SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
SPIRIT LAKE, IOWA

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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SPIRIT LAKE COMMUNITY FIRE DEPARTMENT

Officials
(From July 1, 2005 through December 31, 2005)

Name	Title	Representing
Lynn Wallace	President	Township of Lakeville
Dale Palmberg	Vice-President	City of Orleans
Ed McClurg	Secretary-Treasurer	Township of Spirit Lake
Barb Ricke	Member	City of Spirit Lake
Evonne Swanson	Member	Township of Center Grove
Duane Yager	Member	City of Spirit Lake

(From January 1, 2006 through June 30, 2006)

Lynn Wallace	President	Township of Lakeville
Dale Palmberg	Vice-President	City of Orleans
Ed McClurg	Secretary-Treasurer	Township of Spirit Lake
Kevin Bice	Member	City of Spirit Lake
Evonne Swanson	Member	Township of Center Grove
Clyde Ihrke	Member	City of Spirit Lake

Spirit Lake Community Fire Department

Brinkman & Reed, CPA's

103 South Sixth Street Estherville, Iowa 51334 712-362-5891 Phone 712-362-7172 Fax

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Spirit Lake Community Fire Department:

We have audited the accompanying financial statement of the Spirit Lake Community Fire Department as of and for the year ended June 30, 2006. This financial statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Spirit Lake Community Fire Department as of June 30, 2006, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 1, 2009 on our consideration of the Spirit Lake Community Fire Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal

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control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 7 through 13 is not a required part of the financial statement, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Brinkman + Reed, CPA's

BRINKMAN & REED, CPA's

January 1, 2009, except for Note 5, as to which the date is January 6, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Spirit Lake Community Fire Department provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities of the Spirit Lake Community Fire Department is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the Department's financial statement, which follows.

2006 FINANCIAL HIGHLIGHTS

- The Department's operating receipts were $198,139 in fiscal year 2006, which was an increase of $8,640 from fiscal year 2005.
- The Department's operating disbursements were $103,849 in fiscal year 2006, which was an increase of $1593 from fiscal year 2005.
- The Department's non-operating disbursements were $66,100 in fiscal year 2006 compared to $187,324 in fiscal year 2005.
- The Department's net assets were $125,652 at June 30, 2006 and this was an increase of $28,190 from the fiscal year 2005.

USING THIS ANNUAL REPORT

The Department has elected to present its financial statement on the cash

basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Department's cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in the financial statement. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Agency's cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Spirit Lake Community Fire Department's financial statement and other information as follows:

- Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Department's financial activities.
- The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Department's

provides fire protection and medical emergency services to the citizens of the member cities of Spirit Lake and Orleans and the member townships of Lakeville, Diamond Lake, Spirit Lake and Center Grove. The Department also provides services to Minneota Township. Operating disbursements are disbursements paid to operate the Spirit Lake Community Fire Department. Non-operating receipts are for interest on accounts, loan proceeds and miscellaneous receipts and loan payments. Non-operating disbursements are for purchases of equipment.

A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2006 and 2005 is presented below.

	2006	2005
Operating receipts:		
Township contributions	$104,411	$ 96,395
City contributions	89,867	81,879
Refunds and reimbursements	2,561	4,286
Donations	1,300	6,939
Total operating receipts	198,139	189,499
Operating disbursements		
Administration expenses	57,490	66,604
Vehicle operations	6,237	4,262
Telephone	1,401	1,441
Drainage District	7,460	0
Building and grounds	14,312	2,795
Utilities	8,650	7,714
Repairs and supplies	6,236	6,670
Part-time firefighter	226	7,486
First Responders	1,837	5,284
Total operating disbursements	103,849	102,256
Excess of operating receipts over operating disbursements	94,290	87,243
Non-operating receipts (disbursements)		
Interest on investments	137	133
Miscellaneous Income	500	2,320
Grant income	6,470	0
Loan proceeds	148,500	365,000
Loan payment	(202,717)	0
Equipment purchases	(18,990)	(554,777)
Total non-operating receipts Disbursements	(66,100)	(187,324)
Change in cash basis net assets	28,190	(100,081)
Cash basis net assets beginning of year	97,462	197,543
Cash basis net assets end of year	$125,652	$ 97,462
Cash Basis Net Assets Unrestricted	**$125,652**	**$97,462**

DEBT ADMINISTRATION

The Department has a note payable for equipment purchased on October 25, 2004. The balance outstanding was $176,723 On June 30, 2006. This note is payable in equal yearly installments of $30,495 through the year ending June 30, 2007 and equal yearly installments of $29,780 for the year ending June 30, 2013. The note interest rate is 4.0%.

The Department received a 0% loan in the amount of $150,000 from the Fire Fighting Revolving Fund in March 2006. The loan is payable in equal semi-annual installments of $7500 through the year ending June 30, 2016. The funds were used to pay down the Department's interest bearing bank loan in the effort of reducing future interest costs.

ECONOMIC FACTORS

The Spirit Lake Community Fire Department financial position increased slightly during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for the Department officials. Some of the realities that may potentially become challenges for the Department to meet are:

- Facilities require constant maintenance and upkeep and vehicles are aging and need to be replaced.
- New training standards will increase the cost of training for the Department.

The Department anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the

Department's ability to react to unknown issues.

CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Department's finances and to show the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Linda Voss, Secretary/Treasurer of the Spirit Lake Community Fire Department, P.O. Box 384, Spirit Lake, IA 51360.

Financial Statement

Spirit Lake Community Fire Department
Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Assets
As of and for the year ended June 30, 2006

Exhibit A

Operating receipts:	
Township contributions	$ 104,411
City contributions	89,867
Refunds and reimbursements	2,561
Donations	1,300
Total operating receipts	198,139
Operating disbursements:	
Administration expenses	57,490
Building and grounds	14,312
Utilities	8,650
Drainage District	7,460
Vehicle operations	6,237
Repairs and supplies	6,236
First responders	1,837
Telephone	1,401
Part-time firefighters	226
Total operating disbursements	103,849
Excess of operating receipts over operating disbursements	94,290
Non-operating receipts (disbursements):	
Interest on investments	137
Miscellaneous Income	500
Grant Income	6,470
Loan proceeds	148,500
Loan payments	(202,717)
Equipment purchases	(18,990)
Total non-operating receipts (disbursements)	(66,100)
Change in cash basis net assets	28,190
Cash basis net assets beginning of year	97,462
Cash basis net assets end of year	$ 125,652
Cash Basis Net Assets	
Unrestricted	$ 125,652

See notes to financial statement.

(1) Summary of Significant Accounting Policies

The Spirit Lake Community Fire Department was formed in 1985 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Department is for fire protection and aid and assistance for other emergencies or disasters relating to life or property to the units of government which are members of the Department.

The governing body of the Department is composed of three representatives from the four member townships and three representatives from the two member cities. The Department members are Lakeville, Diamond Lake, Spirit Lake and Center Grove Townships of Dickinson County and the Cities of Spirit Lake and Orleans.

A. Reporting Entity

For financial reporting purposes, the Spirit Lake Community Fire Department has included all funds, organizations, agencies, boards, commissions and authorities. The Department has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Department are such that exclusion would cause the Department's financial statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Department to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Department. The Department has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Department are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

(1) Summary of Significant Accounting Policies - Continued

C. Basis of Accounting

The Spirit Lake Community Fire Department maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Department is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present the financial position and results of operations of the Department in accordance with U.S. generally accepted accounting principles.

(2) Cash and Investments

The Department's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Department is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Department; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Department has not formally adopted an investment policy.

The Department had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Risk Management

The Spirit Lake Community Fire Department is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Department assumes liability for any deductibles and claims in excess of coverage limitation. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(4) Notes Payable

The Department has a note payable for equipment purchased on October 25, 2004 in the original amount of $365,000. The balance outstanding was $176,723 at June 30, 2006. This note is payable in a yearly installment of $30,495 for the year ending June 30, 2007 and equal yearly installments of $29,780 for the year ending June 30, 2008 through the year ending June 30, 2013. The note interest rate is 4.0%.

The Department also has a note payable for the equipment purchased on October 25, 2004 from the State of Iowa in the original amount of $150,000. The balance outstanding was $150,000 at June 30, 2006. This note is payable in equal semi-annual installments of $7,500 through the year ending June 30, 2016. The note interest rate is 0.0%.

Annual debt service requirements to maturity for the above notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 41,582	$ 3,913	$ 45,495
2008	38,758	6,022	44,780
2009	39,711	5,069	44,780
2010	40,713	4,067	44,780
2011	41,742	3,038	44,780
2012	42,811	1,969	44,780
2013	36,406	859	37,265
2014	15,000	-	15,000
2015	15,000	-	15,000
2016	15,000	-	15,000
	$ 326,723	$ 24,937	$ 351,660

(5) Subsequent Events - Theft

On or around January 3, 2009, the Department's financial records for the year ended June 30, 2007 were stolen. The theft has been reported and the financial impact is unknown.

