



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Kitsap County Fire Protection District
No. 7
(South Kitsap Fire and Rescue)

For the period January 1, 2014 through December 31, 2015

Published January 19, 2017

Report No. 1018401





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

January 19, 2017

Board of Commissioners
South Kitsap Fire and Rescue
Port Orchard, Washington

Report on Financial Statements

Please find attached our report on the South Kitsap Fire and Rescue'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**

**South Kitsap Fire and Rescue
Kitsap County
January 1, 2014 through December 31, 2015**

Board of Commissioners
South Kitsap Fire and Rescue
Port Orchard, 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 the South Kitsap Fire and Rescue, Kitsap County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 11, 2017.

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, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

January 11, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Kitsap Fire and Rescue Kitsap County January 1, 2014 through December 31, 2015

Board of Commissioners
South Kitsap Fire and Rescue
Port Orchard, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the South Kitsap Fire and Rescue, Kitsap County, Washington, for the years ended December 31, 2015 and 2014, 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 an opinion 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, the South Kitsap Fire and Rescue 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 the South Kitsap Fire and Rescue, for the years ended December 31, 2015 and 2014, 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 the South Kitsap Fire and Rescue, as of December 31, 2015 and 2014, 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 an opinion on the financial statements taken as a whole. The accompanying 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 January 11, 2017 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

January 11, 2017

FINANCIAL SECTION

**South Kitsap Fire and Rescue
Kitsap County
January 1, 2014 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015 and 2014
Notes to Financial Statements – 2015 and 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015 and 2014

Kitsap County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 General Fund	101 EMS Fund
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	5,348,544	2,605,918	7,130
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	12,820,389	12,820,389	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	516,596	516,596	-
340	Charges for Goods and Services	1,931,404	1,931,404	-
350	Fines and Penalties	1,374	1,374	-
360	Miscellaneous Revenues	63,510	44,984	701
Total Operating Revenues:		15,333,273	15,314,746	701
Operating Expenditures				
510	General Government	-	-	-
520	Public Safety	13,458,556	13,456,108	226
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		13,458,556	13,456,108	226
Net Operating Increase (Decrease):		1,874,717	1,858,638	475
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	88,646	88,646	-
391-393	Debt Proceeds	4,923,007	-	-
397	Transfers-In	-	-	-
Total Nonoperating Revenues:		5,011,653	88,646	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	76,893	76,893	-
591-593	Debt Service	92,063	92,063	-
594-595	Capital Expenditures	886,091	886,091	-
597	Transfers-Out	-	-	-
Total Nonoperating Expenditures:		1,055,047	1,055,047	-
Net Increase (Decrease) in Cash and Investments:		5,831,323	892,237	475
Ending Cash and Investments				
5081000	Reserved	4,432	-	-
5088000	Unreserved	11,175,433	3,498,155	7,606
Total Ending Cash and Investments		11,179,865	3,498,155	7,606

The accompanying notes are an integral part of this statement.

201 Debt Service Fund	301 Capital Projects Fund
-	-
-	2,735,495
-	-
-	-
-	-
-	-
-	-
-	17,825
-	17,825
-	-
-	2,223
-	-
-	2,223
-	15,602
-	-
4,432	4,918,575
-	-
4,432	4,918,575
-	-
-	-
-	-
-	-
-	-
4,432	4,934,177
4,432	-
-	7,669,672
4,432	7,669,672

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 General Fund	101 EMS Fund	301 Capital Projects Fund
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	4,777,367	2,167,594	5,975	2,603,798
388 & 588	Prior Period Adjustments, Net	140	140	-	-
Operating Revenues					
310	Taxes	12,400,340	12,400,340	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	152,235	152,235	-	-
340	Charges for Goods and Services	2,161,085	2,161,085	-	-
350	Fines and Penalties	2,010	2,010	-	-
360	Miscellaneous Revenues	61,198	44,460	1,289	15,449
Total Operating Revenues:		14,776,868	14,760,130	1,289	15,449
Operating Expenditures					
510	General Government	-	-	-	-
520	Public Safety	13,799,817	13,799,683	134	-
Total Operating Expenditures:		13,799,817	13,799,683	134	-
Net Operating Increase (Decrease):		977,051	960,447	1,155	15,449
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	92,358	92,358	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	116,248	-	-	116,248
Total Nonoperating Revenues:		208,606	92,358	-	116,248
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	76,252	76,252	-	-
591-593	Debt Service	207,622	207,622	-	-
594-595	Capital Expenditures	214,498	214,498	-	-
597	Transfers-Out	116,248	116,248	-	-
Total Nonoperating Expenditures:		614,621	614,621	-	-
Net Increase (Decrease) in Cash and Investments:		571,037	438,185	1,155	131,697
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	5,348,544	2,605,918	7,130	2,735,495
Total Ending Cash and Investments		5,348,544	2,605,918	7,130	2,735,495

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No. 7

DBA: South Kitsap Fire and Rescue

Notes to the Financial Statements For the Year Ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

South Kitsap Fire and Rescue was incorporated on September 10, 1946 and operates under the laws of the state of Washington applicable to a fire district. South Kitsap Fire and Rescue is a general purpose local government and provides fire protection and emergency medical services to the general public.

