

Independent Auditor's Report and  
Financial Statements

**Madison Valley Rural Fire District**

Madison County  
Virginia City, Montana  
June 30, 2014

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June 30, 2014

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## ORGANIZATION – BOARD OF TRUSTEES AND OFFICIALS

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June 30, 2014

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### Board of Trustees

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Chairman	Ted Liss
Vice Chairman	Bernie Ogliette
Secretary/Treasurer- Trustee	Otis Thompson
Trustee	Jon Agner
Trustee	John Lounsbury

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### Officials

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Fire Chief	Shawn Christensen
Administrator	Steve Orr
Bookkeeper/Clerk	Nathan Tubergen

### FINANCIAL HIGHLIGHTS

The District is good financial position and will provided factors that have affected the District activities.

### USING THIS FINANCIAL REPORT

The General Format of this report is required by Statement No. 34 of the Governmental Accounting Standard Board (GASB) Components and purposes of the report are explained below.

### Reporting the District as a whole

The report includes all of district wide THAT FOCUS ON OPERATION of the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting.

- A. The **Statement of Net Position** (page 8) shows the assets (what is owned), Liabilities (What is owed) and the net position the resources that would remain if all obligations were settled of the Madison Valley Rural Fire District. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in Fixed or Capital assets such as buildings, equipment and other long lived property, and some assets are available to fund budgets if the following year.
- B. The **Statement of Activities** (page 9) shows the amount of programs-specific and general district revenue used to support the district functions.

The Statement of Net Position and the Statement of Activities are reported in two categories.

**Governmental activities** – The District functions, including firefighting building, wildland fires and others, accident calls medical and traffic control and education classes for the schools and Public.

**Component units** –The Madison Valley Rural Fire Department provides the personal for the services the District provides.

### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

The fund statements provide detailed information about the funds used by the Fire District required under the State Law of Montana and Generally Accepted Accounting Principles (GAAP) establish the fund structure of Fire District.

State Law generally requires the fire districts to segregate money generated for certain specific purposes, General Operations and Capital Improvement Funds (Vehicles-Equipment Fund, G.O. Construction Equipment Fund, Land & Building Fund) in separate fund accounts.

The fund statements report balances and combine the activities single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the district's operations, and the existence of legal budget requirements.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds, such as the General Fund and Capital Improvement Funds (Vehicles-Equipment Fund, G.O. Construction Equipment Fund, Land & Building Fund). These funds use the modified accrual basis of accounting

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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and represent the majority of the District's activities

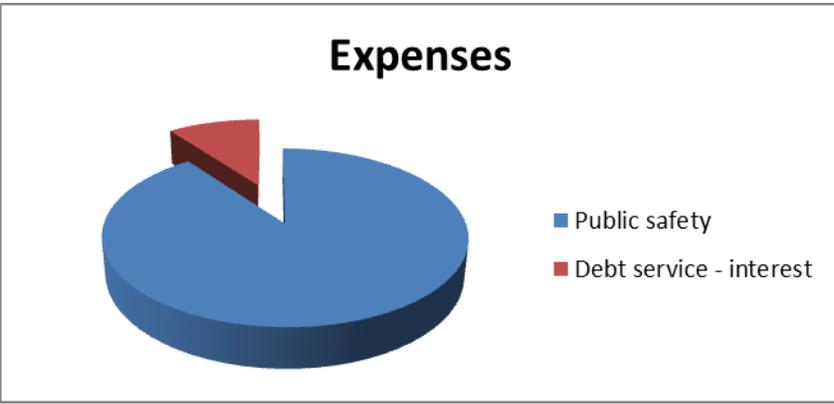
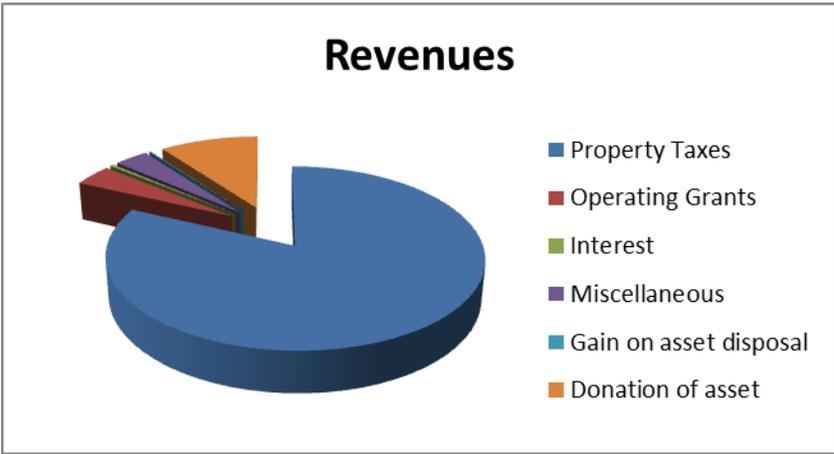
Fund statements include a reconciliation of the governmental fund statements to the district statements. Most significant differences result from the use of different presentation basis. The district statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long – term debt are reported in the district statements but not in the fund statements.

