

CENTRAL VALLEY FIRE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2006

CENTRAL VALLEY FIRE DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Central Valley Fire District
Belgrade, Montana

We have audited the accompanying financial statements of the governmental activities and the major fund of Central Valley Fire District as of and for the year ended June 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 Central Valley Fire District's management. Our responsibility is to express opinions on these financial statements based on our audit.

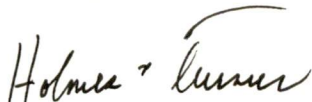
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the major fund of the Central Valley Fire District as of June 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.

As described in Note 1, the government-wide financial statements are reported using the accrual basis of accounting and the fund financial statements using the modified accrual basis of accounting. Prior to fiscal year ended June 30, 2006, these statements were reported using the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2007, on our consideration of Central Valley Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 5 and 23 through 24, 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.



January 5, 2007

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

The management's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. Please read this report along with the District's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

The District's net assets increased by approximately \$39,400 during fiscal year ended June 30, 2006. This change was mostly the result of fire impact fees and increases in property tax due to growth. Total expenses increased by \$179,608 or approximately 14.3% due to increased personnel, maintenance and operational costs. This increase in expenses also includes the amount of compensated absences liability, which is recognized as an expense; this is the first year that this has been recognized because of the change in the basis of accounting.

USING THIS ANNUAL REPORT

The statement of net assets and the statement of activities

The statements of net assets and activities report information about the District as a whole. These statements include *all* assets and liabilities of the District using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies; all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the District's financial health or financial position. Over time, increases and decreases in the District's net assets are one indicator of its financial health. However, you need to consider other nonfinancial factors in making an assessment of the District's health, such as changes in the economy and changes in the District's tax base, etc. to assess the overall health of the District.

Fund financial statements

The District reports all of its activities in the general fund, which is a governmental fund. This fund focuses on how money flows into and out of this fund and the balance left at year-end that is available for spending. This fund uses the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed shorter-term view of the District's general governmental operations and the basic services it provides. The differences between the governmental fund financial statements and the government-wide financial statements are explained in the reconciliations following each governmental fund financial statement.

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

The following table presents the District's net assets at June 30, 2006 and 2005:

| | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
|----------------------------------|----------------------|----------------------|
| Current assets | \$ 458,711 | \$ 259,515 |
| Capital assets – net | <u>2,231,731</u> | <u>2,389,080</u> |
| Total assets | <u>2,690,442</u> | <u>2,648,595</u> |
| Current liabilities | 325,064 | 196,416 |
| Non-current liabilities | <u>442,235</u> | <u>568,452</u> |
| Total liabilities | <u>767,299</u> | <u>764,868</u> |
| Net assets: | | |
| Invested in capital assets | | |
| -net of related debt | 1,559,609 | 1,627,863 |
| Unrestricted net assets | 238,048 | 166,581 |
| Restricted for impact fees | 12,333 | 89,283 |
| Restricted for capital purchases | <u>113,153</u> | <u>-</u> |
| Net assets | <u>\$ 1,923,143</u> | <u>\$ 1,883,727</u> |

The following table presents the changes in the District's net assets for the fiscal years ending June 30, 2006 and 2005:

| | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
|---|----------------------|----------------------|
| General Revenues: | | |
| District real estate & property taxes | \$ 1,005,557 | \$ 848,644 |
| Impact fees | 230,000 | 500,000 |
| Investment earnings and other | 13,318 | 11,023 |
| Motor vehicle taxes | 94,439 | 97,159 |
| Miscellaneous | 53,722 | 23,088 |
| Special item—gain (loss) on disposal of capital assets | <u>32,501</u> | <u>(11,309)</u> |
| Total general revenue and special items | <u>1,429,537</u> | <u>1,468,605</u> |
| Program revenues – fees for service | 180,421 | 160,179 |
| Capital grants and contributions | <u>9,556</u> | <u>-</u> |
| Total program revenue | <u>189,977</u> | <u>160,179</u> |
| Total revenue and special items | <u>\$ 1,619,514</u> | <u>\$ 1,628,784</u> |

