

CENTRAL VALLEY FIRE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

CENTRAL VALLEY FIRE DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and 26-27 be presented to supplement the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Valley Fire District's internal control over financial reporting and compliance.

Holmes & Turner

February 25, 2015

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The following Management's Discussion and Analysis provides an overview of Central Valley Fire District's financial activities for the fiscal year ended June 30, 2014. Please review this report along with the District's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- Obtained a structure engine for use in future rural Fire Station 7.
- Upgraded all department fire hose to less than 10 years of age.
- Replaced a set of hydraulic extrication equipment with electric/hydraulic tools.
- Passed a 7 year mill levy for personnel funding
- Renewed an Interlocal Government Agreement and funding with the City of Belgrade.
- Hired a full time Fire Marshal and part time Training Officer.
- Contributed to Operational Reserves and Capital Improvement Funds for Apparatus and Facilities upgrades.

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 soundness. However, to assess the overall financial position of the District, consideration should be given to other nonfinancial factors in making an assessment of the District's fiscal health, such as changes in the economy and changes in the District's tax base, etc.

Fund financial statements

The District reports all of its activities in the general fund, which is a governmental fund. This fund is the mechanism for how money flows into and out of this fund and the balance left at year-end that is available for reallocation. 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 short-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
YEAR ENDED JUNE 30, 2014**

The following table presents the District's net assets at June 30, 2014 and 2013:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Current assets	\$ 4,076,167	\$ 3,226,288
Capital assets, net	<u>2,393,353</u>	<u>2,674,125</u>
 Total assets	 <u>6,469,520</u>	 <u>5,900,413</u>
 Current liabilities	 457,141	 364,067
Non-current liabilities	<u>1,298,988</u>	<u>1,677,769</u>
 Total liabilities	 <u>1,756,129</u>	 <u>2,041,836</u>
 Net position:		
Net investment in capital assets	970,080	881,421
Unrestricted net position	3,680,061	2,977,156
Restricted for capital purchases	<u>63,250</u>	<u>-</u>
 Total net position	 <u>\$ 4,713,391</u>	 <u>\$ 3,858,577</u>

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The following table presents the changes in the District's net assets for the fiscal years ending June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
General revenues:		
District real estate & property taxes	\$ 2,421,634	\$ 2,510,559
Impact fees	54,352	8,898
Investment earnings and other revenues	251,381	19,957
Miscellaneous	<u>246,490</u>	<u>52,728</u>
Total general revenues and special items	<u>2,973,857</u>	<u>2,592,142</u>
Program revenues - fees for service	536,565	506,738
Operating grants and contributions	<u>60,446</u>	<u>212,355</u>
Total program revenue	<u>597,011</u>	<u>719,093</u>
 Total revenue and special items	 <u>\$ 3,570,868</u>	 <u>\$ 3,311,235</u>
Expenses:		
Public safety	\$ 2,653,776	\$ 2,886,798
Interest on long-term debt	<u>62,278</u>	<u>104,416</u>
Total expenses	2,716,054	2,991,214
Less program revenues	<u>(597,011)</u>	<u>(719,093)</u>
Net expenses	2,119,043	2,272,121
General revenues	<u>2,973,857</u>	<u>2,592,142</u>
Change in net position	854,814	320,021
Net position - beginning	<u>3,858,577</u>	<u>3,538,556</u>
Net position - ending	<u>\$ 4,713,391</u>	<u>\$ 3,858,577</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

In 2007, the District taxpayers approved additional funding for replacement of support and fire/rescue apparatus. The District continues to pay on the one remaining capital apparatus loan. In 2013, District policy changed to move towards debt elimination with the goal of reducing interest payments. Several loans were paid off and the one remaining loan refinanced at a lower interest rate.

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

DISTRICT OVERVIEW

The 200 square mile Central Valley Fire District (CVFD) provides fire and emergency services to the suburban and rural areas surrounding the City of Belgrade; north Four Corners, Dry Creek, Reese Creek, River Rock, Valley Center, and Springhill corridor. The District also provides fire and emergency services for Belgrade residents through an Interlocal Agreement with the City of Belgrade.

With growth and development, the Cities of Belgrade and Bozeman 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. Generally, property lost to annexation is higher valued than property gained by annexation; resulting in a net revenue loss. However growth increases the population being served as well as the amount of property being protected, which generates additional revenue to fund the District. This, coupled with the increased expectations of the public, changing public protection standards, and the challenge of providing an appropriate level of reliable service to a diverse populous; creates the necessity to build new fire stations, upgrade existing facilities, provide appropriate apparatus and equipment, keep current on national safety standards, and increase staffing as needed.

THE FUTURE OF THE DISTRICT

Central Valley Fire District is just coming through a year of significant organizational change. The recommendations adopted by the Board of Trustees in the 2012 Analysis of the Central Valley Fire District and the City of Belgrade Fire Department have been the basis of this change. A foundation has been laid to start building an organization of excellence in an effective and sustainable manner.

The budget provides detail of revenue, both on-going and time limited, a realistic estimate of program management expense, maintaining a 6 month Operational Reserve Fund, as well as significant commitment to build a robust Capital Improvement Fund for apparatus and facilities. The need for this becomes apparent considering:

- FY 14 - Remodel Station 2, hire 3 FF, save \$300K for a new fire station
- FY 15 - Build \$200K fire station 7, hire 6 firefighters if EMS transport is approved, save \$300k for new station
- FY 16 - Start infrastructure of new fire station, up to \$200K (Plans, utilities, excavation as needed) and save \$300K for new station
- FY 17 - Build and move into new main station, sell current facilities of station and training center.
- FY 18 - Save \$500K for building Station 6, evaluate apparatus replacement
- FY 19 - Save \$500 K and Build Station 6
- FY 20 - Re-evaluate staffing model based on growth and replenish reserves
- FY 21 - Seek renewal of existing levies for career staff and fire apparatus
- FY 22 - Evaluate need for joint Valley Center Fire Station

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

BUDGET ANALYSIS

The focus of the Fiscal Year 14 budget was to provide value based emergency services to the citizens for the tax dollars they have entrusted to us. The dollars not utilized were enough to fully fund the Apparatus Capital Reserve Fund for the ability to purchase an engine with cash, as well as make significant contributions to the Facilities Capital Reserve fund.

There was one change made to the budget during the fiscal year ended June 30, 2014 to allow a pass through payment for an insurance settlement.

CENTRAL VALLEY FIRE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and investments - unrestricted	\$ 1,425,736
Cash and investments - committed for long-term purposes	2,422,985
Cash and investments - restricted	63,250
Contracts receivable	52,763
Property taxes receivable	111,433
Capital assets, net of accumulated depreciation, where applicable:	
Land	533,972
Depreciable buildings and infrastructure, net	<u>1,859,381</u>
Total assets	<u>6,469,520</u>
LIABILITIES	
Accounts payable	136,387
Accrued salaries, payroll taxes, and benefits	69,983
Long-term liabilities:	
Compensated absences	126,486
Loan payable - current portion	250,771
Loan payable - long-term portion	<u>1,172,502</u>
Total liabilities	<u>1,756,129</u>
NET POSITION	
Net investment in capital assets	970,080
Restricted for capital purchases	63,250
Unrestricted	<u>3,680,061</u>
Total net position	<u>\$ 4,713,391</u>

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

EXPENSES

Public safety - fire protection	\$ 2,653,776
Interest on long-term debt	<u>62,278</u>

Total expenses	<u>2,716,054</u>
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PROGRAM REVENUES

Charges for services	536,565
Operating grants and contributions	<u>60,446</u>

Total program revenues	<u>597,011</u>
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Net program expense	<u>2,119,043</u>
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GENERAL REVENUES

Real estate and property taxes	2,421,634
On-behalf payments	226,536
Miscellaneous	246,490
Impact fees	54,352
Investment income	<u>24,845</u>

