

CENTRAL VALLEY FIRE DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2016

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, 2016, 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, 2016, 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 on pages 3-7 and the required supplementary information as listed in the table of contents on pages 31-37 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 December 13, 2016, 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

December 13, 2016

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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, 2016. Please review this report along with the District's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- Upgrades to the Training Facility
- Replaced a set of hydraulic extrication equipment with electric/hydraulic tools.
- Replaced a Lifepack 15 and seven automatic Defibrillators.
- Replace the Records Management System.
- Hired a full time Fire Marshal.
- Hired 3 additional career firefighters.
- Sent 5 firefighters through a professional 16 week fire academy.
- 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, 2016**

The following table presents the District's net assets at June 30, 2016 and 2015:

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|-------------------------|-------------------------|
| Current assets | \$ 5,395,938 | \$ 4,663,536 |
| Capital assets, net | 2,516,723 | 2,510,210 |
| Deferred outflows of resources - pension | <u>180,682</u> | <u>115,905</u> |
| Total assets | <u>8,093,343</u> | <u>7,289,651</u> |
| Current liabilities | 206,854 | 250,550 |
| Non-current liabilities | <u>1,755,641</u> | <u>1,855,194</u> |
| Total liabilities | <u>1,962,495</u> | <u>2,105,744</u> |
| Deferred inflows of resources | | |
| Pension plans | <u>42,471</u> | <u>115,928</u> |
| Total deferred inflows of resources | <u>42,471</u> | <u>115,928</u> |
| Net position: | | |
| Net investment in capital assets | 1,548,618 | 1,337,685 |
| Unrestricted net position | 4,428,306 | 3,655,189 |
| Restricted for capital purchases | <u>111,453</u> | <u>75,105</u> |
| Total net position | <u>\$ 6,088,377</u> | <u>\$ 5,067,979</u> |

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

The following table presents the changes in the District's net assets for the fiscal years ending June 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------------|-------------------------|
| General revenues: | | |
| District real estate & property taxes | \$ 2,590,338 | \$ 2,475,505 |
| Impact fees | 36,348 | 11,855 |
| Intergovernmental revenues | 714,716 | 786,599 |
| Investment earnings | 41,701 | 30,424 |
| Miscellaneous | <u>31,949</u> | <u>44,911</u> |
| Total general revenues and special items | <u>3,415,052</u> | <u>3,349,294</u> |
| Program revenues - fees for service | 52,133 | 29,759 |
| Operating and capital grants and contributions | <u>51,138</u> | <u>63,767</u> |
| Total program revenue | <u>103,271</u> | <u>93,526</u> |
| Total revenue and special items | <u>\$ 3,518,323</u> | <u>\$ 3,442,820</u> |
| Expenses: | | |
| Public safety | \$ 2,462,583 | \$ 2,423,360 |
| Interest on long-term debt | <u>35,342</u> | <u>40,339</u> |
| Total expenses | 2,497,925 | 2,463,699 |
| Less program revenues | <u>(103,271)</u> | <u>(93,526)</u> |
| Net expenses | 2,394,654 | 2,370,173 |
| General revenues | <u>3,415,052</u> | <u>3,349,294</u> |
| Change in net position | 1,020,398 | 979,121 |
| Net position - beginning | <u>5,067,979</u> | <u>4,713,391</u> |
| Prior period adjustment | <u>-</u> | <u>(624,533)</u> |
| Net position - ending | <u>\$ 6,088,377</u> | <u>\$ 5,067,979</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, scheduled to be paid in full in FY 2018. The District maintains Operational Reserves at ½ the annual operations and personnel budget. The District continues to build capital reserves for replacement of Station 1.

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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 and the Bozeman Yellowstone Airport through Interlocal Agreements with the City of Belgrade and the Gallatin Airport Authority.

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.

THE FUTURE OF THE DISTRICT

Due to property devaluation, Central Valley Fire District is in its second year of a two year depressed fiscal cycle. The ability to move forward with increased staffing has been delayed due to limited funding. Regardless, the District remains on an ambitious course to provide appropriate infrastructure in the form of fire stations and staffing.

The annual 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 17 - Build \$350K Fire Station 7; hire 3 firefighters; save \$300k for replacing Station 1.
- FY 17 - Start infrastructure development of Fire Station 1 replacement by securing land and an architectural firm to design the facility.
- FY 18 - Begin EMS transport program; replace existing ambulance using capital reserves, staff Station 2.
- FYs 18/19 - Build and move into new main station, sell current Station 1 and training center.
- FY 19 – Locate land for Station 6, replace engine 5-5.
- FY 19 - Seek renewal of existing levies for career staff and capital improvement.
- FY 21 - Build Station 6 south of Belgrade/River Rock
- Future – Evaluate need for career staffing at Station 3, Station 6, and building and staffing Station 8.

