



Independent Auditor's Report and
Financial Statements

Sourdough Rural Fire District

Gallatin County

Bozeman, Montana

June 30, 2014

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SOURDOUGH RURAL FIRE DISTRICT

June 30, 2014

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ORGANIZATION – BOARD OF TRUSTEES AND OFFICIALS

June 30, 2014

Board of Trustees

Chairman	Dave Kraft
Vice Chairman	Pete Geddes
Secretary/Treasurer- Trustee	Chuck Wyman
Trustee	Don Bachman
Trustee	Shaun Wold

Officials

Fire Chief	Jason Reviskey
County Attorney	Marty Lambert
County Treasurer	Kimberly Buchanan

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Treasurer of the Sourdough Rural Fire District (SRFD) has provided this Management Discussion and Analysis to give the reader of these statements an overview of the financial position and activities of the SRFD covered by this audit report.

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 operations 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** shows the assets (what is owned), “Liabilities” (what is owed), deferred inflow of resources and the” net position “the resources that would remain if all obligations were settled of the Sourdough 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 for the following year.
- B. The **Statement of Activities** shows the amount of programs-specific and general district revenue used to support the district functions.

Governmental activities – The District functions include emergency response to building, acreage, and wild land fires; medical emergencies, accidents. Functions additionally include regular firefighting training, public education classes, and testing of area firefighting resources.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

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

State law generally requires the fire districts to segregate money generated for certain specific purposes, General Operations and all future Capital Improvement fund in separate fund accounts.

The fund statements report balances and combine the activities into a 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. This fund uses the modified accrual basis of accounting and represents the majority of the district's activities

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 are reported in the district statements but not in the fund statements.

Budget-to Actual Comparisons

The budgetary comparison schedules 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

THE DISTRICT AS A WHOLE

	<u>2014</u>	<u>2013</u>	<u>Change</u>
<u>Net Position:</u>			
Current assets	1,739,974	597,748	1,142,226
Capital assets - net	<u>2,938,289</u>	<u>439,954</u>	<u>2,498,335</u>
Total assets	<u>4,678,263</u>	<u>1,037,702</u>	<u>3,640,561</u>
Current liabilities	746,148	75,655	670,493
Non-current liabilities	<u>2,554,174</u>	<u>15,358</u>	<u>2,538,816</u>
Total liabilities	<u>3,300,322</u>	<u>91,013</u>	<u>3,209,309</u>
Deferred inflow of resources	<u>14,412</u>	<u>0</u>	<u>14,412</u>
Total deferred inflow of resources	<u>14,412</u>	<u>0</u>	<u>14,412</u>
Net position:			
Net investment in capital assets	228,289	439,954	(211,665)
Restricted for:			
Compensated absences	18,401	0	18,401
Other fund activities	740,379	0	740,379
Unrestricted	<u>376,460</u>	<u>506,735</u>	<u>(130,275)</u>
Total net position	<u>1,363,529</u>	<u>946,689</u>	<u>416,840</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>2014</u>	<u>2013</u>	<u>Change</u>
<u>Revenues:</u>			
Property taxes	707,307	451,073	256,234
Operating grant	10,963	7,695	3,268
Interest	17,533	4,480	13,053
Miscellaneous	3,901	7,337	(3,436)
Charges for services	100	0	100
Special item	(11,525)	0	(11,525)
Total revenue	<u>728,279</u>	<u>470,585</u>	<u>257,694</u>
<u>Expenses:</u>			
Public safety	254,854	343,686	(88,832)
Interest expense	56,585	0	56,585
Total expenses	<u>311,439</u>	<u>343,686</u>	<u>(32,247)</u>
Excess (deficiency) in net assets	<u>416,840</u>	<u>126,899</u>	

Spending Levels Compared to Resource Levels

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

	<u>2014</u>	<u>2013</u>
Expenditures Supported with General Revenues (From taxes and other sources for general operation use.	\$248,669	\$343,686

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?

Provide our constituents with fire protection, medical response, training and education.

Where do the Resources Come From?

The majority of the revenue comes from general property taxes and grants from federal and state governments.

What does it Cost?

The major costs are for general operations, training, maintenance of the vehicles and equipment.

What are the Capital Assets and Debt of the District?

The capital assets are buildings, which include one station and half of another, land, construction in progress and several fire trucks and water tenders shared with Rae Fire Department.

Fund Deficits:

None

What Changes and Trends Affect the District's Future?

In 2013 the residents approved a \$2,900,000 municipal bond to replace the fire station at 4541 S. 3rd in Bozeman, the station was completed and the department moved in July of 2014. The station allows for eight volunteers to live in the station which has greatly increased our emergency response times, therefore increasing our constituents' satisfaction with minimal cost increases. In January the district placed in order for a new water tender to replace an old tender. The cost of the new tender is \$253,823 and we anticipate selling the old tender for best offer. Money for new tender will be taken from our restricted apparatus replacement fund. New housing starts have begun in the Gallatin Valley and our district is seeing some growth which will bring higher values to the tax rolls.

CONTRACT FOR FURTHER INFORMATION

W. Charles Wyman Treasurer 406-586-3770

INDEPENDENT AUDITOR'S REPORT

March 24, 2015

Board of Trustees
Sourdough Rural Fire District
Gallatin County
Bozeman, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Sourdough Rural Fire District, Gallatin County, Bozeman, 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

Sourdough 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 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 each major fund of Sourdough Rural Fire District, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

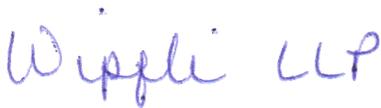
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents 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 March 24, 2015 on our consideration of Sourdough 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 Sourdough Rural Fire District's internal control over financial reporting and compliance.



Wipfli LLP
Billings, Montana

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

STATEMENT OF NET POSITION

June 30, 2013

ASSETS	
Cash	1,713,469
Taxes receivable	15,129
Accounts receivable, net of allowance for bad debt	10,931
Prepaid expenses	445
Capital assets:	
Land	44,800
Construction in progress	2,683,280
Other capital assets, net of accumulated depreciation	210,209
Total Assets	<u>4,678,263</u>
LIABILITIES	
Accounts payable	579,548
Long term liabilities: due within one year	
Notes payable	165,000
Compensated absences	1,600
Long term liabilities: due in more than one year	
Notes payable	2,545,000
Compensated absences	9,174
Total Liabilities	<u>3,300,322</u>
DEFERRED INFLOW OF RESOURCES	
Bond Premium, net of amortization	14,412
Total deferred inflow of resources	<u>14,412</u>
NET POSITION	
Net investment in capital assets	228,289
Restricted for	
Debt service	18,401
Capital improvement	740,379
Unrestricted	376,460
Total Net Position	<u>1,363,529</u>

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

	<u>Expenses</u>	<u>Program Revenue Charges for Services</u>	<u>Net (Expenses) Revenue</u>
GOVERNMENT ACTIVITIES:			
Public Safety	254,854	100	(254,754)
Interest Expense	56,585	0	(56,585)
Total governmental activities	<u>311,439</u>	<u>100</u>	<u>(311,339)</u>
GENERAL REVENUES			
Property Taxes			707,307
Operating Grants			10,963
Interest			17,533
Miscellaneous			3,901
SPECIAL ITEMS:			
Loss on Asset Disposal			<u>(11,525)</u>
Total General Revenues			<u>728,179</u>
CHANGE IN NET POSITION			416,840
Net Position, Beginning of Year			<u>946,689</u>
Net Position, End of Year			<u><u>1,363,529</u></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	Debt Service Fund	Capital Improvement Fund	Total Governmental Funds
ASSETS				
Cash	382,598	18,401	1,312,470	1,713,469
Taxes receivable	15,129	0	0	15,129
Accounts receivable, net of allowance for bad debt	10,931	0	0	10,931
Prepaid expenses	445	0	0	445
Total Assets	409,103	18,401	1,312,470	1,739,974
LIABILITIES AND FUND EQUITY				
Accounts payable	6,945	0	572,091	579,036
Accrued liabilities	512	0	0	512
Total Liabilities	7,457	0	572,091	579,548
DEFERRED INFLOW OF RESOURCES				
Unavailable tax revenue	15,129	0	0	15,129
Total Deferred Inflow of Resources	15,129	0	0	15,129
FUND BALANCE				
Committed for:				
Capital improvements	0	0	740,379	740,379
Debt service	0	18,401	0	18,401
Unassigned	386,517	0	0	386,517
Total fund balances	386,517	18,401	740,379	1,145,297
Total Liabilities, Deferred Inflow of Resources and Fund Balance	409,103	18,401	1,312,470	1,739,974

BASIC FINANCIAL STATEMENTS

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

June 30, 2014

Total fund balance, governmental funds	1,145,297
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not included in the fund financial statements but are reported in the governmental activities of the Statement of Net Position.	4,214,190
Less accumulated depreciation	(1,275,901)
Liabilities that are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position:	
Compensated absences payable	(10,774)
Notes payable	(2,710,000)
Bond premium	(14,412)
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.	15,129
Net Position of Governmental Activities	<u><u>1,363,529</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	Debt Service Fund	Capital Improvement Fund	Total Governmental Funds
REVENUES				
Taxes	445,011	264,986	0	709,997
Grants	10,963	0	0	10,963
Charges for services	100	0	0	100
Interest	4,872	0	12,661	17,533
Miscellaneous	3,901	0	0	3,901
Total revenues	<u>464,847</u>	<u>264,986</u>	<u>12,661</u>	<u>742,494</u>
EXPENDITURES				
Public safety	231,582	0	2,750	234,332
Debt service - principal	0	190,000	0	190,000
Debt service - interest	0	56,585	0	56,585
Capital outlay	7,000	0	2,530,324	2,537,324
Total expenditures	<u>238,582</u>	<u>246,585</u>	<u>2,533,074</u>	<u>3,018,241</u>
Excess (deficiency) of revenues over expenditures	<u>226,265</u>	<u>18,401</u>	<u>(2,520,413)</u>	<u>(2,275,747)</u>
OTHER FINANCING SOURCES				
Transfers in	154,378	0	500,000	654,378
Transfers out	(500,000)	0	(154,378)	(654,378)
Proceeds from long-term debt	0	0	2,900,000	2,900,000
Bond premium	0	0	15,170	15,170
Total other financing sources	<u>(345,622)</u>	<u>0</u>	<u>3,260,792</u>	<u>2,915,170</u>
Net change in fund balances	(119,357)	18,401	740,379	639,423
Fund balances, beginning	<u>505,874</u>	<u>0</u>	<u>0</u>	<u>505,874</u>
Fund balances, ending	<u><u>386,517</u></u>	<u><u>18,401</u></u>	<u><u>740,379</u></u>	<u><u>1,145,297</u></u>

BASIC FINANCIAL STATEMENTS

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	639,423
Governmental funds report the entire net sales (proceeds) from the sale of assets as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of assets. Thus the change in net assets differs from the change in fund balance by the cost of the asset sold.	(11,525)
Governmental funds report bond proceeds as other financing sources. In contrast, bond proceeds are reported as liabilities in the Statement of Net Position.	(2,900,000)
Governmental funds report bond premiums as other financing sources. In contrast, bond premiums are reported as deferred inflow of resources in the Statement of Net Position and are amortized over life of the bond.	(15,170)
Revenues on the Statement of Activities	
Increase (decrease) in deferred taxes not included in revenue	(2,691)
Amounts reported as expenditures not included in the Statement of Activities	
Capital outlay	2,537,324
Principal payments on debt	190,000
Expenses on the Statement of Activities not included in the governmental funds	
Depreciation	(27,464)
Amortization	759
Compensated absences	6,184
	<hr/>
Change in net position of governmental activities	<u>416,840</u>

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**

Sourdough Rural Fire District (the District) was established by the Board of County Commissioners of Gallatin County in accordance with 7-33-2101 MCA to provide life, safety, and fire protection systems to the Sourdough 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.

Gallatin 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 Gallatin 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.

Note B Summary of Significant Accounting Policies

The financial statements of Sourdough 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:

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

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.

2 Governmental Funds

The District reports the following major governmental funds:

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.

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

Capital Improvement Fund – A capital project fund established to account for revenues and expenses associated with new facilities construction and equipment.

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

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 expenditures when due. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED**For the Year Ended June 30, 2014****4 Cash and Cash Equivalents**

Cash resources of the District are combined with cash resources of other governmental entities within Gallatin County to form a pool of cash and cash equivalents that is managed by the Gallatin 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 \$1,713,469. 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

6 Compensated Absences

All full-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 two types of deferred inflows of resources one which arises under the accrual basis of accounting and one which arises under the modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the first item, bond premium, net of amortization, is reported in the statement of net position under the accrual basis of accounting. This amount is deferred and recognized as an inflow of resources evenly throughout the life of the bond. The second item, unavailable tax revenue, is reported in the governmental funds balance sheet under the modified accrual basis of accounting. This amount is deferred and recognized as an inflow of resources in the period 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.

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 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.

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

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.

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 March 24, 2015, the date the financial statements were available to be issued.

Note C Property Taxes

Property taxes are collected by Gallatin 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, Gallatin County, the collecting agent, may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds from Gallatin 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.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Note D Capital Assets

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

	July 1, 2013	Additions	Deletions	June 30, 2014
CAPITAL ASSETS BEING DEPRECIATED AT COST:				
Building and Improvements	511,032	0	57,177	453,855
Machinery and Equipment	1,057,505	7,000	32,250	1,032,255
	1,568,537	7,000	89,427	1,486,110
OTHER CAPITAL ASSETS:				
Land	44,800	0	0	44,800
Construction In Progress	152,956	2,530,324	0	2,683,280
	197,756	2,530,324	0	2,728,080
LESS ACCUMULATED DEPRECIATION FOR:				
Building and Improvements	281,155	22,152	45,652	257,655
Machinery and Equipment	1,045,184	5,312	32,250	1,018,246
Total accumulated depreciation	1,326,339	27,464	77,902	1,275,901
Total	439,954			2,938,289

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

Public Safety	27,464
Total depreciation expense	27,464

Note E Long-Term Debt

On October 31, 2013 the District issued a general obligation bond in the amount of \$2,900,000 to finance the construction of a fire station. The following summary of activity in bonds (including current maturities is as follows:

	July 1, 2013	Bond Proceeds	Bond Principal Retirement	June 30, 2014	Current Portion	Long-Term Portion
General Obligation Bond						
2013 series; variable interest rate between 2.000% and 3.875%, final maturity July 1, 2028	0	2,900,000	(190,000)	2,710,000	165,000	2,545,000
	0	2,900,000	(190,000)	2,710,000	165,000	2,545,000

BASIC FINANCIAL STATEMENTS

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:

Year Ending June 30,	Principal	Interest	Total
2015	165,000	80,725	245,725
2016	165,000	77,425	242,425
2017	170,000	74,125	244,125
2018	175,000	70,725	245,725
2019	175,000	67,225	242,225
Thereafter	1,860,000	338,860	2,198,860
Total	<u>2,710,000</u>	<u>709,085</u>	<u>3,419,085</u>

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

	July 1, 2013	Change	June 30, 2014	Current Portion	Long-Term Portion
Compensated Absences Payable	16,958	(6,184)	10,774	1,600	9,174
	<u>16,958</u>	<u>(6,184)</u>	<u>10,774</u>	<u>1,600</u>	<u>9,174</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 Employee Benefit Plan

Eligible District employees participate in one of two multiple employer, cost-sharing, defined benefit retirement plans, the Firefighters' Unified Retirement System (FURS) and the Public Employees' Retirement System (PERS). In accordance with SB 532, the District passed a resolution effective July 1, 2007 allowing its firefighters a choice to participate in FURS or remain with PERS. For fiscal year 2014, only the one employee participated in PERS. The remaining employees participated in FURS. Contributions to the plans are required by State statute. Information about the two plans is presented below. Total payroll for District employees for the year ended June 30, 2014 was \$139,689.

Firefighters' Unified Retirement System (FURS) - Eligible District employees are provided benefits by the plan, which is administered by the State of Montana. Funding is provided by participating units of government and their employees. The District's contribution to this plan for the year ended June 30, 2014 was \$19,057, (14.36% of payroll). The State of Montana contributes 32.61% of the employees' base salary and longevity pay, which is considered to be an "on behalf" payment and a significant part of the FURS funding policy. Required employee contributions to this plan were \$14,051 (10.70% of payroll) for the year ended June 30, 2014. Total payroll for employees covered by FURS was \$132,706. One hundred percent of the required contributions were made for the current year and the preceding two years. Total required contributions were \$33,108, \$46,000, and \$45,546 for the fiscal years ended June 30, 2014, 2013 and 2012 respectively.

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

Participants become eligible for benefits after age 50 and 5 years of service, 20 years regardless of age, or if hired before July 1, 1981, 10 years but less than 20 years. Rights become vested after 5 years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the State Legislature. The FURS financial information is reported in the Montana Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year-end. It is available at 100 North Park Ave, Suite 200, P.O. Box 200131, Helena, Montana 59620-0131, (406) 444-3154.

Public Employees' Retirement System (PERS) - Eligible District employees are provided pension benefits by the plan, which is administered by the State of Montana. Funding is provided by participating units of government and their employees. The District's contribution to this plan for the year ended June 30, 2014 was \$163 (8.07% of payroll). The State of Montana contributes .1% of the PERS employees' monthly compensation, which is considered to be an "on behalf" payment. Although not a significant amount, the contribution is a part of the PERS funding policy. The District's contribution to this plan represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$160 (7.90% of eligible payroll) for the year ended June 30, 2014. Total payroll for employees covered by PERS was \$2,022. One hundred percent of the required contributions were made for the current year and the preceding two years. Total required contributions were \$323, \$9,232, and \$8,954, for the fiscal years ending June 30, 2014, 2013 and 2012 respectively.

Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit is 1/56 of the final compensation for each year of credited service, paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 50 and 5 years of service or after 25 years of service regardless of age. Rights become vested after 5 years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the State Legislature. The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year-end. It is available from the PERD at 100 North Park Ave, Suite 200, P.O. Box 200131, Helena, Montana 59620-0131, (406) 444-3154.

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 VFIS Insurance Group 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.

Note H Donated Services and Supplies

The District receives donated services from unpaid volunteers. No amounts have been recognized in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds because the criteria for recognition of such volunteer effort under Financial Accounting Standards Board in its Accounting Standards Codifications (ASC) No. 605-15-15-7 have not been satisfied.

NOTES TO FINANCIAL STATEMENTS - CONTINUED**For the Year Ended June 30, 2014****Note I Interlocal Agreement**

On May 29, 2008, the District entered into a Interlocal Fire Partnership Agreement with Rae Fire Service Area and the Amsterdam Fire District for the purpose to make the most efficient use of the available resources such as personnel, apparatus, equipment real property, operation or administrative functions and facilities in order to meet the current and future needs of the participating public entities and the communities they serve through a joint or cooperative undertaking. The agreement was for an initial term of three years with renewal of the agreement happening on September 30, 2011, if the agreement was not terminated by any parties prior, for another three years. Under the agreement the District pays employee salaries and then is reimbursed by Rae Fire Service Area and Amsterdam Fire District for their proportional share of employee salaries. During the year ended June 30, 2014 the district received \$73,436 worth of cost reimbursements from the participating entities.

REQUIRED SUPPLEMENTAL INFORMATION

Sourdough Rural Fire District

Gallatin County
Bozeman, Montana
June 30, 2014

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>GENERAL FUND</u>	
	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>
REVENUES		
Taxes	455,934	445,011
Grants	0	10,963
Interest	0	4,872
Charges for services	0	100
Miscellaneous	0	3,901
Total revenues	<u>455,934</u>	<u>464,847</u>
EXPENDITURES		
Current:		
Public safety	455,934	231,582
Capital outlay		7,000
Total Expenditures	<u>455,934</u>	<u>238,582</u>
Excess (deficiency) of revenues over expenditures	<u>0</u>	<u>226,265</u>
OTHER FINANCING SOURCES (USES)		
Transfers in		154,378
Transfers out		<u>(500,000)</u>
Total other financing sources (uses)		<u>(345,622)</u>
Excess (deficiency) of revenues over expenditures and other sources		(119,357)
Fund Balances - beginning		<u>505,874</u>
Fund Balances - ending		<u><u>386,517</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	
Capital Improvement		X
Debt Service	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.

The District adopts an annual budget for all of its funds in accordance with Title 7, Chapter 6, Part 40 of the Montana Code Annotated. Statute requires the adoption of a preliminary budget, public hearings on the preliminary budget and the final adoption of the budget by the later of the first Thursday after the first Tuesday of September or within 30 calendar days of the receipt of the certified taxable valuations from the Department of Revenue. The District must also submit a copy of the final budget to the Department of Administration by the later of October 1 or 60 days after the receipt of taxable values from the Department of Revenue.

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

Sourdough Rural Fire District

Gallatin County
Bozeman, Montana
June 30, 2014



**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**

March 24, 2015

Board of Trustees
Sourdough Rural Fire District
Bozeman, 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 Sourdough Rural Fire District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Sourdough Rural Fire District's basic financial statements, and have issued our report thereon dated March 24, 2015.

Internal Control over Financial Reporting

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

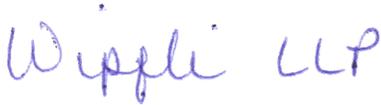
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 about whether Sourdough 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*.

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.



Wipfli LLP
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:

Unmodified

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?

_____ Yes X No

Is any noncompliance material to financial statements noted?

_____ Yes X No

Section II – Financial Statement Findings

None

Section III - Summary Schedule of Prior Audit Findings

2013-001 - Implemented