

**CENTRAL VALLEY FIRE DISTRICT**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2007**

CENTRAL VALLEY FIRE DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

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

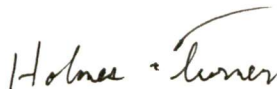
We have audited the accompanying financial statements of the governmental activities and the major fund of Central Valley Fire District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial 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, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 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.



December 13, 2007

**CENTRAL VALLEY FIRE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

The management's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended June 30, 2007. Please read this report along with the District's financial statements, which begin on page 6.

**FINANCIAL HIGHLIGHTS**

No significant financial situations existed due to our increased constant financial review and analysis.

**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, 2007**

The following table presents the District's net assets at June 30, 2007 and 2006:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current assets	\$ 618,145	\$ 458,711
Capital assets – net	<u>2,142,388</u>	<u>2,231,731</u>
Total assets	<u>2,760,533</u>	<u>2,690,442</u>
Current liabilities	563,087	338,397
Non-current liabilities	<u>260,759</u>	<u>442,235</u>
Total liabilities	<u>823,846</u>	<u>767,299</u>
Net assets:		
Invested in capital assets		
-net of related debt	1,771,045	1,559,609
Unrestricted net assets	150,605	238,048
Restricted for capital purchases	<u>15,037</u>	<u>113,153</u>
Net assets	<u>\$ 1,936,687</u>	<u>\$ 1,923,143</u>

The following table presents the changes in the District's net assets for the fiscal years ending June 30, 2007 and 2006:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
General Revenues:		
District real estate & property taxes	\$ 1,151,398	\$ 1,098,249
Impact fees	15,900	230,000
Investment earnings and other	18,279	13,318
Motor vehicle taxes	2,306	1,747
Miscellaneous	49,786	53,722
Special item—gain (loss) on disposal of capital assets	<u>-</u>	<u>32,501</u>
Total general revenue and special items	<u>1,237,669</u>	<u>1,429,537</u>
Program revenues – fees for service	227,237	180,421
Capital grants and contributions	<u>439,038</u>	<u>9,556</u>
Total program revenue	<u>666,275</u>	<u>189,977</u>
Total revenue and special items	<u>\$ 1,903,944</u>	<u>\$ 1,619,514</u>

**CENTRAL VALLEY FIRE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Expenses:		
Public safety	\$ 1,847,951	\$ 1,405,423
Interest on long-term debt	<u>30,117</u>	<u>34,459</u>
Total expenses	1,878,068	1,439,882
Less program revenues	<u>666,275</u>	<u>189,977</u>
Net expenses	1,211,793	1,249,905
General revenues	<u>1,237,669</u>	<u>1,429,537</u>
Change in net assets	25,876	179,632
Net assets – beginning	1,923,143	1,883,727
Prior period adjustments	(12,332)	(63,266)
Adjustment for restricted cash	<u>-</u>	<u>(76,950)</u>
Net assets – ending	<u>\$ 1,936,687</u>	<u>\$ 1,923,143</u>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

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.

Last year, the district taxpayer approved additional funding for continued operations and replacement of numerous support and fire/rescue apparatus.

**CENTRAL VALLEY FIRE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

**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, create 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. Even with the additional funding approved by our taxpayers this year, those funds will only replace ½ the fire equipment needed to sustain the continued level of operation.

To help finance these needs, the District has been borrowing funds and will again 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 its ability to provide fire and emergency services to the public it serves. 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's total actual expenditures were not in excess of total appropriations during the fiscal year. There were no changes made to the budget during the fiscal year ended June 30, 2007.

CENTRAL VALLEY FIRE DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 236,178
Cash - restricted	291,638
Lease receivable	21,005
Taxes receivable	69,324
Capital assets, net of accumulated depreciation	2,142,388
Total assets	2,760,533
<b>Liabilities</b>	
Accounts payable	38,737
Accrued salaries and payroll taxes	21,050
Deferred revenue - restricted cash	291,637
Long-term liabilities:	
Loan payable - current portion	211,663
Loan payable - long-term portion	260,759
Total liabilities	823,846
<b>Net assets</b>	
Invested in capital assets, net of related debt	1,771,045
Restricted for capital purchases	15,037
Unrestricted	150,605
Total net assets	\$ 1,936,687

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2007

Expenses:	
Public Safety - fire protection	\$ 1,847,951
Interest on long-term debt	<u>30,117</u>
Total expenses	<u>1,878,068</u>
Program revenues:	
Charges for services	227,237
Capital grants and contributions	<u>439,038</u>
Total program revenues	<u>666,275</u>
Net program expense	<u>1,211,793</u>
General revenues:	
Real estate and property taxes	1,151,398
Motor vehicle taxes	2,306
Impact fees	15,900
Miscellaneous	49,786
Investment income	<u>18,279</u>
Total general revenues and special items	<u>1,237,669</u>
Change in net assets	25,876
Net assets at beginning of year	1,923,143
Prior period adjustment	<u>(12,332)</u>
Net assets at end of year	<u>\$ 1,936,687</u>