**CENTRAL VALLEY FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

BUDGET ANALYSIS

The focus of the Fiscal Year 2016 budget was to provide value based emergency services to the citizens and hold expenditures at the FY15 level. The dollars not expended were used to increase the FY16 Operational Reserve Fund and transfer the remaining dollars to the Facilities Capital Reserve Fund to replace Station 1.

Funds budgeted in FY 16 to build Station 7 were carried forward to FY 17 when the project will be completed.

There were no changes made to the budget during the fiscal year that ended June 30, 2016.

CENTRAL VALLEY FIRE DISTRICT
GOVERNMENTAL FUND BALANCE SHEET AND
STATEMENT OF NET POSITION
JUNE 30, 2016

| | General Fund | Adjustments | Statement of Net Position |
|---|---------------------|---------------------|------------------------------|
| Assets and deferred outflows of resources | | | |
| Cash and investments - unrestricted | \$ 5,096,218 | \$ - | \$ 5,096,218 |
| Cash and investments - restricted | 111,453 | - | 111,453 |
| Contracts receivable | 110,145 | - | 110,145 |
| Property taxes receivable | 78,122 | - | 78,122 |
| Capital assets, nondepreciable | - | 533,972 | a 533,972 |
| Capital assets, depreciable, net | - | 1,982,751 | a 1,982,751 |
| Total assets | <u>5,395,938</u> | <u>2,516,723</u> | 7,912,661 |
| Deferred outflows of resources - pension | - | 180,682 | b 180,682 |
| Total assets and deferred outflows of resources | <u>\$ 5,395,938</u> | <u>\$ 2,697,405</u> | <u>\$ 8,093,343</u> |
| Liabilities, deferred inflows of resources, and fund balance / net position | | | |
| Accounts payable | \$ 94,565 | \$ - | \$ 94,565 |
| Accrued liabilities | 86,405 | 25,884 | c 112,289 |
| Long-term liabilities, due in one year | - | 256,928 | c 256,928 |
| Long-term liabilities, due after one year | - | 1,498,713 | c 1,498,713 |
| Total liabilities | <u>180,970</u> | <u>1,781,525</u> | <u>1,962,495</u> |
| Deferred inflows of resources | | | |
| Unavailable revenue - property taxes | 19,549 | (19,549) | d - |
| Pension plans | - | 42,471 | b 42,471 |
| Total deferred inflows of resources | <u>19,549</u> | <u>22,922</u> | <u>42,471</u> |
| Fund balance / net position | | | |
| Net investment in capital assets | - | 1,548,618 | a 1,548,618 |
| Restricted | 111,453 | - | 111,453 |
| Committed | 693,528 | (693,528) | e - |
| Assigned to capital reserves | 2,880,030 | (2,880,030) | e - |
| Unassigned / unrestricted | <u>1,510,408</u> | <u>2,917,898</u> | e <u>4,428,306</u> |
| Total fund balance / net position | <u>5,195,419</u> | <u>892,958</u> | <u>6,088,377</u> |
| Total liabilities, deferred inflows of resources and fund balance / net position | <u>\$ 5,395,938</u> | <u>\$ 2,697,405</u> | <u>\$ 8,093,343</u> |

a Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.

b Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental fund.

c Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund financial statement. Accrued interest on long-term liabilities is also not reported in the governmental fund.

d Deferred inflows of resources related to taxes are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the governmental fund.

e Reclassifications to report net position in the required categories.

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

| | General Fund | Adjustments | Statement of Activities |
|---|---------------------|-------------------|----------------------------|
| Expenses: | | | |
| Public safety - fire protection | | | |
| Personal services | \$ 1,785,694 | \$ (174,235) | a, e \$ 1,611,459 |
| Supplies | 300,802 | - | 300,802 |
| Purchased services | 340,159 | - | 340,159 |
| Fixed charges | 36,421 | - | 36,421 |
| Depreciation | - | 173,742 | c 173,742 |
| Debt service - principal | 204,420 | (204,420) | b - |
| Debt service - interest | 48,063 | (12,721) | b 35,342 |
| Capital outlay | 180,255 | (180,255) | c - |
| Total expenses | <u>2,895,814</u> | <u>(397,889)</u> | <u>2,497,925</u> |
| Program revenues: | | | |
| Charges for services | 52,133 | - | 52,133 |
| Operating grants and contributions | 51,138 | - | 51,138 |
| Total program revenues | <u>103,271</u> | <u>-</u> | <u>103,271</u> |
| Net expense | | | <u>(2,394,654)</u> |
| General revenues: | | | |
| Real estate and property taxes | 2,594,427 | (4,089) | d 2,590,338 |
| Intergovernmental revenues | 891,934 | (140,870) | e 751,064 |
| Miscellaneous | 31,949 | - | 31,949 |
| Investment earnings | 41,701 | - | 41,701 |
| Total revenues / total general revenues | <u>3,663,282</u> | <u>(144,959)</u> | <u>3,418,323</u> |
| Change in fund balance / net position | 767,468 | 252,930 | 1,020,398 |
| Fund balance / net position - beginning | <u>4,427,951</u> | <u>640,028</u> | <u>5,067,979</u> |
| Fund balance / net position - ending | <u>\$ 5,195,419</u> | <u>\$ 892,958</u> | <u>\$ 6,088,377</u> |

a Accrued compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds (adjustment of \$19,297).

b Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position. The accrued interest is not reported in the governmental fund.

c 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.

d Taxes receivable, which are not expected to be received within 60 days of June 30, 2016, are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund, but are recognized as revenue in the statement of activities.

e Governmental funds report pension contributions and the related on-behalf payments by the State of Montana as expenditures. In the statement of activities, the actuarially calculated cost of the pension benefits is reported as pension expense (adjustment of negative \$193,532).

f Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.

See accompanying notes to the financial statements.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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 position 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, 2016, 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, 2016, 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 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.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Investments

Cash is held by the County Treasurer and pooled in the County external investment pool. The fair value of the position in the pool is the same as the value of the pool shares. The County Treasurer invests the pooled cash pursuant to state law (MCA 20-9-213[4]). Allowable investments include time and savings deposits with a bank, savings and loan association, or credit union in the state, obligations of the United States Government, securities issued by agencies of the United States, repurchased agreements, and the State Short-Term Investment Pool (STIP).

The audited financial statements of Gallatin County, which include information about the investment pool, are available at <https://lgs.mt.gov/>.

The certificates of deposit held by the District do not qualify as investments as defined by GASB No. 40; also, these are not required to be held at fair value in accordance with GASB No. 72, *Fair Value Measurement and Application*.

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, 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.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets (Continued)

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 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. 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 deposit fund for the District. 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, 2016, the County had \$111,453 in the impact fee fund. This amount is shown as restricted cash and restricted fund balance/net position.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. As of June 30, 2016, the District has committed fund balance of \$666,836 for the apparatus capital reserve and \$26,692 for an employee benefit plan.

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.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2. CASH AND INVESTMENTS

The composition of cash and investments held by the District as of June 30, 2016 is as follows:

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|
| Petty cash | \$ 1,100 | \$ - | \$ 1,100 |
| Certificates of deposit held by Gallatin County | 750,000 | - | 750,000 |
| Gallatin County External Investment Pool | <u>4,345,118</u> | <u>111,453</u> | <u>4,456,571</u> |
| Total | <u>\$ 5,096,218</u> | <u>\$ 111,453</u> | <u>\$ 5,207,671</u> |

The District participates in an investment pool managed by the Gallatin County Treasurer. The pool is not registered with the Securities and Exchange Commission as an investment company and is not subject to regulatory oversight. Investments of the pool consist primarily of repurchase agreements, the State of Montana's Short Term Investment Pool (STIP), U.S. Treasury Bills, and securities of the U.S. Government, its agencies, or government sponsored entities and are carried at quoted market prices. The fair value of investments is determined annually, and is based on quoted market prices. The District's balance in the investment pool is reported as cash and investments in the accompanying financial statements, as the District has full access to these funds upon request. Interest earnings are allocated to the District based on the month end balance in relation to the total pool investments.

Montana law allows the local governing body to require security for the portion of deposits not guaranteed or insured. Deposit insurance is administered by the FDIC. Since the District invests in a pool managed by the County Treasurer, pledged securities for the various individual deposits and repurchase agreements are managed by the County Treasurer.

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

| | Balance <u>July 1, 2015</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2016</u> |
|---|--------------------------------|------------------|------------------|---------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | <u>\$ 533,972</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 533,972</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 2,481,023 | 57,946 | - | 2,538,969 |
| Equipment | 723,181 | 103,645 | - | 826,826 |
| Furniture | 4,655 | - | - | 4,655 |
| Vehicles | <u>3,835,029</u> | <u>18,664</u> | - | <u>3,853,693</u> |
| Total | 7,043,888 | 180,255 | - | 7,224,143 |
| Less accumulated depreciation | <u>5,067,650</u> | <u>173,742</u> | - | <u>5,241,392</u> |
| Total net capital assets, being depreciated | <u>1,976,238</u> | <u>6,513</u> | - | <u>1,982,751</u> |
| Governmental activities capital assets, net | <u>\$ 2,510,210</u> | <u>\$ 6,513</u> | <u>\$ -</u> | <u>\$ 2,516,723</u> |

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3. CAPITAL ASSETS (CONTINUED)

Depreciation expense totaling \$173,742 was charged to Public Safety.