### Budget-to Actual Comparisons

The budgetary comparison schedules on page (24) show how actual expenditures compared to the original and final budgeted expenditures for the general fund and capital improvement funds. There are no significant variances between the original and final expenditure budget and the final budget and actual expenditures.

### THE DISTRICT AS A WHOLE

	June 30, 2014	June 30, 2013
<b>Assets:</b>		
Current Assets	1,209,063	1,474,149
Capital assets - net	1,602,104	1,001,540
Total Assets	<u>2,811,167</u>	<u>2,475,689</u>
Current Liabilities:	313,873	7,415
Non-current liabilities	949,243	1,175,952
Total liabilities	<u>1,263,116</u>	<u>1,183,367</u>
Net Position:		
Net investment in capital assets	540,912	817,220
Restricted for		
Debt service	2,675	1,005
Capital projects	880,003	1,386,757
Unrestricted	124,461	(912,660)
Total Net Position	<u>1,548,051</u>	<u>1,292,322</u>
	June 30, 2014	June 30, 2013
<b>Revenues:</b>		
Property Taxes	421,487	226,307
Operating Grants	20,498	28,963
Interest	2,093	1,158
Miscellaneous	17,831	9,939
Gain on asset disposal	676	0
Donation of asset	51,800	32,680
	<u>514,385</u>	<u>299,047</u>
<b>Expenses:</b>		
Public safety	232,621	210,071
Debt service - interest	26,035	2,517
	<u>258,656</u>	<u>212,588</u>



**Spending Levels Compared to Resource Levels**

The general revenues for the district is over the requirement amount to meet all expenditures as show below:

	<u>2014</u>	<i>Unaudited</i> <u>2013</u>
Expenditures Supported with General Revenues (From taxes and other sources for general operation use.	\$212,123	\$212,588

**Changes in Finances caused by Changes in Programs**

There was no new program added this fiscal year that had a significant cost increase.

**Identifying and Resolving Financial Difficulties**

There were no financial problems.

**Significant Events and Trends**

There were no events that caused any difficulties

**ANALYSIS OF FINANCIAL INFORMATION**

The following analysis is provided to help the reader understand the major operations of the Fire District, where the resources come from, what the resources are used for, and trends, decisions and events that are expected to affect the district's financial situation in the future. Historical information from one or more prior years is shown to illustrate trends, problems, and achievement of the District's goals.

**What does the Fire District Do?**

Fire protection in several different areas, traffic control and assist in search rescue and fire education presentation and others.

**Where do the Resources Come From?**

The majority of the revenue comes from General property taxes. Grants from federal and state governments.

**What does it Cost?**

The major costs are with operation of the building's maintenance of the vehicle and equipment, debt services and employee cost.

**What are the Capital Assets and Debt of the District?**

The capital assets are building and land witch include three fire station and several fire trucks and water tenders the debt is for the fire station #1 and the 2013 G O Bond Issue.

**Fund Deficits:**

None

**What Changes and Trends Affect the District's Future?**

With the addition of Fire Station #3, and the purchase of New Engine/Rescue unit, we will have additional operating cost. But with the additional mills levy will provide addition revenue for the operating cost and the Capital Improvement Funds (Vehicles-Equipment Fund, G.O. Construction Equipment Fund, Land & Building Fund).

