

CENTRAL VALLEY FIRE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2010

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, 2010, 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, 2010, 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 July 13, 2011, 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 18 through 20, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

July 13, 2011
Board of Trustees
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Central Valley Fire District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in blue ink, appearing to read "Holmes & Turner". The signature is written in a cursive style with a large, sweeping flourish over the word "Turner".

July 13, 2011

CENTRAL VALLEY FIRE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 1,862,936
Cash - restricted	4,553
Accounts receivable	29,831
Taxes receivable	214,060
Capital assets, net of accumulated depreciation	<u>3,985,356</u>
Total assets	<u>6,096,736</u>
Liabilities	
Accounts payable	136,938
Accrued salaries and payroll taxes	73,842
Deferred revenue - restricted cash	4,553
Long-term liabilities:	
Loan payable - current portion	259,000
Loan payable - long-term portion	<u>2,600,672</u>
Total liabilities	<u>3,075,005</u>
Net assets	
Invested in capital assets, net of related debt	1,125,684
Unrestricted	<u>1,896,047</u>
Total net assets	<u>\$ 3,021,731</u>

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2010

Expenses:	
Public Safety - fire protection	\$ 2,688,929
Interest on long-term debt	<u>142,169</u>
Total expenses	<u>2,831,098</u>
Program revenues:	
Charges for services	421,563
Capital grants and contributions	<u>22,800</u>
Total program revenues	<u>444,363</u>
Net program expense	<u>2,386,735</u>
General revenues:	
Real estate and property taxes	2,211,113
Miscellaneous	50,405
Impact fees	43,884
Investment income	24,234
Special item - Gain on sales of land	<u>100,466</u>
Total general revenues and special items	<u>2,430,102</u>
Change in net assets	43,367
Net assets at beginning of year	<u>2,978,364</u>
Net assets at end of year	<u><u>\$ 3,021,731</u></u>

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND TYPE
JUNE 30, 2010

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
<u>Assets</u>	
Cash	\$ 1,862,936
Cash - restricted	4,553
Accounts receivable	29,831
Property taxes receivable	<u>214,060</u>
Total assets	<u>\$ 2,111,380</u>
 <u>Liabilities and Fund Balances</u>	
<u>Liabilities</u>	
Accounts payable	\$ 136,938
Accrued salaries and payroll taxes	73,842
Deferred revenue - restricted cash	4,553
Deferred revenue - property taxes	<u>157,682</u>
Total liabilities	<u>373,015</u>
 <u>Fund Balances:</u>	
Unreserved	<u>1,738,365</u>
Total fund balances	<u>1,738,365</u>
Total liabilities and fund equity	<u>\$ 2,111,380</u>

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, 2010

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

Fund balance of the governmental fund	\$ 1,738,365
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.	157,682
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of the governmental fund.	3,985,356
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,859,672)</u>
Net assets of governmental activities	<u>\$ 3,021,731</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, 2010

	Governmental Fund
	General Fund
Revenues	
Taxes	
Real estate and property taxes	\$ 2,066,948
Impact fees	43,884
Intergovernmental receipts:	
Cost sharing - Belgrade	369,352
Cost sharing - Airport	10,000
Cost sharing - Gallatin Gateway	3,076
Entitlement	97,744
Charges for services	39,135
Miscellaneous	
Grants	22,800
Other	50,405
Investment earnings	24,234
Total revenues	2,727,578
Expenditures	
Current:	
Public safety:	
Personal services	
Salaries and fringe benefits	1,212,453
Supplies	
Office and operating supplies	149,880
Gasoline and diesel fuel	33,256
Repair and maintenance	162,308
Purchased services	
Dues and subscriptions	3,740
Utilities and telephone	63,558
Physicals and related services	13,795
Professional and contracted services	22,113
Public communication	4,391
Standby	2,600
Training	84,763
Fixed charges	
Insurance	22,607
Debt service	
Principal	212,018
Interest	142,169

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, 2010

	<u>Governmental Fund</u>
	<u>General Fund</u>
Expenditures (continued)	
Capital outlay	589,465
Total expenditures	2,719,116
Excess (deficiency) of revenues over expenses	8,462
Other financing sources	
Proceeds from loans	255,000
Special item	
Proceeds from sale of land	179,680
Net change in fund balance	443,142
Fund balance at beginning of year	1,295,223
Fund balance at end of year	\$ 1,738,365

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, 2010

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

Net change in fund balance - governmental fund	\$	443,142
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.		46,421
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$347,527) is exceeded by depreciation (\$646,930) in the current period.		(299,403)
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.		(24,597)
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.		212,018
In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the capital asset sold.		(79,214)
Receipt of loan proceeds is a revenue in the government funds, but is a liability assumed in the statement of net assets. This amount is a reduction of revenue to reconcile to the fund statement of activities		<u>(255,000)</u>
Change in net assets of governmental activities	\$	<u>43,367</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, 2010, 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 is 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, 2010, 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.

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 fair market value as of the date of the donation.

(continued)

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

1. 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. Employees may request that unused vacation hours that are subject to loss be transferred to sick leave hours at a rate of one hour of vacation leave to four hours of sick leave. 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, 2010, the County held \$4,553 in the impact fee fund. This amount is shown as restricted cash and deferred revenue as of June 30, 2010. The District recognizes revenue from impact fees when the Commissioners approve the District's request to spend the fees.

J. Net Assets

During fiscal years ended June 30, 2009 and 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, 2010, the District had used these funds, therefore, no amount is reported as net assets restricted for capital purchases as of June 30, 2010.

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. CASH AND INVESTMENTS

As of June 30, 2010, 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>\$ 1,861,336</u>	<u>\$ 4,553</u>

The Gallatin County Treasurer manages funds held in the Gallatin County External Investment Pool (Pool). The County Treasurer monitors the Department's cash to make certain that the Department remains in compliance with the state statute in regard to authorized investments. The fair value of the Department'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.

Information pertaining to the interest rate risk of this investment is available from Gallatin County's audited financial statements which can be obtained from the County by requesting audited financial statements from Gallatin County Finance Department, 311 West Main Street, room 304A, Bozeman, Montana 59715.

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

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

3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 463,405	\$ 70,567	\$ -	\$ 533,972
Construction in process	143,256	-	-	143,256
Vehicles in process	<u>143,420</u>	<u>-</u>	<u>(143,420)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>750,081</u>	<u>70,567</u>	<u>(143,420)</u>	<u>677,228</u>
Capital assets, being depreciated:				
Building and Improvements	1,557,403	215,046	(107,706)	1,664,743
Equipment	634,557	44,641	(127,460)	551,738
Furniture	4,655	-	-	4,655
Vehicles	<u>3,574,856</u>	<u>187,133</u>	<u>-</u>	<u>3,761,989</u>
Total capital assets, being depreciated	<u>5,771,471</u>	<u>446,820</u>	<u>(235,166)</u>	<u>5,983,125</u>
Less accumulated depreciation:				
Building and Improvements	(415,308)	(42,819)	29,169	(428,958)
Equipment	(508,261)	(28,315)	100,343	(436,233)
Furniture	(1,415)	(466)	-	(1,881)
Vehicles	<u>(1,232,595)</u>	<u>(575,330)</u>	<u>-</u>	<u>(1,807,925)</u>
Total accumulated depreciation	<u>(2,157,579)</u>	<u>(646,930)</u>	<u>129,512</u>	<u>(2,674,997)</u>
Total net capital assets, being depreciated	<u>3,613,892</u>	<u>(200,110)</u>	<u>(105,654)</u>	<u>3,308,128</u>
Governmental activities capital assets, net	<u>\$ 4,363,973</u>	<u>\$(129,543)</u>	<u>\$(249,074)</u>	<u>\$ 3,985,356</u>

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

Public Safety: \$ 646,930

4. LONG-TERM LIABILITIES

Loans payable

During the fiscal year ended June 30, 2008, the District purchased vehicles for \$322,462. During the fiscal year ended June 30, 2009, the District drew an additional \$148,769 on this loan for the purchase of an additional vehicle. This loan will be paid at an interest rate of 4.69% with seven annual payments of \$75,000, which are due June 30 of each year through 2015 and a final payment of \$59,398 due on June 30, 2016. The vehicles secure the loan.

During the fiscal year ended June 30, 2008, the District purchased two engines, four tenders and one support truck for \$2,336,043. This loan will be paid at an interest rate of 5.25% with thirteen annual payments of \$252,484, which are due June 30 of each year through 2021. The loan is secured by separate security instruments.

(continued)

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

4. LONG-TERM LIABILITIES (CONTINUED)

During the fiscal year ended June 30, 2010, the District borrowed funds to begin construction of station 3 for \$255,000. This loan will be paid at an interest rate of 4.99% with four annual payments of \$72,194, which are due June 15 of each year through 2014. The loan is secured by the deed.

The following are the principal and interest requirements for the loans payable as of June 30, 2010:

<u>Fiscal year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 258,998	\$ 140,680	\$ 399,678
2012	274,348	125,330	399,678
2013	288,249	111,429	399,678
2014	308,441	96,822	405,263
2015	246,289	81,195	327,484
2016-2020	1,072,949	232,739	1,305,688
2021	<u>239,180</u>	<u>12,557</u>	<u>251,737</u>
	<u>\$ 2,688,454</u>	<u>\$ 800,752</u>	<u>\$ 3,489,206</u>

Changes in Long-term Liabilities

The following is a summary of changes in long-term debt for the year ended June 30, 2010:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Loan payable-ambulance	23,521	-	23,521	-	-
Loan payable	415,741	-	55,362	360,379	58,098
Loan payable – vehicles	2,206,202	-	136,659	2,069,543	143,833
Loan payable – station	258,532	-	-	258,532	57,067
Compensated absences	<u>146,620</u>	<u>24,598</u>	<u>-</u>	<u>171,218</u>	<u>-</u>
Total long-term liabilities	<u>\$3,050,616</u>	<u>\$ 24,598</u>	<u>\$ 215,542</u>	<u>\$2,859,672</u>	<u>\$ 258,998</u>

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

5. 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 ended June 30, 2010 total payroll and covered payroll for both retirement plans was \$720,681 and \$713,044, 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 and 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. As of July 1, 2009, the District is required to contribute 7.07% of members' compensation, which was \$16,838 for the year ended June 30, 2010. As of July 1, 2007, the District is required to contribute 6.935% of members' compensation, which was \$50,444 and \$47,040 for the years ended June 30, 2009 and 2008. Plan members are required to contribute 6.9% of their compensation, which was \$16,433, \$50,189, and \$46,802 for the years ended June 30, 2010, 2009, and 2008, respectively. 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. Employees become vested in the employer's contributions after 5 years of service and become vested in the employee's contributions immediately.

Firefighter's Unified Retirement System (FURS)

In September 2009, the Board approved the firefighter's participation in the Firefighters Unified Retirement System (FURS). Funding is provided by units of local government, their covered employees and the State of Montana. The District is required to contribute 14.36% of members' compensation. The District's contributions to this plan for the year ended June 30, 2010 were \$56,884. One hundred percent of the required contributions were made. Plan members are required to contribute 10.7% of monthly compensation, since all firefighters have elected to be covered under the guaranteed annual benefit adjustment (GABA). The State is required to contribute 32.61%, which was \$129,179 for fiscal year ended June 30, 2010. Covered payroll for the years ended June 30, 2010 was \$396,131.

Participants are eligible for benefits after 20 years of service regardless of age or at age 50 after 5 years of service. Participants are vested after five years. To determine benefits, member's compensation is calculated to be the highest average compensation (HAC) for the last consecutive 36 months and members receive 2.5% of HAC per year of service. After a member has completed 12 full months of retirement, the benefit increases by a maximum of 3% each January inclusive of all other adjustments to the member's benefits.

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

6. 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 March 2, 2009, covering the five-year period to June 30, 2014 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 thirty-seven (37) mills, but not less than \$334,184. Such payments during the year were \$92,338 per quarter for each of the four quarters and are presented in the statement of activities as program revenues.

7. CONTINGENCY

In December 2008, the Trustees adopted a policy, which stated that fulltime employees may, at the request of the employee, transition hours of annual leave that are unused and subject to loss on December 31st of each year to sick leave at an even value rate of one hour of annual leave to four hours of sick leave. Since the time this policy was adopted, employees transferred unused annual leave to sick leave in accordance with this policy.

In April 2011, the Chief terminated his employment with the District and the District's attorney was questioned regarding the District's responsibility to pay the Chief for unused sick leave that was transferred from annual leave. The District's attorney made the determination that the policy adopted by the Trustees in December 2008 was not in compliance with Montana Code Annotated and, therefore, the Chief should not be paid for the sick leave that was transferred from annual leave. The District did not pay the Chief for this accrued sick leave.

At the time this audit report was issued, the Chief had submitted a wage claim based upon his contention that he was entitled to compensation for the unused annual leave that he transferred to sick leave in accordance with the District's policy. The amount of the claim is \$19,296.75. The District's attorney has responded to the claim and feels that the District will prevail.

Also, at the time that this audit report was issued, the District had other employees who had transferred unused annual leave to sick leave. The Trustees had not made a decision regarding this accrued sick leave. These amounts total \$39,716.20.

Even though the District's attorney feels that the District will prevail in the wage claim previously mentioned, these amounts are included in the compensated absences balance. The District will record a gain when the final determination is made.

8. 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.

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, 2010

	Original Budget	Final Budget	Actual	Variance Over (Under)
Revenues				
Taxes				
Real estate and property taxes	\$ 2,099,627	\$ 2,099,627	\$ 2,066,948	\$ (32,679)
Other	822,803	822,803	660,630	(162,173)
Total revenues	<u>2,922,430</u>	<u>2,922,430</u>	<u>2,727,578</u>	<u>(194,852)</u>
Expenditures				
Current:				
Public safety:				
Personal services				
Salaries and fringe benefits	1,283,671	1,283,671	1,212,453	(71,218)
Supplies				
Office and operating supplies	152,000	152,000	149,880	(2,120)
Gasoline and diesel fuel	34,000	34,000	33,256	(744)
Repair and maintenance	163,000	163,000	162,308	(692)
Purchased Services				
Dues and subscriptions	-	-	3,740	3,740
Election	15,000	15,000	-	(15,000)
Utilities and telephone	74,300	74,300	63,558	(10,742)
Physicals and related services	19,000	19,000	13,795	(5,205)
Professional and contracted services	31,500	31,500	22,113	(9,387)
Public communication	6,000	6,000	4,391	(1,609)
Standby	5,000	5,000	2,600	(2,400)
Training	80,000	80,000	84,763	4,763
Fixed charges				
Insurance	27,000	27,000	22,607	(4,393)
Debt service				
Principal	563,414	563,414	212,018	(351,396)
Interest	145,000	145,000	142,169	(2,831)
Capital outlay	661,618	661,618	589,465	(72,153)
Contingency	439,233	439,233	-	(439,233)
Total expenditures	<u>3,699,736</u>	<u>3,699,736</u>	<u>2,719,116</u>	<u>(980,620)</u>
Excess (deficiency) of revenues over expenses	(777,306)	(777,306)	8,462	785,768

CENTRAL VALLEY FIRE DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance Over (Under)
Other financing sources (uses)				
Proceeds from loans	151,240	151,240	255,000	103,760
Special item				
Proceeds from sale of land	-	-	179,680	179,680
Change in fund balances	(626,066)	(626,066)	443,142	<u>\$ 1,069,208</u>
Fund balances at beginning of year	<u>626,066</u>	<u>626,066</u>	<u>1,295,223</u>	
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,738,365</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 expenditures were not in excess of the total budgeted expenditures 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 the governmental activities and major fund of Central Valley Fire District (District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 13, 2011. 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 opinions 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (10-01 and 10-03). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 10-02 and 10-04.

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

This report is intended solely for the information and use of management, the Board of Directors, others within the Central Valley Fire District, Montana Department of Administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



July 13, 2011

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

INTERNAL CONTROL

10-01 Segregation of duties

The District has one employee who handles all of the accounting functions and who 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 management to obtain the best internal controls possible.

