

***SPIRIT LAKE
FIRE PROTECTION
DISTRICT***

September 30, 2006

McCall, Landwehr, Bernhart & Buck, CPA's
Post Office Box 699
Hayden, Idaho 83835

SPIRIT LAKE FIRE PROTECTION DISTRICT

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McCall, Landwehr, Bernhart, & Buck, CPAs

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Spirit Lake Fire Protection District
Spirit Lake, Idaho 83869

We have audited the accompanying financial statements of the governmental activities and each major fund of Spirit Lake Fire Protection District as of and for the year ended September 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Spirit Lake Fire Protection District as of September 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 10, 2007, on our consideration of the District's internal control over the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8, and page 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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. However, we did not audit the information and express no opinion on it.

McCall and Landwehr, P.A.

Hayden, Idaho
January 10, 2007

SPIRIT LAKE FIRE PROTECTION DISTRICT

SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

Management Discussion and Analysis

Spirit Lake Fire Protection District
September 30, 2006

Our discussion and analysis of Spirit Lake Fire Protection District's (hereafter referred to as the District) financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2006. Please read it in conjunction with the District's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

The financial statements included in this report provide insight into the financial status for the year.

- The nature of the Collective Bargaining Agreement and rising health insurance costs impacted the District. As a result there was an increase in expenses in the 2005-2006 fiscal year.
- While total revenue received in the form of taxes and other revenue for this activity rose 40.18%, total expenditures for the year rose. As a result, net assets continued to decrease during the year.

OVERVIEW OF FINANCIAL STATEMENTS

This section of the financial report consists of three parts: management's discussion and analysis; basic financial statements, including the notes to the financial statements; and other required supplementary information.

The basic financial statements consist of two kinds of statements that present different views of the District's financial activities.

- The statement of net assets and statement of activities provide information on a district-wide basis. The statements present an aggregate view of the District's finances. District-wide statements contain useful long-term information, as well as information for the just-completed fiscal year.
- The remaining statements are fund financial statements that focus on current financial resources. Since the District is a special district with only governmental funds, and only one type of these funds, the general fund, there are not significant differences between the fund financial statements and the statement of net assets and statement of activities, other than the long-term information regarding debt and capitalization and depreciation of fixed assets, which is not presented in the fund financial statements.

The notes to the financial statements provide further explanation of some of the information in the statements and provide additional disclosures so statement users have a complete picture of the District's financial activities and position. The notes provide additional information that is essential to fully understand the data provided in the government-wide financial statements. The notes to financial statements can be found beginning on page 15.

Required supplementary information further explains and supports the financial statements by including a comparison of the District's budget data for the year.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The two district-wide statements report the District's net assets and how they have changed. Net assets (the difference between the District's assets and the liabilities) are one way to measure the District's overall financial position.

- Increases or decreases in the District's net assets are one indicator of whether its financial

Management Discussion and Analysis

Spirit Lake Fire Protection District
September 30, 2006

position is improving or deteriorating, respectively.

- To assess the overall financial condition of the District, additional non-financial factors, such as changes in the District's property tax base and the condition of its equipment, building, and other facilities should be considered.

In the district-wide financial statements, the District's activities are all classified as governmental activities, as the District has only one fund – the general fund, which is a governmental type fund. Most of the activities are supported by property taxes.

Fund Financial Statements

Since the District has only one fund, the general fund, the fund financial statements provide similar information about the District's operations and financial position for the year ended September 30, 2006 as the district-wide statements. Funds are accounting devices the District uses to keep track of sources of funding and spending on particular programs and to demonstrate compliance with various regulatory requirements.

The District has one type of fund.

Governmental Fund – All of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets, which can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for funding future basic services. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Governmental fund information does not report on long-term commitments as is reported on the district-wide statements. Therefore, an explanation of the differences between the governmental funds and the district-wide statements is included as a separate statement.