**CONTRACT FOR FURTHER INFORMATION**

Nathan Tubergen, Bookkeeper 406- 682-3311

Shawn Christensen, Fire Chief 406-682-3311



GALUSHA  
HIGGINS  
& GALUSHA<sup>PC</sup>  
EST. 1919

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## INDEPENDENT AUDITOR'S REPORT

November 18, 2014

Board of Trustees  
Madison Valley Rural Fire District  
Madison County  
Virginia City, Montana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Madison Valley Rural Fire District, Madison County, Virginia City, Montana, (the 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***

Madison Valley Rural Fire District's 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 statement. 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 adverse audit opinion on the reporting entity and unmodified audit opinions on the governmental activities and each major fund of the primary government

### ***Basis for Adverse Opinion on the Reporting Entity***

The financial statements referred to above include only the primary government of Madison Valley Rural Fire District, which consists of all funds, that comprise Madison Valley Rural Fire District's legal entity. The financial statements do not include financial data for Madison Valley Rural Fire District's legally separate component unit the Madison Valley Rural Fire Department, which accounting principles generally accepted in the United States of America require to be reported with the financial data of Madison Valley Rural Fire District's primary government.

### ***Adverse Opinion on the Reporting Entity***

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on the Reporting Entity paragraph, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Madison Valley Rural Fire District, as of June 30, 2014, the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. In accordance with accounting principles generally accepted in the United States of America, Madison Valley Rural Fire District has issued separate reporting entity financial statements, for which we have issued our report dated November 18, 2014.

### ***Unmodified Opinions on the Governmental Activities and Each Major Fund***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund for the primary government of Madison Valley Rural Fire District, as of June 30, 2014, and the respective changes in financial position 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 1 - 4 and 24 - 25 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 November 18, 2014, on our consideration of Madison Valley Rural 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 Madison Valley Rural Fire District's internal control over financial reporting and compliance.

*Galusha, Higgins & Galusha, PC*

GALUSHA, HIGGINS & GALUSHA PC  
Billings, Montana

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## BASIC FINANCIAL STATEMENTS

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### Government-Wide Financial Statements

#### STATEMENT OF NET POSITION

June 30, 2014

ASSETS	
Cash	1,196,587
Taxes receivable	11,982
Accounts receivable, net of allowance for bad debt	494
Capital assets:	
Land	153,100
Construction in progress	557,979
Other capital assets, net of accumulated depreciation	891,025
Total Assets	<u>2,811,167</u>
LIABILITIES	
Accounts payable	189,956
Accrued payroll	3,934
Long term liabilities: due within one year	
Notes payable	23,583
Bond payable	90,000
Compensated absences	6,400
Long term liabilities: due in more than one year	
Notes payable	137,609
Bond payable	810,000
Compensated absences	1,634
Total Liabilities	<u>1,263,116</u>
NET POSITION	
Net investment in capital assets	540,912
Restricted for	
Debt service	2,675
Capital projects	880,003
Unrestricted	124,461
Total Net Position	<u>1,548,051</u>

The accompanying notes are an integral part of these financial statements.

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## BASIC FINANCIAL STATEMENTS

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### STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

	<u>Expenses</u>	<u>Program Revenue Operating Grants and Contributions</u>	<u>Net (Expenses) Revenue</u>
GOVERNMENT ACTIVITIES:			
Public safety	232,621	1,167	(231,454)
Debt service - interest	26,035	0	(26,035)
Total governmental activities	<u>258,656</u>	<u>1,167</u>	<u>(257,489)</u>
GENERAL REVENUES			
Property Taxes			421,487
Operating Grants			19,331
Interest			2,093
Miscellaneous			17,831
SPECIAL ITEMS			
Gain on asset disposal			676
Donation of asset			51,800
Total General Revenues			<u>513,218</u>
CHANGE IN NET POSITION			255,729
Net Position, Beginning of Year			<u>1,292,322</u>
Net Position, End of Year			<u>1,548,051</u>

The accompanying notes are an integral part of these financial statements.

## BASIC FINANCIAL STATEMENTS

### Fund Financial Statements

#### BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Vehicles - Equipment	G.O. Construction Equipment	Land & Building Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>						
Cash	136,007	300,838	706,392	50,675	2,675	1,196,587
Taxes receivable	11,982	0	0	0	0	11,982
Accounts receivable, net of allowance for bad debt	494	0	0	0	0	494
Total Assets	<u>148,483</u>	<u>300,838</u>	<u>706,392</u>	<u>50,675</u>	<u>2,675</u>	<u>1,209,063</u>
<b>LIABILITIES</b>						
Accounts payable	12,054	0	177,902	0	0	189,956
Accrued liabilities	3,934	0	0	0	0	3,934
Total Liabilities	<u>15,988</u>	<u>0</u>	<u>177,902</u>	<u>0</u>	<u>0</u>	<u>193,890</u>
<b>DEFERRED INFLOW OF RESOURCES</b>						
Unavailable tax revenue	11,982	0	0	0	0	11,982
Total Deferred Inflow of Resources	<u>11,982</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,982</u>
<b>FUND BALANCE</b>						
Restricted for:						
Debt service	0	0	0	0	2,675	2,675
Committed for:						
Capital improvements	0	300,838	528,490	50,675	0	880,003
Unassigned	120,513	0	0	0	0	120,513
Total fund balances	<u>120,513</u>	<u>300,838</u>	<u>528,490</u>	<u>50,675</u>	<u>2,675</u>	<u>1,003,191</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Equity	<u>148,483</u>	<u>300,838</u>	<u>706,392</u>	<u>50,675</u>	<u>2,675</u>	<u>1,209,063</u>

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## BASIC FINANCIAL STATEMENTS

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### RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2014

Total fund balance, governmental funds	1,003,191
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources therefore not included in the fund financial statements but are reported in the governmental activities of the Statement of Net Position.	2,391,476
Less accumulated depreciation	(789,372)
Liabilities that are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets:	
Compensated absences payable	(8,034)
Notes payable	(161,192)
Bonds payable	(900,000)
Property taxes receivable that are not available soon enough to pay for the current period's expenditures and are therefore deferred in the Governmental Fund Balance Sheet.	11,982
Net Position of Governmental Activities	<u><u>1,548,051</u></u>

The accompanying notes are an integral part of these financial statements.

## BASIC FINANCIAL STATEMENTS

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	General Fund	Vehicles - Equipment	G.O. Construction Equipment	Land & Building Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES</b>						
Taxes	302,485	0	0	0	110,881	413,366
Grants	20,498	0	0	0	0	20,498
Interest	141	283	1,571	59	39	2,093
Miscellaneous	17,831	0	0	0	0	17,831
Total revenues	<u>340,955</u>	<u>283</u>	<u>1,571</u>	<u>59</u>	<u>110,920</u>	<u>453,788</u>
<b>EXPENDITURES</b>						
Public safety	161,314	0	198	490	0	162,002
Debt Service - principal	23,130	0	0	0	85,000	108,130
Debt Service - interest	1,785	0	0	0	24,250	26,035
Capital outlay	0	0	557,979	60,000	0	617,979
Total expenditures	<u>186,229</u>	<u>0</u>	<u>558,177</u>	<u>60,490</u>	<u>109,250</u>	<u>914,146</u>
Excess (deficiency) of revenues over expenditures	<u>154,726</u>	<u>283</u>	<u>(556,606)</u>	<u>(60,431)</u>	<u>1,670</u>	<u>(460,358)</u>
<b>OTHER FINANCING SOURCES</b>						
Transfers in	0	100,000	0	10,000	0	110,000
Transfers out	(110,000)	0	0	0	0	(110,000)
Proceeds from the sale of assets	676	0	0	0	0	676
Total other financing sources	<u>(109,324)</u>	<u>100,000</u>	<u>0</u>	<u>10,000</u>	<u>0</u>	<u>676</u>
Net change in fund balances	45,402	100,283	(556,606)	(50,431)	1,670	(459,682)
Fund balances, beginning	75,111	200,555	1,085,096	101,106	1,005	1,462,873
Fund balances, ending	<u>120,513</u>	<u>300,838</u>	<u>528,490</u>	<u>50,675</u>	<u>2,675</u>	<u>1,003,191</u>

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## BASIC FINANCIAL STATEMENTS

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### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

Net change in Fund Balance	(459,682)
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Governmental funds do not present revenues earned from donated capital assets. In contrast such revenues are reported in the Statement of Activities when earned.	51,800
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Governmental funds do not present revenues that are available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	8,123
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Amounts reported as expenditures in the Governmental Funds, not included in the Statement of Activities

Capital outlay	617,979
Principal payments on debt	108,130

Expenses on the Statement of Activities not included in the governmental funds

Depreciation	(69,219)
Compensated absences	<u>(1,402)</u>

Change in net position of governmental activities	<u><u>255,729</u></u>
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The accompanying notes are an integral part of these financial statements.

**NOTES TO FINANCIAL STATEMENTS****For the Year Ended June 30, 2014****Note A Description of the Reporting Entity****1 Reporting Entity**

Madison Valley Rural Fire District (the District) was established by the Board of County Commissioners of Madison County in accordance with 7-33-2101 MCA to provide life, safety, and fire protection systems to the Madison Valley community. The District is managed by an elected Board of Trustees with the authority to provide adequate and standard firefighting and emergency response apparatus, equipment, personnel, housing, and facilities for the protection of the District.

The criteria for including organizations within the District's reporting entity are set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity." This statement defines the financial reporting entity as the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity, which would exercise such financial accountability, which would result in the District being considered a component unit of the entity.

Discretely present component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The District has one discretely presented component unit, the Madison Valley Rural Fire Department.

The Madison Valley Rural Fire Department is a non-profit organization that raises money to support the Madison Valley Rural Fire District. The District has not reported the Madison Valley Rural Fire Department as a major fund or as part of the District's government-wide activity.

Madison County provides substantial services to the District; tax billings, cash collections and warrant redemption all flow through the office of the County Treasurer. This office also maintains the District's cash and invests funds at the direction of the District. The County Commissioners have the legal obligation to set levy amounts to finance the budget of the District, as directed by the Board of Trustees. Despite the degree of services rendered, the District has determined that neither Madison County nor any other outside agency meets the criteria set forth in the preceding paragraph and therefore, no other agency has been included as a component unit of the District's financial statements.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED****For the Year Ended June 30, 2014****Note B Summary of Significant Accounting Policies**

The financial statements of Madison Valley Rural Fire District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to fire districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are as follows:

**1 Basis of Presentation****a. Government-Wide Financial Statements**

The Statement of Net Position and the Statement of Activities show information about the overall financial position and activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to the public who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues and are reported as general revenues.

**b. Fund Financial Statements**

The District uses funds to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate 'fund types.' The District does not have proprietary or fiduciary funds.

The emphasis of fund financial statements is on major governmental funds. GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category) for the determination of major fund.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED****For the Year Ended June 30, 2014****2 Governmental Funds**

The District reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the District. It accounts for resources traditionally associated with government operations, which are not required to be accounted for in another fund. The District maintains the General Fund to account for its fire protection and emergency services operations in addition to repairs and maintenance of district property. The fire protection services and other emergency (ambulance) services are each departmentalized within this fund.

Vehicles and Equipment Fund – A capital project fund established to account for revenues and expenses associated with vehicle and equipment purchases.

G.O. Construction and Equipment Fund – A capital project fund established to account for revenues and expenses associated with new facilities construction and equipment.

Land & Building Fund – A capital project fund established to account for revenues and expenses associated with building purchases and maintenance.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for and the payment of, general long-term debt principal and interest on bonds.

**3 Basis of Accounting and Measurement Focus****a. Government Wide Financial Statements**

The government wide statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

**b. Fund Financial Statements**

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED****For the Year Ended June 30, 2014**

The District recognizes property taxes as a receivable at the time an enforceable legal claim is established and considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Those revenues susceptible to accrual are property taxes, special assessments, grants, interest revenue, and charges for services. Capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The District reports unavailable revenues as deferred inflows of resources and advances from grantors as a liability on its balance sheet - governmental funds. Unavailable revenues arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period. Unavailable revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to resources, the deferred inflow of resources for unavailable revenue are and liability for advances from grantors removed from the balance sheet and revenue is recognized. Unavailable revenues are not reflected in the government-wide Statement of Net Position as these amounts are recognized under the accrual basis of accounting. Advances from grantors are reflected as a liability on the government-wide Statement of Net Position.

**4 Cash and Cash Equivalents**

Cash resources of the District are combined with cash resources of other governmental entities within Madison County to form a pool of cash and cash equivalents that is managed by the Madison County Treasurer. Investments of the pooled cash consist primarily of certificates of deposit and repurchase agreements and are carried at cost, which approximates market value. Among the instruments which state statutes authorize the District to invest in are direct obligations of the United States government, in savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA located in the state; in a repurchase agreement, or the Montana short-term investment pool. Interest income received as a result of pooling is distributed to the appropriate entity utilizing a formula based on the respective entity's previous month's ending balance of cash and cash equivalents.