South Kitsap Fire and Rescue 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.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

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

South Kitsap Fire and Rescue adopts annual appropriated budgets for General (90862) 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 follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Total 001 General Fund	15,592,733.00	14,511,154.84	1,081,578.16
Total 101 Special Revenue Fund		225.91	(225.91)
Total 301 Capital Projects Fund	809,333	2,222.93	807,110.07

2015 Budget was approved to move \$809,333 from the Capital Project Fund to the General Fund for capital projects. However, due to attrition of staff and some projects put on hold, the Fire Chief, with approval of the legislative body, gave direction to not transfer the money.

Budgeted amounts are authorized to be transferred between departments within the fund at the direction of the Fire Chief; 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 South Kitsap Fire and Rescue'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 \$4,999 and an estimated useful life in excess of one (1) years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

For non-represented and represented employees, one-and-one-half (1-1/2) times the amount of vacation actually earned for that year may be carried forward to the next year and is payable upon separation or retirement.

Sick leave may accumulate up to 960 hours for non-uniform employees, 1,316 hours for uniform employees, 1,040 for Battalion Chief Day employees, and 1,000 for Deputy Chief and Fire Chief. Upon retirement or death, non-uniform and Battalion Chief employees receive one (1) hour of pay for each hour of accumulated sick leave up to a maximum of 500 hours. Upon retirement, death, or reduction in force through lay off, suppression employees receive one (1) hours of pay for each hour of accumulated sick leave. Suppression employees and Battalion Chiefs who die in the line of duty will receive 100% of their accumulated sick leave. Upon retirement or death of the Fire Chief or Deputy Chief, the Fire Chief or Deputy Chief shall receive one-half (1/2) hour of pay for each hour of accumulated sick leave up to a maximum of 1,000 hours (maximum 500 hours paid).

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of agency revenue/expenditures to include sales tax, leasehold tax, retiree/commissioner medical/dental insurance premiums, sale of assets, and insurance recoveries.

I. Risk Management

South Kitsap Fire and Rescue 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.

J. 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 resolution of the legislative body. When expenditures that meet restrictions are incurred, South Kitsap Fire and Rescue intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of \$4,431.85 reserved for debt obligation towards the general obligation bond levy that passed November 3, 2015.

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 at the end of each month.

Property tax revenues are recognized when cash is received by South Kitsap Fire and Rescue. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

South Kitsap Fire and Rescue’s regular levy for the year 2015 was \$1.484711 per \$1,000 on an assessed valuation of \$6,393,754,710 for a total regular levy of \$9,492,882.

South Kitsap Fire and Rescue’s emergency medical services (EMS) levy for the year 2015 was \$0.499999 per \$1,000 on an assessed valuation of \$6,406,469,636 for a total regular levy of \$3,203,234.

Note 3 – Deposits and Investments

It is South Kitsap Fire and Rescue'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 the Federal Deposit Insurance Corporation (first \$100,000), the rest by Washington Public Deposit Protection Commission. Most money in investments collateralized by securities by Bank of New York. All investments are insured, registered or held by Kitsap County as its agent in the District's name.

Investments are reported at amortized cost plus interest. Investments by type at December 31, 2015 are as follows:

Type of Investment	Fund Account	SKFR own Investments	Total
Kitsap County Investment Pool	90862 – Expense	\$ 3,320,444.61	\$ 3,320,444.61
Kitsap County Investment Pool	90863 – Special	\$ 7,601.24	\$ 7,601.24
Kitsap County Investment Pool	90864 – Capital Project	\$ 2,749,134.98	\$ 2,749,134.98
TOTAL		\$ 6,077,180.83	\$ 6,077,180.83

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of South Kitsap Fire and Rescue and summarizes the District's debt transactions for year ended December 31, 2015.