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

| | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
|--------------------------------|----------------------|----------------------|
| Expenses: | | |
| Public safety | \$ 1,405,423 | \$ 1,219,408 |
| Interest on long-term debt | <u>34,459</u> | <u>40,866</u> |
| Total expenses | 1,439,882 | 1,260,274 |
| Less program revenues | <u>189,977</u> | <u>160,179</u> |
| Net expenses | 1,249,905 | 1,100,095 |
| General revenues | <u>1,429,537</u> | <u>1,468,605</u> |
| Change in net assets | 179,632 | 368,510 |
| Net assets – beginning | 1,883,727 | 1,488,443 |
| Prior period adjustments | (63,266) | - |
| Adjustment for restricted cash | <u>(76,950)</u> | <u>26,774</u> |
| Net assets – ending | <u>\$ 1,923,143</u> | <u>\$ 1,883,727</u> |

CAPITAL ASSET AND DEBT ADMINISTRATION

The District purchased a staff vehicle.

The District continued to pay on the capital leases obtained in prior years.

DISTRICT OVERVIEW

The Central Valley Fire District provides fire and emergency services to the suburban and rural areas surrounding the City of Belgrade, north Four Corners, Dry Creek, Reese Creek, Central Park, River Rock, Valley Center, Springhill and west of the City of Bozeman. As time goes by, the cities annex suburban areas belonging to the District (primarily as a result of providing water and sewer services to businesses and residences) and the District adds additional rural property to the area covered by the District, based on a petition from the residents.

Because of these regular changes in the District's boundaries, increased population to be served, service expectations of the public, public insurance standards and the issues revolving around growth and providing consistent service, it is necessary to build new fire stations, upgrade existing facilities, provide adequate fire/rescue equipment and increase staffing.

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

THE FUTURE OF THE DISTRICT

The District faces various challenges in the future. One of the challenges will be the potential reduction in District size, which will directly relate to reduced tax funding as the cities continue to annex property. This is anticipated to be offset by increased construction and property valuations within the District and land owners petitioning to become part of the District.

Other challenges the District faces include the need to build a new central fire station, upgrade all existing fire stations and build another satellite station to provide standard coverage for the majority of the residents and visitors in the area. These capital projects along with the upgrades to equipment, constant recruitment of volunteer firefighters/EMT's and rising operational costs, creates significant challenges.

Significant construction in the District will require more specialized equipment and training of personnel to provide the needed services. The District has an equipment replacement program but the revenues are not keeping up with the national recognized standard for these replacements.

To help finance these needs, the District has been borrowing funds and will be requesting future mill levy increases from the taxpayers to pay for the facilities, equipment and staffing.

Without additional income to fund facilities, equipment and staffing, the District will be forced into reducing their ability to provide fire and emergency services to the public they serve. The costs of operations are continuing to increase and the revenue is not keeping up. The new safety standards placed on the District as a "National Standard" cannot be met without significant additional funding.

BUDGET ANALYSIS

The District made several formal revisions to the budget to prevent budget overruns in specific categories.

CENTRAL VALLEY FIRE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| Cash and investments | \$ 353,025 |
| Cash - restricted | 12,333 |
| Lease receivable | 32,496 |
| Taxes receivable | 60,857 |
| Capital assets, net of accumulated depreciation | 2,231,731 |
| Total assets | 2,690,442 |
| Liabilities | |
| Accounts payable | 85,876 |
| Accrued salaries and payroll taxes | 9,301 |
| Long-term liabilities: | |
| Loan payable - current portion | 229,887 |
| Loan payable - long-term portion | 442,235 |
| Total liabilities | 767,299 |
| Net assets | |
| Invested in capital assets, net of related debt | 1,559,609 |
| Restricted for impact fees | 12,333 |
| Restricted for capital purchases | 113,153 |
| Unrestricted | 238,048 |
| Total net assets | \$ 1,923,143 |

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2006

| | |
|---|----------------------|
| Expenses: | |
| Public Safety - fire protection | \$ 1,405,423 |
| Interest on long-term debt | <u>34,459</u> |
| Total expenses | <u>1,439,882</u> |
| Program revenues: | |
| Charges for services | 180,421 |
| Capital grants and contributions | <u>9,556</u> |
| Total program revenues | <u>189,977</u> |
| Net program expense | <u>1,249,905</u> |
| General revenues: | |
| Real estate and property taxes | 1,005,557 |
| Motor vehicle taxes | 94,439 |
| Impact fees | 230,000 |
| Miscellaneous | 53,722 |
| Investment income | 13,318 |
| Special item - gain on disposal of capital assets | <u>32,501</u> |
| Total general revenues and special items | <u>1,429,537</u> |
| Change in net assets | 179,632 |
| Net assets at beginning of year | 1,883,727 |
| Prior period adjustments resulting from change in basis of accounting | (63,266) |
| Adjustment for restricted cash | <u>(76,950)</u> |
| Net assets at end of year | <u>\$ 1,923,143</u> |

