



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Kitsap County Fire Protection District No. 10

(North Kitsap Fire and Rescue)

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

Published October 19, 2017

Report No. 1020047





Office of the Washington State Auditor
Pat McCarthy

October 19, 2017

Board of Commissioners
North Kitsap Fire and Rescue
Kingston, Washington

Report on Financial Statements

Please find attached our report on the North 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**

**North Kitsap Fire and Rescue
Kitsap County
January 1, 2015 through December 31, 2016**

Board of Commissioners
North Kitsap Fire and Rescue
Kingston, 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 North Kitsap Fire and Rescue, Kitsap County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 12, 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, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

October 12, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North Kitsap Fire and Rescue Kitsap County January 1, 2015 through December 31, 2016

Board of Commissioners
North Kitsap Fire and Rescue
Kingston, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the North Kitsap Fire and Rescue, Kitsap County, Washington, for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the North 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 North Kitsap Fire and Rescue, for the years ended December 31, 2016 and 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

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

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 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

October 12, 2017

FINANCIAL SECTION

North Kitsap Fire and Rescue Kitsap County January 1, 2015 through December 31, 2016

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
Fund Resources and Uses Arising from Cash Transactions – 2015
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Schedule of Liabilities – 2016
Schedule of Liabilities – 2015

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General	101 Emergency Medical	102 Fire & Life Safety
Beginning Cash and Investments					
30810	Reserved	1,450,523	1,000,000	-	-
30880	Unreserved	1,832,024	1,816,801	12,690	2,128
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	6,233,681	5,707,010	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	25,552	18,734	6,265	-
340	Charges for Goods and Services	1,245,818	1,245,818	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	26,616	22,562	13	13
Total Revenues:		7,531,667	6,994,124	6,278	13
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	6,622,927	6,622,927	-	-
Total Expenditures:		6,622,927	6,622,927	-	-
Excess (Deficiency) Revenues over Expenditures:		908,740	371,197	6,278	13
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	82,935	18,590	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		82,935	18,590	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	296,262	296,262	-	-
591-593, 599	Debt Service	590,545	-	-	-
597	Transfers-Out	82,936	65,196	17,740	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		969,743	361,458	17,740	-
Increase (Decrease) in Cash and Investments:		21,932	28,329	(11,462)	13
Ending Cash and Investments					
5081000	Reserved	1,455,577	1,000,000	-	-
5088000	Unreserved	1,848,908	1,845,133	1,229	2,141
Total Ending Cash and Investments		3,304,485	2,845,133	1,229	2,141

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		<u>103 Donations</u>	<u>201 Bond Fund</u>	<u>301 Capital Projects</u>
Beginning Cash and Investments				
30810	Reserved	-	242,114	208,409
30880	Unreserved	405	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	-	526,671	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	553	-
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	-	2,663	1,365
Total Revenues:		-	529,887	1,365
Expenditures				
510	General Government	-	-	-
520	Public Safety	-	-	-
Total Expenditures:		-	-	-
Excess (Deficiency) Revenues over Expenditures:		-	529,887	1,365
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	64,345	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	64,345	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	-	-	-
591-593, 599	Debt Service	-	590,545	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		-	590,545	-
Increase (Decrease) in Cash and Investments:		-	3,687	1,365
Ending Cash and Investments				
5081000	Reserved	-	245,802	209,775
5088000	Unreserved	405	-	-
Total Ending Cash and Investments		405	245,802	209,775