The debt service requirements for voted general obligation bonds and LOCAL Program loans 1168-2-1, 1168-2-2, and 1168-3-1 including both principle and interest, are as follows:

	Principal	Interest	Total
2015	\$ 78,153.11	\$ 13,910.09	\$ 91,063.20
2016	\$ 916,728.08	\$ 156,986.51	\$ 1,073,714.59
2017	\$ 945,467.25	\$ 149,395.95	\$ 1,094,863.20
2018	\$ 966,918.60	\$ 119,932.69	\$ 1,085,851.29
2019	\$ 998,679.64	\$ 81,151.41	\$ 1,079,831.05
2020	\$ 1,040,000.00	\$ 41,600.00	\$ 1,081,600.00
TOTALS	\$ 4,945,946.68	\$ 562,976.65	\$ 5,508,923.33

November 3, 2015 South Kitsap Fire and Rescue passed a 5-year general obligation bond levy. This levy provided the District with \$4.9 million dedicated to updating apparatus fleet and equipment needs. Bond proceeds were received December 30, 2015 in the amount of \$4,923,006.85 to include par amount of \$4,620,000.00 with \$303,006.85 premium after deduction of \$32,340.00 underwriter's discount and \$2,500.00 document cost.

Note 5 - Pension Plans

A. State Sponsored Pension Plans

Substantially all South Kitsap Fire and Rescue'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 plans LEOFF 2, PERS 1, PERS 2, and PERS 3.

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.

South Kitsap Fire and Rescue 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 measurement date of the plans), South Kitsap Fire and Rescue's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.001179%	\$ 61,673
PERS 1 UAAL	0.005187%	\$ 271,328
PERS 2/3	0.006703%	\$ 239,502
LEOFF 1	0.016043%	\$ (193,354)
LEOFF 2	0.281346%	\$ (2,891,674)
VFFRPF	0.62%	\$ (119,858)

LEOFF Plan 1

South Kitsap Fire and Rescue 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

South Kitsap Fire and Rescue also 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 - Other Disclosures

- A. **Joint Agency Fund.** Resolution 96-6 established a Fire Service Joint Management fund (90921) with the Kitsap County Treasurer. This fund is a joint venture that was established for the benefit of developing training, maintenance, operations, communication, and administrative services with other fire service agencies and cities within Kitsap County. Voting members of the Joint Management Group currently consist of Bremerton Fire Department, Central Kitsap Fire & Rescue, South Kitsap Fire and Rescue, Kitsap County Central Communications (CenCom)/Department of Emergency Management (DEM), Kitsap County Coroner, and Kitsap County Sheriff's. The voting members nominate and vote on officers every two years. A chair's term begins in an even year and a vice chair and secretary/treasurer begins in an odd year. In previous years and through 2013, South Kitsap Fire and Rescue had members in the chair and secretary/treasurer positions. In 2013 the Kitsap Readiness Center Joint Management Group (KRCJMG) applied for and became a limited liability company (LLC). In 2014 KRCJMG, through resolution, closed their 90921 fund at the county and opened their own bank account. During this period, KRCJMG hired a Secretary/Treasurer. Although South Kitsap Fire and Rescue was a voting member in 2015, no members held voted positions such as Chair and/or Vice-Chair.
- B. **Significant Commitments or Obligations.**
1. **OPEB.** South Kitsap Fire and Rescue has a commitment to pay for post-employment benefits for employees that belong to Law Enforcement Officers Fire Fighters (LEOFF1). These benefits include medical/vision premiums, and direct out-of-pocket costs that are labeled patient's responsibility after medical insurance have paid their liability. Seven retirees received benefits during the year and \$71,080.77 was paid out for those benefits during the year.
 2. **Voluntary Separation Agreement.** Two members retired from South Kitsap Fire and Rescue on February 28, 2014. These members each signed a voluntary separation agreement that committed the District to future payments. Retiree 1's agreement was for a yearly lump sum of \$8,333 for 2014, 2015, and 2016 (total of \$8,333 x 3 years = \$24,999) deposited into the retiree's VEBA account. Retiree 2's agreement was for a total of \$25,000 applied to the retiree's medical insurance monthly until expended. Therefore, \$8,333 was put into one retiree's VEBA account for 2015 and \$6,198 was paid toward the other retiree's medical insurance for 2015.

Retiree 1	Amount Committed	Remark
2015	\$8,333.00	Deposited to VEBA account
2016	\$8,333.00	Deposited to VEBA account
TOTAL	\$16,666.00	TOTAL Committed
Retiree 2		
2015	\$6,198.00	Paid toward medical insurance
2016	\$6,198.00	Estimate to be paid toward medical insurance
2017	\$5,226.10	Estimate to be paid toward medical insurance
	\$17,622.10	TOTAL Committed

Kitsap County Fire Protection District No. 7

DBA: South Kitsap Fire and Rescue

For the Year Ended December 31, 2014

Note 1 - Summary of Significant Accounting Policies

South Kitsap Fire and Rescue was incorporated on September 10, 1946 and operates under the laws of the state of Washington applicable to a fire district. South Kitsap Fire and Rescue is a general purpose local government and provides fire protection and emergency medical services to the general public.

South Kitsap Fire and Rescue 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.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

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.

In accordance with state law South Kitsap Fire and Rescue also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

South Kitsap Fire and Rescue adopts annual appropriated budgets for General (90862) 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
Total 001 General Fund	14,852,768.18	14,298,055.82	554,712.36
Total 101 Special Revenue Fund	1,289.29	134.10	1,155.19
Total 301 Special Ambulance Revenue Funds	131,697.31	0	131,697.31

Budgeted amounts are authorized to be transferred between departments within the fund a the direction of the Fire Chief; 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 South Kitsap Fire and Rescue'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 \$4,999 and an estimated useful life in excess of one (1) years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

For non-represented and represented employees, one-and-one-half (1-1/2) times the amount of vacation actually earned for that year may be carried forward to the next year and is payable upon separation or retirement.

Sick leave may accumulate up to 960 hours for non-uniform employees, 1,316 hours for uniform employees, 1,040 for Battalion Chief Day employees, and 1,000 for Deputy Chief and Fire Chief. Upon retirement or death, employees receive one (1) hour of pay for each hour of accumulated sick leave up to a maximum of 500 hours. Suppression employees and Battalion Chiefs who die in the line of duty will receive 100% of their accumulated sick leave. Upon retirement or death of the Fire Chief, the Fire Chief shall receive one-half (1/2) hour of pay for each hour of accumulated sick leave up to a maximum of 1,000 hours. Upon retirement or death of the Deputy Chief, the Deputy Chief shall receive one-half (1/2) hour of pay for each hour of accumulated sick leave up to a maximum of 500 hours.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of inter-fund transfers between the General (Current Expense) Fund and Capital Project Funds to either reimburse the General Fund for capital projects authorized and completed in the current year or to fund future capital projects in an amount identified in the current year's operating budget for transfer to Capital Project funds from the General Fund.

I. Risk Management

South Kitsap Fire and Rescue is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **As of December 1, 2014, there are 223 members in the program.**

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision; Equipment Breakdown and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention of \$100,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000

self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy **with an attachment point of \$3,259,396**, to cap the total claims paid by the program in any one policy term.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of **Pumps & Motors which is \$10,000**. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. **On July 21, 2014, the Board passed a resolution changing the CIAW's renewal date from September 1 to December 1 beginning with the 2014-15 policy term.** An endorsement was added to the 2013-14 Memorandum of Coverage, extending coverage to December 1, 2014. The next full policy year will begin on December 1, 2014. Premiums were prorated to the extension period. Invoices and certificates were issued.

The program has no employees. Claims are filed by members/brokers with Canfield, who has been contracted to perform program administration, claims adjustment, administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending **December 1, 2014, were \$1,817,654.59.**

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 at the end of each month.

Property tax revenues are recognized when cash is received by South Kitsap Fire and Rescue. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

South Kitsap Fire and Rescue's regular levy for the year 2014 was \$1.50 per \$1,000 on an assessed valuation of \$6,158,793,895 for a total regular levy of \$9,238,191.

South Kitsap Fire and Rescue's emergency medical services (EMS) levy for the year 2014 was \$0.50 per \$1,000 on an assessed valuation of \$6,173,867,335 for a total regular levy of \$3,086,934.

Note 3 – Deposits and Investments

Deposits and Investments

It is South Kitsap Fire and Rescue'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 the Federal Deposit Insurance Corporation (first \$100,000), the rest by Washington Public Deposit Protection Commission. Most money in investments collateralized by securities by Bank of New York. All investments are insured, registered or held by Kitsap County as its agent in the District's name.

Investments are reported at amortized cost plus interest. Investments by type at December 31, 2014 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
90862 – Expense	\$ 2,337,485.80
90863 – Special	\$ 7,125.82
90864 – Capital Project	\$ 2,733,532.82
Total	\$ 5,078,144.44

Note 4 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of South Kitsap Fire and Rescue and summarizes the District's debt transactions for year ended December 31, 2014.

