc.

We have audited the accompanying statements of assets, liabilities, and net assets (modified cash basis) of the Fire Department of Liberty Township Hendricks County Indiana, Inc. as of December 31, 2007 and 2006, and the related statements of cash receipts, disbursements, changes in net assets (modified cash basis), and cash flows (modified cash basis) for the years then ended. These financial statements are the responsibility of the Fire Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also described in Note 2, the values of the firehouses that were donated are recorded at a nominal value since the values could not be determined at the date of donation and the value of the firehouse provided by the Town of Clayton under its contract for services has not been determined, and therefore the value has not been recorded. The Fire Department also recognizes FEMA grant revenue and other governmental grant revenue when earned in accordance with the grant agreements instead of when received. Any unearned revenue is recorded as a liability on the statements of assets, liabilities, and net assets.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Fire Department as of December 31, 2007 and 2006 and its cash receipts and disbursements and its cash flows for the years then ended on the basis of accounting described in Note 2.

*Dunton & Co., P.C.*

October 31, 2008

Fire Department of Liberty Township  
Hendricks County Indiana, Inc.  
Statements of Assets, Liabilities and Net Assets  
Modified Cash Basis  
December 31, 2007 and 2006

	ASSETS	2007	2006
<b>Current Assets</b>			
Cash and Cash Equivalents			
Checking		\$ 46,469.96	\$ 38,935.03
Savings		23,028.28	12,812.85
Checking other		<u>16,726.60</u>	<u>4,519.86</u>
Total Cash and Cash Equivalents		<u>86,224.84</u>	<u>56,267.74</u>
Grant Receivable		<u>-</u>	<u>60,549.00</u>
<b>Total Current Assets</b>		<u>86,224.84</u>	<u>116,816.74</u>
<b>Property and Equipment</b>			
Fire trucks and EMS vehicles		396,785.24	494,785.24
Fire equipment		453,453.90	430,601.70
Vehicles		27,002.00	34,502.00
Fitness equipment		22,463.50	22,463.50
Computers and software		4,292.00	7,146.75
Buildings and improvements		4,047.00	4,047.00
Land		<u>4,700.00</u>	<u>4,700.00</u>
		912,743.64	998,246.19
Total Accumulated Depreciation		<u>(456,020.39)</u>	<u>(495,333.97)</u>
<b>Total Property and Equipment</b>		<u>456,723.25</u>	<u>502,912.22</u>
		<u>\$ 542,948.09</u>	<u>\$ 619,728.96</u>
<b>LIABILITIES &amp; NET ASSETS</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Current Maturities of Long-Term Debt		6,000.00	29,468.70
Accounts Payable		<u>-</u>	<u>62,494.16</u>
Total Current Liabilities		<u>6,000.00</u>	<u>91,962.86</u>
<b>Long-Term Debt</b>			
Total Long-Term Debt		28,000.00	110,501.63
Less current maturities		<u>(6,000.00)</u>	<u>(29,468.70)</u>
Total Long-term Debt		<u>22,000.00</u>	<u>81,032.93</u>
<b>Total Liabilities</b>		<u>28,000.00</u>	<u>172,995.79</u>
<b>Net Assets</b>			
Temporarily Restricted Net Assets		-	13,478.90
Unrestricted Net Assets		<u>514,948.09</u>	<u>433,254.27</u>
<b>Total Net Assets</b>		<u>514,948.09</u>	<u>446,733.17</u>
		<u>\$ 542,948.09</u>	<u>\$ 619,728.96</u>

Fire Department of Liberty Township  
Hendricks County Indiana, Inc.  
Statements of Cash Receipts, Disbursements and Changes In Net Assets  
Modified Cash Basis  
For the years ended December 31, 2007 and 2006