Total general revenues	<u>2,973,857</u>
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Change in net position	854,814
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Net position at beginning of year	<u>3,858,577</u>
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Net position at end of year	<u>\$ 4,713,391</u>
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See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2014

	Governmental <u>Fund Type</u>
	<u>General Fund</u>
ASSETS	
Cash and investments - unrestricted	\$ 1,425,736
Cash and investments - committed for long-term purposes	2,422,985
Cash and investments - restricted	63,250
Contracts receivable	52,763
Property taxes receivable	<u>111,433</u>
 Total assets	 <u>\$ 4,076,167</u>
 LIABILITIES	
Accounts payable	\$ 136,387
Accrued salaries, payroll taxes, and benefits	<u>69,983</u>
Total liabilities	<u>206,370</u>
 DEFERRED INFLOWS OF RESOURCES	
Unearned revenue - property taxes	<u>43,993</u>
Total deferred inflows of resources	<u>43,993</u>
 FUND BALANCES	
Restricted for capital purchases	63,250
Committed to capital and operating reserves	2,422,985
Unassigned	<u>1,339,569</u>
Total fund balances	<u>3,825,804</u>
 Total liabilities, deferred inflows of resources, and fund balance	 <u>\$ 4,076,167</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 POSITION
JUNE 30, 2014

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

Fund balance of the governmental fund	\$ 3,825,804
Taxes receivable, which are not expected to be received within 60 days of June 30, 2014, are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis.	43,993
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of the governmental fund.	2,393,353
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(1,549,759)</u>
Net position of governmental activities	<u>\$ 4,713,391</u>

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>
REVENUES	
Taxes	
Real estate and property taxes	\$ 2,377,641
Impact fees	54,352
Intergovernmental receipts:	
Charges for services - Belgrade	502,585
Charges for services - Airport	10,000
On-behalf payments	226,536
Entitlement	111,461
Insurance proceeds	106,983
Charges for services	23,980
Miscellaneous	
Grants	313,039
Other	28,046
Investment earnings	<u>24,845</u>
Total revenues	<u>3,779,468</u>
 EXPENDITURES	
Current:	
Public safety:	
Personal services	
Salaries and fringe benefits	1,648,108
Supplies	
Office and operating supplies	203,305
Gasoline and diesel fuel	46,656
Repair and maintenance	117,506
Safety equipment	28,996
Purchased services	
Dues and subscriptions	2,800
Election	7,147
Utilities and telephone	69,925
Physicals and related services	14,680
Professional and contracted services	97,490
Public communication	11,184
Training	67,193
Fixed charges	
Insurance	27,985
Rent	12,548

See accompanying notes to the financial statements

CENTRAL VALLEY FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>
EXPENDITURES (CONTINUED)	
Debt service:	
Principal	369,431
Interest	62,278
Capital outlay	<u>10,418</u>
Total expenditures	<u>2,797,650</u>
Net change in fund balance	981,818
Fund balance at beginning of year	<u>2,843,986</u>
Fund balance at end of year	<u>\$ 3,825,804</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
YEAR ENDED JUNE 30, 2014

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

Net change in fund balance - governmental fund	\$ 981,818
Taxes and grant receivables, which are not expected to be received within 60 days of June 30, 2014, are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis.	(208,600)
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 outlay (\$10,418) was exceeded by depreciation (\$291,190) in the current period.	(280,772)
Accrued compensated absences 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.	(7,063)
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>369,431</u>
Change in net position of governmental activities	<u>\$ 854,814</u>

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 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, 2014, 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 year ended June 30, 2014, 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.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 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.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets

Capital assets, which include land, building and improvements, vehicles, and equipment, are reported on the statement of net position. All capital assets with a purchase price over \$5,000 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.

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	5-20
Vehicles	5-15
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 position.