The District issues warrants in payment of its obligations. When the warrants are presented to the County Treasurer, the District's cash balance is reduced to pay the warrant. Cash and warrants payable are netted for reporting purposes.

Cash (net of warrants payable) at June 30, 2014 is \$1,202,887. Information regarding the collateral and security for cash and cash equivalents is not available to the District. Montana state statute requires that collateral to secure deposits of public funds be held in direct obligations of the United States government or its agencies.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED****For the Year Ended June 30, 2014****5 Capital Assets**

Capital assets, including land, buildings, improvements, and equipment, are reported in the government wide fund financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or more. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Buildings, improvements, and equipment are depreciated using the straight-line depreciation method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	15-50 Years
Machinery and Equipment	5-20 Years

**6 Compensated Absences**

All part-time District employees accumulate vacation and/or sick leave hours for later use or for payment upon termination, death or retirement. Vacation and sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the District will compensate the employees for the benefits through paid time off or some other means.

**7 Deferred Inflow of Resources**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable tax revenue, is reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available

**8 Fund Balances**

The Governmental 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.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED****For the Year Ended June 30, 2014**

GASB Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions, requires the fund balance amounts to be reported within one of the fund balance categories listed below.

**Nonspendable** – Amounts that cannot be spent because they are either (1) not in spendable form (e.g. inventories and prepaid amounts) or (2) legally or contractually required to be maintained intact (e.g. the corpus or principal of a permanent fund).

**Restricted** – Amounts that can be spent only for a specific purpose pursuant to state law, enabling legislation, grant agreement, or donor agreement.

**Committed** – Amounts that can be used only for specific purposes determined by a formal action of the District's Board of Trustees (the District's highest level of decision making authority).

**Assigned** – Amounts that are intended to be used by the government for specific purposes under the direction of the District Bookkeeper/Clerk by authority granted by the Board of Trustees.

**Unassigned** – The residual classification for the government's general fund that includes all amounts that are not contained in the other classifications.

It is the District's policy that for purposes of fund balance classification, expenditures are to be spent from restricted funds balance first, followed in order by committed funds balance, assigned fund balance and lastly unassigned fund balance.

**9 Net Position**

Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net investment in capital assets represents net position in the form of capital assets, net of accumulated depreciation, reduced by the outstanding balance 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 their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**10 Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the Year Ended June 30, 2014**

**11 Date of Management’s Review**

Management has evaluated the activities and transactions subsequent to June 30, 2014, to determine the need for any adjustments to and /or disclosure within the audited financial statements for the year ended June 30, 2014. Management has performed this evaluation through November 18, 2014, the date the financial statements were available to be issued.

**Note C Property Taxes**

Property taxes are collected by Madison County who remits to the District their respective share of the collections. The 2013 property tax levy, which was perfected and became a receivable in October 2013, was levied to finance District operations during the year ended June 30, 2014. The tax levy was collectible in November 2013 and May 2014. As of May 31, 2014, uncollected property taxes became delinquent. Property taxes are attached as an enforceable lien on the underlying property. After a period of three years, Madison County, the collecting agent, may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds from Madison County.

All property taxes are recognized in compliance with GASB Interpretation “Property Tax Revenue Recognition in Government Funds,” which states that such revenue is recorded when it becomes measurable and available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

**Note D Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2014 is as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
CAPITAL ASSETS BEING DEPRECIATED AT COST:				
Building and Improvements	601,455	0	0	601,455
Machinery and Equipment	1,035,142	51,800	8,000	1,078,942
	<u>1,636,597</u>	<u>51,800</u>	<u>8,000</u>	<u>1,680,397</u>
OTHER CAPITAL ASSETS:				
Land	93,100	60,000	0	153,100
Construction In Progress	0	557,979	0	557,979
	<u>93,100</u>	<u>617,979</u>	<u>0</u>	<u>711,079</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Accumulated Depreciation	728,153	69,219	8,000	789,372
Total	<u>1,001,544</u>			<u>1,602,104</u>

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

For the year ended June 30, 2014, depreciation expense was charged to the functions of the District as follows:

	2014
Public Safety	69,219
Total depreciation expense	69,219

#### Note E Long-Term Debt

In June of 2013 the District issued a general obligation bond in the amount of \$985,000 to finance the construction of a fire station. The following summary of activity in bonds (including current maturities is as follows:

