



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Kittitas County Fire Protection District No. 2

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

Published May 22, 2017

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Office of the Washington State Auditor
Pat McCarthy

May 22, 2017

Board of Commissioners
Kittitas County Fire Protection District No. 2
Ellensburg, Washington

Report on Financial Statements

Please find attached our report on Kittitas County Fire Protection District No. 2'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**

**Kittitas County Fire Protection District No. 2
Kittitas County
January 1, 2016 through December 31, 2016**

Board of Commissioners
Kittitas County Fire Protection District No. 2
Ellensburg, 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 Kittitas County Fire Protection District No. 2, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 16, 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 audit 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, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

May 16, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Kittitas County Fire Protection District No. 2 Kittitas County January 1, 2016 through December 31, 2016

Board of Commissioners
Kittitas County Fire Protection District No. 2
Ellensburg, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Kittitas County Fire Protection District No. 2, Washington, for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, Kittitas County Fire Protection District No. 2 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 Kittitas County Fire Protection District No. 2, for the year ended December 31, 2016, 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 Kittitas County Fire Protection District No. 2, as of December 31, 2016, or the changes in financial position or cash flows for the year 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 audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is 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 May 16, 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.



Pat McCarthy

State Auditor

Olympia, WA

May 16, 2017

FINANCIAL SECTION

Kittitas County Fire Protection District No. 2 January 1, 2016 through December 31, 2016

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
Notes to Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016

Kittitas County Fire Protection District No. 2
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	010 GENERAL FUND 636-010	230 DEBT SERVICE FUND - STATION	321 STATION CONSTRUCTIO N FUND 636-021
Beginning Cash and Investments					
30810	Reserved	2,245,489	-	6,253	2,239,236
30880	Unreserved	5,232,265	5,232,265	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	4,300,513	3,842,471	458,042	-
320	Licenses and Permits	1,628	1,628	-	-
330	Intergovernmental Revenues	45,491	45,491	-	-
340	Charges for Goods and Services	2,630,927	2,630,927	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	37,671	33,194	2,575	1,903
Total Revenues:		7,016,231	6,553,712	460,617	1,903
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	5,749,360	5,749,360	-	-
Total Expenditures:		5,749,360	5,749,360	-	-
Excess (Deficiency) Revenues over Expenditures:		1,266,871	804,351	460,617	1,903
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	3,232,663	991,524	-	2,241,138
591-593, 599	Debt Service	449,550	-	449,550	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		3,682,213	991,524	449,550	2,241,138
Increase (Decrease) in Cash and Investments:		(2,415,342)	(187,173)	11,067	(2,239,235)
Ending Cash and Investments					
5081000	Reserved	17,320	-	17,320	-
5088000	Unreserved	5,045,092	5,045,092	-	-
Total Ending Cash and Investments		5,062,412	5,045,092	17,320	-

The accompanying notes are an integral part of this statement.

Kittitas County Fire Protection District No. 2

Notes to the Financial Statements

For the year ended December 31, 2016

Note 1 - Summary of Significant Accounting Policies

The Kittitas County Fire Protection District No. 2 was incorporated on April 25, 1945 and operates under the laws of the State of Washington applicable to fire districts. The district is a special purpose local government and provides fire protection, fire prevention and investigation, rescue, and EMS services to the general public and is supported primarily through property taxes, fire protection contracts, and ambulance transport user fees.

The district 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.

Internal managerial funds have been established within the General Fund to help management and staff track revenues and expenditures at a more detailed level. All of these internal managerial funds are rolled into one General Fund for annual reporting purposes:

General (010)

This is an operating fund that accounts for all resources and expenditures of a general nature that are not designated in another managerial fund.

EMS (011)

This is an operating fund that accounts for resources and expenditures resulting from the EMS operations that are related to ambulance transport and billing.

Construction (020)

This is an operating fund that accounts for resources and expenditures resulting from the acquisition or construction/remodeling of District fire stations and/or other structures necessary for the operation of the District.

Reserve (040)

This fund reflects the resources for financially supporting other managerial funds that might need temporary support.

Equipment Replacement (041)

This is an operating fund that accounts for resources and expenditures resulting from the acquisition of assorted equipment needs for the District operations.

Long-Term Planning (042)

This fund was created to save funds for future capital needs.