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUND TYPE  
JUNE 30, 2007

	Governmental Fund Type
	General Fund
<u>Assets</u>	
Cash	\$ 236,178
Cash - restricted	291,638
Accounts receivable	1,039
Property taxes	69,324
Total assets	\$ 598,179
<u>Liabilities and Fund Balances</u>	
<u>Liabilities</u>	
Accounts payable	\$ 38,737
Accrued salaries and payroll taxes	21,050
Deferred revenue - restricted cash	291,637
Deferred revenue - property taxes	48,258
Total liabilities	399,682
<u>Fund Balances:</u>	
Reserved for capital purchases	18,605
Unreserved	179,892
Total fund balances	198,497
Total liabilities and fund equity	\$ 598,179

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, 2007

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

Fund balance of the governmental fund	\$ 198,497
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.	48,258
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.	19,966
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of the governmental fund.	2,142,388
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(472,422)</u>
Net assets of governmental activities	<u>\$ 1,936,687</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, 2007

	Governmental Fund
	General Fund
Revenues	
Taxes	
Real estate and property taxes	\$ 1,143,000
Motor vehicle taxes	2,306
Impact fees	15,900
Intergovernmental receipts:	
Cost sharing - Belgrade	147,250
Cost sharing - Airport	10,000
Cost sharing - Gallatin Gateway	17,164
Entitlement	-
Charges for services	65,352
Miscellaneous	
Grants	439,038
Other	49,787
Investment earnings	18,279
Total revenues	1,908,076
Expenditures	
Current:	
Public safety:	
Personal services	
Salaries and fringe benefits	845,552
Supplies	
Office and operating supplies	501,766
Gasoline and diesel fuel	44,407
Repair and maintenance	104,270
Purchased services	
Dues and subscriptions	3,070
Election	23,655
Utilities and telephone	49,825
Professional and contracted services	18,045
Promotion	5,870
Training	35,063
Fixed charges	
Insurance	16,032
Debt service	
Principal	197,108
Interest	30,117
Capital outlay	113,645
Total expenditures	1,988,425
Change in fund balance	(80,349)

Net change in fund balance	(80,349)
Fund balance at beginning of year	291,178
Prior period adjustment	<u>(12,332)</u>
Fund balance at end of year	<u>\$ 198,497</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, 2007

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

Net change in fund balance - governmental fund	\$ (80,349)
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.	8,397
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.	(12,529)
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 (\$117,345) was exceeded by depreciation (\$206,688) in the current period.	(89,343)
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.	2,592
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>197,108</u>
Change in net assets of governmental activities	<u>\$ 25,876</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, 2007, 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, 2007, 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  $\frac{5}{6}$  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.

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.

(continued)

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets (Continued)

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.

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.

(continued)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Fire Protection Impact Fee Revenues (Continued)

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, 2007, the County held \$291,638 in the impact fee fund. This amount is shown as restricted cash and deferred revenue as of June 30, 2007. The District recognizes revenue from impact fees when the Commissioners approve the District's request to spend the fees.

J. Net Assets

During fiscal year ended June 30, 2006, the Gallatin County Commissioners approved the District's request to purchase certain capital assets using impact fees and these funds were transferred to the District at that time. As of June 30, 2007, the District had not used \$15,037 of these funds, therefore, this amount is reported as net assets restricted for capital purchases as of June 30, 2007.

K. 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, 2007, 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	\$ 234,578	\$ 291,638

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 (carrying amount). 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 consisted of non-negotiable certificates of deposit, with maturity dates ranging from July 2006 through February 2008, and the State Short-Term Investment Pool, which does not have a maturity date. Ranges of interest rates were 1.34%-5.75%. At the time that this audit report was issued, this information was not available for the fiscal year ended June 30, 2007. For more information, audited financial statements for Gallatin County, Montana are available at 311 West Main, Bozeman, Montana.

The Pool has not been rated by the Nationally Recognized Statistical Rating Organizations (NRSRO).

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 1<sup>st</sup> and June 1<sup>st</sup> 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, 2007.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007 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	-	(10,933)	20,113
Total capital assets, not being depreciated	494,451	-	(10,933)	483,518

(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>
Capital assets, being depreciated:				
Building and Improvements	1,475,897	105,481	-	1,581,378
Equipment	509,180	21,617	-	530,797
Furniture	3,475	1,180	-	4,655
Vehicles	<u>1,518,861</u>	<u>-</u>	<u>-</u>	<u>1,518,861</u>
Total capital assets, being depreciated	<u>3,507,413</u>	<u>128,278</u>	<u>-</u>	<u>3,635,691</u>
Less accumulated depreciation:				
Building and Improvements	(296,325)	(41,091)	-	(337,416)
Equipment	(363,596)	(48,670)	-	(412,266)
Furniture	(58)	(426)	-	(484)
Vehicles	<u>(1,110,154)</u>	<u>(116,501)</u>	<u>-</u>	<u>(1,226,655)</u>
Total accumulated depreciation	<u>(1,770,133)</u>	<u>(206,688)</u>	<u>-</u>	<u>(1,976,821)</u>
Total net capital assets, being depreciated	<u>1,737,280</u>	<u>(78,410)</u>	<u>-</u>	<u>1,658,870</u>
Governmental activities capital assets, net	<u>\$ 2,231,731</u>	<u>\$ (78,410)</u>	<u>\$ (10,933)</u>	<u>\$ 2,142,388</u>

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

Vehicles: \$ 308,576  
Buildings: 610,802

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

Public Safety: \$ 206,688

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.

Following is a schedule of the future minimum lease payments for capital leases as of June 30, 2007:

Year Ended	<u>Principal</u>	<u>Interest</u>
<u>June 30,</u>		
2008	\$ 153,593	\$ 9,396
2009	78,481	1,899
Total	<u>\$ 232,074</u>	<u>\$ 11,295</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, 2007:

<u>Fiscal year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 58,070	\$ 6,163	\$ 64,233
2009	59,611	4,622	64,233
2010	21,588	992	22,580
	<u>\$ 139,269</u>	<u>\$ 11,777</u>	<u>\$ 151,046</u>

Changes in Long-term Liabilities

The following is a summary of changes in long-term debt for the year ended June 30, 2007:

<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	\$ 97,298	\$ -	\$ 37,530	\$ 59,768	\$ 39,367
Capital lease –					
Station 2 & 3	261,630	-	89,324	172,306	114,226
Capital lease –					
Truck #309	19,569	-	19,569	-	-
Loans payable:					
Land contract payable	104,008	-	32,352	71,656	34,616
Loan payable-ambulance	85,946	-	18,333	67,613	23,454
Compensated absences	<u>103,671</u>	<u>-</u>	<u>2,592</u>	<u>101,079</u>	<u>-</u>
Total long-term liabilities	<u>\$ 672,122</u>	<u>\$ -</u>	<u>\$ 199,700</u>	<u>\$ 472,422</u>	<u>\$ 211,663</u>

(continued)

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

7. EMPLOYEE BENEFIT PLANS

Plan Description and Provisions – All full-time District employees participate in one of two statewide cost-sharing multiple-employer retirement benefit plans administered by the Public Employees Retirement Division (PERD). Contributions to the two plans are as required by State statute. Fiscal year 2007 total payroll and covered payroll for both retirement plans was \$639,096 and \$626,296, respectively. Financial information for the two plans is reported in the Public Employees' Retirement Board's published Comprehensive Annual Financial Report for the fiscal year end. It is available from PERD at 100 North Park Avenue, Suite 220, P.O. Box 200131, Helena, MT 59620-0131. The authority to establish, amend and provide cost of living adjustments to the plans is assigned to the State legislature. The authority to establish and amend contribution rates to the plans is also assigned to the State legislature.

Public Employees' Retirement System (PERS)

All District employees are provided pension benefits by this multi-employer plan. Funding is provided by participating units of government and their covered employees. The District is required to contribute 6.8% of members' compensation, which was \$42,588, \$34,859, and \$31,999 for the years ended June 30, 2007, 2006, and 2005 respectively. Plan members are required to contribute 6.9% of their compensation, which was \$43,214, \$35,372, and \$32,469 for the years ended June 30, 2007, 2006, and 2005, respectively. One hundred percent of required contributions were made for all three years.

*Defined Benefit Retirement Plan (DBRP)* – Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit is 1/56 of the final compensation for each year of credited service, paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 50 and 5 years of service or after 25 year of service regardless of age. Rights become vested after 5 years of service.

*Defined Contribution Retirement Plan (DCRP)* – Participants may elect the defined contribution plan, in which the contributions into the plan are known, but the benefit is not. The retirement benefit received is based upon account balance, which is determined by contributions made plus investment earnings, or losses, less administrative costs.

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 \$36,813 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.

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

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

During the fiscal year ended June 30, 2007 it was determined that it would be more appropriate to account for impact fee cash held by the County Treasurer as deferred revenue rather than restricted net assets, as was done in the past. As of June 30, 2006, the amount of net assets restricted for impact fees was \$12,332; an adjustment was made as of June 30, 2007 to reclass this amount as deferred revenue, which resulted in a prior period adjustment to remove this amount from equity.

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, 2007

	Original Budget	Final Budget	Actual	Variance Over (Under)
Revenues				
Taxes				
Real estate and property taxes	\$ 1,157,136	\$ 1,157,136	\$ 1,143,000	\$ (14,136)
Motor vehicle taxes	-	-	2,306	2,306
Impact fees	-	-	15,900	15,900
Intergovernmental receipts:				
Cost sharing - Belgrade	147,240	147,240	147,250	10
Cost sharing - Airport	10,000	10,000	10,000	-
Cost sharing - Gallatin Gateway	18,000	18,000	17,164	(836)
Charges for services	15,000	15,000	65,352	50,352
Miscellaneous				
Grants	-	-	439,038	439,038
Other	52,195	52,195	49,787	(2,408)
Investment earnings	13,000	13,000	18,279	5,279
Total revenues	<u>1,412,571</u>	<u>1,412,571</u>	<u>1,908,076</u>	<u>495,505</u>
Expenditures				
Current:				
Public safety:				
Personal services				
Salaries and fringe benefits	804,000	804,000	845,552	41,552
Supplies				
Office and operating supplies	110,000	110,000	501,766	391,766
Gasoline and diesel fuel	-	-	44,407	44,407
Repair and maintenance	145,000	145,000	104,270	(40,730)
Purchased Services				
Dues and subscriptions	-	-	3,070	3,070
Election	-	-	23,655	23,655
Utilities and telephone	52,500	52,500	49,825	(2,675)
Professional and contracted services	37,487	37,487	18,045	(19,442)
Promotion	1,200	1,200	5,870	4,670
Training	64,527	64,527	35,063	(29,464)
Fixed charges				
Insurance	19,000	19,000	16,032	(2,968)
Debt service				
Principal	197,108	197,108	197,108	-
Interest	30,117	30,117	30,117	-
Capital outlay	-	-	113,645	113,645
Contingency	151,268	151,268	-	(151,268)
Total expenditures	<u>1,612,207</u>	<u>1,612,207</u>	<u>1,988,425</u>	<u>376,218</u>

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Change in fund balances	(199,636)	(199,636)	(80,349)	<u>\$ 119,287</u>
Fund balances at beginning of year	199,636	199,636	291,178	
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(12,332)</u>	
Fund balances at end of year	<u>\$ 199,636</u>	<u>\$ 199,636</u>	<u>\$ 198,497</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

Total actual expenditures exceeded total appropriations by approximately \$376,000 during the fiscal year ended June 30, 2007. This is the result of a grant received by the District with which the District purchased small equipment for the District and other Districts. These purchases, which were not included in the budget, are classified as operating supplies on the District's schedule of revenues, expenditures and changes in fund balance.

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 the governmental activities of Central Valley Fire District as of and for the year ended June 30, 2007, which comprise Central Valley Fire District's basic financial statements and have issued our report thereon dated December 13, 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 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 Central Valley Fire District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Central Valley Fire District's internal control over financial reporting.

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

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 Central Valley Fire District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Central Valley Fire District's financial statements that is more than inconsequential will not be prevented or detected by the Central Valley Fire District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting (07-01).

The District's written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.


Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is 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*.

Central Valley Fire District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Central Valley Fire District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



December 13, 2007

CENTRAL VALLEY FIRE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007

INTERNAL CONTROL

07-1 Segregation of Duties

Although the small size of the District's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties.

One of the most critical areas of separation is cash where we noted that the Clerk writes and signs all the warrants and receives and reconciles the monthly statements from the County Treasurer. Although a Board member signs each check along with the Clerk, there are additional steps that can be taken to strengthen internal controls. We recommend that the Board review the reconciliation that is prepared each month, which reconciles the District's cash account with the County Treasurer's cash balance. The Board should review the cleared and uncleared warrants and deposits and determine whether these appear reasonable.

Currently the Board is reviewing a list of payments that are to be made by vendor and the invoices are available for the board members to review. We recommend that, in addition to reviewing the vendors and invoices that are to be paid that the Board review a list of warrants, by warrant number that were written in the previous month. The Board should verify that the list of warrants is in sequence with the list approved in the previous month and that all warrants are listed, including warrants that may have been voided. This list should also include the electronic transactions that have taken place since the last board meeting (i.e. payroll related transactions).

These simple steps will not require the addition of any new employees or require significant time of either the Clerk or board members and will serve to strengthen the internal controls of the District.

Management's response

We concur with the above comment. We will make the recommended changes by including the county reconciliation prepared for the previous month in the board packets and by presenting a list of warrants, by warrant number, written during the previous month to the Board at each meeting.

CENTRAL VALLEY FIRE DISTRICT  
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007

INTERNAL CONTROL

IMPLEMENTED

06-1 Segregation of Duties

Not applicable