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND TYPE
JUNE 30, 2006

| | Governmental Fund Type |
|--------------------------------------|---------------------------|
| | General Fund |
| <u>Assets</u> | |
| Cash | \$ 353,025 |
| Cash - restricted | 12,333 |
| Property taxes | 60,857 |
| Total assets | \$ 426,215 |
| <u>Liabilities and Fund Balances</u> | |
| <u>Liabilities</u> | |
| Accounts payable | \$ 85,876 |
| Accrued salaries and payroll taxes | 9,301 |
| Deferred revenue | 39,860 |
| Total liabilities | 135,037 |
| <u>Fund Balances:</u> | |
| Reserved for impact fees | 12,333 |
| Reserved for capital purchases | 113,153 |
| Unreserved | 165,692 |
| Total fund balances | 291,178 |
| Total liabilities and fund equity | \$ 426,215 |

See accompanying notes to the financial statements

CENTRAL VALLEY FIRE DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF
THE GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Amounts reported for governmental activities in the
statement of net assets are different because:

| | |
|--|---------------------|
| Fund balance of the governmental fund | \$ 291,178 |
| The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (taxes receivable) are offset by deferred revenue in the governmental funds, and thus are not included in fund balance. | 39,860 |
| The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (leases receivable) are not included in fund balance. | 32,496 |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of the governmental fund. | 2,231,731 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | <u>(672,122)</u> |
| Net assets of governmental activities | <u>\$ 1,923,143</u> |

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

| | Governmental Fund |
|--------------------------------------|-------------------|
| | General Fund |
| Revenues | |
| Taxes | |
| Real estate and property taxes | \$ 965,697 |
| Motor vehicle taxes | 94,439 |
| Impact fees | 230,000 |
| Intergovernmental receipts: | |
| Cost sharing - Belgrade | 138,795 |
| Cost sharing - Airport | 12,500 |
| Cost sharing - Gallatin Gateway | 18,175 |
| Cost sharing - Reece Creek | 40 |
| Charges for services | 22,850 |
| Miscellaneous | |
| Grants | 9,556 |
| Other | 53,722 |
| Investment earnings | 13,318 |
| Total revenues | 1,559,092 |
| Expenditures | |
| Current: | |
| Public safety: | |
| Personal services | |
| Salaries and fringe benefits | 703,158 |
| Supplies | |
| Office and operating supplies | 43,026 |
| Gasoline and diesel fuel | 39,247 |
| Repair and maintenance | 138,719 |
| Fire prevention and investigation | 8,088 |
| Purchased services | |
| Dues and subscriptions | 3,677 |
| Election | 98 |
| Utilities and telephone | 42,390 |
| Professional and contracted services | 22,124 |
| Promotion | 3,832 |
| Training | 53,703 |
| Fixed charges | |
| Insurance | 33,605 |
| Debt service | |
| Principal | 192,766 |
| Interest | 34,459 |
| Capital outlay | 150,436 |
| Total expenditures | 1,469,328 |
| Change in fund balance | 89,764 |

Other financing sources

| | |
|------------------------|---------------|
| Sale of capital assets | <u>22,500</u> |
|------------------------|---------------|

| | |
|----------------------------|---------|
| Net change in fund balance | 112,264 |
|----------------------------|---------|

| | |
|-----------------------------------|---------|
| Fund balance at beginning of year | 255,864 |
|-----------------------------------|---------|

| | |
|--------------------------------|-----------------|
| Adjustment for restricted cash | <u>(76,950)</u> |
|--------------------------------|-----------------|

| | |
|-----------------------------|-------------------|
| Fund balance at end of year | <u>\$ 291,178</u> |
|-----------------------------|-------------------|