Management Discussion and Analysis

Spirit Lake Fire Protection District
September 30, 2006

REPORTING THE DISTRICT AS A WHOLE

Net Assets		<u>2006</u>	<u>2005</u>
Capital assets	\$	365,333	\$ 401,380
Current and other assets		<u>119,366</u>	<u>3,108,084</u>
Total assets		<u>484,699</u>	<u>517,297</u>
Long-term liabilities		186,557	199,417
Other liabilities		<u>48,155</u>	<u>40,849</u>
Total liabilities		<u>234,712</u>	<u>240,266</u>
Net Assets:			
Invested in capital assets, net of related debt		154,887	168,162
Unrestricted		<u>95,100</u>	<u>108,869</u>
Total net assets	\$	<u>249,987</u>	\$ <u>277,031</u>

Changes in Net Assets

Program revenues			
Charges for Services	\$	122,681	\$ 123,429
Grants - operating and capital		191,848	26,967
General Revenues			
Property taxes		351,742	314,611
Other local revenues		24,849	33,378
Interest		862	11
Other		9,464	1,986
Total revenue		<u>701,446</u>	<u>500,382</u>
Program expenses			
Fire protection and emergency medical services		<u>728,490</u>	<u>530,069</u>
Total Expenses		<u>728,490</u>	<u>530,069</u>
Net Increase (decrease) in net assets	\$	<u>(27,044)</u>	<u>(29,687)</u>

There was a decrease in the District's net assets of \$27,044 or 9.76% during fiscal year 2006. The District received Federal Emergency Management Agency (FEMA) grant funds, which resulted in the majority of the increase in revenues this year. The grant covered 90% of the costs of needed improvements; including the purchase of Self Contained Breathing Apparatus (SCBA's), a generator, turnout gear, and a thermal imaging camera to become compliant with new Federal regulations. The 7.64% increase in other sources of revenue (general revenues and charges for services above) was not sufficient the increased depreciation expense that resulted from this purchase of new equipment and an unanticipated increase in wages.

Management Discussion and Analysis

Spirit Lake Fire Protection District
September 30, 2006

THE DISTRICT'S FUNDS

The District's fund balance fell \$14,392 or 17.34%. Again, the increase in current financial resources during fiscal year 2006 was insufficient to fully fund the 10% match required for the grant and the unanticipated increase in wages.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District did not make any formal amendments to the budget.

Grant revenues are shown in this report as nearly \$ 191,848 more than expected in the budget. This is the result of the timing of grant expenditures. As mentioned above, the District has been the recipient of reimbursement-based grants during fiscal year 2006. In the budgeting process, the entire award is included in the budget year in which it is awarded (in fiscal year 2005). However, the expenditures were not made, and therefore the revenue was not earned for financial statement purposes, until fiscal year 2006

CAPITAL ASSETS – Note 9

At the end of fiscal year 2006, the District had \$933,279 (before depreciation) invested in capital assets, including fire equipment, buildings, and land. Please see the Note 9 - Capital Assets. This amount represents a net increase (including additions and deductions) of \$36,047 from last year.

Primary Government

	<u>2006</u>	<u>2005</u>
Land	\$ 7,500	\$ 7,500
Buildings	94,411	94,411
Vehicles	721,637	721,637
Other Equipment	109,731	60,772
Totals	<u>933,279</u>	<u>884,320</u>
Accumulated Depreciation	<u>(567,946)</u>	<u>(482,940)</u>
Net Book Value	\$ <u>365,333</u>	\$ <u>401,380</u>

Equipment items purchased this fiscal year include a thermal camera, a generator, and SCBA equipment. The majority of these expenditures were at least in part funded through grant awards.

DEBT

The District entered into no new debt agreements this year. Long-term debt decreased by 6.45% as the District continues to make the regular payments on already outstanding debt. Please see notes 5, 6, and 8 for more information.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District is anticipating a modest increase in property tax, sales tax, and related interest revenue for next year.

Management Discussion and Analysis

Spirit Lake Fire Protection District
September 30, 2006

It is the District's intention to use the resulting additional available resources to fund pay increases for its employees, to pay for rate increases in employer paid benefits, to add needed staff, and to create a strategic plan to help with future planning of building, equipment, and personnel needs as the District grows.

