



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

**Kitsap County Fire Protection District
No. 18**

(Poulsbo Fire Department)

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

Published February 22, 2018

Report No. 1020788





Office of the Washington State Auditor
Pat McCarthy

February 22, 2018

Board of Commissioners
Poulsbo Fire Department
Poulsbo, Washington

Report on Financial Statements

Please find attached our report on the Poulsbo Fire Department's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's

internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

February 15, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Board of Commissioners
Poulsbo Fire Department
Poulsbo, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Poulsbo Fire Department, Kitsap County, Washington, for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 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 Poulsbo Fire Department has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

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

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Poulsbo Fire Department, as of December 31, 2016 and 2015, or the changes in financial position or cash flows for the years then ended, due to the

significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2018 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

February 15, 2018

FINANCIAL SECTION

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

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016
Schedule of Liabilities – 2015

Kitsap County Fire Protection District No. 18
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General	201 Debt Svc	301 Capital Projects
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	8,740,863	6,306,780	83,227	2,350,856
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	7,217,784	6,630,145	587,639	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	1,511	1,290	221	-
340	Charges for Goods and Services	770,817	770,817	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	91,937	80,530	1,558	9,849
Total Revenues:		8,082,049	7,482,782	589,419	9,849
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	7,101,044	7,101,044	-	-
Total Expenditures:		7,101,044	7,101,044	-	-
Excess (Deficiency) Revenues over Expenditures:		981,005	381,738	589,418	9,849
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	215,300	-	188,300	27,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	17,588	17,588	-	-
Total Other Increases in Fund Resources:		232,888	17,588	188,300	27,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,102,645	-	-	2,102,645
591-593, 599	Debt Service	777,683	-	777,683	-
597	Transfers-Out	215,300	215,300	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		3,095,628	215,300	777,683	2,102,645
Increase (Decrease) in Cash and Investments:		(1,881,735)	184,026	35	(2,065,796)
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	6,859,128	6,490,805	83,263	285,060
Total Ending Cash and Investments		6,859,128	6,490,805	83,263	285,060

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No. 18
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 General	201 Debt Svc	301 Capital Projects
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	8,792,404	5,678,232	1,558	3,112,614
388 & 588	Prior Period Adjustments, Net	-	-	-	-
Operating Revenues					
310	Taxes	7,039,958	6,461,047	578,911	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	284,306	284,306	-	-
340	Charges for Goods and Services	866,687	810,595	-	56,092
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	55,384	38,377	875	16,132
Total Operating Revenues:		8,246,335	7,594,325	579,786	72,224
Operating Expenditures					
510	General Government	-	-	-	-
520	Public Safety	6,805,255	6,805,255	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		6,805,255	6,805,255	-	-
Net Operating Increase (Decrease):		1,441,080	789,070	579,786	72,224
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	56,490	56,490	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	217,011	-	190,011	27,000
Total Nonoperating Revenues:		273,501	56,490	190,011	27,000
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	-	-	-	-
591-593	Debt Service	688,129	-	688,129	-
594-595	Capital Expenditures	860,982	-	-	860,982
597	Transfers-Out	217,011	217,011	-	-
Total Nonoperating Expenditures:		1,766,122	217,011	688,129	860,982
Net Increase (Decrease) in Cash and Investments:		(51,541)	628,549	81,668	(761,758)
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	8,740,863	6,306,780	83,227	2,350,856
Total Ending Cash and Investments		8,740,863	6,306,780	83,227	2,350,856

The accompanying notes are an integral part of this statement.

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kitsap County Fire District #18 was incorporated on February 20, 1961 and operates under the laws of the State of Washington applicable to a County Junior Taxing District. The Kitsap County Fire District is a general purpose local government and provides fire protection services.

The Kitsap County Fire District #18 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 as 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 (Current 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.

Special Revenue Funds

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

Debt Service Funds

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

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2016

Capital Project Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law the Kitsap County Fire District #18 also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The Kitsap County Fire District #18 adopts annual appropriated budgets for General fund. This budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund	Final Budgeted Amount	Actual Expenditures	Variance
General	\$7,463,866	\$7,316,344	\$147,522

Budget 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 Kitsap County Fire District #18 legislative body.

D. Cash and Investments

See Note 4, *Deposits and Investments*

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 1 year. The capital assets of the District are recorded as expenditures when purchased.

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2016

F. Compensated Absences

Vacation pay may be accumulated up to two hundred and sixty (260) hours for uniformed and non-uniformed bargaining units, exempt employees may accumulate up to three hundred (300) hours and is payable upon separation or retirement. There is no maximum accrual of sick leave. Unused portions of sick leave up to one thousand two hundred (1,200) hours shall be compensated for at one-half (1/2) of its value at non disciplinary termination or retirement.

Non-Uniformed contract members employed as of July 1, 2010, upon nondisciplinary termination or retirement shall be compensated for one-half (1/2) of accrued sick leave up to a maximum of one thousand two hundred (1,200) hours. For members hired after July 1, 2010, upon non-disciplinary termination or retirement shall be compensated for one-quarter (1/4) of accrued sick leave up to a maximum of one thousand two hundred (1,200) hours.

Payments are recognized as expenditures when paid.

12/31/16 Balance	\$922,407.74
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G. Long-Term Debt

See Note 3, *Debt Service Requirements*

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of Fund Transfer and Disability Insurance Recoveries.

NOTE 2 - RISK MANAGEMENT

Kitsap County Fire District #18 is a member of the Kitsap Risk Management Group providing the coverage as follows:

Comprehensive General Liability \$20,000,000 limit, Auto Liability \$20,000,000 limit, Public Officials Errors and Omissions Liability \$20,000,000 limit, Terrorism Liability \$500,000.00 limit listed coverages have a \$1,000.00 deductible.

Cyber Coverage \$2,000,000 limit – 20% Co-pay, Employment Practices Liability \$20,000,000 limit – 20% Co-pay, Crime Blanket Coverage \$1,000,000 limit - \$1,000.00 deductible, Identity Fraud Expense Reimbursement, Property/Mobile Equipment/Boiler and Machinery replacement \$25,000.00 and Automobile Physical Damage – coverage based on replacement cost schedule..

For the fiscal year 2016 the District did not have any claims.

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2016

This insurance is underwritten by –

Canfield and Associates
451 Diamond Drive
Ephrata, WA 98823

NOTE 3 - 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 Kitsap County Fire District #18. Delinquent taxes are considered fully collectible because a lien affixes to the property after Taxes are levied.

The Kitsap County Fire District #18 regular levy for the year 2015 for collection in 2016 was \$1.499999 per \$1,000 for Fire on an assessed valuation of \$3,321,716,042, \$.490415 per \$1,000 for EMS on an assessed valuation of \$3,324,513,317 and \$.178683 per \$1,000 for Unlimited Tax General Obligation Bonds on an assessed valuation of \$3,298,439,429 for a total levy of \$7,206,230.

NOTE 4- DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Kitsap County Fire District #18 and summarizes the District's debt transactions for the year ending December 31, 2016.

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

Year	Principal	Interest	Total Balance
2016	\$185,000.00	\$3,300.00	\$188,300.00
2017	\$190,000.00	\$1,187.50	\$191,187.50
2018	0	0	0
Total	\$375,000.00	\$4,487.50	\$379,487.50

The debt service requirements for the Unlimited Tax General Obligation bonds, as follows:

Year	Principal	Interest	Total Balance
2016	\$562,000.00	\$27,376.50	\$589,376.50
2017	\$565,000.00	\$23,161.50	\$588,161.50
2018	\$571,000.00	\$17,229.00	\$588,229.00
2019	\$577,000.00	\$9,520.50	\$586,520.50

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2016

2020	0	0	0
Total	\$2,275,000.00	\$77,287.50	\$2,352,287.50

NOTE 5 – DEPOSITS AND INVESTMENTS

It is the Kitsap County Fire District #18 policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificate of deposits are covered by the Federal Deposit Insurance Corporation. All investments are insured, registered and held by the Kitsap County Fire District #18 or its agent in the government's name.