	Bonds Payable July 01, 2013	Debt Principal Retired	Bonds Payable June 30, 2014
General Obligation Bonds:			
2013 series; interest rate 2.500% 2014 - 2017, 2.250%			
2018, 2.500% 2019, 2.250% 2020 - 2022, 2.300% 2023;			
original issue of \$985,000; final maturity July 1, 2023	985,000	85,000	900,000
Total	985,000	85,000	900,000

In September of 2010 the District entered into an Intercap loan with the state of Montana in the amount of \$240,780 to finance the construction of a fire station. The following summary of activity in loan (including current maturities is as follows:

	Loan Payable July 01, 2013	Debt Principal Retired	Loan Payable June 30, 2014
Intercap Loan:			
2010 Loan; interest rate variable; original issue of			
\$240,780; final maturity August 15, 2020	184,320	23,130	161,190
Total	184,320	23,130	161,190

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## BASIC FINANCIAL STATEMENTS

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### NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

As of June 30, 2014, the annual cash flow requirement for retirement of bond and interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2015	113,583	21,707	135,290
2016	124,045	7,780	131,825
2017	124,516	15,280	139,796
2018	124,997	12,905	137,902
2019	125,487	10,530	136,017
Thereafter	448,564	18,980	467,544
Total	<u>1,061,192</u>	<u>87,182</u>	<u>1,148,374</u>

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

	<u>July 01, 2013</u>	<u>Change</u>	<u>June 30, 2014</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Compensated Absences Payable	6,632	1,402	8,034	6,400	1,634
Total	<u>6,632</u>	<u>1,402</u>	<u>8,034</u>	<u>6,400</u>	<u>1,634</u>

Payments on bonds are made by the debt service funds. Payments on the loan are made by the general fund. The compensated absences liability will be liquidated by several of the governmental funds.

#### Note F Interfund Transfers

For the year ended June 30, 2014, interfund transfers of \$110,000 were from the General Fund to the Vehicles-Equipment Fund and Building Fund to aid in the purchase of equipment. Respectively the Vehicles-Equipment fund received \$100,000, while the Building Fund received \$10,000.

#### Note G Risk Management

The District faces a considerable number of risks of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, (i.e. errors and omissions); d) environmental damage; e) workers' compensation, (i.e. employee injuries) and f) medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. An insurance policy through Central Insurance Agency covers pollution liability, management liability, and employer's liability. Workers compensation insurance coverage is provided through the State Fund. The District does not carry coverage for environmental damages. The risk of potential loss is low and coverage is not cost beneficial.

**REQUIRED SUPPLEMENTAL INFORMATION**

**Madison Valley Rural Fire District**

Madison County  
Virginia City, Montana  
June 30, 2014

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**BUDGETARY COMPARISON SCHEDULE****For the Year Ended June 30, 2014**

	GENERAL FUND	
	ORIGINAL AND FINAL BUDGET	ACTUAL
REVENUES		
Taxes	334,180	302,485
Grants	0	20,498
Investment earnings	0	141
Miscellaneous	0	17,831
Total revenues	<u>334,180</u>	<u>340,955</u>
EXPENDITURES		
Current:		
Public safety	247,082	161,314
Debt Service - principal	0	23,130
Debt Service - interest	0	1,785
Total Expenditures	<u>247,082</u>	<u>186,229</u>
Excess (deficiency) of revenues over expenditures	<u>87,098</u>	<u>154,726</u>
OTHER FINANCING SOURECES (USES)		
Transfers out	(87,106)	(110,000)
Proceeds from sale of assets	0	676
Total other financing sources (uses)	<u>(87,106)</u>	<u>(109,324)</u>
Excess (deficiency) of revenues over expenditures and other sources		45,402
Fund Balances - beginning		<u>75,111</u>
Fund Balances - ending		<u><u>120,513</u></u>

See notes to Budgetary Comparison Schedule

**NOTES TO BUDGETARY COMPARISON SCHEDULE****For the Year Ended June 30, 2014****1 Budgetary Process**

State Law requires that the District adopt budgets for certain funds, generally those supported by property taxes. Budgeted and non-budgeted funds are as follows:

<u>Fund</u>	<u>Budgeted</u>	<u>Non-Budgeted</u>
Governmental Funds		
General	X	

**2 Budgets**

The District's budget is prepared on the modified accrual basis of accounting, which results in the accounting for certain transactions to be on a basis other than accounting principles generally accepted in the United States of America (modified accrual). The District's accounting records are maintained on the basis of cash receipts and disbursements during the year. At year-end, certain adjustments are made to the District's accounting records to reflect the basis of accounting described above. Reported budget amounts represent the originally adopted budget, including amendments. Total fund expenditures may not legally exceed the budgeted expenditures. The budget lapses at the end of each year. The results of operations, on the budget basis of accounting, described above, are presented in the Budgetary Comparison Schedule to provide a meaningful comparison of actual results with the budget.