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 General	101 EMS	102 Fire & Life Safety
Beginning Cash and Investments					
30810	Reserved	2,099,635	1,000,000	-	-
30880	Unreserved	2,138,033	2,129,741	5,771	2,116
388 & 588	Prior Period Adjustments, Net	-	-	-	-
Operating Revenues					
310	Taxes	6,141,002	5,610,595	6,906	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	775,261	775,261	-	-
340	Charges for Goods and Services	824,684	824,684	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	40,764	34,140	13	11
Total Operating Revenues:		7,781,711	7,244,680	6,919	11
Operating Expenditures					
510	General Government	-	-	-	-
520	Public Safety	6,592,719	6,592,719	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		6,592,719	6,592,719	-	-
Net Operating Increase (Decrease):		1,188,992	651,961	6,919	11
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	-	-	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	725,945	661,600	-	-
Total Nonoperating Revenues:		725,945	661,600	-	-
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	-	-	-	-
591-593	Debt Service	581,958	-	-	-
594-595	Capital Expenditures	1,562,155	1,562,155	-	-
597	Transfers-Out	725,945	64,345	-	-
Total Nonoperating Expenditures:		2,870,058	1,626,500	-	-
Net Increase (Decrease) in Cash and Investments:		(955,121)	(312,939)	6,919	11
Ending Cash and Investments					
5081000	Reserved	1,450,523	1,000,000	-	-
5088000	Unreserved	1,832,024	1,816,801	12,690	2,128
Total Ending Cash and Investments		3,282,547	2,816,801	12,690	2,128

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		<u>103 Donations</u>	<u>201 Bond Fund</u>	<u>301 Capital Projects</u>
Beginning Cash and Investments				
30810	Reserved	-	234,075	865,560
30880	Unreserved	405	-	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	-	523,501	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	-
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	-	2,150	4,450
Total Operating Revenues:		-	525,651	4,450
Operating Expenditures				
510	General Government	-	-	-
520	Public Safety	-	-	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		-	-	-
Net Operating Increase (Decrease):		-	525,651	4,450
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	-	-	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	-	64,345	-
Total Nonoperating Revenues:		-	64,345	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	-	581,958	-
594-595	Capital Expenditures	-	-	-
597	Transfers-Out	-	-	661,600
Total Nonoperating Expenditures:		-	581,958	661,600
Net Increase (Decrease) in Cash and Investments:		-	8,038	(657,150)
Ending Cash and Investments				
5081000	Reserved	-	242,114	208,409
5088000	Unreserved	405	-	-
Total Ending Cash and Investments		405	242,114	208,409

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NORTH KITSAP FIRE was incorporated on May 17, 1947 and operates under the laws of the state of Washington applicable to a special purpose local government that provides Fire Protection, Emergency Medical, and Accident and Injury Prevention services to the general public.

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 account 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 Operation Expense Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund. All EMS Levy revenue is posted to this fund and all accounting of operating expenses is tracked through this fund. Maintenance and Operation (Special Levy) funds are collected into this fund.

Debt Service Funds

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

Special Revenue Funds

These funds account for the proceeds of specific revenue source (other than for major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Project Funds

These funds account for financial resources that are designated for the acquisition or construction of general government capital projects. We combined the two Capital Projects Funds. We transferred all the Funds from Fund 302 into Fund number 301 under request of the Kitsap County Treasurers Office.

b. Basis of Accounting

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.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

c. Budgets

The district adopts annual appropriated budgets for the Funds. These budgets are appropriated at the fund level (except the debt service fund, where budget is adopted at the department level as established by debt service schedules). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Fund/Department	Final Appropriated	Actual Expenditures	Variance
General Fund	\$7,464,761	\$6,984,384	\$480,377
GO Bond Fund	\$590,545.54	\$590,545.54	\$0
Emergency Medical	\$17,739.94 transfer	\$17,739.94	\$0

Budgeted amounts are authorized to be transferred between (departments within any fund/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.

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statement of resources and uses arising from cash transactions as net cash and investments.

d. Cash and Investments

The District's deposits are covered by the Washington Public Deposit Protection Commission. See Note 3

e. Capital Assets

Capital assets are long-lived assets of the District with an initial individual cost of more than \$2,500.00 and with a useful life of longer than 10 years. They and are recorded as capital expenditures when purchased.

f. Compensated Absences

CBA personnel vacation leave may be accumulated up to a maximum of two years accrual. CBA Shift employees accrue from 168 – 432 hours per year for years 1 thru 20+ based on length of service. CBA

Day shift employees from 120 – 308 hours per year for years 1 thru 20+ based on their length of service. A 120 hour holiday pay is offered to uniform personnel as additional vacation if stipulated prior to September 1st of the year. If no notice is given to the intent to use as vacation the holiday pay is automatically paid out in October each year. All vacation leave is eligible for payout upon separation or retirement.

