



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Bainbridge Island Fire Department
Kitsap County

For the period January 1, 2015 through December 31, 2016

Published February 22, 2018

Report No. 1020799





**Office of the Washington State Auditor
Pat McCarthy**

February 22, 2018

Board of Commissioners
Bainbridge Island Fire Department
Bainbridge Island, Washington

Report on Financial Statements

Please find attached our report on Bainbridge Island Fire Department's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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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**

**Bainbridge Island Fire Department
Kitsap County
January 1, 2015 through December 31, 2016**

Board of Commissioners
Bainbridge Island Fire Department
Bainbridge Island, Washington

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 Bainbridge Island Fire Department, Kitsap County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated February 15, 2018.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's

internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy

State Auditor

Olympia, WA

February 15, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Bainbridge Island Fire Department Kitsap County January 1, 2015 through December 31, 2016

Board of Commissioners
Bainbridge Island Fire Department
Bainbridge Island, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Bainbridge Island Fire Department, Kitsap County, Washington, for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits 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 District'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 District'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.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Bainbridge Island Fire Department has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Bainbridge Island Fire Department, for the years ended December 31, 2016 and 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Bainbridge Island Fire Department, as of December 31, 2016 and 2015, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2018 on our consideration of the 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 the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

February 15, 2018

FINANCIAL SECTION

**Bainbridge Island Fire Department
Kitsap County
January 1, 2015 through December 31, 2016**

FINANCIAL STATEMENTS

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Bainbridge Island Fire Department
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General	201 Debt Service	301 Capital
Beginning Cash and Investments					
30810	Reserved	15,744,528	-	-	15,744,528
30880	Unreserved	6,176,629	5,256,319	5,349	914,961
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	9,466,116	8,373,090	1,093,026	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	19,208	19,148	60	-
340	Charges for Goods and Services	577,158	577,158	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	176,685	55,378	1,291	120,016
Total Revenues:		10,239,167	9,024,775	1,094,377	120,016
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	7,460,684	7,460,684	-	-
Total Expenditures:		7,460,684	7,460,684	-	-
Excess (Deficiency) Revenues over Expenditures:		2,778,483	1,564,090	1,094,377	120,016
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	262,920	-	12,920	250,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	9,245	-	-	9,245
Total Other Increases in Fund Resources:		272,165	-	12,920	259,245
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,539,160	-	-	1,539,160
591-593, 599	Debt Service	1,105,674	-	1,105,674	-
597	Transfers-Out	262,920	250,000	-	12,920
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		2,907,754	250,000	1,105,674	1,552,080
Increase (Decrease) in Cash and Investments:		142,894	1,314,090	1,623	(1,172,819)
Ending Cash and Investments					
5081000	Reserved	14,613,682	-	-	14,613,682
5088000	Unreserved	7,450,369	6,570,411	6,971	872,987
Total Ending Cash and Investments		22,064,052	6,570,411	6,971	15,486,669

The accompanying notes are an integral part of this statement.

Bainbridge Island Fire Department
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		<u>Total for All Funds (Memo Only)</u>	<u>001 General</u>	<u>201 Debt Service</u>	<u>301 Capital</u>
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	5,783,643	4,917,845	100	865,698
388 & 588	Prior Period Adjustments, Net	168,983	147,189	-	21,795
Operating Revenues					
310	Taxes	7,206,249	7,206,249	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	15,241	15,241	-	-
340	Charges for Goods and Services	550,420	550,420	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	64,882	43,007	6	21,869
Total Operating Revenues:		<u>7,836,792</u>	<u>7,814,917</u>	<u>6</u>	<u>21,869</u>
Operating Expenditures					
510	General Government	-	-	-	-
520	Public Safety	7,374,733	7,374,733	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		<u>7,374,733</u>	<u>7,374,733</u>	<u>-</u>	<u>-</u>
Net Operating Increase (Decrease):		462,059	440,184	6	21,869
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	24,550	1,000	-	23,550
391-393	Debt Proceeds	16,075,343	-	5,343	16,070,000
397	Transfers-In	250,100	100	-	250,000
Total Nonoperating Revenues:		<u>16,349,993</u>	<u>1,100</u>	<u>5,343</u>	<u>16,343,550</u>
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	-	-	-	-
591-593	Debt Service	57,080	-	-	57,080
594-595	Capital Expenditures	536,343	-	-	536,343
597	Transfers-Out	250,100	250,000	100	-
Total Nonoperating Expenditures:		<u>843,523</u>	<u>250,000</u>	<u>100</u>	<u>593,423</u>
Net Increase (Decrease) in Cash and Investments:		15,968,529	191,284	5,249	15,771,996
Ending Cash and Investments					
5081000	Reserved	15,744,528	-	-	15,744,528
5088000	Unreserved	6,176,629	5,256,319	5,349	914,961
Total Ending Cash and Investments		21,921,157	5,256,319	5,349	16,659,489

The accompanying notes are an integral part of this statement.