Unrestricted	2007	2006
Cash Receipts - Unrestricted		
Local Government Fire Service Contracts	\$ 238,310.00	\$ 186,423.00
FEMA Grants	81,841.87	86,477.00
Fund Raising	20,300.78	14,590.55
Ambulance Services	55,833.97	52,768.71
Donated Services	36,918.00	27,184.20
Sale of Assets	68,940.58	-
Sponsored Training	765.00	150.00
Other Receipts	2,997.90	10,284.32
Total Cash Receipts	<u>505,908.10</u>	<u>377,877.78</u>
Temporary Assets Released From Restrictions	<u>13,478.90</u>	<u>34,105.73</u>
Total Cash Receipts and Assets Released From Restrictions	<u>519,387.00</u>	<u>411,983.51</u>
Cash Disbursements -Unrestricted		
Standby Wages and payroll taxes	70,609.72	71,541.16
Administrative, Officers' Stipends, and payroll taxes	14,933.51	20,076.02
Fund Raising	1,807.00	2,136.00
Donated Services	36,918.00	27,184.20
Depreciation Expense	131,928.16	113,209.39
Interest Expense	8,613.12	7,439.77
Utilities	18,393.70	14,336.80
Fire Division Supplies and Equipment	8,322.86	6,787.99
EMT Sponsored Training Expenses	5,383.03	2,125.00
EMS Division Supplies and Equipment	10,692.68	11,929.70
Vehicle Maintenance	20,348.24	6,357.80
Clothing Allowances	9,258.66	4,525.00
Physicals and Vaccinations	-	7,019.91
Fuel	14,553.52	8,599.91
Communications	6,704.36	4,955.12
Administrative Supplies and Other Expenses	4,048.03	4,508.04
Building Maintenance	1,840.56	7,378.66
Professional Fees	27,364.74	19,603.30
Computer Software Support and Upgrades	39.99	2,170.00
Equipment Rent	2,105.46	1,979.63
Bank Charges	-	20.00
Insurance	33,986.29	54,510.32
Miscellaneous	3,953.95	38.80
Association Expenses	5,887.60	4,630.24
Total Cash Expenditures	<u>437,693.18</u>	<u>403,062.76</u>
Increase in Unrestricted Net Assets	<u>81,693.82</u>	<u>8,920.75</u>
Temporarily Restricted		
Temporarily Restricted Assets Released From Restrictions	<u>(13,478.90)</u>	<u>(34,105.73)</u>
Decrease in Temporarily Restricted Net Assets	<u>(13,478.90)</u>	<u>(34,105.73)</u>
Increase (decrease) in Net Assets	<u>68,214.92</u>	<u>(25,184.98)</u>
Total Net Assets, Beginning of Year	<u>446,733.17</u>	<u>471,918.15</u>
Total Net Assets, End of Year	<u>\$ 514,948.09</u>	<u>\$ 446,733.17</u>

Fire Department of Liberty Township  
Hendricks County Indiana, Inc.  
Statements of Cash Flows  
Modified Cash Basis  
For the Years Ended December 31, 2007 and 2006

	2007	2006
<b>Cash Flows From Operating Activities:</b>		
Net increase (decrease) in net assets	\$ 68,214.92	\$ (25,184.98)
Adjustments to reconcile net assets to net cash provided by (used in) operating activities:		
Depreciation	131,928.16	113,209.39
Loss on disposition of equipment	4,942.01	-
Changes in operating assets and liabilities:		
Accounts Payable	(62,494.16)	62,494.16
Deferred Grant Revenue	-	(3,207.30)
Grants Receivable	<u>60,549.00</u>	<u>(60,549.00)</u>
Net Cash Provided by Operating Activities	<u>203,139.93</u>	<u>86,762.27</u>
<b>Investing Activities</b>		
Purchases of Equipment	<u>(90,681.20)</u>	<u>(138,365.86)</u>
Net Cash Used in Investing Activities	<u>(90,681.20)</u>	<u>(138,365.86)</u>
<b>Financing Activities</b>		
Payments on Long-Term Debt	<u>(82,501.63)</u>	<u>(27,180.57)</u>
Net Cash Used in Financing Activities	<u>(82,501.63)</u>	<u>(27,180.57)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	29,957.10	(78,784.16)
Cash and Cash Equivalents, Beginning of Year	<u>56,267.74</u>	<u>135,051.90</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 86,224.84</u>	<u>\$ 56,267.74</u>
 <b>Supplemental Disclosures:</b>		
Interest paid	\$ 8,613.12	\$ 7,439.77

Fire Department of Liberty Township  
Hendricks County Indiana, Inc.  
Notes to Financial Statements  
December 31, 2007 and 2006

**Note 1: Nature of Activities**

The Fire Department of Liberty Township Hendricks County Indiana, Inc. (the Fire Department) was formed in January 2000, resulting from the merger of three volunteer fire departments in Liberty Township; Clayton, Cartersburg, and Belleville. Starting in 2007, the Fire Department has taken over the daily operations of Hazelwood Volunteer Fire Department. The Fire Department provides the Town of Clayton and one-hundred percent of Liberty Township with fire protection and emergency medical services. The Fire Department is under contract with the Town of Clayton and Liberty Township to provide these services. The cash receipts from these contracts are recognized in the statement of cash receipts, disbursements, and changes in net assets under "Local Government Service Contracts". The Town of Clayton, in connection with its contract, provides the building that houses Fire Station 31. A second Fire Station, number 34, is located in Hazelwood, which is owned by Hazelwood Volunteer Fire Department Association (the Association). The Fire Department uses the station in exchange for reimbursing the Association fifty-percent of the monthly utilities. A value has not been placed on the use of these facilities. The Fire Department is staffed by a combination of paid and volunteer personnel primarily residing in Liberty Township in Hendricks County, Indiana.

**Note 2: Significant Accounting Policies**

**Basis of Accounting** - The Fire Department maintains its financial statements on the modified cash basis of accounting, which is another comprehensive basis of accounting. It differs from generally accepted accounting principles in that revenue is recognized when received instead of when earned and expenses are recognized when paid instead of when incurred. The Fire Department, however, recognizes FEMA grant proceeds, other governmental revenue and other proceeds associated with governmental distributions when earned in accordance with the grant and other agreements. Any unearned revenue is reflected as a liability on the statements of assets, liabilities and net assets.

**Basis of Presentation** - In accordance with Financial Accounting Standards Board statement number 117 for not-for-profit organizations' financial statements, the Fire Department reports its net assets by three different classifications; unrestricted, temporarily restricted, and permanently restricted. When the temporarily restricted net assets are released because of expired time restraints or defined events, they are transferred to unrestricted net assets.

**Accounting Estimates** - The preparation of the financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

Fire Department of Liberty Township  
Hendricks County Indiana, Inc.  
Notes to Financial Statements  
December 31, 2007 and 2006

**Note 2: Significant Accounting Policies (continued)**

Cash Equivalents - For purposes of the statements of assets, liabilities, and net assets, and cash flows, cash and cash equivalents include all cash and savings accounts with original maturities of three months or less.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted receipts, depending on the existence and/or nature of any donor-imposed restrictions. Any contributions received with donor-imposed restrictions that are met in the year received are classified as unrestricted donations. During 2005, the Fire Department received a restricted \$47,584.63 distribution from the Belleville Conservancy District upon its termination for the purchase of fire safety equipment and gear. During 2006, fire safety equipment totaling \$34,105.73 was purchased by the Fire Department. The remaining balance of the restricted distribution of \$13,478.90 was reflected as temporarily restricted in 2006. In 2007, the remaining funds were used in the purchase of additional fire safety equipment and gear.

Donated Services – The Fire Department is staffed by paid and volunteer personnel who provide fire protection and EMS emergency medical and transport services. In connection with the volunteer services, if such services were not donated, the Fire Department would be required to hire such services at the same hourly rate of the paid personnel. The volunteers donated services at their fair market value of \$ 36,918.00 and \$27,184.20 in 2007 and 2006, respectively.

Property and Equipment – All property and equipment are recorded at cost and depreciated over the estimated useful lives of the assets, using the straight line method. Property and equipment that is donated is recorded at its estimated fair market value as of the date of the donation. Estimated useful lives range from 5 to 40 years. Equipment purchases under \$1,000 are expensed and all repairs and maintenance are expensed. The firehouses that were donated to the volunteer fire departments prior to the mergers have been recorded at nominal values of \$1 since there isn't any documentation to determine the donation dates or the value at the dates of the donations. The Federal government may have a reversionary interest in property purchased with Federal funds and may determine how the proceeds from the sale of such assets shall be used to include the refund of such proceeds to the Federal government.

Income taxes – The Fire Department is an organization exempt from taxation under Section 501(c) (3) of the Internal Revenue Code. The Fire Department has not conducted any unrelated business activities and therefore, the Fire Department has not made any provision for Federal income taxes in the accompanying financial statements.

Fire Department of Liberty Township  
Hendricks County Indiana, Inc.  
Notes to Financial Statements  
December 31, 2007 and 2006

**Note 3: Long-term Debt and Capital Leases**

The Fire Department has purchased fire and emergency equipment and financed a portion of the purchase price of such equipment under long-term financing leases. As of December 31, 2007 and 2006, the Fire Department had the following long-term debt obligations.

	2007	2006
Long-term lease financing agreement, dated August 29, 2000 with annual payments of \$15,157.02 for ten years, including interest at 6.89%. The debt is secured by the equipment. The lease was paid off during 2007.	\$ -	\$51,467.79
Long-term lease financing agreement, dated July 1, 2003 with annual payments of \$13,463.32 which matures on July 1, 2008. The note bears interest of approximately 7.6% and is secured by the equipment financed. The lease was paid off during 2007.	-	25,033.84
Long-term note payable, dated January 20, 2005 with a maturity in January 20, 2010 with minimum annual payments of \$6,000.00. The note from a local unit of government is non-interest bearing. The debt is secured by the equipment.	<u>28,000.00</u>	<u>34,000.00</u>
Total amount due	28,000.00	110,501.63
Current maturities	<u>-6,000.00</u>	<u>-29,468.70</u>
Long-term portion	<u>\$ 22,000.00</u>	<u>\$ 81,032.93</u>

Future principal payments are as follows:

Year ending December 31,	<b>Long-term Debt</b>
2008	\$ 6,000.00
2009	6,000.00
2010	<u>16,000.00</u>
Totals	<u>\$ 28,000.00</u>

Fire Department of Liberty Township  
Hendricks County Indiana, Inc.  
Notes to Financial Statements  
December 31, 2007 and 2006

**Note 4: Concentration of Credit Risk**

At certain times during the year and at year end, the Fire Department maintains cash deposits with its bank, which exceeded the \$100,000 limit of insurance by the Federal Deposit Insurance Corporation (FDIC).