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

<u>Type of Investment</u>	<u>Total</u>
Kitsap County Investment Pool	\$6,772,935.95

NOTE 6 - PENSION PLANS

A. State Sponsored Pension Plans

Substantially all of the Kitsap County Fire District #18 full-time and qualifying part-time employees participate in the PERS, LEOFF, Deferred Compensation Plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

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
PO Box 48380
Olympia, WA 98504-8380

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2016

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

The Kitsap County Fire District #18 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 Kitsap County Fire District #18 proportionate share of the collective net pension liabilities \$227,780 as reported on the Schedule 09, was as follows:

	Employer Contribution	Allocation %	Liability (Asset)
PERS 1	\$20,049	.003535%	\$189,846
PERS 2/3	\$26,114	.004524%	\$227,780
LEOFF 2	\$200,315	.130937%	(\$761,569)
VFFRPF	\$630.00	.28%	(\$47,439.62)

The Kitsap County Fire District #18 also participated 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 changes by statute.

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kitsap County Fire District #18 was incorporated on February 20, 1961 and operates under the laws of the State of Washington applicable to a County Junior Taxing District. The Kitsap County Fire District is a general purpose local government and provides fire protection services.

The Kitsap County Fire District #18 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 as 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:

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Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2015

Capital Project Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law the Kitsap County Fire District #18 also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The Kitsap County Fire District #18 adopts annual appropriated budgets for General fund. This budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund	Final Budgeted Amount	Actual Expenditures	Variance
General	\$7,254,032	\$7,011,710	\$242,322

Budget 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 Kitsap County Fire District #18 legislative body.

D. Cash and Investments

See Note 4, *Deposits and Investments*

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 1 year. The capital assets of the District are recorded as expenditures when purchased.

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2015

F. Compensated Absences

Vacation pay may be accumulated up to two hundred and sixty (260) hours for uniformed and non-uniformed bargaining units, exempt employees may accumulate up to three hundred (300) hours and is payable upon separation or retirement. There is no maximum accrual of sick leave. Unused portions of sick leave up to one thousand two hundred (1,200) hours shall be compensated for at one-half (1/2) of its value at non disciplinary termination or retirement.

Non-Uniformed contract members employed as of July 1, 2010, upon nondisciplinary termination or retirement shall be compensated for one-half (1/2) of accrued sick leave up to a maximum of one thousand two hundred (1,200) hours. For members hired after July 1, 2010, upon non-disciplinary termination or retirement shall be compensated for one-quarter (1/4) of accrued sick leave up to a maximum of one thousand two hundred (1,200) hours.

Payments are recognized as expenditures when paid.

12/31/15 Balance	\$855,441.61
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G. Long-Term Debt

See Note 3, *Debt Service Requirements*

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of Fund Transfer and Disability Insurance Recoveries.

NOTE 2 - RISK MANAGEMENT

Kitsap County Fire District #18 is a member of the Kitsap Risk Management Group providing the coverage as follows:

Comprehensive General Liability \$20,000,000 limit, Auto Liability \$20,000,000 limit, Public Officials Errors and Omissions Liability \$20,000,000 limit, Terrorism Liability \$500,000.00 limit listed coverages have a \$1,000.00 deductible.

Cyber Coverage \$2,000,000 limit – 20% Co-pay, Employment Practices Liability \$20,000,000 limit – 20% Co-pay, Crime Blanket Coverage \$1,000,000 limit - \$1,000.00 deductible, Identity Fraud Expense Reimbursement, Property/Mobile Equipment/Boiler and Machinery replacement \$25,000.00 and Automobile Physical Damage – coverage based on replacement cost schedule..

For the fiscal year 2015 the District did not have any claims.