Non-represented/Administrative personnel vacation leave may be accumulated up to a maximum of two years accrual. The accrual is 120-308 per year for month 13 – over 229+ based on their length of service. All vacation leave is eligible for payout upon separation or retirement.

CBA employees Sick Leave accrual of paid annual leave for Shift Employees accrue sick leave at the rate of 24 hours per month. CBA Shift maximum accumulation of sick leave shall be 1,456 hours. CBA Day Shift Employees accrue 17.33 hours per month. The maximum accumulation of sick leave shall be 1,040 hours.

Upon separation all union members will be compensated for accrued sick leave Shift personnel all hours in excess of 728 hours not to exceed 1456 hours and 520 hours not to exceed 1040 hours for Day Shift employees. This compensation will be at ½ the regular hourly rate. This benefit would also be payable to a spouse in the event of a members death. Terminated employees, due to disciplinary action, will not be eligible for sick leave or holiday buy back. Members failing to complete their probation will not be compensated for accrued vacation time upon separation.

Non-represented/Administrative personnel “full-time” shall accrue sick leave at the rate of 9 hours per month. The maximum accumulation of sick leave shall be 1,040 hours. If not more than 40 hours of sick leave are used in a calendar year the employee is awarded one additional floating holiday. Upon termination of this agreement, sick leave balances cannot be cashed out.

The District’s estimated liability for sick leave termination benefits on December 31, 2016 was \$284,197.01 The Districts estimated vacation leave liability was \$275,400.10. Total compensated absences liability \$559,597.12

g. Long – Term Debt

See Note 4 – Debt Service Requirements

h. Other Financing Uses – n/a

i. Risk Management –

Our District individually purchases our insurances for Management, auto, health, dental, vision. We pay premiums to Labor and Industries for Workman’s Compensation. We are a reimbursable account for Employment Security for unemployment insurance.

j. Reserve Fund Balance – General Fund 001 - A one million dollar internal segregation for the purpose of operational reserve/interim financing. – GO Bonds Fund 201 all funds reserved for the purpose of payment of the debt service associated with voted debt – Capital Projects Fund 301 all funds reserved prioritized for capital purchases then emergent needs.

NOTE 2 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

Collections are distributed as received.

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

North Kitsap Fire & Rescue's regular levy for the year 2015 for collection in 2016 was \$1.49999 per \$1,000 on an assessed valuation of \$2,553,035,303 for a total regular levy of \$3,833,689.

North Kitsap Fire & Rescue's Maintenance & Operations levy for the year 2015 for collection in 2016 was .237239 per \$1,000 on an assessed valuation of \$2,529,088,414 for a total M & O Levy of \$600,654. All this funds resources are collected in the regular levy (NKFR expense fund)

North Kitsap Fire & Rescue's EMS levy for the year 2015 for collection in 2016 was \$.495718 per \$1,000 on an assessed valuation of \$2,553,993,501 for a total EMS levy of \$1,268,093. All of this funds resources are transferred to the General Fund.

North Kitsap Fire & Rescue's G.O. Bond levy for the year 2015 for collection in 2016 was \$.287674 per \$1,000 on an assessed valuation of \$1,829,149,409 for a total regular levy of \$526,200.

NOTE 3 – CASH & INVESTMENTS

It is the District's policy to invest temporary cash surpluses. The interest on these investments is attributed to each fund.

North Kitsap Fire & Rescue's investments are held by Kitsap County as its agent in the District's name. \$1,590.07 was subtracted to my Schedule 1 ending fund balance to reflect the tax liability.

Cash & Investments by type at December 31, 2016 were as follows:

Type of Investment Balance	
<u>Kitsap County Local Government Investment Pool</u>	
Cash	\$147,284.83*
Investment	<u>\$3,157,198.09</u>
Total	\$3,304,482.92

* Cash is reduced by \$1,590.07 accrued tax liability.

NOTE 4 – Debt Service Requirements

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 general obligation bonds and limited general obligation bonds are as follows:

	Principal	Interest	Total Debt
2016	\$527,013.86	\$63,531.49	\$590,545.34
2017	\$556,912.41	\$43,300.13	\$600,212.54
2018	\$592,960.96	\$21,925.18	\$614,886.14
Total	\$1,676,887.23	\$128,756.80	\$1,805,644.02

NOTE 5 - PENSION PLANS

Substantially all of the North Kitsap Fire & Rescue full-time and qualifying part-time employees participate in the LEOFF 2 , PERS 1, PERS 2 AND PERS 3 type(s) of plan(s) administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems.

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:

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

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

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

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

At June 30, 2016 (the measurement date of the plans), the district's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	.00007635	\$410,035
PERS 2/3	.0000784100	394,788
PSERS 2		
LEOFF 1		
LEOFF 2	.0014982600	(\$871,433)
VFFRPF	.08	(\$13,554)

LEOFF Plan 2

The district 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:

COMPLIANCE AND ACCOUNTABILITY

On July 28, 2015 a standard tort claim was filed with the district for a fatality accident that occurred on July 4, 2014. In the claim, the personal representative of the estate stated that are seeking \$5 million in damages. On October 7, 2015, the widow and the estate filed suit in King County Superior Court. At the time of the writing of this report the case is in the discovery phase of the process. The District has appeared through counsel retained by its insurer and has filed an answer. We are currently in the discovery process with a trial date set for May 1, 2017. The District vigorously denies that it has any liability to the plaintiffs and further denies that they have sustained any legally recoverable damages.

Subsequent report: On May 18, a King County Superior Court jury rendered a verdict in favor of the widow and family of Jason Foster. Mr. Foster was a 48 year-old Kingston resident who was involved in a fatality accident on July 4, 2014 with one of North Kitsap Fire & Rescue's fire engines. The case went to trial and the Seattle jury awarded \$9.5 million to Mr. Foster's widow, seven adult children and one minor child in the civil suit. Initially our insurer was positioning to appeal the case based on legal counsel's opinion that there were legal errors made in the case. Because even if an appeal was successful it would not change the verdict amount. Therefore, after further consideration a settlement was entered into with the Plaintiff's under a confidential agreement was for an undisclosed amount less than the original verdict. The settlement was paid for by NKFR's insurance carrier in its entirety. The settlement agreement was finalized on August 11, 2017.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NORTH KITSAP FIRE was incorporated on May 17, 1947 and operates under the laws of the state of Washington applicable to a special purpose local government that provides fire protection, Emergency Medical, and Accident and Injury Prevention services to the general public. 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 account 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 Operation Expense Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund. All EMS Levy revenue is posted to this fund and all accounting of operating expenses is tracked through this fund. Maintenance and Operation (Special Levy) funds are collected into this fund.

Debt Service Funds

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

Special Revenue Funds

These funds account for the proceeds of specific revenue source (other than for major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Project Funds

These funds account for financial resources that are designated for the acquisition or construction of general government capital projects. We combined the two Capital Projects Funds. We transferred all the Funds from Fund 302 into Fund number 301 under request of the Kitsap County Treasurers Office.

b. Basis of Accounting

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

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

c. Budgets

The district adopts annual appropriated budgets for the Funds. These budgets are appropriated at the fund level (except the debt service fund, where budget is adopted at the department level as established by debt service schedules). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Fund/Department	Final Appropriated	Actual Expenditures	Variance
General Fund	\$7,384,574.00	\$8,219,219.43	\$-834,645.43
GO Bond Fund	\$581,658.14	\$581,958.14	\$0
Capital Project	\$661,600.00	\$661,600.00 transfer	\$0

Budgeted amounts are authorized to be transferred between (departments within any fund/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.

The General Fund Actual Expenditures are reduced by the amount of Accrued Taxes in the amount of \$5,687.

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statement of resources and uses arising from cash transactions as net cash and investments.

d. Cash and Investments

The District's deposits are covered by the Washington Public Deposit Protection Commission.

e. Capital Assets

Capital assets are long-lived assets of the District with an initial individual cost of more than \$2,500.00 and with a useful life of longer than 10 years. They and are recorded as capital expenditures when purchased.

f. Compensated Absences

CBA personnel vacation leave may be accumulated up to a maximum of two years accrual. CBA Shift employees accrue from 168 – 432 hours per year for years 1 thru 20+ based on length of service. CBA Day shift employees from 120 – 308 hours per year for years 1 thru 20+ based on their length of service. A 96 hour holiday pay is offered to uniform personnel as additional vacation if stipulated prior to September 1st of the year. If no notice is given to the intent to use as vacation the holiday pay is automatically paid out in October each year. All vacation leave is eligible for payout upon separation or retirement.

Non-represented/Administrative personnel vacation leave may be accumulated up to a maximum of two years accrual. The accrual is 120-308 per year for month 13 – over 229+ based on their length of service. All vacation leave is eligible for payout upon separation or retirement.

CBA employees Sick Leave accrual of paid annual leave for Shift Employees accrue sick leave at the rate of 24 hours per month. CBA Shift maximum accumulation of sick leave shall be 1,456 hours. CBA Day Shift Employees accrue 17.33 hours per month. The maximum accumulation of sick leave shall be 1,040 hours.

Upon separation all union members will be compensated for accrued sick leave Shift personnel all hours in excess of 728 hours not to exceed 1456 hours and 520 hours not to exceed 1040 hours for Day Shift employees. This compensation will be at ½ the regular hourly rate. This benefit would also be payable to a spouse in the event of a members death. Terminated employees, due to disciplinary action, will not be eligible for sick leave or holiday buy back. Members failing to complete their probation will not be compensated for accrued vacation time upon separation.

Non-represented/Administrative personnel “full-time” shall accrue sick leave at the rate of 9 hours per month. The maximum accumulation of sick leave shall be 1,040 hours. If not more than 40 hours of sick leave are used in a calendar year the employee is awarded one additional floating holiday. Upon termination of this agreement, sick leave balances cannot be cashed out.

The District’s estimated liability for sick leave termination benefits on December 31, 2015 was \$273,187.61 The Districts estimated vacation leave liability was \$603,823.01 Total compensated absences liability \$877,010.62.

Please note the 2014 compensated absences were reporting in the Financial Notes and were not reported on the Schedule 9. Therefore, there is a variance showing of \$514,797 reflecting the ending compensated absence ending balance as of 12/31/14 reported as the 2015 beginning balance.

g. Reserve Fund Balance – General Fund 001 - A one million dollar internal segregation for the purpose of operational reserve/interim financing. – GO Bonds Fund 201 all funds reserved for the purpose of payment of the debt service associated with voted debt – Capital Projects Fund 301 all funds reserved prioritized for capital purchases then emergent needs.

NOTE 2 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

Collections are distributed as received.

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

North Kitsap Fire & Rescue's regular levy for the year 2014 for collection in 2015 was \$1.49999 per \$1,000 on an assessed valuation of \$2,480,503,776 for a total regular levy of \$3,720,755.

North Kitsap Fire & Rescue's EMS levy for the year 2014 for collection in 2015 was \$.496722 per \$1,000 on an assessed valuation of \$2,481,364,792 for a total EMS levy of \$1,232,550. All of this funds resources are transferred to the General Fund.

North Kitsap Fire & Rescue's G.O. Bond levy for the year 2014 for collection in 2015 was \$.293106 per \$1,000 on an assessed valuation of \$1,765,949,837 for a total regular levy of \$516,775.

NOTE 3 – CASH & INVESTMENTS

It is the District's policy to invest temporary cash surpluses. The interest on these investments is attributed to each fund.

North Kitsap Fire & Rescue's investments are held by Kitsap County as its agent in the District's name. Cash & Investments by type at December 31, 2015 were as follows:

Type of Investment Balance	
<u>Kitsap County Local Government Investment Pool</u>	
Cash	\$ 98,113
Investment	<u>\$3,184,434</u>
Total	\$3,282,547

NOTE 4 - LONG-TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the district and summarizes the District's debt transactions for year 2015 The debt service requirements, including interest, are as follows:

	General Obligation	LTGO Total	Total Debt
2015	\$517,612.80	\$64,345.34	\$581,958.14
2016	\$526,200.00	\$64,345.34	\$590,545.34
2017	\$535,867.20	\$64,345.34	\$600,212.54
2018	\$550,540.80	\$64,345.34	\$614,886.14
Total	\$2,130,220.80	\$257,381.36	\$2,387,602.16

NOTE 5 - PENSION PLANS

Substantially all of the North Kitsap Fire & Rescue full-time and qualifying part-time employees participate in the LEOFF 2 , PERS 1, PERS 2 AND PERS 3 type(s) of plan(s) administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems. 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 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:

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

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

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

The district 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.

The GASB 68 was a new reporting requirement by the SAO office effective with the FY Annual Reporting of 2015.

At June 30, 2015 (the measurement date of the plans), the district's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	.007032 %	\$367,839
PERS 2/3	.00729700	\$260,726
PSERS 2		
LEOFF 1		
LEOFF 2	.13401500	(\$1,377,406)
VFFRPF	.07%	(\$14,383)

LEOFF Plan 2

The district 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:

COMPLIANCE AND ACCOUNTABILITY

On March 11, 2010, a lawsuit was filed by a former employee of North Kitsap Fire & Rescue ("NKFR") against NKFR, in which Plaintiff alleges claims of discrimination, negligence and negligent infliction of emotional distress relating to events that she alleges occurred during her employment with NKFR that allegedly created a hostile work environment in violation of Federal and State law Plaintiff filed a notice of claim wherein she claims damages of approximately \$2,000,000.00. The suit was settled in mediation and stipulation for order and dismissal filed with the Kitsap County Court on July 24, 2015. The confidential settlement agreement was paid by NKFR insurance carrier for a sum considerably less than the plaintiff's initial claim for damages.

On July 28, 2015 a standard tort claim was filed with the district for a fatality accident that occurred on July 4, 2014. In the claim, the personal representative of the estate stated that are seeking \$5 million in damages. On October 7, 2015, the widow and the estate filed suit in King County Superior Court. At the time of the writing of this report the case is in the discovery phase of the process. The District has appeared through counsel retained by its insurer and has filed an answer. The District vigorously denies that it has any liability to the plaintiffs and further denies that they have sustained any legally recoverable damages.

Subsequent report: On May 18, a King County Superior Court jury rendered a verdict in favor of the widow and family of Jason Foster. Mr. Foster was a 48 year-old Kingston resident who was involved in a fatality accident on July 4, 2014 with one of North Kitsap Fire & Rescue's fire engines. The case went to trial and the Seattle jury awarded \$9.5 million to Mr. Foster's widow, seven adult children and one minor child in the civil suit. Initially our insurer was positioning to appeal the case based on legal counsel's opinion that there were legal errors made in the case. Because even if an appeal was successful it would not change the verdict amount. Therefore, after further consideration a settlement was entered into with the Plaintiff's under a confidential agreement was for an undisclosed amount less than the original verdict. The settlement was paid for by NKFR's insurance carrier in its entirety. The settlement agreement was finalized on August 11, 2017.

Kitsap County Fire Protection District No 10
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	2005 Issue UTGO	12/1/2018	1,500,000	-	471,000	1,029,000
251.11	LTGO 2008	12/1/2018	176,888	-	56,014	120,874
Total General Obligation Debt/Liabilities:			1,676,888	-	527,014	1,149,874
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Pension Liabilities		628,565	176,259	-	804,824
259.12	Compensated absences		877,010	-	317,413	559,597
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,505,575	176,259	317,413	1,364,421
Total Liabilities:			3,182,463	176,259	844,427	2,514,295

Kitsap County Fire Protection District No 10
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						
251.11	LTGO 2008	12/1/2018	230,146	-	53,258	176,888
251.12	2005 Issue UTGO	12/1/2018	1,946,000	-	446,000	1,500,000
Total General Obligation Debt/Liabilities:			2,176,146	-	499,258	1,676,888
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Pension Liabilities		-	628,565	-	628,565
259.12	Compensated absences	12/31/2015	514,797	362,213	-	877,010
Total Revenue and Other (non G.O.) Debt/Liabilities:			514,797	990,778	-	1,505,575
Total Liabilities:			2,690,943	990,778	499,258	3,182,463

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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