NOTE 4. LONG-TERM LIABILITIES

Loans payable

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 with a new interest rate of 3.38% and the seven remaining annual payments were changed to \$232,258.

Changes in Long-term Liabilities

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

| <u>Description</u> | <u>Beginning July 1, 2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending June 30, 2016</u> | <u>Amounts Due within One Year</u> |
|-----------------------------|-----------------------------------|-------------------|---------------------|---------------------------------|--|
| Loan payable - vehicles | \$ 1,172,525 | \$ - | \$ (204,420) | \$ 968,105 | \$ 199,536 |
| Compensated absences | 113,912 | 19,297 | - | 133,209 | 57,392 |
| Net pension liability | <u>568,756</u> | <u>85,571</u> | <u>-</u> | <u>654,327</u> | <u>-</u> |
| Total long-term liabilities | <u>\$ 1,855,193</u> | <u>\$ 104,868</u> | <u>\$ (204,420)</u> | <u>\$ 1,755,641</u> | <u>\$ 256,928</u> |

The following are the principal and interest requirements for the loan payable as of June 30, 2016:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-------------------|------------------|---------------------|
| 2017 | \$ 199,536 | \$ 32,722 | \$ 232,258 |
| 2018 | 206,281 | 25,977 | 232,258 |
| 2019 | 213,253 | 19,005 | 232,258 |
| 2020 | 220,461 | 11,797 | 232,258 |
| 2021 | <u>128,574</u> | <u>4,346</u> | <u>132,920</u> |
| | <u>\$ 968,105</u> | <u>\$ 93,847</u> | <u>\$ 1,061,952</u> |

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. RETIREMENT PLANS

Plan Description - Firefighters' Unified Retirement System (FURS)

The Firefighters' Unified Retirement System (FURS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, Montana Code Annotated (MCA). This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries.

Plan Description - Public Employee Retirement System (PERS)

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, MCA. This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Summary of Benefits - FURS

Eligibility for benefit

20 years of membership service, regardless of age.
Age 50, 5 years of membership service.

Vesting

Death and disability rights are vested immediately.
5 years of membership service for all other rights.

Member's compensation is defined as

Hired prior to July 1, 1981 and not electing GABA – highest monthly compensation (HMC); Hired after June 30, 1981 and those electing GABA – highest average compensation (HAC) during any consecutive 36 months.

Compensation Cap

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Monthly benefit formula

Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of:

- 2.5% of HMC per year of service, OR
- i. If less than 20 years of service -- 2% of HMC for each year of service;
- ii. If more than 20 years of service – 50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years.

Members hired on or after July 1, 1981 and those electing GABA:

2.5% of HAC per year of membership service.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum Benefit Adjustment (non-GABA)

If hired before July 1, 1997, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of membership service).

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Summary of Benefits – PERS

Eligibility for benefit

Service retirement:

| | |
|---------------------------------|--|
| Hired prior to July 1, 2011: | Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service. |
| Hired on or after July 1, 2011: | Age 65, 5 years of membership service; Age 70, regardless of membership service. |

Early Retirement

Early retirement, actuarially reduced:

| | |
|---------------------------------|---|
| Hired prior to July 1, 2011: | Age 50, 5 years of membership service; or Any age, 25 years of membership service. |
| Hired on or after July 1, 2011: | Age 55, 5 years of membership service. |

Vesting

5 years of membership service

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation Cap

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

CENTRAL VALLEY FIRE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Summary of Benefits – PERS (Continued)

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization for PERS is 40 years or more.

Overview of Contributions

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are described below.

FURS:

| Fiscal Year | Member | | Employer | State |
|-------------|----------|---------|----------|---------|
| | Non-GABA | GABA | | |
| 1998-2016 | 9.500% | 10.700% | 14.360% | 32.610% |
| 1997 | 7.800% | - | 14.360% | 32.610% |

CENTRAL VALLEY FIRE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Overview of Contributions (Continued)

PERS:

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and the additional member contribution rates.
2. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - c. The portion of employer contributions allocated to the PCR is included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Non Employer Contributions

- a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
- b. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

| Fiscal Year | Member | | Local Government | |
|-------------|-----------------------|----------------------|------------------|--------|
| | Hired Before 7/1/2011 | Hired After 7/1/2011 | Employer | State |
| 2016 | 7.900% | 7.900% | 8.270% | 0.100% |
| 2015 | 7.900% | 7.900% | 8.170% | 0.100% |
| 2014 | 7.900% | 7.900% | 8.070% | 0.100% |
| 2012-2013 | 6.900% | 7.900% | 7.070% | 0.100% |
| 2010-2011 | 6.900% | | 7.070% | 0.100% |
| 2008-2009 | 6.900% | | 6.935% | 0.100% |
| 2000-2007 | 6.900% | | 6.800% | 0.100% |

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Stand-Alone Statements

The FURS and PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report (CAFR)*. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, 406-444-3154.

