

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LOWER ST. CROIX VALLEY
FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**LOWER ST. CROIX VALLEY
FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

For the Year Ended December 31, 2005



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

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**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

	<u>Position</u>	<u>City</u>	<u>Term Expires</u>
Board of Commissioners			
Jim Stanton	Chair	Lakeland	June 30, 2006
Burl Haar	Vice Chair	Afton	June 30, 2006
Pete Granat	Treasurer	Lake St. Croix Beach	June 30, 2006
Sally Thompson	Secretary	Lake St. Croix Beach	June 30, 2007
Don James	Member	Lakeland	June 30, 2007
Roger Carlson	Member	Afton	June 30, 2007
Jeff Stanley	Member	St. Mary's Point	June 30, 2007
Gary Williams	Member	St. Mary's Point	June 30, 2006
Dave Jarvis	Member	Lakeland Shores	June 30, 2006
Theresa Shannon	Member	Lakeland Shores	June 30, 2007
Non-voting Members			
Kris Peterson	Fire Chief		June 30, 2006
Tom Niedzwiecki	Accountant		Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lower St. Croix Valley Fire Protection District

We have audited the basic financial statements of the Lower St. Croix Valley Fire Protection District as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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. 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lower St. Croix Valley Fire Protection District at December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the Lower St. Croix Valley Fire Protection District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2005. These statements result in a change in the format and content of the basic financial statements.

The Lower St. Croix Valley Fire Protection District has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lower St. Croix Valley Fire Protection District's basic financial statements. The supporting schedule, as listed in the table of contents as supplementary information, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 17, 2006

BASIC FINANCIAL STATEMENTS

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**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

Assets

Current assets		
Cash and investments	\$	476,876
Petty cash and change funds		1,300
Accounts receivable		
Ambulance		51,229
Revenue recapture		14,490
Special		25,916
Less: allowance for doubtful accounts		(15,861)
Prepaid insurance		6,223
		<hr/>
Total current assets	\$	560,173

Capital assets		
Land	\$	10,950
Buildings and improvements		1,497,207
Fire vehicles		943,780
Ambulance		132,266
Duty vehicle		42,232
Other equipment		346,919
Computer equipment		11,000
Less: accumulated depreciation		(990,892)
		<hr/>
Total capital assets	\$	1,993,462

Total Assets	\$	2,553,635
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Liabilities

Current liabilities		
Accounts payable	\$	9,685
Compensation payable		31,220
Accrued payroll - related liabilities		2,534
Accrued interest		37,690
Bonds payable - current		45,000
Capital leases payable - current		53,489
Loan payable - current		19,411
		<hr/>
Total current liabilities	\$	199,029

Noncurrent liabilities		
Bonds payable	\$	1,300,000
Capital leases payable		364,341
Loan payable		28,166
		<hr/>
Total noncurrent liabilities	\$	1,692,507

Total Liabilities	\$	1,891,536
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**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

EXHIBIT 1
(Continued)

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

Net Assets

Invested in capital assets - net of related debt	\$ 1,528,055
Unrestricted	<u>(865,956)</u>
Total Net Assets	<u><u>\$ 662,099</u></u>

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Revenues	
Charges for services	\$ <u>116,754</u>
Operating Expenses	
Personal services	\$ 124,045
Professional services	11,870
Facilities costs	30,138
Supplies	3,639
Insurance	27,202
Vehicle and equipment expense	66,309
Training	12,659
Other	29,169
Depreciation	<u>199,844</u>
Total Operating Expenses	\$ <u>504,875</u>
Operating Income (Loss)	\$ <u>(388,121)</u>
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 787
City appropriations	402,250
Gifts and contributions	10,927
Gain on sale/disposal of capital assets	8,105
Miscellaneous	900
Interest income	13,067
Interest expense	(82,981)
Fiscal charges	<u>(3,056)</u>
Total Nonoperating Revenues (Expenses)	\$ <u>349,999</u>
Change in Net Assets	\$ <u>(38,122)</u>
Net Assets - January 1	<u>700,221</u>
Net Assets - December 31	<u><u>\$ 662,099</u></u>