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. Any excess leave must be used by March 30 of the following year. 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.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Fire Protection Impact Fee Revenues

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

Upon written request from the District, the Gallatin County Commissioners will consider the transfer of monies from the impact fee fund to the District for use on a specific acquisition or construction project. On June 30, 2014, the County had \$63,250 in the impact fee fund. This amount is shown as restricted cash and restricted fund balance/net position as of June 30, 2014.

J. Fund Balance

The Government Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

In accordance with GASB 54, the District reports fund balance in two general classifications: non-spendable and spendable. Non-spendable represents the portion of fund balance that is not in spendable form such as prepaid expenses. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category contains balances that can be spent only for the specific purposes stipulated by external parties. External parties include grantors, debt covenants, votes, and laws and regulations of other governments.

The committed fund balance category includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the Board of Trustees. The Board needs to formally adopt a Resolution in order to establish, modify, or rescind a fund balance commitment.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Balance (Continued)

Amounts in the assigned fund balance are to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund.

K. Use of Restricted Fund Balance

When an expense is incurred for purposes for which both restricted and unrestricted fund balance are available, the District's policy is to apply restricted fund balance first.

L. Net Position

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

NOTE 2. CASH AND INVESTMENTS

As of June 30, 2014, the District had \$995 and \$105 held in two petty cash accounts. At this same date, the District had the following investment:

	<u>Unrestricted</u>	<u>Restricted</u>
Gallatin County External Investment Pool	<u>\$ 2,838,128</u>	<u>\$ 63,250</u>

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

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
JUNE 30, 2014

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>June 30, 2014</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 533,972	\$ -	\$ -	\$ 533,972
Total capital assets, not being depreciated	<u>533,972</u>	<u>-</u>	<u>-</u>	<u>533,972</u>
Capital assets, being depreciated:				
Buildings and Improvements	2,282,884	-	-	2,282,884
Equipment	651,380	10,418	-	661,798
Furniture	4,655	-	-	4,655
Vehicles	<u>3,808,036</u>	<u>-</u>	<u>-</u>	<u>3,808,036</u>
Total capital assets, being depreciated	<u>6,746,955</u>	<u>10,418</u>	<u>-</u>	<u>6,757,373</u>
Less accumulated depreciation:				
Building and Improvements	(629,962)	(76,309)	-	(706,271)
Equipment	(504,352)	(56,417)	-	(560,769)
Furniture	(3,277)	(466)	-	(3,743)
Vehicles	<u>(3,469,211)</u>	<u>(157,998)</u>	<u>-</u>	<u>(3,627,209)</u>
Total accumulated depreciation	<u>(4,606,802)</u>	<u>(291,190)</u>	<u>-</u>	<u>(4,897,992)</u>
Total net capital assets, being depreciated	<u>2,140,153</u>	<u>(280,772)</u>	<u>-</u>	<u>1,859,381</u>
Governmental activities capital assets, net	<u>\$ 2,674,125</u>	<u>\$ (280,772)</u>	<u>\$ -</u>	<u>\$ 2,393,353</u>

Depreciation expense totaling \$291,190 was charged to Public Safety.

NOTE 4. LONG-TERM LIABILITIES

Loans payable

During 2008 and 2009, the District purchased vehicles for \$471,231 with a loan that carried an interest rate of 4.69%. The vehicles secure the loan. In September 2013, the District paid off the loan and all accrued interest at the pay-off date.

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. In September 2013, the District refinanced this loan and the new interest rate is 3.38% and the seven remaining annual payments were changed to \$232,258.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

Changes in Long-term Liabilities

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

<u>Description</u>	<u>Beginning</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>June 30, 2014</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
Loan payable	\$ 177,710	\$ -	\$ (177,710)	\$ -	\$ -
Loan payable - vehicles	1,614,994	-	(191,721)	1,423,273	250,771
Compensated absences	<u>119,423</u>	<u>7,063</u>	<u>-</u>	<u>126,486</u>	<u>-</u>
Total long-term liabilities	<u>\$ 1,912,127</u>	<u>\$ 7,063</u>	<u>\$ (369,431)</u>	<u>\$ 1,549,759</u>	<u>\$ 250,771</u>