Currently, Idaho State Statute limits the District to only a 3% increase in property taxes per budget year. The increase is calculated using new construction value, which has been growing steadily in Kootenai and Bonner counties in recent years. However, an Urban Renewal District will effect the distribution of property tax increases resulting from an increase in new construction value. This is expected to allow for only a minimal increase in property tax revenue in the upcoming budget—an increase that is not expected to keep up with the current cost analysis. Increases in medical benefit, fuel, and other energy costs are expected to have a large impact on the District's ability to increase equipment, personnel, and improve facilities. The District will explore options to increase the Mill Levy or Bond rates for future growth.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's 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 Chief John DeBernardi. or Administrative Manager Tammy Sparkman, Spirit Lake Fire Protection District, PO Box 116, Spirit Lake, Idaho 83869.

SPIRIT LAKE FIRE PROTECTION DISTRICT

BASIC FINANCIAL STATEMENTS

SPIRIT LAKE FIRE PROTECTION DISTRICT
STATEMENT OF NET ASSETS
September 30, 2006

Assets:	
Cash and cash equivalents	\$ 75,166
Property taxes receivable	30,020
Prepaid insurance	13,162
Restricted assets - cash and cash equivalents	1,018
Land	7,500
Capital assets net of accumulated depreciation	<u>357,833</u>
Total assets	<u>484,699</u>
Liabilities:	
Accounts payable	6,395
Accrued payroll and benefits	17,871
Noncurrent liabilities:	
Due within one year	23,889
Due in more than one year	<u>186,557</u>
Total liabilities	<u>234,712</u>
Net Assets:	
Investment in capital assets, net of related debt	154,887
Unrestricted	<u>95,100</u>
Total net assets	<u>\$ 249,987</u>

The accompanying notes are an integral part of these financial statements

SPIRIT LAKE FIRE PROTECTION DISTRICT
GOVERNMENT FUNDS - STATEMENT OF ACTIVITIES
For the year ended September 30, 2006

Expenses:	
Public safety--fire protection:	
Salaries and wages	\$ 255,551
Grant expense	159,299
Office and administrative expense	39,165
Health insurance	30,287
Maintenance and repair	29,691
Retirement	26,556
Payroll taxes	22,989
Building maintenance	21,980
Personal protective equipment	10,205
Incentive program	9,417
Training	7,469
Workman's comp	6,641
Communications	4,339
Miscellaneous	4,166
Software	2,174
Commissioner meetings	1,300
Station repeater	1,226
Depreciation	85,006
Interest expense	11,029
Total program expenses	<u>728,490</u>
Charges for Services	122,681
Program Revenues:	
Capital grants and contributions	<u>191,848</u>
Net revenues (expenses) and changes in net assets	413,961
General Revenues:	
Property taxes, levied for general purposes	351,742
Other local revenue	24,849
Donations	8,577
Interest income	862
Miscellaneous	887
Total general revenues	<u>386,917</u>
Decrease in net assets	<u>(27,044)</u>
Net Assets, beginning	<u>277,031</u>
Net Assets, ending	<u>\$ 249,987</u>

The accompanying notes are an integral part of these financial statements

SPIRIT LAKE FIRE PROTECTION DISTRICT
GOVERNMENTAL FUNDS - BALANCE SHEET
September 30, 2006

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 75,166
Accounts receivable - property taxes	30,020
Prepaid Insurance	13,162
Restricted assets - cash and cash equivalents	1,018
Total assets	<u>\$ 119,366</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 6,395
Accrued payroll and benefits	17,871
Deferred tax revenue	26,515
Total liabilities	<u>50,781</u>
Fund balances:	
Unreserved, undesignated	<u>68,585</u>
Total liabilities and fund balances	<u>\$ 119,366</u>

The accompanying notes are an integral part of these financial statements

SPIRIT LAKE FIRE PROTECTION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS
For the year ended September 30, 2006

Total fund balances - Governmental Funds, September 30, 2006		\$ 68,585
Cost of capital assets, September 30, 2006	933,279	
Less: Accumulated depreciation, September 30, 2006		
Buildings	(42,541)	
Vehicles	(486,058)	
Equipment	<u>(39,347)</u>	365,333
Elimination of deferred revenue		26,515
Long-term debt balance, September 30, 2006		<u>(210,446)</u>
Net assets, September 30, 2006		<u>\$ 249,987</u>

The accompany notes are an integral part of these financial statements

SPIRIT LAKE FIRE PROTECTION DISTRICT
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the year ended September 30, 2006