General Fund budgets are primarily based on the real and personal property taxes on all properties located within the District's boundaries. Budgeted fund expenditures are limited by State Law to budgeted amounts, which may be amended for emergencies as defined by State Law. Budget authority may be transferred between expenditure classifications within the same fund. MCA 7-33-2105 assigns responsibility to prepare annual budgets and request special levies to the Board of Trustees.

On or before the second Monday in July, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property to the District. On or before the second Monday in August, the Board of Trustees must meet to legally adopt the final budget and forward to the County for their approval and adoption.

Upon the County's approval of the final budget, expenditures and operating transfers are limited to the total fund budget. Unexpended and unencumbered appropriations lapse at year-end.

**SUPPLEMENTAL INFORMATION**

**Madison Valley Rural Fire District**

Madison County  
Virginia City, Montana  
June 30, 2014





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HIGGINS  
& GALUSHA<sup>PC</sup>  
EST. 1919

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**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***

November 18, 2014

Board of Trustees  
Madison Valley Rural Fire District  
Virginia City, Montana

We have audited, 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, the financial statements of the governmental activities and each major fund of Madison Valley Rural Fire District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Madison Valley Rural Fire District's basic financial statements, and have issued our report thereon dated November 18, 2014, which was modified because the financial statements do not include financial data for the District's legally separate component unit, the Madison Valley Rural Fire Department.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Madison Valley Rural Fire District's internal control over financial reporting 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 Madison Valley Rural Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of Madison Valley Rural Fire District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiency 2014-001 described in the accompanying schedule of findings and responses to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Madison Valley Rural Fire District’s financial statements are free from 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*.

**Madison Valley Rural Fire District’s Response to Findings**

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

**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.

*Galusha, Higgins & Galusha, PC*

GALUSHA, HIGGINS & GALUSHA PC  
Billings, Montana

**SCHEDULE OF FINDINGS AND RESPONSES**

**For the Year Ended June 30, 2014**

***Section I - Summary of Auditor's Results***

*Financial Statements*

Type of auditor's report issued:

Adverse Opinion

Internal control over financial reporting:

Are any significant deficiencies identified that are not considered to be material weaknesses?

\_\_\_\_\_ Yes                          X     No

Are any material weaknesses identified?

    X     Yes                      \_\_\_\_\_ No

Is any noncompliance material to financial statements noted?

\_\_\_\_\_ Yes                          X     No

***Section II – Financial Statement Findings***

**2014-001 Component Unit**

Criteria or Specific Requirement: Per Governmental Accounting Standard Board Statement No. 39 an organization should be a considered a component unit of the primary government when, “The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government” Due to this the Madison Valley Rural Fire District should consider the Madison Valley Rural Fire Department as a component unit.

Condition: The District did not include the Madison Valley Rural Fire Department as a discretely presented component unit.

Context: We reviewed the relationship between the Madison Valley Rural Fire District and the Madison Valley Rural Fire Department and determined that the services provided to the District by the Department are significant to the primary government.

Effect: The District should have reported the Madison Valley Rural Fire Department as a discretely presented component unit on the government-wide statement of net position and the statement of activities. On the government statement of net position and statement of activities, assets and net position were understated by \$77,415; beginning net position was understated by \$77,674; revenues were understated by \$35,446 and expenses were understated by \$35,750.

Cause: The District did not include the Madison Valley Rural Fire Department as a component unit.

Recommendation: We recommend the District should incorporate the Madison Valley Rural Fire Department as a discretely presented component unit in the annual financial report

Auditee Response:

The Board of Trustees will review the additional cost of auditing the Department to the current contract and what effect it would have on the outstanding bonds by not adding the component unit, Madison Valley Rural Fire Department.

***Section III - Summary Schedule of Prior Audit Findings***

13-1 – Restated as 2014-001

13-2 – Implemented