Long Term Care (060)

This fund reflects resources for financially supporting any additional long-term care responsibilities that the District is obligated to pay for LEOFF 1 retirees. When the District no longer has LEOFF 1 retiree financial responsibilities, this managerial fund will be eliminated.

Yakima Federal Savings Bank Revolving Fund (070)

The Revolving Fund checking account is used to pay small bills that are necessary to pay between regular check runs, such as paying for postage. The account is reimbursed each month to maintain a \$1,000 balance.

US Bank Deposit Fund (071)

The deposit account was created at the Kittitas County Treasurer's recommendation to separately track the District's daily deposits. The funds are moved from the US Bank account and deposited with the Treasurer on a weekly basis.

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. A Debt Service Fund was established in 2014 after the District's voters approved a General Obligation Bond to build a new headquarters fire station.

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. A Capital Project Fund was established in 2014 after the District's voters approved a General Obligation Bond to build a new headquarters fire station.

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 District adopts an annual appropriated budgets for all funds. These budgets are appropriated at the fund level, except within the general operating fund, where the budget is adopted using the managerial funds described above in section 1(A). 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:

	Final Appropriated Amounts	Final Expenditures	Variance
GENERAL FUND 636-010	\$ 7,651,509.00	\$ 7,510,583.83	\$ 140,925.17
DEBT SERVICE FUND - STATION BOND 636-230	\$ 450,050.00	\$ 449,550.00	\$ 500.00
STATION CONSTRUCTION FUND 636-321	\$ 2,241,136.00	\$ 2,241,138.48	\$ (2.48)

Budgeted amounts are authorized to be transferred between object classes within departments; 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 District's legislative body.

D. Cash and Investments

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased. They are expensed during the year of acquisition and there is no capitalization of capital assets, nor allocation of depreciation expense.

F. Compensated Absences

Vacation pay for shift employees under the International Association of Firefighters (IAFF) Local #1758 contract may be accumulated up to 480 hours and is payable upon separation or retirement. Vacation pay for 40-hour work week employees under the IAFF Local #1758 contract may be accumulated up to 240 hours and is payable upon separation or retirement. The personal services contract for the Fire Chief indicates that vacation pay for his 40-hour work week position may be accumulated up to 360 hours and is payable upon separation or retirement. Vacation pay for all other 40-hour work week administrative employees under personal services contracts may be accumulated at a rate of up to one and one-half (1½) years at the applicable accrual schedule based upon years of service and is payable upon separation or retirement.

Sick pay for shift employees under the IAFF Local #1758 contract may be accumulated up to 1440 hours. The Fire Chief's personal services contract indicates that he will accrue no additional sick leave as of December 31, 2016. His balance at that time was 944 hours. All other employees may accumulate up to 960 hours. Sick leave can only be used as paid time off for the illness of the employee, employees' spouses, their dependents, or their parents. IAFF employees with a minimum of ten (10) years of service who leave the district for reasons other than retirement may receive 20 percent of their accrued sick leave upon resignation, termination, or death. Those employees with a minimum of ten (10) years of service who retired in 2016 were eligible to receive a payout of 80 percent of their sick leave, not to include catastrophic sick leave. In 2017, sick leave will be paid out at 60 percent to employees who retire with at least ten (10) years of service. Employees with less than ten (10) years of service do not receive payment for unused sick leave upon resignation, termination, retirement or death. Administrative employees do not receive a sick leave payout under their current contracts. The Fire Chief has negotiated that 20 percent of his sick leave will be paid out at separation. In 2016, one person with over ten years of service retired. The retiree received his 80 percent sick leave payout at the beginning of 2017.

Non-exempt employees may choose compensatory time off at a rate of one and one-half times the time worked in lieu of overtime pay. The maximum accrual for compensatory time shall be one hundred and twenty (120) hours in a calendar year. Compensatory time must be paid out upon resignation, termination, retirement or death.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Risk Management

The District carries a full insurance policy through the Emergency Services Insurance Program (ESIP). This policy covers property, general liability, crime, auto, portable equipment, training and safety, and umbrella liability.

Medical, dental, and vision insurance for full-time employees is provided through Trusteed Plans. The District pays 90 percent of the premium for most employees while the remaining 10 percent is deducted from the employees' payroll each month. The Fire Chief's personal services contract stipulates that the District pays 100 percent of his health insurance premium.

The District self-insures for Unemployment Compensation.

I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as reserved when they are 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 District intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of:

Fund	Reserved	Description
230 Debt Service Fund	\$ 17,320.02	The Debt Service Fund is used to collect tax revenue and pay debt obligations related to the General Obligation Bond.
321 Station Construction Fund	\$ -	The Station Construction Fund is used to track bond proceeds and related expenses for the construction of a new headquarters fire station. Construction of the building was completed in 2016 and the reserved funds were entirely depleted.

Note 2 - Property Tax

The Kittitas 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 the District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

Time Period	Assessed Valuation	Levy Rate	Total Regular Levy	Amount Collected as of 12/31/16	Percent Collected as of 12/31/16
For 2013 to be collected in 2014	\$ 2,430,662,769.00	\$1.499999	\$ 3,645,991.72	\$ 3,637,473.45	99.77%
For 2014 to be collected in 2015	\$ 2,491,018,046.00	\$1.500000	\$ 3,736,527.07	\$ 3,706,790.50	99.20%
For 2015 to be collected in 2016	\$ 2,547,571,817.00	\$1.500000	\$ 3,821,357.73	\$ 3,765,585.45	98.54%
For 2016 to be collected in 2017	\$ 2,576,048,046.00	\$1.500000	\$ 3,864,072.07	n/a	n/a

In 2014, the District's voters approved a \$6.7 million General Obligation Bond for the construction of a new fire station. The special levy information is as follows:

Time Period	Assessed Valuation	Levy Rate	Total Bond Levy	Amount Collected as of 12/31/16	Percent Collected as of 12/31/16
For 2014 to be collected in 2015	\$ 2,470,115,436.00	\$0.187031	\$ 461,988.16	\$ 457,784.93	99.09%
For 2015 to be collected in 2016	\$ 2,529,149,777.00	\$0.183100	\$ 463,087.32	\$ 455,405.21	98.34%
For 2016 to be collected in 2017	\$ 2,555,680,416.00	\$0.181202	\$ 463,094.40	n/a	n/a

Note 3 – Deposits and Investments

It is the District's policy to invest all temporary cash surpluses. The interest on these investments is tracked and credited to each individual fund.

All deposits and certificates of deposit are covered by the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the District or its agent in the government's name.

Investments are reported at fair market value. Throughout 2016, the District's investments were held in the District's name by the Local Government Investment Pool (LGIP) through Kittitas County as agent. The District's investment balance at December 31, 2016 was \$4,583,248.03 and the entire amount was invested in a Certificate of Deposit through LGIP.

The District adopted a new investment policy which allows funds to be invested outside of the LGIP. The new investment procedures did not take effect until early 2017.

Note 4 – Debt Service Requirements

Debt Service

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

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

Year	General Obligation Debt Principle	General Obligation Debt Interest	Other Debt	Total Debt
2017	\$240,000.00	\$209,850.00	\$18,335.03	\$468,185.03
2018	\$240,000.00	\$205,050.00		\$445,050.00
2019	\$245,000.00	\$200,250.00		\$445,250.00
2020	\$255,000.00	\$192,900.00		\$447,900.00
2021	\$260,000.00	\$185,250.00		\$445,250.00
2022-2026	\$1,455,000.00	\$786,050.00		\$2,241,050.00
2027-2031	\$1,760,000.00	\$474,350.00		\$2,234,350.00
2032-2036	\$1,235,000.00	\$106,650.00		\$1,341,650.00
	\$5,690,000.00	\$2,360,350.00	\$18,335.03	\$8,068,685.03

Stryker Purchase Agreement

The Stryker Corporation debt is related to a purchase agreement entered into in 2013. The

District purchased Stryker power stretchers for \$91,675.15 financed over a five (5) year period beginning in 2013 with no interest on the payment plan. The purchase agreement stipulates annual payments of \$18,335.03. Four of the five payments have been made, thus reducing the outstanding debt down to \$18,335.03. The final payment will be made when the agreement concludes on December 10, 2017.

GO Bond – Voted – New Station

In April 2014, the residents of the District voted to approve a \$6.7 million 20-year General Obligation Bond to build a new headquarters fire station. The bonds were issued in October 2014 with the following financial results:

Par Amount of Bonds	\$ 6,155,000.00
Original Issue Premium	\$ 617,587.15
Total Sources of Funds	\$ 6,772,587.15
Less:	
Bond Council Fees	\$ (18,636.00)
Underwriters' Discount	\$ (39,699.75)
Document Costs	\$ (2,500.00)
Bond Rating Costs	\$ (9,562.00)
Total Funds Received by KVFR	\$ 6,702,189.40
Funds Deposited into Construction Account	\$ 6,700,000.00
Funds Deposited into Debt Service Fund	\$ 2,189.40

The funds for the bond were received in December 2014 with construction of the new station beginning in the spring of 2015. The building was substantially completed in late April 2016 with staff starting to move in during May 2016.

The first principal payment of \$230,000 was made on December 1, 2015. The second principal payment of \$235,000 was made on December 1, 2016. The final principal payment is due December 1, 2034. Interest payments have been paid and are due on a bi-annual basis.

Note 5 – Pension Plans

Washington State Department of Retirement

Substantially all of the District's full-time and qualifying part-time employees participate in either Plan 2 of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF 2) or Plans 2 and 3 of the Public Employees' Retirement System (PERS2 and PERS3). These plans are 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.

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.

LEOFF Plan 1

The District 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 District 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.

Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF)

The District also provides a retirement system to volunteer firefighters. The Volunteer Fire Fighters' Relief and Pension Fund is a retirement system which was created by the Legislature in 1945 under Chapter 41.16 RCW. It provides pension, disability and survivor benefits for volunteer firefighters. Membership in the system requires service with a fire district or fire department of an electing municipality of Washington State except those covered by LEOFF. The system is funded through member contributions of \$30 per year and employer contributions of \$30 per year. The employer may elect to contribute the entire \$60 per year. Employees do not earn interest on their contributions; however, they may elect to withdraw their contributions upon termination. 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.

Pension Liabilities and Assets

At June 30, 2016, the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

Pension	Allocation %	Liability (Asset)
PERS 1	0.002506%	\$134,584.00
PERS 2/3	0.003206%	\$161,420.00
LEOFF 1	0.003807%	(\$39,223.00)
LEOFF 2	0.097385%	(\$566,420.00)
VFFRPF	0.860000%	(\$147,770.18)

Note 6 - Other Disclosures

LEOFF I Retirees

The District provides ongoing benefits to three retired firefighters who are members of Plan 1 of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF 1). Under this plan, the District pays the annual premium on a Long Term Care Fund (\$6,938.70), health insurance policy premiums (\$32,515.92), Medicare premiums (\$5,164.50) and reimburses the retirees for certain medical expenses (\$529.00).

Mountain View Property Contamination Cleanup

In 2012, the District purchased property located at 400 E. Mountain View Avenue in Ellensburg. The property was known to be contaminated with products from a diesel repair shop that had been on the property for many years. The District worked with the Department of Ecology to develop a plan to clean the contamination from the soil. Over the three-year period of 2013-2015, approximately \$240,000 was spent on the cleanup efforts. In 2016, an additional \$40,085 was spent for a consultant to monitor the soil readings.

According to the Department of Ecology, there is the potential for 50 percent of the cleanup costs to be covered by a pass-through grant from the Environmental Protection Agency (EPA); however, the grant has not yet been funded. The District will continue to pursue these funds in 2017.

New Headquarters Fire Station

The new headquarters fire station at 400 E. Mountain View Avenue was completed in 2016. The date of substantial completion was April 29, 2016. Total costs related to building and furnishing the station totaled \$7,214,174. Of that, \$6,709,571 was raised through the 2014 General Obligation Bond and its related interest. The final \$504,603 was obtained from the General Fund.

Related Party Transactions

Two of the District's Fire Commissioners have connections to two entities with which the District conducts business. To be sure that there is not a conflict of interest, the District has done due diligence by having one of the District's attorneys review the relationships. The attorney's findings are that both commissioners have only a remote interest in the businesses and there are no conflicts of interest. The District will follow the attorney's recommendation of having the commissioners in question

disclose their connections with the businesses and recuse themselves from any votes related to entering into contracts with those businesses. In 2016, the District paid \$10,013.93 for tires and related items purchased from Ellensburg Tire Center. There was no business conducted with Belsaas and Smith in 2016.

Inter-local Agreements

In 2007, the District entered into an ongoing Intergovernmental Cooperation Agreement with Kittitas County with the intention of “piggy-backing” onto the County Public Works fuel bids. This agreement is still active and ongoing.

City of Ellensburg Fire Protection Contract

Prior to the new station being completed in 2016, the District headquarters were housed in a fire station owned by the City of Ellensburg. Under the agreement established at the time of the merger with the City in 2007, the District provided fire protection to the City properties in lieu of paying rent on the fire station. The City’s fire station building was relinquished back to the City on July 15, 2016 and the City has an obligation for paying for fire protection from that date forward. As of March 1, 2017, a legal agreement is not in place and the City has not been invoiced. The Fire Chief continues to work with the City on developing an agreement for fire protection services.

Surplus Vehicles

In 2016, the District received two off-road vehicles at no charge from the Federal Firefighter Property Program administered by the Washington State Department of Natural Resources. At the time of receipt, the combined value of both vehicles was estimated to be \$20,000. The District’s mechanic modified the vehicles for the District’s use. The modifications cost approximately \$2,500.

Managerial Account Overages

Two internal managerial accounts were over their allotted budgets; however, these internal accounts roll up into the General Fund for annual reporting purposes. The combined General Fund was well within its total budget.

According to the accounting software report, the Construction Fund (020) was over budget by a total of \$19,922. Of this amount, \$7,350 was due to a data entry error when the amended budget was entered, thereby adjusting the total actual overage down to \$12,572. The District has a contract with Terragraphics to monitor the contamination levels in the soil as required by the Department of Ecology. Terragraphics was paid \$6,534 more than the District estimated would be paid in 2016; however, the payments were still within Terragraphics multi-year contract amount. The final \$6,038 in the budget overage is attributed to unplanned cost of repairs to the parking area at Station 21 on Vantage Highway.

The 2016 Equipment Fund (041) actual expenditures were \$8,869 higher than the amended budget. Part of the overage was due to inaccurate estimates of how much bunker gear would be purchased before the end of the year in 2016. There was also a \$3,222 order for Wildland Equipment that was

expected to be received in 2017, but was received and paid for in 2016.

Ambulance Billing Contract

Effective January 1, 2017, the District's ambulance transport fee billing functions are being handled by Systems Design in Stillacoom, WA. Under the agreement, the District transmits the transport reports to Systems Design and Systems Designs processes the invoices for payment by Medicare/Medicaid, insurance companies, and private parties. All payments on invoices are deposited into the District's US Bank account. The US Bank funds are then deposited on a weekly basis with the Kittitas County Treasurer. Reports are fully reconciled to insure that all transports are billed and all funds are received and properly recorded.

2015 Grant Reporting Correction

On the 2015 annual report, \$15,649.73 in revenues were reported as Charges for Goods and Services – Public Safety (BARS Manual category 342). During the creation of the 2016 annual report, it became known that those were actually federal grant funds passed through a local agency, the Kittitas County Conservation District. The information that should have been reported on the 2015 Schedule 16 is as follows:

CFDA #10.664 USFS Cooperative Forestry Program
United States Forest Service (USFS)
Through the Department of Natural Resources (DNR)
Through the Kittitas County Conservation District (KCCD)
Agreement ID #2015-4-9-02
Total expenditures reimbursed 100% in 2015: \$5,893.12

CFDA #97.047 FEMA Pre-Disaster Mitigation Program
United States Department of Homeland Security (FEMA)
Through the Kittitas County Conservation District (KCCD)
Agreement ID #2015-4-9-02
Total expenditures reimbursed 100% in 2015: \$9,756.61

The State Auditor's Office staff has been notified of this reporting error and District staff will follow their guidance on the necessity of updating prior year reports.

Kittitas County Fire Protection District No. 2
Schedule of Liabilities
For the Year Ended December 31, 2016

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.12	GO Bond - New Station - Issued 12/02/2014	12/1/2034	5,925,000	-	235,000	5,690,000
Total General Obligation Debt/Liabilities:			5,925,000	-	235,000	5,690,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		647,600	28,634	-	676,234
263.62	Stryker Purchase Agreement	12/10/2017	36,670	-	18,335	18,335
264.30	Pension Liability - PERS 1		134,801	-	217	134,584
264.30	Pension Liability - PERS 2/3		118,911	42,509	-	161,420
Total Revenue and Other (non G.O.) Debt/Liabilities:			937,982	71,143	18,552	990,573
Total Liabilities:			6,862,982	71,143	253,552	6,680,573

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.

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