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2015

This insurance is underwritten by –

Canfield and Associates
451 Diamond Drive
Ephrata, WA 98823

NOTE 3 - 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 Kitsap County Fire District #18. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The Kitsap County Fire District #18 regular levy for the year 2014 for collection in 2015 was \$1.50 per \$1,000 for Fire on an assessed valuation of \$3,169,218,811, \$.50000 per \$1,000 for EMS on an assessed valuation of \$3,172,003,813 and \$.186247 per \$1,000 for Unlimited Tax General Obligation Bonds on an assessed valuation of \$3,140,979,346 for a total levy of \$6,931,379.

NOTE 3 - DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Kitsap County Fire District #18 and summarizes the District's debt transactions for the year ending December 31, 2015.

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

Year	Principal	Interest	Total Balance
2015	\$375,000.00	\$4,488.00	\$379,488.00
2016	\$190,000.00	\$1,188.00	\$191,188.00
2017	0	0	0
Total	\$565,000.00	\$5,676.00	\$570,676.00

The debt service requirements for the Unlimited Tax General Obligation bonds including both principle and interest, as follows:

Year	Principal	Interest	Total Balance
2015	\$2,275,000.00	\$77,287.50	\$2,352,287.50
2016	\$1,713,000.00	\$49,911.00	\$1,762,911.00
2017	\$1,148,000.00	\$26,749.50	\$1,174,749.50
2018	\$577,000.00	\$9,520.50	\$586,520.50
2019	0	0	0
Total	\$5,713,000.00	\$163,468.50	\$5,876,468.50

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2015

NOTE 4 – DEPOSITS AND INVESTMENTS

It is the Kitsap County Fire District #18 policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificate of deposits are covered by the Federal Deposit Insurance Corporation. All investments are insured, registered and held by the Kitsap County Fire District #18 or its agent in the governments name.

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

<u>Type of Investment</u>	<u>Total</u>
Kitsap County Investment Pool	\$8,589,263.59

NOTE 5 - PENSION PLANS

Substantially all of the Kitsap County Fire District #18 full-time and qualifying part-time employees participate in the PERS, LEOFF, Deferred Compensation Plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and

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

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

Kitsap County Fire District #18/Poulsbo Fire Department
Notes to the Financial Statements
For the Year Ending December 31, 2015

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

The Kitsap County Fire District #18 also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2015 (the measurement date of the plans), the Kitsap County Fire District #18 proportionate share of the collective net pension liabilities \$170,184.70, as reported on the Schedule 09, was as follows:

	Employer Contribution	Allocation %	Liability (Asset)
PERS 1	\$16,946.52	.003687%	\$192,864.39
PERS 2/3	\$21,218.54	.004763%	\$170,184.70
LEOFF 2	\$180,212.15	.122952%	(\$1,263,700.66)
VFFRPF	\$1,260.00	.26%	(\$50,340.55)

The Kitsap County Fire District #18 also participated 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 changes by statute.

Kitsap County Fire Protection District No. 18
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	LTGO Refunding Bonds	6/1/2017	375,000	-	185,000	190,000
251.12	UTGO Direct Bank Placement	12/1/2019	2,275,000	-	562,000	1,713,000
Total General Obligation Debt/Liabilities:			2,650,000	-	747,000	1,903,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		855,441	66,967	-	922,408
264.30	Pension Liability		363,049	54,577	-	417,626
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,218,490	121,544	-	1,340,034
Total Liabilities:			3,868,490	121,544	747,000	3,243,034

Kitsap County Fire Protection District No. 18
Schedule of Liabilities
For the Year Ended December 31, 2015

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.12	LTGO Refunding Bonds	6/1/2017	560,000	-	185,000	375,000
251.12	UTGO Direct Bank Placement	12/1/2019	2,745,000	-	470,000	2,275,000
Total General Obligation Debt/Liabilities:			3,305,000	-	655,000	2,650,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		732,804	122,637	-	855,441
264.30	Pension Liability		-	363,049	-	363,049
Total Revenue and Other (non G.O.) Debt/Liabilities:			732,804	485,686	-	1,218,490
Total Liabilities:			4,037,804	485,686	655,000	3,868,490

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