	<u>General Fund</u>
Revenues:	
Property taxes	\$ 352,204
Other local revenue	24,849
EMS revenue	116,371
Donations	8,577
Plat plan review	6,310
Grant revenue	191,848
Interest income	862
Miscellaneous	887
Total revenues	701,908
Expenditures:	
Current:	
Salaries and wages	256,636
Grant expense	159,299
Office and administrative expense	39,165
Health insurance	30,287
Maintenance and repair	29,691
Retirement	26,556
Payroll taxes	22,989
Building maintenance	21,980
Personal protective equipment	10,205
Incentive program	9,417
Training	7,469
Workman's comp	6,641
Communications	4,339
Miscellaneous	4,166
Software	2,174
Commissioner meetings	1,300
Station repeater	1,226
Debt service:	
Vehicle lease payments	22,772
Interest payments	11,029
Capital outlay	48,959
Total expenditures	716,300
Excess of revenues over expenditures	(14,392)
Fund balance - beginning	82,977
Fund balance - ending	\$ 68,585

The accompanying notes are an integral part of these financial statements

SPIRIT LAKE FIRE PROTECTION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the year ended September 30, 2006

Total net changes in fund balances for the year ended September 30, 2006	\$ (14,392)
Add: Capital outlay which is considered expenditures	48,959
Less: Depreciation expense for the year ended September 30, 2006	(85,006)
Add: Long-term debt payments considered as an expenditure	22,772
Add: Compensated absences considered as an expenditure	1,085
Less: Difference between revenue earned on property taxes on modified accrual basis versus revenue on property taxes on accrual basis	<u>(462)</u>
Change in net assets for the year ended September 30, 2006	\$ <u><u>(27,044)</u></u>

The accompanying notes are an integral part of these financial statements

SPIRIT LAKE LAKES FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 1- DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

The Spirit Lake Fire Protection District (the "District") was formed and became a taxing district for the purpose of providing fire protection and emergency medical services to the Spirit Lake region and the surrounding area as defined by the District's Board of Commissioners.

Reporting Entity - The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards and agencies that are not legally separate from the District. For Spirit Lake Fire Protection District this includes general operations.

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt, or the levying of taxes. The District has no component units.

Note 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below:

A. FUND ACCOUNTING

The District used funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Government Funds - Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The District has one governmental fund, the general fund.

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund is available for any purpose provided it is expended or transferred according to the laws of the State of Idaho.

B. BASIS OF PRESENTATION

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government. The District has activities that are considered to be governmental as opposed to business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

SPIRIT LAKE LAKES FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

B. BASIS OF PRESENTATION (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type. The District maintains only a governmental type general fund.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources.

C. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues - Exchanges and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District received value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues for non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, grants, and rentals.

SPIRIT LAKE LAKES FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

C. BASIS OF ACCOUNTING (Continued)

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditure) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

D. CASH AND CASH EQUIVALENTS

In the general fund, cash received by the District is pooled for investment purposes and is presented as "Cash and Cash Equivalents" on the financial statements.

During the fiscal year ended September 30, 2006, investments were limited to the Idaho State Investment Pool. The Idaho State Investment Pool is an investment pool, which allows districts within the State of Idaho to pool their funds for investment purposes. Investments in Idaho State Investment Pool are valued at cost, which materially equals market value.

For presentation in the financial statements, investments in the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. CAPITAL ASSETS

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements and interest incurred during the construction of capital assets are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Estimated Lives</u>
Building and improvements	40 years
Equipment	5 - 10 years
Fire trucks	5 - 10 years

SPIRIT LAKE LAKES FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

F. COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees who qualify.

Employees are allowed to carry over vacation hours earned in the current year for up to six (6) months into the next fiscal year. Therefore, vacation balances of employees at September 30, 2006, are accrued as a liability based on their rate of pay at September 30, 2006. Sick leave benefits are not carried over, and therefore are not included in this liability accrual.

Since the entire amount of compensated absences will be paid out within six months the accrual for this liability is in the general fund.

G. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments and the noncurrent portion of capital leases, which will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

H. FUND BALANCE RESERVES

The District has the ability to reserve those portions of fund equity that are legally segregated for a specific future use or that do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund equity that is available for appropriation in future periods. Restricted resources are used first to fund appropriations as necessary.

I. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets (net of related debt) consist 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

J. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Commissioners and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2006.

Note 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

K. ESTIMATES

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

L. PROPERTY TAXES AND DEFERRED TAX REVENUES

Property taxes levied for 2006 are recorded as receivables. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent that they are collected within 60 days of year-end, in accordance with the modified accrual basis of accounting. Receivables collectible after the 60-day date are reflected in the fund financial statements as deferred revenues. In the government-wide financial statements property taxes are recorded as revenue in the period levied, in accordance with the accrual basis of accounting.

The District's property tax is levied each November on the assessed value listed as of the prior September for all property located in the District. Assessed values are established by the County Assessor. Property tax payments are due in one-half installments in December and June.

M. BUDGETARY DATA

Budgets are adopted on a basis consistent with generally accepted accounting principles. An annual budget is adopted for the general fund. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the general fund.

This is in conformance with Idaho State Statutes, which require that appropriations lapse at the end of a fiscal year and are not available to be carried forward to be used in addition to the succeeding year's appropriation. The budget was not amended in the current fiscal year.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- a) The District publishes a proposed budget for public review.
- b) Public hearings are set to obtain taxpayer comments.
- c) Prior to October 1, the budget is adopted by resolution of the Board of Commissioners and published.

Lapsing of Appropriations - At the close of each year, all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriation.

SPIRIT LAKE FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 3 - CASH AND CASH INVESTMENTS

Idaho State Code 50-1013 allows the District to invest idle funds in saving accounts, prime commercial paper, general obligations of the State of Idaho, United States Treasury, or any other taxing district, notes, bonds, and obligations of Government Sponsored Enterprises (FNMA, FHLMC, FFCB, FHLB), A-rated corporate bonds, and money market and mutual funds whose portfolio consist of the aforementioned underlying instruments. The district does not have an investment policy other than following Idaho code. No violations of those categories have occurred during the year.

Custodial credit risk - deposits - Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk as it deposits funds in financial institutions that are members of the U. S. Federal Deposit Insurance Corporation (FDIC) and has never experienced such a loss. The carrying amount of the District's deposits and investments with financial institutions on September 30, 2006, was \$76,184 and the bank balances were \$89,874. As of September 30, 2006 all amounts were insured or collateralized resulting in the district having no custodial credit risk. The bank balances and investments are categorized as follows:

Amounts insured by the FDIC, or collateralized with securities held by the District in its name	\$ 67,696
Uninsured	0
Idaho Investment Pool	22,178
	\$ 89,874

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have an investment policy that addresses this risk, however the District does not invest in any investments that would be subject to this risk other than the State of Idaho Investment Pool.

External investment pool - Included in cash and cash equivalents is the District's investment in an external investment pool, as follows;

	2006	
<u>Investment</u>	<u>Weighted Average Maturity (Days)</u>	<u>Carrying Amount</u>
State of Idaho Local Government Investment Pool (LGIP)	84	\$22,178

Investments in LGIP are presented at cost which is not materially different from fair market value as reported to management by LGIP administrators.

Idaho State Code authorizes public agencies/municipalities to voluntarily invest in the LGIP. The LGIP is managed by the State Treasurer's Office for the State of Idaho, is not SEC registered, and is not rated by nationally recognized statistical rating organizations. The main objectives of the fund are preservation of capital, liquidity, and maximum yield. The list of investments the LGIP may make is governed by Idaho State Code and includes securities issued by the U. S. government or its agencies; securities issued by the State of Idaho or other government entities in the state; time deposits in state depositories, state or federal savings and loan associations, and state and federal credit unions; prime bankers acceptances and prime commercial paper; and bonds, debentures, or notes of any corporation organized, controlled, and operating in the United States with an A rating or higher. The District has no internal investment policy that would further limit the maturity or credit rating of its investments.

Note 4 - LINE OF CREDIT

The District has an unsecured line-of-credit with Wells Fargo Bank bearing interest at a rate of 10.00% . The maximum amount available under this agreement is \$35,000. As of September 30, 2006, the line-of-credit has a balance of \$0.

SPIRIT LAKE FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 5 - CAPITAL LEASES

The District has one lease agreement, which qualifies as a capital lease.