Bainbridge Island Fire Department
Notes to the Financial Statements
For the year ended 12/31/2016

Note 1 - Summary of Significant Accounting Policies

The Bainbridge Island Fire Department was incorporated on October 19, 1942 and operates under the laws of the state of Washington applicable to a fire district. The Bainbridge Island Fire Department is a special purpose local government and provides fire protection and emergency medical services.

The Bainbridge Island Fire Department reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Expense Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Budgets

The Bainbridge Island Fire Department adopts annual appropriated budgets for all of its funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$ 7,975,753	\$ 7,690,931	\$ 284,822
Debt Service Fund:	\$ 1,105,675	\$ 1,105,674	\$ 1
Capital Fund	\$ 10,328,000	\$ 1,568,632	\$ 8,759,368

Budgeted amounts are authorized to be transferred between funds; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Bainbridge Island Fire Department's legislative body.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to a maximum of one year's accrual and is payable upon separation or retirement. For represented employees, sick leave accrued prior to January 1, 2015 is paid out at 100%. Sick leave accrued after January 1, 2015 is paid out at 75%. Upon separation or retirement employees receive a calculated distribution to their Health Retirement Account for unused sick leave. Payments are recognized as expenditures when paid.

G. Other Financing Sources or Uses

The government's *Other Financing Sources* consist of proceeds from the sale of a capital asset vehicle for \$9,245.00.

H. Risk Management

Bainbridge Island Fire Department is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2016, there are 524 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Commissioners. When expenditures that meet restrictions are incurred, the Department intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of Voted General Obligation Bonds of \$14,613,682.

Note 2 – Deposits and Investments

It is the Bainbridge Island Fire Department’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by FDIC. All investments are insured, registered or held by the Kitsap County Treasurer or its agent in the government’s name.

Investments are reported at original cost. Investments by type at December 31, 2016 are as follows:

<u>Type of Investment</u>	<u>Department’s own investments</u>	<u>Investments held by Kitsap County Treasurer as an agent for other local governments, individuals or private organizations.</u>	<u>Total</u>
L.G.I.P.	\$ <u>0</u>	\$ <u>22,027,475</u>	\$ <u>22,027,475</u>
Total	\$ <u>0</u>	\$ <u>22,027,475</u>	\$ <u>22,027,475</u>

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed throughout each month.

Property tax revenues are recognized when cash is received by Bainbridge Island Fire Department. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Bainbridge Island Fire Department’s regular levy for the year 2016 was \$.952580 per \$1,000 on an assessed valuation of \$6,211,210,950 for a total regular levy of \$5,916,960.

The Bainbridge Island Fire Department’s Emergency Medical Services levy for the year 2016 was \$.399999 per \$1,000 on an assessed valuation of \$6,211,210,950 for a total regular levy of \$2,484,603.

The Bainbridge Island Fire Department’s Voted Bond levy for the year 2016 was \$.178892 per \$1,000 on an assessed valuation of \$6,180,675,275 for a total regular levy of \$1,105,675.

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Bainbridge Island Fire Department and summarizes the Department's debt transactions for year ended December 31, 2016.

The debt service requirements for general obligation bonds, revenue bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 535,000	\$ 573,288	\$ 1,108,288
2018	\$ 560,000	\$ 546,538	\$ 1,106,538
2019	\$ 590,000	\$ 518,538	\$ 1,108,538
2020	\$ 620,000	\$ 489,038	\$ 1,109,038
2021	\$ 650,000	\$ 458,038	\$ 1,108,038
2022 – 2034	\$ 11,500,000	\$ 2,888,613	\$ 14,388,613
TOTALS	<u>\$ 14,455,000</u>	<u>\$ 5,474,053</u>	<u>\$19,929,053</u>

Note 5 – Pension Plans

State Sponsored Pension Plans

Substantially all Bainbridge Island Fire Department full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plan: LEOFF II.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The Bainbridge Island Fire Department also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2016 (the measurement date of the plans), the Bainbridge Island Fire Department proportionate share of the collective net pension liabilities, was as follows:

	Allocation %	Liability (Asset)
LEOFF 1	.005349%	\$ (55,110)
LEOFF 2	.129288%	\$ (751,978)
VFFRPF	.33%	\$ (56,476)

LEOFF Plan 1

The Bainbridge Island Fire Department also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

The Bainbridge Island Fire Department participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 6 – Post Employment Benefit Commitments

The Bainbridge Island Fire Department has a commitment to pay for post-employment benefits for employees that belong to LEOFF I. These benefits include medical expenses. Three retirees received benefits during the year at a cost of \$22,696.

Note 7 – Construction Commitment

The Bainbridge Island Fire Department has three active construction projects as of December 31, 2016. The projects are a remodel to Fire Station 23 and Architectural services for replacement of Station 21 and Station 22. At year end the Department’s commitments were as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Station 23	\$ 266,000	\$ 107,400
Architecture St 21 & St 22	\$ 841,960	\$ 280,504

Note 8 – Subsequent Events

The Board of Commissioners approved a construction contract of \$7,900,000 on March 23, 2017 for the reconstruction of Station 21.

Bainbridge Island Fire Department
Notes to the Financial Statements
For the year ended 12/31/2015

Note 1 - Summary of Significant Accounting Policies

The Bainbridge Island Fire Department was incorporated on October 19, 1942 and operates under the laws of the state of Washington applicable to a fire district. The Bainbridge Island Fire Department is a special purpose local government and provides fire protection and emergency medical services.

The Bainbridge Island Fire Department reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General (Expense) Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Budgets

The Bainbridge Island Fire Department adopts annual appropriated budgets for all of its funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$7,718,241	\$7,684,883	\$33,358
Debt Service Fund:	\$0	\$100	(\$100)
Capital Fund:	\$1,103,763	\$589,943	\$513,820

Budgeted amounts are authorized to be transferred between funds; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Bainbridge Island Fire Department's legislative body.

D. Cash and Investments

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to a maximum of one year's accrual days and is payable upon separation or retirement. For represented employees sick leave accrued prior to January 1, 2015 is paid out at 100%. Sick leave accrued after January 1, 2015 is paid out at 75%. Upon separation or retirement employees receive a calculated distribution to their Health Reimbursement Account for unused sick leave. Payments are recognized as expenditures when paid.

G. Other Financing Sources or Uses

The government's *Other Financing Sources* consist of proceeds from the sale of a capital asset vehicle

for \$23,550 and Insurance recoveries of \$1,000.

H. Risk Management

Bainbridge Island Fire Department is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is

for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$10 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Commissioners. When expenditures that meet restrictions are incurred, the Department intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of Voted General Obligation Bonds of \$15,744,528.

Note 2 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed throughout each month.

Property tax revenues are recognized when cash is received by the Bainbridge Island Fire Department. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Bainbridge Island Fire Department’s regular levy for the year 2015 was \$.863382 per \$1,000 on an assessed valuation of \$5,708,210,319 for a total regular levy of \$4,928,679.

The Bainbridge Island Fire Department’s Emergency Medical Services levy for the year 2015 was \$.40 per \$1,000 on an assessed valuation of \$5,708,210,319 for a total regular levy of \$2,285,395.

Note 3 – Deposits and Investments

It is the Bainbridge Island Fire Department’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by FDIC. All investments are insured, registered or held by the Kitsap County Treasurer or its agent in the government’s name.

Investments are reported at original cost. Investments by type at December 31, 2015 are as follows:

<u>Type of Investment</u>	Department’s own investments	Investments held by Kitsap County Treasurer as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$ <u>0</u>	\$ <u>21,891,103</u>	\$ <u>21,891,103</u>
Total	\$ <u>0</u>	\$ <u>21,891,103</u>	\$ <u>21,891,103</u>

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Bainbridge Island Fire Department and summarizes the Bainbridge Island Fire Department debt transactions for year ended December 31, 2015.

The debt service requirements for general obligation bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$455,000	\$650,674	\$1,105,674
2017	\$535,000	\$573,288	\$1,108,288
2018	\$560,000	\$546,538	\$1,106,538
2019	\$590,000	\$518,538	\$1,108,538
2020	\$620,000	\$489,038	\$1,109,038
2021- 2034	\$12,150,000	\$3,346,650	\$15,496,650
TOTALS	<u>\$14,910,000</u>	<u>\$6,124,726</u>	<u>\$21,034,726</u>

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all Bainbridge Island Fire Department’s full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plan; LEOFF II.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The Bainbridge Island Fire Department also participates in the Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2015, the Bainbridge Island Fire Department's proportionate share of the collective net pension liabilities, was as follows:

	Allocation %	Liability (Asset)
LEOFF 1	.005292%	(\$63,780)
LEOFF 2	.118005%	(\$1,212,855)
VFFRPF	.49%	(\$93,490)

LEOFF Plan 2

The Bainbridge Island Fire Department participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 6 – Prior Period Adjustment

Prior period adjustments were made totaling \$168,983.45 due to understated cash beginning balances in the General and Capital Funds. The adjustments were made to more accurately reflect cash basis accounting.

Note 7 – Subsequent Event

The Board of Commissioners approved a construction contract of \$334,000 on September 13, 2016 for the capital improvements of Station 23.

**Bainbridge Island Fire Department
Schedule of Liabilities
For the Year Ended December 31, 2016**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.12	Rebuild 2 fire stations	12/31/2034	14,910,000	-	455,000	14,455,000
	Total General Obligation Debt/Liabilities:		14,910,000	-	455,000	14,455,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		1,530,543	89,058	-	1,619,601
	Total Revenue and Other (non G.O.) Debt/Liabilities:		1,530,543	89,058	-	1,619,601
	Total Liabilities:		16,440,543	89,058	455,000	16,074,601

**Bainbridge Island Fire Department
Schedule of Liabilities
For the Year Ended December 31, 2015**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.12	Rebuild of 2 Fire Stations and remodel of another	12/31/2034	-	14,910,000	-	14,910,000
	Total General Obligation Debt/Liabilities:		-	14,910,000	-	14,910,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		1,429,421	101,122	-	1,530,543
	Total Revenue and Other (non G.O.) Debt/Liabilities:		1,429,421	101,122	-	1,530,543
	Total Liabilities:		1,429,421	15,011,122	-	16,440,543

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov