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August 19, 2009

Board of Directors
Lake Ridge Volunteer
Fire Department, Inc.
3955 W. 47th St.
Gary, IN 46408-2649

We have reviewed the audit report prepared by Clifton Gunderson, LLP, Independent Public Accountants, for the period January 1, 2006 to December 31, 2006. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Lake Ridge Volunteer Fire Department, Inc., as of December 31, 2006, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the findings in the report. The management letter contains six comments.

STATE BOARD OF ACCOUNTS



**LAKE RIDGE VOLUNTEER FIRE
DEPARTMENT, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2006



LAKE RIDGE VOLUNTEER FIRE DEPARTMENT, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2006

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**Clifton
Gunderson LLP**
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lake Ridge Volunteer Fire Department Inc.
Gary, Indiana

We have audited the accompanying statement of assets, liabilities and net assets-modified cash basis of Lake Ridge Volunteer Fire Department, Inc. (a nonprofit organization) as of December 31, 2006, and the related statements of revenue and expense and changes in net assets-modified cash basis, functional expenses-modified cash basis and cash flows-modified cash basis for the year then ended. These financial statements are the responsibility of the Department'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.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets-modified cash basis of the Lake Ridge Volunteer Fire Department, Inc. as of December 31, 2006, and its revenue and expenses and changes in net assets and cash flows - modified cash basis for the year then ended, on the basis of accounting described in Note 1.

Clifton Gunderson LLP

Clifton Gunderson LLP
Scherville, Indiana
July 27, 2007

LAKE RIDGE VOLUNTEER FIRE DEPARTMENT, INC.
STATEMENT OF ASSETS, LIABILITIES & NET ASSETS
MODIFIED CASH BASIS
DECEMBER 31, 2006

ASSETS

CURRENT ASSETS

Cash	\$ <u>10,171</u>
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Total Current Assets	<u>10,171</u>
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PROPERTY AND EQUIPMENT

Land	20,000
Equipment	1,226,983
Building & improvements	606,626
Vehicles	<u>55,186</u>
	1,908,795
Less accumulated depreciation	<u>(1,539,187)</u>

Total Property and Equipment	<u>369,608</u>
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\$ 379,779

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Payroll taxes payable -	
Federal tax withheld	\$ 4,862
State tax withheld	915
SUTA tax payable	586
FUTA tax payable	533
Current portion of obligations under capital leases	<u>14,867</u>

Total Current Liabilities	21,763
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LONG-TERM LIABILITIES

Obligations under capital leases net of current portion	<u>32,293</u>
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Total Liabilities	54,056
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NET ASSETS - unrestricted

325,723

\$ 379,779

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

**LAKE RIDGE VOLUNTEER FIRE DEPARTMENT, INC.
STATEMENT OF REVENUE AND EXPENSE AND
CHANGES IN NET ASSETS
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

REVENUES, GRANTS AND OTHER SUPPORT	
Fire Protection Services Contract	\$ 257,547
Firefighters Assistance Grants	134,620
Fundraising income	15,275
Miscellaneous income	<u>2,838</u>
Total Revenues, Grants and Other Support	<u>410,280</u>
PROGRAM AND SUPPORTING SERVICES	
Fire Protection Services	248,263
Firefighters Assistance	116,637
Management and general	<u>30,540</u>
Total Program and Supporting Services	<u>395,440</u>
CHANGE IN NET ASSETS	14,840
NET ASSETS -- Beginning of Period	<u>310,883</u>
NET ASSETS -- End of Period	<u>\$ 325,723</u>

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

LAKE RIDGE VOLUNTEER FIRE DEPARTMENT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>PROGRAM SERVICES</u>		<u>SUPPORTING SERVICES</u>	
	Fire Protection Services	Firefighters Assistance	Management and General	Total Expense
Salaries	\$ 59,691	\$ -	\$ 20,009	\$ 79,700
Employee benefits	13,000	-	-	13,000
Payroll taxes	<u>5,383</u>	<u>-</u>	<u>2,111</u>	<u>7,494</u>
Total Salaries and Related Expenses	<u>78,074</u>	<u>-</u>	<u>22,120</u>	<u>100,194</u>
Rent and utilities	13,925	-	-	13,925
Radio and pager	60	-	-	60
Accounting and auditing	-	-	6,290	6,290
Materials and supplies	9,828	116,637	-	126,465
Repairs and maintenance	23,807	-	-	23,807
Insurance	28,724	-	-	28,724
Office	-	-	2,130	2,130
Depreciation	84,148	-	-	84,148
Miscellaneous	4,267	-	-	4,267
Interest	<u>5,430</u>	<u>-</u>	<u>-</u>	<u>5,430</u>
Total	<u>170,189</u>	<u>116,637</u>	<u>8,420</u>	<u>295,246</u>
	<u>\$ 248,263</u>	<u>\$ 116,637</u>	<u>\$ 30,540</u>	<u>\$ 395,440</u>

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

**LAKE RIDGE VOLUNTEER FIRE DEPARTMENT, INC.
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 14,840
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	84,148
Increase (decrease) in operating liabilities:	
Payroll taxes payable	<u>863</u>
Net Cash Provided by Operating Activities	<u>99,851</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	<u>(40,457)</u>
Net Cash Used In Investing Activities	<u>(40,457)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on obligations under capital leases	<u>(55,969)</u>
Net Cash Used In Financing Activities	<u>(55,969)</u>
NET INCREASE IN CASH	3,425
CASH – BEGINNING OF PERIOD	<u>6,746</u>
CASH – END OF PERIOD	<u>\$ 10,171</u>
SUPPLEMENTAL INFORMATION:	
Interest paid	<u>\$ 5,430</u>

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

LAKE RIDGE VOLUNTEER FIRE DEPARTMENT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Lake Ridge Volunteer Fire Department, Inc. (the Department) is a not-for-profit organization that engages, without charge, in the work of preventing and extinguishing fires in the homes and buildings situated within the Lake Ridge Fire Prevention District of Gary, Indiana (the District). The District, through funding provided by Lake County of Indiana, is the principal funding source of the Department.

The Department has an annual contract with the District to provide fire protection services. The agreement also provides for, among other things, a maximum amount of pay-per-call revenues to be paid to qualified firefighters.

Basis of Accounting

The Department's policy is to prepare its financial statements on the modified cash basis of accounting. Under that basis, certain revenue is recognized when received rather than when earned, and certain expenses are recognized when paid rather than when incurred. Modifications to the cash basis of accounting include recording depreciation on property and equipment and the accrual of payroll taxes. The modified cash basis is a basis of accounting other than generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Department is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets based on the absence or existence and type of donor-imposed restrictions. Accordingly, net assets of the Department and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Department and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that may be maintained permanently by the Department. Generally, the donors of these assets permit the Department to use all or part of the income earned on related investments for general or specific purposes.

Presently, all net assets are classified as unrestricted.

LAKE RIDGE VOLUNTEER FIRE DEPARTMENT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services and Equipment

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Property and equipment is capitalized at cost. It is the Department's policy to capitalize expenditures for those items in excess of \$500. Lesser amounts are expensed. Fixed assets are depreciated using straight-line and accelerated methods over the following useful lives:

Building and improvements	13 to 39 years
Vehicles	5 years
Equipment	7 to 12 years

Capital Leases

The Department is the lessee of equipment under two capital leases expiring in 2006 and 2009. The asset and liability under capital lease are recorded at the present value of the minimum lease payments. The assets are amortized over their estimated productive life. Amortization of the assets under capital lease is included in depreciation expense.

The imputed interest rates on the capital leases are 5.04% and 5.00% based on the lessee's implicit rate of return.

LAKE RIDGE VOLUNTEER FIRE DEPARTMENT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Fund-raising Expenses

Total fund-raising income for the year ended December 31, 2006 was \$15,275, net of \$1,395 of related expenses. All fund-raising expenses are related to the annual open house, pancake breakfast and amphibious vehicle purchase.

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Department is organized as a not-for-profit organization under Section 501c(4) of the Internal Revenue Code and is therefore exempt from federal and state income taxes.

NOTE 2 LAKE RIDGE FIRE PROTECTION DISTRICT

The Department's budgeted funds from the District totaled \$242,984 for the year ended December 31, 2006. In addition, the District reimbursed the Department for expenses as follows:

Health and accident insurance	\$ 14,590
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NOTE 3 CAPITALIZED LEASES

The Department leases a rescue unit and three trucks from Municipal Services Group, Inc. The leased equipment is pledged as collateral for the lease agreements.

The Department also leases air packs and other equipment from Mine Safety Appliances Company. Lease payments are due on May 1 and November of each year.

**LAKE RIDGE VOLUNTEER FIRE DEPARTMENT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 CAPITALIZED LEASES (continued)

Capital lease assets have been included as follows:

Equipment	\$ 732,165
Less: accumulated depreciation	<u>545,700</u>
Total	<u>\$ 186,465</u>

Lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Lease Payments</u>
2007	\$ 17,282
2008	17,282
2009	<u>17,282</u>
Total minimum lease payments	51,846
Less: Amount representing interest	<u>4,686</u>
Present value of minimum lease payments	47,160
Current portion of minimum lease payments	<u>14,867</u>
Long-term portion of minimum lease payments	<u>\$ 32,293</u>

NOTE 4 OPERATING LEASE COMMITMENT

The Department leases space on a radio tower from an unrelated party. The lease terms are for five years from March 1, 2005 to March 1, 2010 and provide for monthly payments of \$295. The lease is cancelable by giving the lessor 60 days written notice. Rent expense for the operating lease for the year ended December 31, 2006 totaled \$3,540.

NOTE 5 PENSION PLAN

The Department maintains a retirement plan covering substantially all firefighters. Contributions are made to the Lake Ridge Volunteer Fire Department Inc. Length of Service Awards Program for the purchase of retirement annuities for qualified firefighters. Total pension expense for the plan year ended June 30, 2006, was \$13,000.

NOTE 6 GRANT REVENUES AND EXPENSES

The Department has been granted a \$178,847 firefighter assistance grant for fire prevention and safety from the United States Department of Homeland Security Agency to develop a program to focus on the special needs of the deaf community including educational videos and the distribution of flashing strobe smoke and carbon monoxide detectors.

LAKE RIDGE VOLUNTEER FIRE DEPARTMENT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 6 **GRANT REVENUES AND EXPENSES (continued)**

The Department has also been granted a firefighters assistance grant from the United States Homeland Security Agency in the amount of \$49,813 to develop a program to focus on the long-term health of the firefighters including periodic medical examinations, diet programs and a fitness center.

Grant revenues received during 2006 for these programs approximately equaled expenditures made for the materials, supplies and equipment purchases.

The Department is subject to audit and investigation related to contract performance by the Department of Homeland Security. The Department cannot at this time predict whether it will be audited by the Department of Homeland Security. Further, any loss resulting from such audit, if any, cannot be estimated.

NOTE 7 **SUBSEQUENT EVENT**

On September 25, 2006, the Board of Directors approved the purchase of a new fire engine in the amount of \$310,000. The purchase was made in 2007 and financed through a capital lease with annual payments of \$59,148.05, including interest imputed at 4.75% through 2012. The Lake Ridge Fire District has approved the purchase and is allowing the annual lease payments to be included in the Department's annual contracts through 2012.



To the Board of Directors
Lake Ridge Volunteer Fire Department, Inc.
Gary, Indiana

In planning and performing our audit of the financial statements of Lake Ridge Volunteer Fire Department, Inc. as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Lake Ridge Volunteer Fire Department, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

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

Material Weaknesses

During our audit, we noted that the Organization did not have in effect controls that would detect, prevent, or correct misstatements in the financial statements. At present the Organization does not have staff with sufficient expertise to properly analyze accounts and record adjusting entries. We suggest that the Organization encourage the bookkeeper to consult with their accountant for guidance on accounting for these transactions before recording them.

We noted that the Organization does not have a staff person or director with the expertise to prepare or review the financial statements and footnotes. As a result the financial statements could be materially misstated without the Organization's knowledge. This could have adverse legal ramifications for the Board of Directors fiduciary responsibilities and duties.

The following matters, which were identified and reported on in prior periods, were still in existence during the course of our current audit.

222 Indianapolis Boulevard
Suite 104
Schererville, Indiana 46375
tel: 219.864.7300
fax: 219.864.0055

Due to the limited number of employees, there is not adequate segregation of duties for internal control purposes in the cash receipts and cash disbursements areas. The same individual writes checks, deposits funds and reconciles the bank accounts. The cost of additional staff may outweigh the benefit of an improved internal control structure, but we would suggest that the Board of Directors take an active roll monitoring these areas through continuing to or implementing the following procedures:

- Receive all bank statements unopened and review their contents.
- Have bank statements reconciled immediately.
- Review bank reconciliations carefully.
- Review monthly aging of bills payable.
- Review supporting documentation for all checks written.
- Sign all checks manually and never pre-sign checks.
- Approve and monitor changes to payroll.
- Review monthly financial statements and question variances.
- Have a questioning attitude.

Other Matters

In addition to the material weaknesses discussed above, we noted the following matters which we would like to bring to your attention.

50/50 Account

During our audit, we became aware of payments made to the volunteer fire fighters that were not included on each individual's W-2s. Any cash payment made to an employee that is not a reimbursement is considered by Internal Revenue Service to be compensation and subject to withholding tax. Care should be taken to report this properly in 2007.

Accounting for grant expenditures

Our review of the grant expenditures revealed that in two of the grants budgeted categories were over spent. This may have been the result of improper coding of expenditures or an oversight by the grant administrator. In both instances, grant expenditures were not in excess of the total provided by the grants. More care should be given to the recording and categorizing of the grant expenditures. Misspent grant funds are often subject to audit by the granting agency and refunds are often requested for misapplied funds.

Accounting Records and System

The Organization has purchased QuickBooks as a tool to assist it with the accounting function. QuickBooks is a fully integrated accounting system capable of producing financial statements, budgets, bank reconciliations and payroll. Currently the bookkeeper is manually performing the bank reconciliations and is using another software system to process the payroll. We would encourage the Organization to obtain additional training in the more effective use of the QuickBooks program. We have several individuals on our staff that are familiar with the QuickBooks system and would be able to assist you with this process.

Conflict of Interest Policy

The Organization has an informal conflict of interest policy that prohibits transactions with Board members and other related parties. However, there is no formal documentation of this policy, nor an indication that the policy is reviewed periodically. We recommend the Organization prepare a formal conflict of interest policy. This policy should include a requirement to obtain annual conflict of interest statements from Board members and key management personnel. Such a formal policy will help ensure continued compliance with policies and provide additional controls over business transactions with related parties.

This communication is intended solely for the information and use of management, board of directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Clifton Gunderson LLP

July 27, 2007