The debt service requirements for general obligation bonds, revenue bonds and other debt, including both principle and interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2014		\$ 207,622	\$ 360,271
2015		\$ 92,063	\$ 268,208
2016		\$ 92,063	\$ 176,145
2017		\$ 92,063	\$ 84,082
2018		\$ 59,851	\$ 24,231
2019		\$ 24,231	\$ -
TOTALS	<u>\$</u>	<u>\$ 567,893</u>	<u>\$ 912,937</u>

Note 5 - Pension Plans

Substantially all South Kitsap Fire and Rescue's full-time and qualifying part-time employees participate in PERS1, PERS2, PERS3, and LEOFF2 Plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

Note 6 - Other Disclosures

- A. Joint Agency Fund. Resolution 96-6 established a Fire Service Joint Management fund (90921) with the Kitsap County Treasurer. This fund is a joint venture that was established for the benefit of developing training, maintenance, operations, communication, and administrative services with other fire service agencies and cities within Kitsap County. Voting members of the Joint Management Group currently consist of Bremerton Fire Department, Central Kitsap Fire & Rescue, South Kitsap Fire and Rescue, Kitsap County Central Communications (CenCom)/Department of Emergency Management (DEM), Kitsap County Coroner, and Kitsap County Sheriff's. The voting members nominate and vote on officers every two years. A chair's term begins in an even year and a vice chair and secretary/treasurer begins in an odd year. In previous years and through 2013, South Kitsap Fire and Rescue had members in the chair and secretary/treasurer positions. Although South Kitsap Fire and Rescue was a voting member in 2014, no members held voted positions such as Chair, Vice-Chair, and/or Secretary/Treasurer.
- B. Significant Commitments or Obligations.
 1. OPEB. South Kitsap Fire and Rescue has a commitment to pay for post-employment benefits for employees that belong to Law Enforcement Officers Fire Fighters (LEOFF1). These benefits include medical/vision premiums, and direct out-of-pocket costs that are labeled patient's responsibility after medical insurance have paid their liability. Seven retirees received benefits during the year and \$48,086.90 was paid out for those benefits during the year.
 2. Voluntary Separation Agreement. Two members retired from South Kitsap Fire and Rescue on February 28, 2014. These members each signed a voluntary separation agreement that committed the District to future payments. Retiree 1's agreement was for a yearly lump sum of \$8,333 for three years (total of $\$8,333 \times 3 = \$24,999$) deposited into the retiree's VEBA account. Retiree 2's agreement was for a total of \$25,000 applied to the retiree's medical insurance monthly until expended. Therefore, \$8,333 was put into one retiree's VEBA account for 2014 and \$7,377.90 was paid

toward the other retiree's medical insurance for 2014.

Retiree 1	Amount Committed	Remark
2014	\$8,333.00	Deposited to VEBA account
2015	\$8,333.00	Deposited to VEBA account
2016	\$8,333.00	Deposited to VEBA account
TOTAL	\$24,999.00	

Retiree 2		
2014	\$7,377.90	Paid toward medical insurance
2015	\$6,198.00	Estimate to be paid toward medical insurance
2016	\$6,818.00	Estimate to be paid toward medical insurance
2017	\$4,606.10	Estimate to be paid toward medical insurance
TOTAL	\$25,000.00	

Kitsap County Fire Protection District No. 7
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	Voted GO Bond	12/1/2020	-	4,620,000	-	4,620,000
263.96	1168-2-1 LOCAL Program	12/1/2017	57,580	-	18,298	39,282
263.96	1168-2-2 LOCAL Program	6/1/2018	73,653	-	20,002	53,651
263.96	1168-3-1 LOCAL Program	6/1/2019	194,713	-	39,852	154,861
Total General Obligation Debt/Liabilities:			325,946	4,620,000	78,152	4,867,794
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liability		-	572,503	-	572,503
259.12	Compensated Absences		890,771	1,086,632	979,450	997,953
Total Revenue and Other (non G.O.) Debt/Liabilities:			890,771	1,659,135	979,450	1,570,456
Total Liabilities:			1,216,717	6,279,135	1,057,602	6,438,250

Kitsap County Fire Protection District No. 7
Schedule of Liabilities
For the Year Ended December 31, 2014

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.96	LOCAL Program	6/1/2014	28,129	-	28,129	-
263.96	LOCAL Program	12/1/2014	84,437	-	84,437	-
263.96	LOCAL Program	12/1/2017	75,038	-	17,458	57,580
263.96	LOCAL Program	6/1/2018	92,871	-	19,218	73,653
263.96	LOCAL Program	6/1/2019	232,773	-	38,060	194,713
259.11	Compensated Absences		962,192	1,116,880	1,188,301	890,771
Total General Obligation Debt/Liabilities:			1,475,440	1,116,880	1,375,603	1,216,717
Total Liabilities:			1,475,440	1,116,880	1,375,603	1,216,717

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
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Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov