



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

**Financial Statements Audit Report**  
**Bainbridge Island Fire Department**

**For the period January 1, 2017 through December 31, 2018**

**Published November 12, 2019**

**Report No. 1024917**





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

November 12, 2019

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,

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

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	11
About the State Auditor's Office.....	29

**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  
January 1, 2017 through December 31, 2018**

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, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 30, 2019.

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 opinions 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 initial "P" and "M".

Pat McCarthy  
State Auditor  
Olympia, WA

October 30, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Bainbridge Island Fire Department January 1, 2017 through December 31, 2018**

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, for the years ended December 31, 2018 and 2017, 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 cash and investments of Bainbridge Island Fire Department, and its changes in cash and investments, for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, 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 conducted 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 October 30, 2019 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

October 30, 2019

## **FINANCIAL SECTION**

### **Bainbridge Island Fire Department January 1, 2017 through December 31, 2018**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2018  
Fund Resources and Uses Arising from Cash Transactions – 2017  
Notes to Financial Statements – 2018  
Notes to Financial Statements – 2017

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2018  
Schedule of Liabilities – 2017

**Bainbridge Island Fire Department**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General</b>	<b>201 Debt Service</b>	<b>301 Capital</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	9,675,106	-	-	9,675,106
30880	Unreserved	8,025,349	7,355,188	50,184	619,977
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	10,208,101	9,098,670	1,109,431	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	146,627	146,588	40	-
340	Charges for Goods and Services	837,185	837,185	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	236,523	134,695	5,888	95,940
Total Revenues:		11,428,436	10,217,137	1,115,359	95,940
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	9,140,469	9,140,469	-	-
Total Expenditures:		9,140,469	9,140,469	-	-
Excess (Deficiency) Revenues over Expenditures:		2,287,967	1,076,669	1,115,359	95,940
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	1,100,013	13	-	1,100,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	24,128	9,385	-	14,743
Total Other Increases in Fund Resources:		1,124,141	9,398	-	1,114,743
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	9,323,549	-	-	9,323,549
591-593, 599	Debt Service	1,106,538	-	1,106,538	-
597	Transfers-Out	1,100,013	1,100,000	-	13
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		11,530,100	1,100,000	1,106,538	9,323,562
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(8,117,992)</b>	<b>(13,933)</b>	<b>8,822</b>	<b>(8,112,879)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	751,212	-	-	751,212
5088000	Unreserved	8,831,252	7,341,255	59,005	1,430,992
<b>Total Ending Cash and Investments</b>		<b>9,582,464</b>	<b>7,341,255</b>	<b>59,005</b>	<b>2,182,204</b>

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, 2017**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General</b>	<b>201 Debt Service</b>	<b>301 Capital</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	14,613,682	-	-	14,613,682
30880	Unreserved	7,450,368	6,570,410	6,971	872,987
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	9,855,140	8,706,508	1,148,632	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	13,887	13,822	65	-
340	Charges for Goods and Services	493,501	493,501	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	233,645	89,557	2,803	141,285
Total Revenues:		10,596,173	9,303,388	1,151,500	141,285
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	8,282,778	8,282,778	-	-
Total Expenditures:		8,282,778	8,282,778	-	-
Excess (Deficiency) Revenues over Expenditures:		2,313,395	1,020,610	1,151,500	141,285
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	250,000	-	-	250,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	14,168	14,168	-	-
Total Other Increases in Fund Resources:		264,168	14,168	-	250,000
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	5,582,872	-	-	5,582,872
591-593, 599	Debt Service	1,108,288	-	1,108,288	-
597	Transfers-Out	250,000	250,000	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		6,941,160	250,000	1,108,288	5,582,872
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(4,363,597)</b>	<b>784,778</b>	<b>43,212</b>	<b>(5,191,587)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	9,675,106	-	-	9,675,106
5088000	Unreserved	8,025,349	7,355,188	50,184	619,977
<b>Total Ending Cash and Investments</b>		<b>17,700,455</b>	<b>7,355,188</b>	<b>50,184</b>	<b>10,295,083</b>

The accompanying notes are an integral part of this statement.

**Bainbridge Island Fire Department**  
**Notes to the Financial Statements**  
**For the year ended 12/31/2018**

**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 and the total column is presented as "memo only". The following fund types are used:

GOVERNMENTAL FUND TYPES:

General 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. Cash and Investments

See Note 3, *Deposits and Investments*.

D. 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.

E. 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.

F. Long-Term Debt

See Note 5, *Debt Service Requirements*.

G. 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 Fire 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 proceeds from Voted General Obligation Bonds of \$751,212.

H. Other Financing Sources or Uses

The Department's *Other Financing Sources* consist of proceeds from the sale of capital assets for \$14,743 and insurance recoveries for \$9,385.

**Note 2 – Budget Compliance**

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	\$ 10,291,564	\$ 10,111,508	\$ 180,056
Debt Service Fund	\$ 1,106,538	\$ 1,106,538	\$ 0
Capital Fund	\$ 11,272,000	\$ 9,323,609	\$ 1,948,392

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 Board of Commissioners.

**Note 3 – Deposits and Investments**

It is the Bainbridge Island Fire Department’s policy to invest all temporary cash surpluses by Fund.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation. All investments are insured, registered or held by the Kitsap County Treasurer.

Investments are reported at original cost. Investments by type at December 31, 2018 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</u>	<u>Total</u>
L.G.I.P.	\$ 0	\$ 9,542,335	\$ 9,542,335
Total	\$ 0	\$ 9,542,335	\$ 9,542,335

**Note 4 - 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 regular levy for the year 2018 was \$.854191 per \$1,000 on an assessed valuation of \$7,542,154,879 for a total regular levy of \$6,442,672.

The Bainbridge Island Fire Department EMS levy for the year 2018 was \$.349641 per \$1,000 on an assessed valuation of \$7,542,154,879 for a total EMS levy of \$2,637,148.

The Bainbridge Island Fire Department Voted Bond levy for the year 2018 was \$ .147445 per \$1,000 on an assessed valuation of \$7,504,737,914 for a total regular levy of \$1,106,538.

### **Note 5 – Debt Service Requirements**

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, 2018.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	\$ 680,000	\$ 425,538	\$ 1,105,538
2023	\$ 715,000	\$ 391,538	\$ 1,106,538
2024 – 2034	\$ 10,105,000	\$ 2,071,538	\$ 12,176,538
TOTALS	<u>\$ 13,360,000</u>	<u>\$ 4,354,228</u>	<u>\$ 17,714,228</u>

### **Note 5 – Pension Plans**

#### **A. 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 plans: 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](http://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](http://www.ofm.wa.gov).

At June 30, 2018, the Bainbridge Island Fire Department proportionate share of the collective net pension liabilities was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
LEOFF 1	0	.005575%	\$ (101,214)
LEOFF 2	\$262,977.15	.151651%	\$ (3,078,846)
VFFRPF	\$930	.45%	\$(239,848.32)

#### LEOFF Plan 1

The Bainbridge Island Fire Department 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.

#### B. Defined Contribution Pension Plan

Non-emergency responding, administrative full-time and qualifying part-time employees of the Bainbridge Island Fire Department may participate in a 401(a) defined contribution pension plan. The Plan is administered by:

ICMA Retirement Corporation  
777 North Capitol Street, NE  
Washington, DC 20002

Employees are fully vested upon enrollment in the plan and contributions are made monthly. As a percent of salary, the employee contribution rate is 5.08% and the employer contribution rate is 7.62%. Eight employees were enrolled with employer paid contributions totaling \$48,781 in 2018.

#### **Note 6 – 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, 2018, there are 549 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 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions 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. The Pool’s 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.

Enduris did not have any claim settlements that exceeded limits in the last three years.

**Note 7 – Post Employment Benefit Commitments**

The LEOFF 1 Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the Bainbridge Island Fire Department as required by RCW 46.26.150. The plan pays for 100% of eligible retirees’ healthcare costs on a pay-as-you-go basis. As of December 31, 2018, the plan had 3 members, all retirees. For the year ended December 31, 2018, the Bainbridge Island Fire Department paid \$24,706 in benefits.

**Note 8 – Construction Commitment**

The Bainbridge Island Fire Department has two active projects as of December 31, 2018. The projects include architecture for Station 21 and 22, and 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 21 Construction	\$ 8,634,582	\$ 7,950
Station 22 Construction	\$ 3,284,579	\$ 1,476,356
Architecture St 21 & St 22	\$ 1,188,182	\$ 52,092

**Note 9 – Subsequent Events**

A general election on February 12, 2019 approved a permanent EMS levy with a cap of \$.40 per \$1,000 assessed value.

**Bainbridge Island Fire Department**  
**Notes to the Financial Statements**  
**For the year ended 12/31/2017**

**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 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	\$ 8,623,546	\$ 8,510,333	\$ 113,213
Debt Service Fund	\$ 1,108,288	\$ 1,108,288	\$ 0
Capital Fund	\$ 9,954,500	\$ 5,548,041	\$ 4,406,459

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. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. 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 Fire 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 \$9,675,106.

I. Other Financing Sources or Uses

The Department's *Other Financing Sources* consist of proceeds from the sale of a capital asset vehicle for \$6,245 and insurance recoveries for \$7,923.

**Note 2 – Deposits and Investments**

It is the Bainbridge Island Fire Department's policy to invest all temporary cash surpluses by Fund.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation. All investments are insured, registered or held by the Kitsap County Treasurer.

Investments are reported at original cost. Investments by type at December 31, 2017 are as follows:

<u>Type of Investment</u>	<u>Department's own investments</u>	Investments held by Kitsap County Treasurer as an agent for other local governments	Total
L.G.I.P.	\$ 0 _____	\$ 17,661,851 _____	\$ 17,661,851 _____
Total	\$ 0 _____	\$ 17,661,851 _____	\$ 17,661,851 _____

**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 regular levy for the year 2017 was \$.891500 per \$1,000 on an assessed valuation of \$6,898,602,303 for a total regular levy of \$6,150,456.

The Bainbridge Island Fire Department EMS levy for the year 2017 was \$.372707 per \$1,000 on an assessed valuation of \$6,898,602,303 for a total EMS levy of \$2,571,309.

The Bainbridge Island Fire Department Voted Bond levy for the year 2017 was \$ .167862 per \$1,000 on an assessed valuation of \$6,866,433,976 for a total regular levy of \$1,152,620.

**Note 4 – Debt Service Requirements**

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, 2017.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	\$ 680,000	\$ 425,538	\$ 1,105,538
2023 – 2034	\$ 10,820,000	\$ 2,430,575	\$ 13,250,575
<b>TOTALS</b>	<u>\$ 13,920,000</u>	<u>\$ 4,868,265</u>	<u>\$18,788,265</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 plans: 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](http://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](http://www.ofm.wa.gov).

At June 30, 2017, the Bainbridge Island Fire Department proportionate share of the collective net pension liabilities was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
LEOFF 1	0	.005350%	\$ (81,171)
LEOFF 2	\$209,656	.132716%	\$ (1,841,668)
VFFRPF	\$930	.43%	\$(161,214)

#### 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 – 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, 2017, there are 540 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.

#### **Note 7 – 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 \$19,219.

#### **Note 8 – Construction Commitment**

The Bainbridge Island Fire Department has two active projects as of December 31, 2017. The projects are architecture for Station 21 and 22, and replacement of Station 21. At year end the Department's commitments were as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Station 21 Construction	\$ 5,357,160	\$ 2,848,934
Architecture St 21 & St 22	\$ 1,053,489	\$ 186,785

#### **Note 9 – Subsequent Events**

The Board of Commissioners approved a construction contract of \$4,680,000 on April 18, 2018 for the reconstruction of Station 22.

**Bainbridge Island Fire Department  
Schedule of Liabilities  
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
251.11	Rebuild Fire Stations	12/1/2034	13,920,000	-	560,000	13,360,000
	<b>Total General Obligation Debt/Liabilities:</b>		<b>13,920,000</b>	<b>-</b>	<b>560,000</b>	<b>13,360,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	compensated Absences		1,690,929	-	73,159	1,617,770
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>1,690,929</b>	<b>-</b>	<b>73,159</b>	<b>1,617,770</b>
	<b>Total Liabilities:</b>		<b>15,610,929</b>	<b>-</b>	<b>633,159</b>	<b>14,977,770</b>

**Bainbridge Island Fire Department  
Schedule of Liabilities  
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
251.12	Rebuild 2 Fire Stations	12/1/2034	14,455,000	-	535,000	13,920,000
	<b>Total General Obligation Debt/Liabilities:</b>		<b>14,455,000</b>	<b>-</b>	<b>535,000</b>	<b>13,920,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		1,619,601	71,328	-	1,690,929
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>1,619,601</b>	<b>71,328</b>	<b>-</b>	<b>1,690,929</b>
	<b>Total Liabilities:</b>		<b>16,074,601</b>	<b>71,328</b>	<b>535,000</b>	<b>15,610,929</b>

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>