See accompanying notes to the financial statements

CENTRAL VALLEY FIRE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

| | | |
|--|----|----------------|
| Net change in fund balance - governmental fund | \$ | 112,264 |
| A portion of the property tax receivable will not be collected for several months after the District's fiscal year end, it is not considered "available" revenue in the governmental funds. | | 39,860 |
| Payments on leases receivable provide current financial resources to governmental funds, but receiving payments on receivables decreases the receivable in the statement of net assets. | | (11,939) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$150,436) was exceeded by depreciation (\$198,085) in the current period. | | (47,649) |
| In the statement of activities, the loss on the disposal of a capital asset is reported, whereas in the governmental funds, only the proceeds, if any, that are received at the time of disposal are reported. The District disposed of an asset for which there were no proceeds. Thus, the change in net assets differs from the change in fund balance by the net book value of the asset disposed. | | (1,999) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | (103,671) |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net assets. This is the amount of debt principal repayments in the current period. | | <u>192,766</u> |
| Change in net assets of governmental activities | \$ | <u>179,632</u> |

See accompanying notes to the financial statements.

**CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Central Valley Fire District (the District) is organized and operated under the provisions of Title 7, Chapter 33, Part 21, Montana Code Annotated, to provide fire protection for the rural area in the vicinity of Belgrade, Montana. It is a separate political entity established by the Gallatin County Commissioners, the affairs of which are governed and managed by an elected Board of Trustees (the Board). The County levies and collects taxes to fund the District's budget, and the Gallatin County Treasurer serves as Treasurer of the District. The District is not a component unit of another entity and has no component units.

B. Basis of Presentation – Government-wide financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the activities of the District. Governmental activities, which are supported by taxes are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. For the fiscal year ended June 30, 2006, the District did not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. For the fiscal year ended June 30, 2006, the District received program revenue from ambulance and fire protection services provided and a grant received. Taxes and other items are reported as general revenues.

C. Basis of Presentation – Fund Financial Statements

The District has one fund: the general fund. This fund accounts for all revenues and expenditures of the District. The fund financial statements provide information about the general fund.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide 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. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied and revenue from investments is recognized when earned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be

(continued)

**CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

both measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

E. Cash and Investments

The District is authorized by statute to invest in time and savings deposits with a bank, savings and loan association, or credit union in the state. In addition, it may also invest in obligations of the United States Government, securities issued by agencies of the United States, repurchased agreements, and the State Short-Term Investment Pool (STIP).

To minimize credit risk in relation to the District's investments, the District invests in the Gallatin County External Investment Pool that is subject to the collateral requirements specified in State statutes.

F. Taxes Receivable

Property tax levies are set by the Counties, in connection with the budget process, and are based on taxable values listed as of January 1 for all real property located in the District. Taxable values are established by the Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property taxes and special assessments are generally billed in October and are payable one half by November 30 and one half by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month from the time of delinquency until paid plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is seized and sold after the taxes become delinquent.

(continued)

**CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets

Capital assets, which include land, construction in process, building and improvements, vehicles, and equipment, are reported on the statement of net assets. All capital assets with a purchase price over \$1,000 and a life of at least five years are capitalized. Such assets are recorded at historical cost. Donated property and materials are recorded at their fair market value as of the date of the donation.

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

Building, building improvements, vehicles and equipment are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------|--------------|
| Building | 40 |
| Building improvements | 10-15 |
| Vehicles | 10 |
| Equipment | 5-10 |

H. Compensated Absences

District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. The governmental fund type (i.e. the general fund) recognizes the expenditure when the benefits are paid; it is not the policy of the District to recognize as current expenditures the payments made on accumulated sick and annual leave within sixty days of the end of the fiscal year. The balance of vested employee's vacation and sick leave is recorded as a non-current liability in the statement of net assets.

District employees earn vacation leave at the rate of 15 days per year during the first ten years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave, up to the maximum accumulation, at the current rate of pay.

District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of sick leave days. However, upon termination, only 25% of accumulated sick leave is paid.

(continued)

**CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Fire Protection Impact Fee Revenues

Gallatin County collects fire protection impact fees from subdivisions within the District's benefit area and accounts for the collections in a separate fund for the District. The impact fees are assessed to subdivisions and developments within the District but shall not apply to any land located within the corporate limits of any city or town. The impact fees may be used only to pay for planning, land acquisition, engineering, design, construction, construction inspection, equipment purchases, and financing costs associated with a specific project to construct or acquire new or expanded fire protection facilities, buildings, and/or equipment that expand the capacity of the District to provide fire protection services within the District and have an average useful life of at least ten years. Any monies in the fire protection impact fee fund that have not been spent or encumbered within ten years of receipt shall be refunded to the land owner with interest accrued at ten percent from the original date of payment.

Upon written request from the District, the Gallatin County Commissioners will consider the transfer of monies from the impact fee fund to the District for use on a specific acquisition or construction project. On June 30, 2006, the County held \$12,333 in the impact fee fund. The District recognizes revenue from impact fees when the Commissioners approve the District's request to spend the fees.

J. Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet is followed by a reconciliation between the fund balance of the governmental fund and net assets of governmental activities as reported in the government-wide statement of net assets.

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balance is followed by a reconciliation between net change in fund balance – governmental fund and change in net assets of governmental activities as reported in the government-wide statement of activities.

**CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

3. CASH AND INVESTMENTS

As of June 30, 2006, the District had \$1,600 in cash on hand. At this same date, the District had the following investment:

| | <u>Unrestricted</u> | <u>Restricted</u> |
|--|---------------------|-------------------|
| Gallatin County External Investment Pool | <u>\$ 351,425</u> | <u>\$ 12,333</u> |

The Gallatin County Treasurer manages funds held in the Gallatin County External Investment Pool (Pool). The County Treasurer monitors the District's cash to make certain that the District remains in compliance with the state statute in regard to authorized investments. The fair value of the District's position in this pool is the same as the value of the pool shares. Cash and investments in the custody of the County Treasurer are subject to the collateral requirements specified in State statutes.

As of June 30, 2006, according to the County's audited financial statements, the external investment pool consists of bonds, with maturity dates ranging from fiscal year ending 2006 to 2009, and the State Short-Term Investment Pool, which does not have a maturity date. For more information, audited financial statements for Gallatin County, Montana are available at 311 West Main, Bozeman, Montana. The Nationally Recognized Statistical Rating Organizations (NRSRO) has not rated the Pool.

4. LEASE RECEIVABLE

On June 14, 2000, the District signed a lease purchase agreement with another fire district (Lessor). In the agreement, the two districts agreed to jointly use a building, with the Lessor leasing an undivided one-half of the premises from the District.

The semi-annual payment received by the District is \$6,983, payable December 1st and June 1st of each year with the last payment being made on December 1, 2008. At this time, the Lessor may exercise its option to purchase by paying an additional one-dollar.

The District has recorded a lease receivable for the amount owing on the lease purchase agreement as of June 30, 2006.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 463,405 | \$ - | \$ - | \$ 463,405 |
| Construction in process | - | 31,046 | - | 31,046 |
| Total capital assets, not being depreciated | <u>463,405</u> | <u>31,046</u> | <u>-</u> | <u>494,451</u> |
| Capital assets, being depreciated: | | | | |
| Building and Improvements | 1,561,899 | 21,698 | (107,700) | 1,475,897 |
| Equipment | 505,117 | 4,063 | - | 509,180 |
| Furniture | - | 3,475 | - | 3,475 |
| Vehicles | 1,538,646 | 90,154 | (109,939) | 1,518,861 |
| Total capital assets, being depreciated | <u>3,605,662</u> | <u>119,390</u> | <u>(217,639)</u> | <u>3,507,413</u> |

(continued)

**CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

5. CAPITAL ASSETS (CONTINUED)

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------------|-------------------------|---------------------------|
| Less accumulated depreciation: | | | | |
| Building and Improvements | (277,863) | (18,462) | - | (296,325) |
| Equipment | (296,167) | (67,429) | - | (363,596) |
| Furniture | - | (58) | - | (58) |
| Vehicles | <u>(1,105,957)</u> | <u>(112,137)</u> | <u>107,940</u> | <u>(1,110,154)</u> |
| Total accumulated depreciation | <u>(1,679,987)</u> | <u>(198,086)</u> | <u>107,940</u> | <u>(1,770,133)</u> |
| Total net capital assets, being depreciated | <u>1,925,675</u> | <u>(78,696)</u> | <u>(109,699)</u> | <u>1,737,280</u> |
| Governmental activities capital assets, net | <u>\$ 2,389,080</u> | <u>\$ (47,650)</u> | <u>\$ (109,699)</u> | <u>\$ 2,231,731</u> |

The following capital assets are currently being purchased through capital leases and are included in the capital asset total:

Vehicles: \$ 450,735
Buildings: 610,802

Depreciation expense was charged to the following function of the District:

Public Safety: \$ 176,867

6. LONG-TERM LIABILITIES

Capital Lease Obligations

Capital lease with a leasing company for the purchase of a new fire engine tender in the amount of \$308,576. Semi-annual payments of \$20,895, including interest at 4.84% are due by June and December of each year. A vehicle collateralizes this lease.

Capital lease with a leasing company for the purchase of two fire stations in the amount of \$610,802. Semi-annual payments of \$33,140, including 4.84% interest, are due by June and December of each year. Land and buildings collateralize the lease.

Capital lease with a leasing company for the purchase of a fire truck in the amount of \$142,159. Semi-annual payments of \$10,141, including 4.84% interest, are due by June and December of each year. A vehicle collateralizes this lease.

Following is a schedule of the future minimum lease payments for capital leases as of June 30, 2006:

| <u>Fiscal year ended June 30</u> | |
|--|-------------------|
| 2007 | \$ 162,992 |
| 2008 | 162,990 |
| 2009 | <u>80,380</u> |
| Total minimum lease payments | 406,362 |
| Less: Amount representing interest | <u>(27,865)</u> |
| Present value of net min. lease payments | <u>\$ 378,497</u> |

(continued)

**CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

6. LONG-TERM LIABILITIES (CONTINUED)

Loans payable

During the fiscal year ended June 30, 2004, the District purchased three acres of land to be used for the training center. The land was purchased from individuals for \$262,500 and the District made a down payment of \$100,000. The remaining balance will be paid at an interest rate of 7% with annual payments of \$39,632, which are due December 15 of each year through 2008. The land secures the loan.

During the fiscal year ended June 30, 2005, the District purchased an ambulance for \$108,891. This loan will be paid at an interest rate of 4.5% with four annual payments of \$24,601, which are due November 15 of each year through 2008 and one payment of \$22,069, which will be due November 15, 2009. The vehicle secures the loan.

The following are the principal and interest requirements for the loans payable as of June 30, 2006:

| <u>Fiscal year ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|-------------------|------------------|-------------------|
| 2007 | \$ 53,004 | \$ 11,229 | \$ 64,233 |
| 2008 | 56,217 | 8,016 | 64,233 |
| 2009 | 59,633 | 4,599 | 64,232 |
| 2010 | 21,100 | 969 | 22,069 |
| | <u>\$ 189,954</u> | <u>\$ 24,813</u> | <u>\$ 214,767</u> |

Changes in Long-term Liabilities

The following is a summary of changes in long-term debt for the year ended June 30, 2006:

| <u>Description</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due within One Year</u> |
|-------------------------------|--------------------------|-------------------|--------------------|-----------------------|------------------------------------|
| Capital leases: | | | | | |
| Capital lease – Truck #109 | \$ 133,074 | \$ - | \$ (35,776) | \$ 97,298 | \$ 37,529 |
| Capital lease – Station 2 & 3 | 346,784 | - | (85,154) | 261,630 | 89,325 |
| Capital lease – Truck #309 | 38,225 | - | (18,656) | 19,569 | 19,569 |
| Loans payable: | | | | | |
| Land contract payable | 134,243 | - | (30,235) | 104,008 | 32,352 |
| Loan payable-ambulance | 108,891 | - | (22,945) | 85,946 | 20,652 |
| Compensated absences | <u>0</u> | <u>103,671</u> | <u>-</u> | <u>103,671</u> | <u>30,460</u> |
| Total long-term liabilities | <u>\$ 761,217</u> | <u>\$ 103,671</u> | <u>\$(192,766)</u> | <u>\$ 672,122</u> | <u>\$ 229,887</u> |

(continued)

**CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

Plan Description

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, Chapters 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory, multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS offers retirement, disability, and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with

25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary.

Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The PERS financial information is reported in the Comprehensive Annual Financial Report for the fiscal year end, which is published by the Public Employees Retirement Board. It is available from the PERD at 1712 Ninth Avenue, P.O. Box 200131, Helena, MT 59620-0131.

Funding Policy

The State legislature has the authority to establish and amend contribution rates to the plan.

Plan members are required to contribute 6.90% of compensation.

Employers are required to contribute 6.80% of members' compensation.

The State of Montana General Fund contributes .10% of members' compensation annually.

One hundred percent of required contributions were received for the current year and each of the two preceding years.

The following schedule presents funding requirements for the year ended June 30, 2006 and the two preceding years:

| Years ended <u>June 30,</u> | <u>Employees'</u> <u>Contributions</u> | <u>Employer's</u> <u>Contributions</u> |
|--------------------------------|---|---|
| 2006 | \$ 35,372 | \$ 34,859 |
| 2005 | 32,469 | 31,999 |
| 2004 | 28,600 | 28,166 |

**CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

8. INTER-LOCAL AGREEMENT

The District is party to an agreement with the City of Belgrade. A description of the agreement is as follows:

Agreement dated February 17, 1999, covering the ten-year period to June 30, 2009 whereby the District agrees to provide the following services: fire suppression, fire prevention and education, emergency medical service, motor vehicle accident response, and hazardous material response; repair and maintenance of the City's firefighting equipment, the cost of which is to be paid by the City; repair and maintenance of the jointly owned structures with the disbursements shared equally between the City and District; basic general administration of the City Fire Department; necessary training and recruitment of firefighters; such other duties as from time to time may be agreed upon by the City and Board of Trustees of the District. The Chief reports to the City Manager on City Fire Department issues. Under this agreement, the City of Belgrade annually pays the equivalent of eighteen (18) mills. Such payments during the year were \$34,699 per quarter for each of the four quarters.

The payments received from the City of Belgrade under the agreement mentioned above are presented in the statement of activities as program revenues.

9. RISK MANAGEMENT

The District's risk management activities are recorded in the general fund. Significant losses for public officials, automobile, property and general liability are covered by commercial insurance policies. The District also participates in the State Unemployment and Workers' Compensation programs for losses due to employee life and health risk. There have been no significant reductions in insurance coverage.

10. PRIOR PERIOD ADJUSTMENTS RESULTING FROM CHANGE IN BASIS OF ACCOUNTING

At June 30, 2006, the District changed from the modified cash basis of accounting to modified accrual basis of accounting for the fund financial statements and to the accrual basis of accounting for the government wide financial statements. This change resulted in the following adjustments:

| | |
|--|------------------|
| Addition of a lease receivable on the government-wide financial statements | \$ (44,434) |
| Adjustment to capital assets | <u>107,700</u> |
| Total | <u>\$ 63,266</u> |

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

| | Original Budget | Final Budget | Actual | Variance Over (Under) |
|--------------------------------------|--------------------|------------------|------------------|-----------------------------|
| Revenues | | | | |
| Taxes | | | | |
| Real estate and property taxes | \$ 939,258 | \$ 939,258 | \$ 965,697 | \$ 26,439 |
| Motor vehicle taxes | 100,000 | 100,000 | 94,439 | (5,561) |
| Impact fees | 389,283 | 389,283 | 230,000 | (159,283) |
| Intergovernmental receipts: | | | | |
| Cost sharing - Belgrade | 138,795 | 138,795 | 138,795 | - |
| Cost sharing - Airport | 17,500 | 8,750 | 12,500 | 3,750 |
| Cost sharing - Gallatin Gateway | 19,000 | 19,000 | 18,175 | (825) |
| Charges for services | 15,000 | 15,000 | 22,850 | 7,850 |
| Miscellaneous | | | | |
| Grants | 84,100 | 74,700 | 9,556 | (65,144) |
| Other | 127,500 | 127,500 | 53,762 | (73,738) |
| Investment earnings | 9,600 | 9,600 | 13,318 | 3,718 |
| Total revenues | <u>1,840,036</u> | <u>1,821,886</u> | <u>1,559,092</u> | <u>(262,794)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public safety: | | | | |
| Personal services | | | | |
| Salaries and fringe benefits | 671,290 | 672,527 | 703,158 | 30,631 |
| Supplies | | | | |
| Office and operating supplies | 52,400 | 53,350 | 43,026 | (10,324) |
| Gasoline and diesel fuel | 34,000 | 39,251 | 39,247 | (4) |
| Repair and maintenance | 117,700 | 145,632 | 138,719 | (6,913) |
| Fire prevention and investigation | 7,400 | 8,088 | 8,088 | - |
| Purchased Services | | | | |
| Dues and subscriptions | 4,750 | 5,782 | 3,677 | (2,105) |
| Election | 12,500 | 12,500 | 98 | (12,402) |
| Utilities and telephone | 55,200 | 60,897 | 42,390 | (18,507) |
| Professional and contracted services | 22,450 | 20,571 | 22,124 | 1,553 |
| Promotion | 15,000 | 3,832 | 3,832 | - |
| Training | 55,800 | 50,053 | 53,703 | 3,650 |
| Fixed charges | | | | |
| Insurance | 118,415 | 127,813 | 33,605 | (94,208) |
| Debt service | | | | |
| Principal | 193,132 | 193,132 | 192,766 | (366) |
| Interest | 34,459 | 34,459 | 34,459 | - |
| Capital outlay | 524,632 | 498,011 | 150,436 | (347,575) |
| Total expenditures | <u>1,919,128</u> | <u>1,925,898</u> | <u>1,469,328</u> | <u>(456,570)</u> |

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Over (Under)</u> |
|------------------------------------|----------------------------|-------------------------|-------------------|--------------------------------------|
| Change in fund balances | (79,092) | (104,012) | 89,764 | 193,776 |
| Other financing sources | | | | |
| Sale of capital assets | <u>-</u> | <u>-</u> | <u>22,500</u> | <u>22,500</u> |
| Net change in fund balances | (79,092) | (104,012) | 112,264 | <u>\$ 216,276</u> |
| Fund balances at beginning of year | 168,375 | 168,375 | 255,864 | |
| Adjustment for restricted cash | <u>-</u> | <u>-</u> | <u>(76,950)</u> | |
| Fund balances at end of year | <u>\$ 89,283</u> | <u>\$ 64,363</u> | <u>\$ 291,178</u> | |

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

BUDGET COMPLIANCE

In accordance with Section 7-33-2105, Montana Code Annotated, the District's Board annually presents its budget to the Board of County Commissioners at the regular budget meetings as prescribed by law and therewith certifies the amount of money necessary and proper for the ensuing year. Based on this statute, the total budget is the legal level of budgetary authority. The budget cannot be increased except by a public emergency, which could not have been reasonably foreseen at the time of its adoption. Expenditures are limited to the amount of the budget appropriation for each line item; however, these budgeted amounts may be adjusted by means of transfers of amounts between line items by resolution of the Board. All budget appropriations lapse at the end of the fiscal year.

BUDGET BASIS OF ACCOUNTING

The budget is prepared on the same basis of accounting used in preparing the District's fund financial statements.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The total actual expenditures were not in excess of total appropriations during the fiscal year.

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*

To the Board of Trustees
Central Valley Fire District
Belgrade, Montana

We have audited the financial statements of governmental activities and the major fund of Central Valley Fire District as of and for the year ended June 30, 2006, which collectively comprise the Central Valley Fire District's basic financial statements and have issued our report thereon dated January 5, 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 Central Valley Fire 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 an opinion on the internal control over financial reporting. However, we noted a certain 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 Central Valley Fire District's ability to initiate, 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 questioned costs as item 06-1.

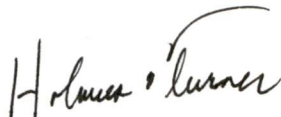
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 believe that the reportable condition referred to above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Valley Fire District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of Central Valley Fire District, in a separate letter dated February 7, 2007.

This report is intended solely for the information and use of management, the Board of Trustees, and the Montana Department of Administration and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Holmes Turner".

January 5, 2007

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

INTERNAL CONTROL

06-1 Segregation of Duties

The District has one employee who handles all of the accounting functions and has sole access to the accounting software. It would be inefficient, considering the size of the District, for the District to hire additional personnel to achieve optimal internal controls. But, the District has taken several steps to involve Board members and to obtain the best internal controls possible.

Management's response

We concur with the above comment. We feel that effective internal controls are very important and we have established procedures that result in efficient internal controls over the District's daily operations and financial reporting.

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

INTERNAL CONTROL

IMPLEMENTED

05-1 Segregation of Duties

Not applicable