

**WAUKON AREA FIRE
PROTECTION DISTRICT**

FINANCIAL REPORT

JUNE 30, 2012

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WAUKON AREA FIRE PROTECTION DISTRICT

OFFICIALS

Title	Name	Representing
Chairman	Tony Baxter	Franklin & Union Prairie Townships
Vice Chairman	Trent Mitchell	City of Waukon
Secretary	Joe Cunningham	City of Waukon
Treasurer	Bernard Welsh	French Creek & Makee Townships
Commissioner	Greg Kerndt	Center & Jefferson Townships
Commissioner	Joe Kroack	City of Waukon
Commissioner	Loren Beneke	City of Waukon
Commissioner	Bob Larking	Hanover and Ludlow Townships
Fire Chief	Dave Martin	Ex-officer's
Assistant Fire Chief	Bill Hennessey	Ex-officer's
Assistant Fire Chief	Paul Mathis	Ex-officer's

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENT

To the Commissioners of the
Waukon Area Fire Protection District
Waukon, Iowa

We have audited the accompanying financial statement of the Waukon Area Fire Protection District (District), as of and for the year ended June 30, 2012. This financial statement is the responsibility of the Waukon Area Fire Protection District'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this 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 Waukon Area Fire Protection District as of June 30, 2012, 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 March 26, 2013, on our consideration of the Waukon Area Fire Protection District's internal control over financial reporting and on 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 control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statement. The management's discussion and analysis on page 3 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has not been subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Decorah, Iowa
March 26, 2013

Hacker, Nelson & Co., P.C.

WAUKON AREA FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Waukon Area Fire Protection District (District) provides this overview of the District's financial activities for the fiscal year ending June 30, 2012. Please read this in conjunction with the transmittal letter and the District's financial statements contained within this audit report.

2012 FINANCIAL HIGHLIGHTS

- Operating receipts increased 82.7%, or approximately \$111,500, from fiscal 2011 to fiscal 2012.
- Operating disbursements decreased 9.9%, or approximately \$8,900, from fiscal 2011 to fiscal 2012.
- Non-operating disbursements increased 127.55%, or approximately \$178,000 from fiscal 2011 to fiscal 2012.
- Cash basis net assets decreased 45.7%, or approximately \$32,300, from June 30, 2011 to June 30, 2012.

USING THIS ANNUAL REPORT

The District 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 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, their related revenues and liabilities, and their related expenses are not recorded in this 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 cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Waukon Area Fire Protection District's financial statement and other information as follows:

- Management's discussion and analysis introduces the financial statement and provides an analytical overview of the District's financial activities.
- The statement of cash receipts, disbursements and changes in cash basis net assets presents information on the District's operating receipts and disbursements, non-operating receipts and disbursements and whether the District's cash basis financial position has improved or deteriorated as a result of the year's activities.
- Notes to financial statement provide additional information essential to a full understanding of the data provided in the financial statement.

FINANCIAL ANALYSIS OF THE DISTRICT

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the District and the disbursements paid by the District, both operating and non-operating. The statement also presents a fiscal snapshot of the District's cash balance at year end. Over time, readers of the financial statement are able to determine the District's cash basis financial position by analyzing the increase and decrease in cash basis net assets.

Operating receipts are received for services provided by the Waukon Area Fire Protection District as well as grant income. The purpose of the District shall be to provide and administer fire protection services and such other emergency services as may be approved for and within Waukon and all or parts of the area Townships. The City of Waukon and Townships of Center, Jefferson, French Creek, Makee, Franklin, Union Prairie, Hanover, and Ludlow are the District's members. Operating disbursements are disbursements paid to operate the Waukon Area Fire Protection District. Non-operating receipts are for interest on investment, loan proceeds, and sale of equipment. Non-operating disbursements are debt obligation payments and equipment purchased. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2012 and 2011 is presented below:

Changes in Cash Basis Net Assets	Year Ended June 30,	
	2012	2011
Total operating receipts	\$ 246,118	\$ 134,699
Total operating disbursements	81,677	90,657
Excess of operating receipts over operating disbursements	164,441	44,042
Non-operating receipts (disbursements):		
Interest on investments	6,916	876
Loan proceeds	109,000	91,275
Loan principal payments	(150,279)	
Sale of equipment	4,847	
Equipment	(167,243)	(139,542)
Total non-operating receipts (disbursements)	(196,759)	(47,391)
Change in cash basis net assets	(32,318)	(3,349)
Cash basis net assets beginning of year	70,743	74,092
Cash basis net assets end of year	\$ 38,425	\$ 70,743

In fiscal 2012, operating receipts increased approximately \$111,500 which was due to a combination of an increase in City and Township contributions of approximately \$20,000, a decrease in charges for services and miscellaneous receipts of approximately \$2,500, and an increase in grants of approximately \$94,000. In fiscal year 2012, operating disbursements decreased approximately \$8,900, or 9.9%, over fiscal 2011. Non-operating disbursements increased \$178,000, or 127.55%, due to principal payments of approximately \$150,000 and an increase in equipment purchases of approximately \$28,000. Non-operating receipts increased \$29,000 due to additional loan proceeds received of \$18,000, sale of equipment of approximately \$5,000 and increase of interest income of approximately \$6,000 due to interest income from the manufacturer of the new fire truck.

DEBT ADMINISTRATION

At June 30, 2012, the District has an outstanding loan balance of \$49,996. The interest rate is 4% and is due on January 25, 2016.

ECONOMIC FACTORS

The Waukon Area Fire Protection District's financial position decreased 45.7%, or \$32,300, from fiscal 2011. The current condition of the economy in the state continues to be a concern for District officials. Some of the realities that may potentially become challenges for the District to meet are:

- Facilities require constant maintenance and upkeep and need to be replaced at some point in time.
- Property tax rollback and annexation of land by the City of Waukon from Makee and Union Prairie Townships will decrease the amount of funds available to the District.
- New training and safety standards will increase the cost of training for the District.
- The Waukon Area Fire Protection District will acquire over \$100,000 worth of essential equipment through federal grants over the next few years. In 15 years, this equipment will need to be replaced.

The District anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the District's ability to react to unknown issues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Anthony Baxter, 1552 West Ridge Road, Waukon, IA 52172.

WAUKON AREA FIRE PROTECTION DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BASIS NET ASSETS
Year Ended June 30, 2012

Operating receipts	
City contributions	\$ 70,000
Township contributions	70,000
Charges for service	1,241
Grant income	104,350
Miscellaneous	527
	<hr/>
Total operating receipts	246,118
	<hr/>
Operating disbursements	
Payroll	21,618
Payroll taxes	1,675
Accounting	3,678
Training	1,770
Vehicle fuel	3,440
Utilities	5,845
Pest control	300
Supplies	7,669
Repairs and maintenance	18,621
Miscellaneous	538
Insurance	16,523
	<hr/>
Total operating disbursements	81,677
	<hr/>
Excess of operating receipts over operating disbursements	164,441
	<hr/>
Non-operating receipts (disbursements)	
Interest income	6,916
Loan proceeds	109,000
Loan principal payments	(150,279)
Interest expense	(6,071)
Sale of equipment	4,847
Equipment purchased	(167,243)
	<hr/>
Total non-operating receipts (disbursements)	(202,830)
	<hr/>
Net change in cash basis net assets	(38,389)
	<hr/>
Cash basis net assets beginning of year	70,743
	<hr/>
Cash basis net assets end of year	\$ 32,354
	<hr/> <hr/>
Cash basis net assets	
Unrestricted	\$ 32,354
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See Notes to Financial Statement.

WAUKON AREA FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENT

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The Waukon Area Fire Protection District (District) was formed in July 2006 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the District shall be to provide and administer fire protection services and such other emergency services as may be approved for and within the City of Waukon and all or parts of the Townships.

The governing body of the District is composed of eight Commissioners. The City of Waukon is represented by four Commissioners. The remaining four Commissioners represent two Townships each which are as follows:

Center and Jefferson
French Creek and Makee
Franklin and Union Prairie
Hanover and Ludlow

b. Significant Accounting Policies

Reporting Entity

For financial reporting purposes, the Waukon Area Fire Protection District has included all funds, organizations, agencies, boards, commissions and authorities. The District 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 District are such that exclusion would cause the District'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 District 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 District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of the District 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 the 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.

Basis of Accounting

The Waukon Area Fire Protection District maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the District 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 District in accordance with U.S. generally accepted accounting principles.

NOTES TO FINANCIAL STATEMENT

2. Cash and Investments

The District's deposits in banks at June 30, 2012 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 District 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 District; 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 District has no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

3. Risk Management

The District 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 District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

4. Note Payable

A summary of the changes in debt for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Borrowed	Paid	Balance June 30, 2012	Amounts Due Within One Year
Note payable	\$ 91,275	\$ 109,000	\$ (150,279)	\$ 49,996	\$ None

The note payable is to be repaid in four annual installments of \$16,350 that began on January 25, 2012 with a balloon payment on January 25, 2016. This District has already paid the installment for January 2013 and has made principal only payments.

5. Subsequent Events

On September 6, 2012, the District borrowed \$51,000 to help purchase SCBA gear. The interest rate is 4%. It will be repaid with four annual installments of \$11,500 and one payment of \$11,360.78 on September 6, 2017.

Management has evaluated subsequent events through March 26, 2013, the date on which the financial statement was available to be issued.

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 Commissioners of the
Waukon Area Fire Protection District
Waukon, Iowa

We have audited the accompanying financial statement of the Waukon Area Fire Protection District as of and for the year ended June 30, 2012, and have issued our report thereon dated March 26, 2013. 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

Management of the Waukon Area Fire Protection District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Waukon Area Fire Protection District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Waukon Area Fire Protection District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Waukon Area Fire Protection District's internal control over financial reporting.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Waukon Area Fire Protection District's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as discussed below that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

1. Segregation of Duties

The District is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control.

Recommendation

We realize this condition will be difficult to improve on. However, we do believe it is important the District be aware this condition does exist and make changes when appropriate and cost effective.

Response

Approved the recommendation. We will comply with it.

Conclusion

Response accepted.

2. Financial Report Preparation

The District is capable of preparing various financial reports that provide information sufficient for the Commissioners to make management decisions. However, reporting financial data reliably in accordance with the Governmental Accounting Standards Board (GASB) and the cash basis of accounting requires management to possess expertise in preparing the year-end financial statement, including footnote disclosures. As is common in small entities, management has the ability to review the financial statement and footnote disclosures for errors, but they presently lack the training to prepare the year-end financial statement and footnote disclosures on their own. As such, management requested us to prepare the financial statement and related disclosures.

Recommendation

We realize that obtaining the expertise necessary to prepare the financial statement, including all necessary disclosures, in accordance with GASB and the cash basis of accounting can be considered costly and ineffective. However, obtaining additional GASB and the cash basis of accounting knowledge through reading relevant accounting literature and attending continuing education courses should help management improve in their ability to prepare internally and take responsibility for reliable GASB and the cash basis of accounting financial statement.

Response

Approved the recommendation. We will comply with it.

Conclusion

Response accepted.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waukon Area Fire Protection District's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Waukon Area Fire Protection District in a separate letter dated March 26, 2013.

The Waukon Area Fire Protection District's responses to the findings identified in our audit are described above. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, and citizens of the Waukon Area Fire Protection District, and other parties to whom the Waukon Area Fire Protection District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
March 26, 2013

MANAGEMENT LETTER

To the Commissioners of the
Waukon Area Fire Protection District
Waukon, Iowa

In planning and performing our audit of the basic financial statement of the Waukon Area Fire Protection District for the year ended June 30, 2012, we considered the District's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statement and not to provide assurance on internal control.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 through 7 below are compliance comments required by the Iowa Auditor of State. A separate report dated March 26, 2013, contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated March 26, 2013 on the basic financial statement of Waukon Area Fire Protection District. Comment number 6 is a repeat comment from the prior year. All other prior year comments have been resolved. We did not audit the District's responses and, accordingly, we express no opinion on them.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the District. 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.

1. Questionable Disbursements

We noted no disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

2. Travel Expense

No disbursements of District money for travel expenses of spouses of District officials and/or employees were noted.

3. Business Transactions

No business transactions between the District and District officials were noted.

4. District Minutes

No transactions were found that we believe should have been approved in the District minutes but were not.

5. Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

6. Information Returns (1099's)

Services are being performed for the District in excess of requirements of the Internal Revenue Service (IRS) and the reporting forms (1099's) are not being issued.

Recommendation

The District should implement procedures so IRS compliance issues are being addressed to.

Response and Corrective Action Planned

We are working on the procedures. We will agree on them.

Conclusion

Response accepted.

7. Cancellation of Invoices

Invoices and/or other documentation should be canceled to prevent reuse.

Recommendation

The District should cancel the invoice by writing the date paid and check number on the invoice.

Response and Corrective Action Planned

We are working on the procedures. We will agree on them.

Conclusion

Response accepted.

This report, a public record by law, is intended solely for the information and use of the officials, and citizens of the Waukon Area Fire Protection District and federal awarding agencies and pass-through entities whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Waukon Area Fire Protection District during the course of our examination.

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
March 26, 2013