Management's response

The District has taken numerous steps to obtain the best internal controls possible. We have added two additional levels of management review, oversight and approval to optimize internal controls. The Board provides another two additional levels of internal control. We believe we have achieved the best internal controls possible by adding four levels of management and governing body member reviews, oversight and approval.

The successful result of these extensive internal controls is evident with a no exception audit. This has been achieved with the assistance of our auditors.

10-03 Information and Communication

One of the components of internal control is information and communication. Effective communication must flow down, across and up any organization. All personnel must receive a clear message from management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have means of communicating significant information upstream. By having communication that flows in all directions, the Board and employees have the tools needed to fulfill their responsibilities to each other and to the public.

Areas in which the District was or may have been in noncompliance with applicable laws and agreements came to the attention of the Trustees, authorities and public through a whistleblower letter from employees of the District. A pervasive reason for these issues not being brought to light earlier was a lack of communication between the employees and the Trustees. As previously-mentioned, it is important for employees to have a means of communicating significant information to the Trustees. We recommend that the Trustees adopt a policy, which outlines the path of communication that an employee should follow when issues arise, so that these issues can be dealt with in a timely manner.

One of the areas of concern is noted in finding 10-02; the other areas of concern have not resulted in a potential material effect on the District's financial statements.

Management's response

The Trustees are in agreement with this finding.

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

COMPLIANCE

10-02 Improper payroll payments

Beginning in July 1997, the Chief of the District had an agreement with Gallatin County, Montana to perform duties as the Gallatin County Fire Marshall. Throughout the period of this agreement, the District paid the Chief through the District's payroll system for services pertaining to this agreement in addition to his services pertaining to his employment agreement with the District. Then, the County reimbursed the District for payments made to the Chief relating to his duties as County Fire Marshall. From the period of July 2009 through November 2009, per the Chief's request, the District paid the Chief \$12,663 for services pertaining to his duties as County Fire Marshall. The District then received reimbursement for these payments from the County.

These payments were questioned and brought to the attention of the County through a whistleblower letter; there was concern that the Chief was receiving his salary from the District in addition to pay from the County without taking vacation or leave without pay from the District. After an investigation, the County Attorney found these payments to be improper and recommended that the County Commissioners terminate their agreement with the Chief, which they did in November 2010.

The District paid the Chief an additional \$9,275 for the period of December 1, 2009 through February 28, 2010. The County reimbursed the District for these payments. At the time that these audited financial statements were issued, the County had not asked for a reimbursement of these amounts or of amounts paid in previous periods. We recommend that the District work with its attorney, if the need arises regarding this matter.

Management's response

The District will continue to consult its attorney if any further action is required pertaining to this issue.

10-04 Compensated Absences

In December 2008, the Trustees adopted a policy, which stated that fulltime employees may, at the request of the employee, transition hours of annual leave that are unused and subject to loss on December 31st of each year to sick leave at an even value rate of one hour of annual leave to four hours of sick leave. Since the time this policy was adopted, employees transferred unused annual leave to sick leave in accordance with this policy.

In April 2011, the Chief terminated his employment with the District and the District's attorney was questioned regarding the District's responsibility to pay the Chief for unused sick leave that was transferred from annual leave. The District's attorney made the determination that the policy adopted by the Trustees in December 2008 was not in compliance with Montana Code Annotated and, therefore, the Chief should not be paid for the sick leave that was transferred from annual leave. The District did not pay the Chief for this accrued sick leave.

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

COMPLIANCE (CONTINUED)

At the time this audit report was issued, the Chief had submitted a wage claim based upon his contention that he was entitled to compensation for the unused annual leave that he transferred to sick leave in accordance with the District's policy. The amount of the claim is \$19,296.75. The District's attorney has responded to the claim and feels that the District will prevail.

Also, at the time that this audit report was issued, the District had other employees who had transferred unused annual leave to sick leave. The trustees had not made a decision regarding this accrued sick leave. These amounts total \$39,716.20.

Management's response

The Trustees are in agreement with this finding.

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

INTERNAL CONTROL

IMPLEMENTED

09-1 Segregation of Duties

See current year finding 10-1