The District leased a custom pumper truck from Kansas State Bank of Manhattan beginning in 2004. The lease is for ten years and expires in 2014. This lease qualifies as a capital lease, as ownership of the assets transfers to the District at the end of the lease. The lease carries an interest rate of 4.654% and requires semi-annual lease principal payments. The original cost of this equipment was \$272,561 and accumulated depreciation was \$97,342 as of September 30, 2006.

The schedule of future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of September 30, 2006 are as follows:

2007	\$	33,801
2008		33,801
2009		33,801
2010		33,800
2011		33,801
Thereafter		84,503
Less: Amount representing interest		<u>(43,061)</u>
Present value of net minimum lease payments	\$	<u>210,446</u>
Less: Current portion		<u>(23,889)</u>
Long-term portion		<u><u>186,557</u></u>

Note 6 - OPERATING LEASES

The District has one lease agreement, which qualifies as an operating lease.

The District leases land for the fire station located in the City of Spirit Lake under a noncancelable operating lease effective January 1, 2002 and expiring December 31, 2011 from the Idaho Department of Lands for the sum of \$1,254 annually adjusted for inflation.

Future minimum lease payments at September 30, 2006 under operating leases are as follow:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>	
2007 - 2011	\$	6,270
Total	\$	<u><u>6270</u></u>

Note 7 - ACCRUED VACATION BENEFITS

Included in liabilities on the government financial statements is an accrual for vacation and personal leave benefits in the amount of \$3,762 for the year ended September 30, 2006. Governmental Accounting Standards Board Statement No. 16 requires accrual of employee compensation for future absences if certain conditions exist.

SPIRIT LAKE FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

Note 8 - CHANGES IN LONG-TERM DEBT

Changes in general long-term debt are as follows:

	Balance 9/30/2005	Additions	Deletions	Balance 9/30/2006	Current Portion
Governmental Activities:					
Capital leases	\$ 233,218	\$ 0	\$ 22,772	\$ 210,446	23,889
Compensated absences	1,085	0	1,085	0	
Total	\$ 234,303	\$ 0	\$ 23,857	\$ 210,446	23,889

Note 9 - CAPITAL ASSETS

	September 30, 2005	Adjustments		September 30 2006
		Increases	Deletions	
CAPITAL ASSETS:				
Land	\$ 7,500	0	0	\$ 7,500
Buildings	94,411	0	0	94,411
Vehicles	721,637	0	0	721,637
Equipment	60,772	\$ 48,959	0	109,731
Total capital assets	<u>884,320</u>	<u>48,959</u>	<u>0</u>	<u>933,279</u>
LESS: ACCUMULATED DEPRECIATION				
Building	40,181	2,360	0	42,541
Vehicles	417,979	68,079	0	486,058
Equipment	24,780	14,567	0	39,347
Total accumulated depreciation	<u>482,940</u>	<u>85,006</u>	<u>0</u>	<u>567,946</u>
Capital assets, net of accumulated depreciation	<u>\$ 401,380</u>			<u>\$ 365,333</u>

Assets are located at several sites located throughout the District.

Note 10 - DEFINED BENEFIT PENSION PLAN

Public Employees Retirement System of Idaho - The Public Employee Retirement System of Idaho (PERSI), a cost sharing multiple-employer retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in *Idaho Code*. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. Financial reports for the plan are available from PERSI upon request.

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive 42 months. For the year ended September 30, 2006, the required contribution rates of covered payroll were as follows:

The contribution requirements of Spirit Lake Fire Protection District and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended September 30, 2006, the required contribution rate as a percentage of covered payroll for members was 6.23%, for general members and 7.65% for police/firefighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/firefighter members. Spirit Lake Fire Protection District contributions, required and paid were \$26,556, \$21,910, and \$22,857 for the years ended September 30, 2006, 2005 and 2004, respectively.

SPIRIT LAKE FIRE PROTECTION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

Note 11 - OPERATING AGREEMENT WITH KOOTENAI COUNTY EMERGENCY MEDICAL SERVICES SYSTEM

The District has entered into a cooperative agreement with Kootenai County Emergency Medical Services System (the System) authorized by Kootenai County. This agreement authorizes the System and the District to operate and manage Kootenai County's pre-hospital emergency medical services systems, including paramedic, advanced and basic life support services, and emergency and non-emergency medical transport services. The District provides the System with sufficient personnel to staff an ambulance at their main station in Spirit Lake, on a twenty-four hour basis, seven days per week. These employees shall remain the employees of the District at all times, and the District is responsible for payment of wages, benefits and payroll taxes. In return, the System is required to pay to the District \$8,769 monthly for each month this agreement is in effect. During the current year, an additional one-time distribution was made to the District in the amount of \$11,142.

Note 12 - EXPENDITURE OVER APPROPRIATIONS

The following funds had an excess of functional expenditures over appropriations for the year ended September 30, 2006:

<u>Fund</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Excess of Actual Over Budgeted Expenditures</u>
General	\$ <u>459,602</u>	\$ <u>716,300</u>	\$ <u>256,698</u>

Note 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omission, injuries to employees and natural disasters. The District contracts with an insurance company for property insurance (including vehicles and machinery) and general liability insurance.

The District pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The District provides medical and dental insurance to most employees.

SPIRIT LAKE FIRE PROTECTION DISTRICT

OTHER REQUIRED SUPPLEMENTARY INFORMATION

SPIRIT LAKE FIRE PROTECTION DISTRICT
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURE AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the year ended September 30, 2006

	Original and Final Budget	Actual	(Over) /Under Budget
Revenues:			
Property taxes	\$ 346,466	\$ 352,204	\$ 5,738
Other local revenue	6,000	24,849	18,849
EMS revenue	116,370	116,371	1
Donations	0	8,577	8,577
Plat plan review	0	6,310	6,310
Grant revenue	0	191,848	191,848
Interest income	0	862	862
Miscellaneous	0	887	887
Total revenues	<u>468,836</u>	<u>701,908</u>	<u>233,072</u>
Expenditures:			
Current:			
Salaries and wages	225,440	256,636	(31,196)
Grant expense	0	159,299	(159,299)
Office and administrative expense	29,350	39,165	(9,815)
Health insurance	28,800	30,287	(1,487)
Maintenance and repair	20,500	29,691	(9,191)
Retirement	25,204	26,556	(1,352)
Payroll taxes	48,658	22,989	25,669
Building maintenance	18,700	21,980	(3,280)
Personal protective equipment	8,700	10,205	(1,505)
Incentive program	8,500	9,417	(917)
Training	6,750	7,469	(719)
Workman's comp	0	6,641	(6,641)
Communications	4,000	4,339	(339)
Miscellaneous	1,200	4,166	(2,966)
Software	0	2,174	(2,174)
Commissioner meetings	0	1,300	(1,300)
Station repeater	0	1,226	(1,226)
Debt service:	0	0	0
Vehicle lease payments	22,771	22,772	(1)
Interest payments	11,029	11,029	0
Capital outlay	0	48,959	(48,959)
Total expenditures	<u>459,602</u>	<u>716,300</u>	<u>(256,698)</u>
Excess of revenues over (under) expenditures	<u>9,234</u>	<u>(14,392)</u>	<u>(23,626)</u>
Other financing sources (uses):			
Contingencies	<u>(9,234)</u>	<u>0</u>	<u>9,234</u>
Total other financing sources (uses)	<u>(9,234)</u>	<u>0</u>	<u>9,234</u>
Net change in fund balances	0	(14,392)	
Fund balance - beginning	82,977	82,977	0
Fund balance - end	<u>\$ 82,977</u>	<u>\$ 68,585</u>	<u>\$ (14,392)</u>

The accompanying notes are an integral part of these financial statements

McCall, Landwehr, Bernhart, & Buck, CPAs

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Spirit Lake Fire Protection District
Spirit Lake, Idaho 83869

We have audited the accompanying financial statements of the governmental activities of Spirit Lake Fire Protection District as of and for the year ended September 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Spirit Lake Fire Protection District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spirit Lake Fire Protection District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract 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 Spirit Lake Fire Protection District, in a separate letter dated January 10, 2007.

This report is intended solely for the information and use of the audit committee, management, the Board of Commissioners and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McCall, Landwehr, Bernhart & Buck, CPAs

January 10, 2007