(6) Subsequent Events – Secretary/Treasurer

The Department's Secretary/Treasurer fell severely ill during 2008. The position was transitioned to a new Secretary/Treasurer in December of 2008. Shortly thereafter, the previous Secretary/Treasurer passed away before passing on all of his knowledge of his position to his successor. The effect of this situation is unknown.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with Government Auditing Standards

To the Members of the
Spirit Lake Community Fire Department:

We have audited the accompanying financial statement of the Spirit Lake Community Fire Department as of and for the year ended June 30, 2006, and have issued our report thereon dated January 1, 2009. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Spirit Lake Community Fire Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Spirit Lake Community Fire Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions

and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 and II-B-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Spirit Lake Community Fire Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Department's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Department. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the Spirit Lake Community Fire Department in a separate letter dated January 1, 2009.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Spirit Lake Community Fire Department and other parties to whom the Department may report. This report is not intended to be and should not be used by anyone other than these specific parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Spirit Lake Community Fire Department during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Brinkman & Reed, CPA's

BRINKMAN & REED, CPA'S

January 1, 2009

Spirit Lake Community Fire Department
Schedule of Findings
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

a) An unqualified opinion was issued on the financial statement which was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.

c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one person has primary control over receipt collection, posting, deposit preparation, cash disbursements and reconciling.

Recommendation – We realize that segregation of duties is difficult with a limited number of office employees. However, the Department should review its control activities to obtain the maximum internal control possible under the circumstances.

Response – The Department will make every effort to comply.

Conclusion – Response accepted.

II-B-06 Untimely Deposits – Timely deposits are necessary to ensure recording of revenues in the proper period. We noted that several deposits throughout the year were made several weeks after receipt.

Recommendation – All deposits should be made within five (5) days of receipt.

Response – The Department will make every effort to comply.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-06 Official Depositories – A resolution naming official depositories has not been approved by the Department.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Department.

Response – We will consider this.

Conclusion – Response accepted.

III-B-06 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-C-06 Travel Expense – No disbursements of Department money for travel expenses of spouses of Department officials or employees were noted.

III-D-06 Department Minutes – It was noted that payments for federal payroll tax deposits had not been approved for payment by the Department.

Recommendation – All disbursements should be approved by the Department.

Response – The Department will make every effort to comply.

Conclusion – Response accepted.

III-E-06 Deposit and Investments – Except as noted in item III-A-06 above, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa was noted.

Brinkman & Reed, CPA's

103 South Sixth Street Estherville, Iowa 51334 712-362-5891 Phone 712-362-7172 Fax

January 1, 2009

Spirit Lake Community Fire Department
PO Box 384
Spirit Lake, IA 51360

In planning and performing our audit of the financial statements of the Spirit Lake Community Fire Department as of and for the year ended June 30, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Spirit Lake Community Fire Department's internal control over financial reporting 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 Spirit Lake Community Fire Department's internal control. Accordingly, we do not express an opinion on the effectiveness of Spirit Lake Community Fire Department's internal control.

However, during our audit we became aware of two matters that are an opportunity for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters. We previously reported on Spirit Lake Community Fire Department's internal control in our report dated January 1, 2009. This letter does not affect our report dated January 1, 2009 on the financial statements of Spirit Lake Community Fire Department.

During this year's audit, we discovered that Pat Daly's part-time fireman wages of $245 that were paid to him in the second quarter of 2006 were not included on the second quarter 941. It was further noted that the total of Daly's W-2 and the total of the Department's W-3 were short $245.50. It is important that wages and payroll taxes are accurately reported to the Internal Revenue Service. Failure to do so can result in the Department owing late penalties and interest. We recommend that the 2006 second quarter 941 report be amended to include these wages and pay the FICA taxes. We also recommend that the Department amend Daly's 2006 W-2 and the Department's W-3 to include the $245.50 of wages.

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During audit testing, we discovered that a check to Heiman Fire Equipment was supported only by a statement. It is important that detailed invoices are kept to support statements and checks that are written. Without the detailed invoices, there is no record of what was purchased and it cannot be verified that expenditures are correctly classified. We recommend that the Department keep all original invoices with the statements.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Sincerely,

Brinkman + Reed, CPA's

Brinkman & Reed, CPA's