In connection with its EMS emergency runs, the Fire Department bills insurance companies, individuals, Medicare, Medicaid and other Fire and EMS Departments fees based on the emergency ALS and transport services provided to patients or accident victims. The income from those services is recorded when received and therefore, the receivable for those services and an allowance for uncollectible fees are not recorded on the statement of assets, liabilities and net assets. \

**Note 5: Fund Raising Expense**

Total fund raising expenses in connection with the annual boot drive for the years ended December 31, 2007 and 2006 were \$4,449.50 and \$6,766.23, respectively. The ratio of expenses to amounts raised is computed using actual cash expenditures to the related cash donations received. The expense ratios for 2007 and 2006 respectively, were 21.9% and 46.4%.

**Note 6: Public Funding**

The Fire Department of Liberty Township Hendricks County Indiana, Inc. receives public support to fund its emergency medical services and fire protection in Clayton, Indiana and in Liberty Township in Hendricks County. As noted, the Fire Department routinely pursues Federal grants to fund special equipment purchases. During 2007, the Fire Department received the following Federal and local funds.

<b>Government Entity</b>	<b>Amount Received</b>
Liberty Township	\$ 194,310
The Town of Clayton	44,000
FEMA	<u>81,842</u>
Total Government funds Received	<u>\$ 320,152</u>

October 31, 2008

To the Board of Directors, Fire Chief, President, and Treasurer  
Fire Department of Liberty Township Hendricks County, Inc.

We have audited the financial statements of Fire Department of Liberty Township Hendricks County, Inc for the years ended December 31, 2007 and 2006, and have issued our report thereon dated October 31, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 20, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with Modified Cash Basis of accounting. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Fire Department of Liberty Township Hendricks County, Inc are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred

#### Accounting Estimates

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

Management's estimate of the lives of fixed assets is based on anticipated life of the fire equipment. We evaluated the key factors and assumptions used to develop the lives of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

### 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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We have attached a listing of our audit adjustments for your information and review.

### Disagreements with Management

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

### 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 Organization'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.

### Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2008.

### 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 Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors, The Indiana State Board of Accounts, and management of Fire Department of Liberty Township Hendricks County, Inc. and any local units of government providing funding to the Fire Department and any other grantors and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Dunton & Co P C*

October 31, 2008

Board of Directors, Fire Chief, President, and Treasurer  
of the Fire Department of Liberty Township  
Hendricks County Indiana, Inc.

In planning and performing our audits of the financial statements of the Fire Department of Liberty Township Hendricks County, Inc as of and for the years ended December 31, 2007 and 2006, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

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

Under current professional standards it is viewed that when an entity does not have the ability or has not engaged a professional to prepare its financial statements and notes to its financial statements, the organization has a material weakness in its internal control system.

The Fire Department had engaged another Accounting and Tax Consultant firm to prepare its financial statements and related notes to the financial statements and to assist the Fire Chief and the Board of Directors in managing the financial affairs of the organization. This professional relationship was not beneficially effective for the Fire Department and it was terminated.

We recommend that the Fire Department request volunteers with financial expertise to serve on the Board of Directors or a separate finance committee to assist the Fire Department in overseeing the financial reporting needs of the Fire Department, posting audit and routine accounting adjustments.

We also have the following comments that we thought that the Fire Department should consider:

When the Fire Department receives refunds or reimbursements of expenses, the receipts are being posted as cash receipts instead of a reduction of expense. To more effectively monitor the Fire Department's adherence to its monthly and annual budgets, we recommend that these receipts be recorded as a reduction of expenditures.

The property tax collection process has encountered delays in billing and collecting property taxes during the last two years due to a change in the assessment process of residential, commercial and agriculture properties. As such, when the taxes have not been collected, the Fire Department is subject to a risk that the payment schedules under its Fire and EMS contracts will not be met. We recommend that a line of credit be obtained to guard against a shortage of funds to cover operating expenses when unexpected delays are encountered in collecting its contract payments. The borrowings under the line should only be permitted when authorized by two officials of the Fire Department such as the Fire Chief and the Treasurer, the Treasurer and the President, or some other combination authorized by the Board of Directors.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization, the Indiana State Board of Accounts, local units of government providing funding and any other grantors of funds to the Fire Department of Liberty Township Hendricks County, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

*Dunton & Co P C*