The following are the principal and interest requirements for the loan payable as of June 30, 2014:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 250,771	\$ 1,713	\$ 252,484
2016	193,508	38,750	232,258
2017	199,181	33,077	232,258
2018	205,913	26,345	232,258
2019	212,873	19,385	232,258
2020-2021	<u>361,027</u>	<u>16,942</u>	<u>377,969</u>
	<u>\$ 1,423,273</u>	<u>\$ 136,212</u>	<u>\$ 1,559,485</u>

CENTRAL VALLEY FIRE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 5. EMPLOYEE BENEFIT PLANS

Plan Description and Provisions

All eligible 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. 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)

	<u>Years Ended</u>		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Required contribution percentages:			
District	8.07%	7.07%	7.07%
Plan members	7.90%	6.90%	6.90%
State of Montana	0.10%	0.10%	0.10%
Contribution amounts:			
District	\$ 3,472	\$ 3,142	\$ 2,955
Plan members	\$ 3,399	\$ 3,066	\$ 2,884
State of Montana	\$ 43	\$ 44	\$ 42

One hundred percent of required contributions were made for all three years.

Defined Benefit Retirement Plan (DBRP) – If hired before July 1, 2011, participants become eligible for benefits after age 60 with 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit for members hired prior to July 1, 2011, with less than 25 years of membership, is 1.785% of the highest average compensation per year of service credit. For 25 or more years of membership service the percentage is increased to 2%. If hired after July 1, 2011, participants become eligible for benefits after age 65 with 5 years of membership service, or after 70 regardless of service or in active service. The benefit for those hired on or after July 1, 2011, with more than 5 and less than 10 years of membership service, is 1.5% of the highest average compensation per year of service credit. Membership service of 10 years or more, but less than 30, receives 1.785%. 30 years or more of membership service increases to 2%. The benefits are paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 55 and 5 years of service. Rights become vested after 5 years of service.

CENTRAL VALLEY FIRE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 5. EMPLOYEE BENEFIT PLANS (Continued)

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)

	<u>Years Ended</u>		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Required contribution percentages:			
District	14.36%	14.36%	14.36%
Plan members	10.70%	10.70%	10.70%
State of Montana	32.61%	32.61%	32.61%
Contribution amounts:			
District	\$ 99,634	\$ 105,360	\$ 87,849
Plan members	\$ 74,331	\$ 78,506	\$ 64,948
State of Montana	\$ 226,536	\$ 239,261	\$ 197,939

One hundred percent of required contributions were made for all three years.

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.

Deferred Compensation Plan

During the year ended June 30, 2014, the District adopted a 457 Deferred Compensation Plan for volunteers in good standing. Volunteers may receive a contribution of \$100 per quarter, starting at the beginning of the second year of volunteer service. During the year ended June 30, 2014, the District incurred contributions of \$30,115.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6. INTER-LOCAL AGREEMENT

The District is party to an agreement with the City of Belgrade (the City). 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 \$104,285 per quarter for each of the four quarters. In addition to the thirty-seven (37) mills, the City agrees to provide at last ten (10) mills for supplies, safety equipment and to pay for ancillary costs associated with the fire department operations. Such payments during the year totaled \$85,447. These payments are presented in the statement of activities as program revenues.

This agreement was renewed with similar terms for the period July 1, 2014 to June 30, 2015.

NOTE 7. OPERATING LEASE

In fiscal year 2013, the District entered into a (5) five year lease for the purpose of housing equipment. The lease commenced on October 10, 2012 and will terminate September 30, 2017. There is an option to extend the term of the lease for (1) one additional five (5) year term with the rate to be determined at that time. Lease payments begin at \$1,000 per month and increase 3% per year.

The following are the future lease payments as of June 30, 2014:

Year ending June 30:	
2015	\$ 12,638
2016	13,017
2017	13,408
2018	<u>3,377</u>
Total	<u>\$ 42,440</u>

Lease expense totaled \$12,548 for the year ended June 30, 2014.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 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.

NOTE 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 25, 2015, the date on which the financial statements were available to be issued.

The District is currently in negotiations with a union organization on a collective bargaining agreement for its members who are employed at the District.

NOTE 10. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB Statement No. 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by other entities. The District participates in the Montana Retirement System that is administered by the State of Montana. Under this standard, the District will be required to report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on its proportionate share of the collective amounts for all the governments in the Montana Retirement System plan. The District will receive the amounts it will be required to report on its financial statements from the Montana Retirement System beginning in fiscal year 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Real estate and property taxes	\$ 2,355,740	\$ 2,355,740	\$ 2,377,641	\$ 21,901
Other	1,032,858	1,139,840	1,175,291	35,451
Re-appropriated cash for reserves	<u>2,780,912</u>	<u>2,780,912</u>	<u>2,486,235</u>	<u>(294,677)</u>
Total revenues	<u>6,169,510</u>	<u>6,276,492</u>	<u>6,039,167</u>	<u>(237,325)</u>
EXPENDITURES				
Current:				
Public safety:				
Personal services	1,612,905	1,719,887	1,195,036	(524,851)
Operations	872,850	872,850	933,951	61,101
Debt service	327,484	327,484	431,709	104,225
Capital outlay	-	-	10,418	10,418
Capital and operating reserves	<u>3,356,271</u>	<u>3,356,271</u>	<u>2,486,235</u>	<u>(870,036)</u>
Total expenditures	<u>6,169,510</u>	<u>6,276,492</u>	<u>5,057,349</u>	<u>(1,219,143)</u>
Net change in fund balance	-	-	981,818	981,818
Fund balances at beginning of year	<u>-</u>	<u>-</u>	<u>2,843,986</u>	
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,825,804</u>	

Reconciliation:

Total revenues per statement of revenues, expenditures, and changes in fund balances	\$ 3,779,468
Plus re-appropriated reserves	2,486,235
Less on-behalf payment	<u>(226,536)</u>
Total revenues, budgetary basis	<u>\$ 6,039,167</u>

Total expenditures per statement of revenues, expenditures, and changes in fund balances	\$ 2,797,650
Plus deposits to cash reserves	2,486,235
Less on-behalf payment	<u>(226,536)</u>
Total expenditures, budgetary basis	<u>\$ 5,057,349</u>

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

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 except for noncash on-behalf payments, which are not included in the District's budget. The budget also includes revenue and expenditures for amounts appropriated for cash reserves. These amounts are not a revenue or expenditure in 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.

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the governmental activities and the major fund of Central Valley Fire District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Central Valley Fire District's basic financial statements and have issued our report thereon February 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central Valley Fire District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Central Valley Fire District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. [14-01]

Compliance and Other Matters

As part of obtaining reasonable assurance that 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 Findings

Central Valley Fire District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Central Valley Fire District's response was not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Holmes & Turner

February 25, 2015

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

INTERNAL CONTROL

14-01 Segregation of Duties

The District had one employee who handled all of the accounting functions and who had 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. The District has taken several steps to involve Board members and management to obtain the best internal controls possible. Also, subsequent to June 30, 2014, the District hired an accounting firm to take over its accounting functions, which will significantly improve the segregation of duties.

Management's response

The District has taken numerous steps to obtain the best internal controls possible. We believe we have achieved the best internal controls possible by adding levels of management and governing body member reviews, oversight and approval. We have also contracted with an accounting firm to further segregate duties of bookkeeping, bill paying, and accounts receivable.

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

INTERNAL CONTROL

IMPLEMENTED

13-01 Segregation of Duties

See current year finding 14-01

COMPLIANCE

13-02 Volunteer Reimbursement Policy

Implemented

13-03 Notice of Preliminary or Amended Budget

Implemented