CAFR information including our stand alone financial statements can be found on their web site at <http://mpera.mt.gov/annualreports.shtml>.

The latest actuarial valuation and experience study can be found on their website at <http://mpera.mt.gov/actuarialvaluations.asp>.

Actuarial Assumptions

The Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the Total Pension Liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. There were several significant assumptions and other inputs used to measure the Total Pension Liability. Among those assumptions were the following:

FURS

- Investment Return 7.75%
- Admin Expense as % of Payroll 0.19%
- General Wage Growth* 4.00%
- *includes Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases

i. Guaranteed Annual Benefit Adjustment (GABA)

Members hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

ii. Minimum Benefit Adjustment (non-GABA)

Members hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of membership service).

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions (Continued)

PERS

- Investment Return 7.75%
- Admin Expense as % of Payroll 0.27%
- General Wage Growth* 4.00%
- *includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Postretirement Benefit Increases

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, **inclusive** of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - a. 1.5% for each year PERS is funded at or above 90%;
 - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - c. 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated.

- FURS: The State contributes 32.61% of salaries paid by employers.
- PERS: The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly.

Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Target Allocations

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------------|---|
| Cash Equivalents | 2.00% | -0.25% |
| Domestic Equity | 36.00% | 4.55% |
| Foreign Equity | 18.00% | 6.10% |
| Fixed Income | 24.00% | 1.25% |
| Private Equity | 12.00% | 8.00% |
| Real Estate | 8.00% | 4.25% |

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015, is summarized in the table above.

Sensitivity Analysis

| | <u>1.0% Decrease</u> | <u>Current Discount Rate</u> | <u>1.0% Increase</u> |
|--|----------------------|------------------------------|----------------------|
| | -6.75% | | -8.75% |
| <u>FURS</u> | | | |
| Employer's proportion of Net Pension Liability | \$ 954,426 | \$ 591,619 | \$ 295,958 |
| <u>PERS</u> | | | |
| Employer's proportion of Net Pension Liability | \$ 96,682 | \$ 62,708 | \$ 34,018 |

The table above presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Summary of Significant Accounting Policies

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS) and FURS. Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, PERS and FURS have a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS and FURS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest to PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Net Pension Liability (Continued)

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with updated procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

| | <u>Net Pension Liability as of 6/30/2016</u> | <u>Net Pension Liability as of 6/30/2015</u> | |
|--|--|--|--|
| <u>FURS</u> | | | |
| Employer Proportionate Share | \$ 591,619 | \$ 521,404 | |
| State of Montana Proportionate Share associated with Employer | <u>1,317,692</u> | <u>1,176,262</u> | |
| Total | <u>\$ 1,909,311</u> | <u>\$ 1,697,666</u> | |
| <u>PERS</u> | | | |
| Employer Proportionate Share | \$ 62,708 | \$ 47,352 | |
| State of Montana Proportionate Share associated with Employer | <u>770</u> | <u>578</u> | |
| Total | <u>\$ 63,478</u> | <u>\$ 47,930</u> | |
| | <u>Percent of Collective NPL as of 6/30/2016</u> | <u>Percent of Collective NPL as of 6/30/2015</u> | <u>Change in Percent of Collective NPL</u> |
| <u>FURS</u> | | | |
| Employer Proportionate Share | 0.578448% | 0.534135% | 0.044313% |
| State of Montana Proportionate Share associated with Employer | <u>1.288357%</u> | <u>1.204982%</u> | <u>0.083375%</u> |
| Total | <u>1.866805%</u> | <u>1.739117%</u> | <u>0.127688%</u> |
| <u>PERS</u> | | | |
| Employer Proportionate Share | 0.004486% | 0.003800% | 0.003800% |
| State of Montana Proportionate Share associated with Employer | <u>0.000055%</u> | <u>0.000046%</u> | <u>0.004827%</u> |
| Total | <u>0.004541%</u> | <u>0.003846%</u> | <u>0.008627%</u> |

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Net Pension Liability (Continued)

The tables above display the employer proportionate share of NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by FURS or PERS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of FURS' or PERS' participating employers. As of the employer's reporting date the employer recorded a liability of \$591,619 and \$62,708 and the employer's proportionate share was 0.578448 percent and 0.004486 percent for FURS and PERS, respectively.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL.

Pension Expense

| | <u>Pension Expense</u> as of 6/30/16 | <u>Pension Expense</u> as of 6/30/15 |
|---|---|---|
| <u>FURS</u> | | |
| Employer Proportionate Share | \$ 73,776 | \$ 57,882 |
| State of Montana Proportionate Share associated with Employer | <u>142,659</u> | <u>130,578</u> |
| Total | <u>\$ 216,435</u> | <u>\$ 188,460</u> |
| <u>PERS</u> | | |
| Employer Proportionate Share | \$ 6,688 | \$ 3,564 |
| State of Montana Proportionate Share associated with Employer | <u>48</u> | <u>44</u> |
| Total | <u>\$ 6,736</u> | <u>\$ 3,608</u> |

At June 30, 2016, the employer recognized a Pension Expense of \$73,776 and \$6,688 for its proportionate share of the FURS' and PERS' Pension Expense, respectively. The employer also recognized grant revenue and pension expense of \$142,659 and \$48 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer for FURS' and PERS', respectively.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Recognition of Deferred Inflows and Outflows

At June 30, 2016, the employer reported its proportionate share of FURS' and PERS' deferred outflows of resources and deferred inflows of resources related to FURS and PERS from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| <u>FURS</u> | | |
| Differences between actual and expected experience | \$ - | \$ 771 |
| Changes in assumptions | - | - |
| Difference between projected and actual earnings on pension plan investments | - | 35,761 |
| Changes in proportion differences between employer contributions and proportionate share of contributions | 43,207 | - |
| Difference between actual and expected contributions | - | - |
| #Contributions paid subsequent to the measurement date - FY 2016 Contributions | <u>126,587</u> | <u>-</u> |
| Total | <u>\$ 169,794</u> | <u>\$ 36,532</u> |
| <u>PERS</u> | | |
| Differences between actual and expected experience | \$ - | \$ 379 |
| Changes in assumptions | - | - |
| Difference between projected and actual earnings on pension plan investments | - | 5,309 |
| Changes in proportion differences between employer contributions and proportionate share of contributions | 8,063 | 251 |
| Difference between actual and expected contributions | - | - |
| #Contributions paid subsequent to the measurement date - FY 2016 Contributions | <u>2,825</u> | <u>-</u> |
| Total | <u>\$ 10,888</u> | <u>\$ 5,939</u> |

#Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017.

CENTRAL VALLEY FIRE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 5. RETIREMENT PLANS (CONTINUED)

Deferred Inflows and Outflows (Continued)

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

| | FURS | PERS |
|---------------------|--|--|
| Year ended June 30: | Amount recognized in Pension Expense as an increase or (decrease) <u>to Pension Expense</u> | Amount recognized in Pension Expense as an increase or (decrease) <u>to Pension Expense</u> |
| 2017 | \$ (7,463) | \$ 233 |
| 2018 | (7,463) | 233 |
| 2019 | (7,463) | 276 |
| 2020 | 20,576 | 1,381 |
| 2021 | 8,487 | - |
| Thereafter | - | - |

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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:

The agreement is dated June 16, 2014 and covered the one-year period to June 30, 2015, and may continue on a yearly basis thereafter, subject to the right of either party to terminate the agreement. 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, payable on a quarterly basis. Such payments during the year were \$88,977 per quarter for each of the four quarters. In addition, the City agrees to provide an additional ten (10) mills for ancillary costs associated with the fire department operations and to pay workers compensation premiums for the District's firefighters, employees, and volunteers. Such payments during the year were \$9,619 per quarter for each of the four quarters. The City paid workers' compensation premiums for the District in the amount of \$36,410. These payments are presented in the statement of activities as intergovernmental revenues.

This agreement was renewed with similar terms for the period July 1, 2016 to June 30, 2017.

NOTE 7. OPERATING LEASE

In fiscal year 2013, the District entered into a five year (5) 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 one (1) additional five year (5) 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, 2016:

| Year ending June 30: | |
|----------------------|-----------|
| 2017 | \$ 13,408 |
| 2018 | \$ 3,377 |

Lease expense totaled \$13,113 for the year ended June 30, 2016.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8. COMMITMENTS

As of June 30, 2016, the District had outstanding commitments in the form of consulting and service contracts.

The District signed a consulting agreement for professional services related to the design and construction of the new rural fire station. The consulting agreement costs \$18,000 and has a term of seven to nine months with an anticipated completion in Spring 2017. The District also made various commitments in connection with routine operations in the form of service contracts. These commitments totaled approximately \$20,300.

NOTE 9. RISK MANAGEMENT

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

NOTE 10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 13, 2016, 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 11. NEW PRONOUNCEMENTS

For the year ended June 30, 2016, the District adopted the following new pronouncements:

GASB Statement No. 72, *Fair Value Measurement and Application*. The Statement revises the definition of fair value, identifies assets and liabilities that should be measured at fair value, requires new measurement approaches, and expands fair value disclosures.

GASB Statement No. 82, *Pension Issues*. The Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

There was no impact to the District's net position from the implementation of these standards.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL VALLEY FIRE DISTRICT
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 FOR THE LAST TEN FISCAL YEARS *
 YEAR ENDED JUNE 30, 2016

| Year ended June 30: | Employer's proportion of the net pension liability as a percentage | Employer's proportionate share of the net pension liability as an amount | State of Montana's proportionate share of the net pension liability associated with the employer | Total | Employer's pensionable payroll | Employer's proportionate share of the net pension liability as a percentage of its pensionable payroll | Plan fiduciary net position as a percentage of the total pension liability |
|--|--|--|--|--------------|--------------------------------------|--|--|
| <u>FIREFIGHTERS' UNIFIED RETIREMENT SYSTEM</u> | | | | | | | |
| 2016 | 0.578448% | \$ 591,619 | \$ 1,317,692 | \$ 1,909,311 | \$ 777,348 | 76.107% | 76.9% |
| 2015 | 0.534135% | \$ 521,404 | \$ 1,176,262 | \$ 1,697,666 | \$ 693,825 | 75.149% | 76.7% |
| <u>PUBLIC EMPLOYEES RETIREMENT SYSTEM</u> | | | | | | | |
| 2016 | 0.004486% | \$ 62,708 | \$ 770 | \$ 63,478 | \$ 52,352 | 119.78% | 78.4% |
| 2015 | 0.003800% | \$ 47,352 | \$ 578 | \$ 47,930 | \$ 43,019 | 110.07% | 79.9% |

*The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. The Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CENTRAL VALLEY FIRE DISTRICT
 SCHEDULE OF CONTRIBUTIONS
 FOR THE LAST TEN FISCAL YEARS *
 YEAR ENDED JUNE 30, 2016

| <u>Year ended June 30:</u> | <u>Contractually required contributions</u> | <u>Contributions in relation to the contractually required contributions</u> | <u>Contribution deficiency (excess)</u> | <u>Employer's pensionable payroll</u> | <u>Contributions as a % of pensionable payroll</u> |
|--|---|--|---|---|--|
| <u>FIREFIGHTERS' UNIFIED RETIREMENT SYSTEM</u> | | | | | |
| 2016 | \$ 126,587 | \$ 126,587 | \$ - | \$ 885,391 | 14.2973% |
| 2015 | \$ 113,799 | \$ 113,799 | \$ - | \$ 777,348 | 14.6394% |
| <u>PUBLIC EMPLOYEES RETIREMENT SYSTEM</u> | | | | | |
| 2016 | \$ 2,825 | \$ 2,825 | \$ - | \$ 33,644 | 8.3967% |
| 2015 | \$ 4,314 | \$ 4,314 | \$ - | \$ 52,352 | 8.2404% |

*The amounts presented above for each fiscal year were determined as of June 30th, the employer's most recent fiscal year end. The Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016

| | Original Budget | Final Budget | Actual | Variance with Final Budget Over (Under) |
|---|--------------------|------------------|---------------------|---|
| Revenues: | | | | |
| Real estate and property taxes | \$ 2,498,419 | \$ 2,498,419 | \$ 2,594,427 | \$ 96,008 |
| Other | 634,387 | 634,387 | 747,363 | 112,976 |
| Re-appropriated cash for reserves | <u>4,530,345</u> | <u>4,530,345</u> | <u>3,685,011</u> | <u>(845,334)</u> |
| Total revenues | <u>7,663,151</u> | <u>7,663,151</u> | <u>7,026,801</u> | <u>(636,350)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety: | | | | |
| Personal services | 1,692,318 | 1,692,318 | 1,464,202 | (228,116) |
| Operations | 1,149,366 | 1,149,366 | 677,382 | (471,984) |
| Debt service | 252,483 | 252,483 | 252,483 | - |
| Capital outlay | - | - | 180,255 | 180,255 |
| Capital and operating reserves | <u>4,562,539</u> | <u>4,562,539</u> | <u>3,685,011</u> | <u>(877,528)</u> |
| Total expenditures | <u>7,656,706</u> | <u>7,656,706</u> | <u>6,259,333</u> | <u>(1,397,373)</u> |
| Net change in fund balance | <u>\$ 6,445</u> | <u>\$ 6,445</u> | 767,468 | 761,023 |
| Fund balances at beginning of year | | | <u>4,427,951</u> | |
| Fund balances at end of year | | | <u>\$ 5,195,419</u> | |
| Reconciliation: | | | | |
| Total revenues per statement of revenues, expenditures, and changes in fund balances | | | \$ 3,663,282 | |
| Plus re-appropriated reserves | | | 3,685,011 | |
| Less on-behalf payment | | | <u>(321,492)</u> | |
| Total revenues, budgetary basis | | | <u>\$ 7,026,801</u> | |
| Total expenditures per statement of revenues, expenditures, and changes in fund balances | | | \$ 2,895,814 | |
| Plus deposits to cash reserves | | | 3,685,011 | |
| Less on-behalf payment | | | <u>(321,492)</u> | |
| Total expenditures, budgetary basis | | | <u>\$ 6,259,333</u> | |

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

NOTE 1. 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.

NOTE 2. 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.

NOTE 3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Total expenditures were not in excess of the total budgeted expenditures during the fiscal year.

NOTE 4. CHANGES OF BENEFIT TERMS

The following changes to the plan provision were made as identified:

1. 2013 Legislative Changes:

Working Retirees – House Bill 95 – PERS, SRS, and FURS, effective July 1, 2013

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. FURS retirees may still work up to 480 hours a year, without returning to active service. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

Highest Average Compensation (HAC) Cap – House Bill 97, effective July 1, 2013

- All FURS and PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.
- All bonuses paid to FURS and PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

CENTRAL VALLEY FIRE DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

NOTE 4. CHANGES OF BENEFIT TERMS (CONTINUED)

House Bill 454 -- Permanent Injunction Limits Application of the GABA Reduction passed under HB 454

• Guaranteed Annual Benefit Adjustment (GABA) – for PERS

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013
 - a. 1.5% each year PERS is funded at or above 90%;
 - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90% ; and,
 - c. 0% whenever the amortization period for PERS is 40 years or more.

2. 2015 Legislative Changes:

General Revisions – House Bill 101, effective January 1, 2016

Second Retirement Benefit – for PERS

- 1.) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
 - refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - no service credit for second employment;
 - start same benefit amount the month following termination; and
 - GABA starts again in the January immediately following second retirement.
- 2.) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
 - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
 - GABA starts in the January after receiving recalculated benefit for 12 months.
- 3.) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
 - refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - no service credit for second employment;
 - start same benefit amount the month following termination; and,
 - GABA starts again in the January immediately following second retirement.

CENTRAL VALLEY FIRE DISTRICT
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2016

NOTE 4. CHANGES OF BENEFIT TERMS (CONTINUED)

- 4.) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
- member receives same retirement benefit as prior to return to service;
 - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
 - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws - House Bill 107, effective July 1, 2015

Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

NOTE 5. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

| | FURS | PERS |
|-------------------------------|-------|-------|
| Admin Expense as % of Payroll | 0.19% | 0.27% |

The following changes were adopted in 2013 based on the 2013 Economic Experience study:

| | FURS | PERS |
|---------------------------|--|--|
| General Wage Growth* | 4.00% | 4.00% |
| *Includes inflation at | 3.00% | 3.00% |
| Investment rate of return | 7.75 %, net of pension plan investment expense, and including inflation. | 7.75 %, net of pension plan investment expense, and including inflation. |

CENTRAL VALLEY FIRE DISTRICT
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2016

NOTE 5. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

The following Actuarial Assumptions are from the June 2010 Experience Study:

| | FURS | PERS |
|---------------------------|--|--|
| General Wage Growth* | 4.25% | 4.25% |
| *Includes inflation at | 3.00% | 3.00% |
| Merit increase | 0% to 7.3% | 0% to 7.3% |
| Investment rate of return | 8.00%, net of pension plan investment expense, and including inflation | 8.00%, net of pension plan investment expense, and including inflation |
| Asset valuation method | 4-year smoothed market | 4-year smoothed market |
| Actuarial cost method | Entry age | Entry age |
| Amortization method | Level percentage of pay, open | Level percentage of pay, open |

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, 2016, 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 December 13, 2016.

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.

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*.

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

December 13, 2016

CENTRAL VALLEY FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016

None.

CENTRAL VALLEY FIRE DISTRICT
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS
YEAR ENDED JUNE 30, 2016

There were no findings, questioned costs, or reportable conditions for the year ended June 30, 2015.