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 83,508
Payments to suppliers	(181,731)
Payments to employees	(116,884)
	<u>(116,884)</u>
Net cash provided by (used in) operating activities	\$ (215,107)
Cash Flows From Noncapital Financing Activities	
City appropriations	\$ 402,250
Intergovernmental	787
Miscellaneous	900
Contributions	10,927
	<u>10,927</u>
Net cash provided by (used in) noncapital financing activities	\$ 414,864
Cash Flows From Capital and Related Financing Activities	
Purchases of capital assets	\$ (145,761)
Proceeds from sale of assets	26,000
Interest expense	(85,181)
Payment of bond issuance costs	(3,056)
Payment on bonds	(115,134)
	<u>(115,134)</u>
Net cash provided by (used in) capital and related financing activities	\$ (323,132)
Cash Flows From Investing Activities	
Investment earnings received	\$ 13,067
	<u>13,067</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (110,308)
Cash and Cash Equivalents at January 1	588,484
	<u>588,484</u>
Cash and Cash Equivalents at December 31	\$ 478,176
	<u>478,176</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (388,121)
	<u>(388,121)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 199,844
(Increase) decrease in accounts receivable	(33,246)
(Increase) decrease in prepaid insurance	(512)
Increase (decrease) in accounts payable	(233)
Increase (decrease) in compensation payable and related liabilities	7,161
	<u>7,161</u>
Total adjustments	\$ 173,014
	<u>173,014</u>
Net Cash Provided by (Used in) Operating Activities	\$ (215,107)
	<u>(215,107)</u>

The notes to the financial statements are an integral part of this statement.

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**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies

The Lower St. Croix Valley Fire Protection District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The District has elected to implement all provisions of the statement in the current year, except it has not presented a Management's Discussion and Analysis that GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A. Financial Reporting Entity

The Lower St. Croix Valley Fire Protection District is a joint enterprise operation of the Cities of Afton, Lakeland, Lakeland Shores, Lake St. Croix Beach, and St. Mary's Point (the Cities). The District was established by a joint powers agreement of January 1970, superseded by a joint powers agreement dated August 17, 1976, and amended January 12, 1977, pursuant to Minn. Stat. § 471.59, the Joint Powers Act.

The District provides fire protection services to the five cities within the District. The District is governed by a ten-member Board of Commissioners, two appointed from each city. Each Board member serves a two-year term. The Fire Chief serves as a non-voting member of the Board. The Board annually elects a Chair, Vice Chair, Secretary, and Treasurer. These financial statements include all funds and activities for which the District is financially accountable.

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The accounts of the District are organized as an enterprise fund. The fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities. The District's net assets are reported in two parts: (1) invested in capital assets, net of related debt; and (2) unrestricted net assets.

C. Measurement Focus and Basis of Accounting

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. City appropriations are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

For the purposes of the statement of cash flows, cash and cash equivalents include cash and investments. The District's cash is invested in money market funds. Total cash and cash equivalents for the year ended December 31, 2005, was \$478,176.

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2005, the District’s deposits were not exposed to custodial credit risk.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the year ended December 31, 2005, the District had no investments.

2. Receivables

All receivables are offset by an allowance for uncollectible accounts of \$15,861.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statements.

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. The District defines capital assets as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During the current period, the District did not have any capitalized interest.

Property, plant, and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 30
Building improvements	15 - 20
Fire vehicles	5 - 20
Ambulance	8 - 10
Furniture, equipment, and other vehicles	3 - 7

5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Receivables

Receivables as of December 31, 2005, net of the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables
Ambulance	\$ 35,368
Revenue Recapture	14,490
Special	25,916
Total	\$ 75,774

2. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 10,950	\$ -	\$ -	\$ 10,950
Capital assets depreciated				
Buildings and improvements	\$ 1,497,207	\$ -	\$ -	\$ 1,497,207
Fire vehicles	943,780	-	-	943,780
Ambulance	89,474	132,266	89,474	132,266
Duty vehicle	42,232	-	-	42,232
Other equipment	333,424	13,495	-	346,919
Computer equipment	11,000	-	-	11,000
Total capital assets depreciated	\$ 2,917,117	\$ 145,761	\$ 89,474	\$ 2,973,404
Less: accumulated depreciation for				
Buildings and improvements	\$ 262,493	\$ 71,796	\$ -	\$ 334,289
Fire vehicles	284,238	71,308	-	355,546
Ambulance	64,123	10,188	71,579	2,732
Duty vehicle	9,847	6,033	-	15,880
Other equipment	231,998	39,731	-	271,729
Computer equipment	9,927	789	-	10,716
Total accumulated depreciation	\$ 862,626	\$ 199,845	\$ 71,579	\$ 990,892
Total capital assets depreciated, net	\$ 2,054,491	\$ (54,084)	\$ 17,895	\$ 1,982,512
Capital Assets, Net	\$ 2,065,441	\$ (54,084)	\$ 17,895	\$ 1,993,462

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Total Payables
Accounts payable	\$ 9,685
Compensation payable and related liabilities	33,754
Total Payables	\$ 43,439

2. Capital Leases

The District has entered into lease agreements for financing the purchases of pumper trucks. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of inception date. The capital leases consists of the following:

Lease	Maturity	Installment	Payment Amount	Original	Balance
Unit #4155, Pumper Truck	2013	Annual	\$ 44,960	\$ 365,210	\$ 299,477
Unit #4158, Pumper Truck	2010	Annual	27,620	209,636	118,353

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities

2. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

Year Ending December 31	#4155 Pumper	#4158 Pumper	Total
2006	\$ 44,960	\$ 27,620	\$ 72,580
2007	44,960	27,620	72,580
2008	44,960	27,620	72,580
2009	44,960	27,620	72,580
2010	44,960	27,622	72,582
2011 – 2013	134,876	-	134,876
Total	\$ 359,676	\$ 138,102	\$ 497,778
Less: amount representing interest	(60,199)	(19,749)	(79,948)
Present Value of Minimum Lease Payments	\$ 299,477	\$ 118,353	\$ 417,830

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
2003 Facility Lease Revenue Bonds	2024	\$2,819 - \$112,819	3.00 - 5.125	\$ 1,390,000	\$ 1,345,000
Loans Payable					
Lake Elmo Bank loan for Unit #4159 slip-in unit for grass rig	2008	\$581	5.95	\$ 30,000	\$ 16,132
GMAC loan for #4159 grass rig	2008	\$556	-	33,346	16,117
GMAC loan for #4160 duty vehicle	2008	\$547	-	32,847	15,328
Total Loans Payable				\$ 96,193	\$ 47,577

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

Year Ending December 31	Lease Revenue Bonds		Loans	
	Principal	Interest	Principal	Interest
2006	\$ 45,000	\$ 61,181	\$ 19,409	\$ 793
2007	45,000	59,775	19,787	416
2008	50,000	58,231	8,381	59
2009	50,000	56,481	-	-
2010	55,000	54,512	-	-
2011 – 2015	305,000	235,281	-	-
2016 – 2020	395,000	153,397	-	-
2021 – 2024	400,000	42,794	-	-
Total	\$ 1,345,000	\$ 721,652	\$ 47,577	\$ 1,268

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	\$ 1,390,000	\$ -	\$ 45,000	\$ 1,345,000	\$ 45,000
Capital leases	468,923	-	51,093	417,830	53,489
Loans payable	66,618	-	19,041	47,577	19,411
Long-Term Liabilities	\$ 1,925,541	\$ -	\$ 115,134	\$ 1,810,407	\$ 117,900

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All active firefighters of the Lower St. Croix Valley Fire Protection District with one year of service are members of the Lower St. Croix Valley Fire Department's Relief Association. The Association is the administrator of a single-employer pension plan that was established and operates under the provisions of Minn. Stat. §§ 69.771 and 69.772, as amended. The Association is governed by a board of six members elected by the members of the Association for one-year terms.

Minn. Stat. ch. 69 authorizes pension benefits for fire relief associations. A member of the Association who has completed 20 years or more of service in the fire department shall, after age 50 at retirement, be entitled to a lump sum service pension. The bylaws of the Association have set the service pension at \$1,100 times the number of years of active service.

A member of the Association who has performed service in the fire department for 20 years or more but has not reached age 50 shall have the right to retire from the department without forfeiting the right to a service pension. The member shall, upon application, be placed on the deferred pension roll of the Association and, after the member reaches the age of 50 years, the Association shall, upon application, pay the member's pension from the date the application is approved by the Association.

Information on the Association may be obtained at P. O. Box 234, Lakeland, Minnesota 55043.

B. Funding Policy

Minn. Stat. ch. 69 sets the rates for employer contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to cover normal costs. The District made no contributions to the Association for the three years ended December 31, 2005.

4. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; malpractice; injuries to employees; or natural disasters.

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

4. Risk Management (Continued)

Risks of loss associated with workers' compensation claims are insured through participation in the League of Minnesota Cities Insurance Trust (LMCIT). Other risks are insured through commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of LMCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. LMCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006. Should the LMCIT Workers' Compensation Division liabilities exceed assets, LMCIT may assess the District in a method and amount to be determined by LMCIT.

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SUPPLEMENTARY INFORMATION

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**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

Schedule 1

**DETAILED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Revenues	
Charges for services	
Ambulance services	\$ 109,287
Fire department services	5,292
Fire inspections	2,175
	<hr/>
Total Operating Revenues	\$ 116,754
Operating Expenses	
Personal services	
Administration	\$ 5,447
Fire department	85,973
Ambulance	20,441
Facilities	5,135
Fire inspection	1,740
FICA - employer	3,614
Medicare - employer	1,695
	<hr/>
Total personal services	\$ 124,045
Professional services	\$ 11,870
Facilities costs	
Taxes, licenses, and fees	\$ 60
Billings and collections services	4,538
Light and power	7,453
Heat	5,252
Telephone	4,491
Repairs and maintenance	8,344
	<hr/>
Total facilities costs	\$ 30,138
Supplies	\$ 3,639
Insurance	
Auto fleet	\$ 12,371
Commercial package	3,051
Directors'/officers' liability	789
Disability	488
General liability	3,946
Workers' compensation	3,957
Floater equipment	2,600
	<hr/>
Total insurance	\$ 27,202

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

Schedule 1
(Continued)

**DETAILED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Expenses (Continued)

Vehicle and equipment expense

Minor equipment - fire	\$	10,248
Minor equipment - ambulance		1,160
Fire supplies		1,129
Ambulance supplies		7,934
Fuel/oil - fire		7,180
Fuel/oil - ambulance		2,565
Equipment maintenance		1,550
Vehicle maintenance - fire		32,805
Vehicle maintenance - ambulance		1,738
		1,738

Total vehicle and equipment expense **\$ 66,309**

Training

Fire	\$	9,136
Ambulance		2,168
Employee recruitment		1,355
		1,355

Total training **\$ 12,659**

Other

Fire prevention	\$	1,845
Dues and subscriptions - fire		970
Dues and subscriptions - ambulance		420
Conferences/meetings - fire		4,954
Conferences/meetings - ambulance		1,843
Bad debt expense		11,115
Medical direction fees		2,426
Medical examinations		5,226
Employee recognition		370
		370

Total other **\$ 29,169**

Depreciation

Building and improvements	\$	71,796
Fire vehicles		71,308
Ambulance		10,187
Other equipment		39,731
Computer		789
Duty vehicle		6,033
		6,033

Total depreciation **\$ 199,844**

Total Operating Expenses **\$ 504,875**

Operating Income (Loss) **\$ (388,121)**

**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

Schedule 1
(Continued)

**DETAILED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 787
City appropriations	402,250
Gifts and contributions	10,927
Gain on sale/disposal of capital assets	8,105
Miscellaneous	900
Interest income	13,067
Interest expense	(82,981)
Fiscal charges	(3,056)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 349,999
	<hr/>
Net Income (Loss)	\$ (38,122)
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Net Assets - January 1	700,221
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Net Assets - December 31	\$ 662,099
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**LOWER ST. CROIX VALLEY FIRE PROTECTION DISTRICT
LAKELAND, MINNESOTA**

Schedule 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

I. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-1 Segregation of Duties

Due to the limited number of personnel within the administration of the Lower St. Croix Valley Fire Protection District, complete segregation of the functions for accounting for and custody of assets necessary to ensure adequate internal accounting control is not completely possible. The District did use a public accountant for its record keeping, but the small number of District staff prevents total segregation of incompatible functions. This situation is not unusual in local governmental entities the size of the District; however, the Board of Commissioners should constantly be aware of this condition and realize the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Generally, segregation of duties can be implemented with the hiring of additional personnel; however, this becomes a significant cost consideration to local governments, such as the District. Therefore, we recommend that the Board be aware of the lack of segregation of the accounting and custody functions and perform oversight procedures to ensure that the District's internal control policies and procedures are being implemented. These procedures should include reviews of accounting and banking records and making sure that internal control procedures are in place.

II. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

05-1 Related Party Transaction

The District's Board of Commissioners voted unanimously to hire, as a collection agent, an individual who was the brother of a Board member. Our concerns about this contract are the related Board member did not abstain from the vote and the contract does not appear to have a definite end date. The action could be considered inappropriate by a third party under the circumstances.

Schedule 2
(Continued)

We recommend that when faced with a possible conflict of interest or matter involving a related party, the individual affected Board member abstain from the vote. Additionally, every contract entered into needs to have a clear expiration date to ensure that contracts are being periodically reviewed.



REBECCA OTTO
STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Lower St. Croix Valley Fire Protection District

We have audited the basic financial statements of the Lower St. Croix Valley Fire Protection District as of and for the year ended December 31, 2005, and have issued our report thereon dated August 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of the Lower St. Croix Valley Fire Protection District is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the Lower St. Croix Valley Fire Protection District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving

the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 00-1.

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, we do not believe the reportable condition indicated above is a material weakness.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Lower St. Croix Valley Fire Protection District complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 17, 2006