



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

Bainbridge Island Fire Department

Kitsap County

For the period January 1, 2013 through December 31, 2014

Published November 5, 2015

Report No. 1015463





Washington State Auditor's Office

November 5, 2015

Board of Commissioners
Bainbridge Island Fire Department
Bainbridge Island, Washington

Report on Financial Statements

Please find attached our report on Bainbridge Island Fire Department's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING 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**

**Bainbridge Island Fire Department
Kitsap County
January 1, 2013 through December 31, 2014**

Board of Commissioners
Bainbridge Island Fire Department
Bainbridge Island, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Bainbridge Island Fire Department, Kitsap County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 29, 2015.

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 blue ink that reads "Jan M. Jutte". The signature is written in a cursive, flowing style.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

October 29, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Bainbridge Island Fire Department Kitsap County January 1, 2013 through December 31, 2014

Board of Commissioners
Bainbridge Island Fire Department
Bainbridge Island, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Bainbridge Island Fire Department, Kitsap County, Washington, for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Bainbridge Island Fire Department has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Bainbridge Island Fire Department, for the years ended December 31, 2014 and 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States

of America, the financial position of Bainbridge Island Fire Department, as of December 31, 2014 and 2013, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

October 29, 2015

FINANCIAL SECTION

**Bainbridge Island Fire Department
Kitsap County
January 1, 2013 through December 31, 2014**

FINANCIAL STATEMENTS

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Fund Resources and Uses Arising from Cash Transactions – 2013
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2014
Schedule of Liabilities – 2013

Bainbridge Island Fire Department
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 General	201 Debt Service	301 Capital
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	5,523,738	4,652,776	-	870,963
388 & 588	Prior Period Adjustments, Net	-	-	-	-
Operating Revenues					
310	Taxes	6,961,042	6,961,042	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	50,073	13,973	-	36,100
340	Charges for Goods and Services	648,496	648,496	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	85,125	60,734	-	24,390
Total Operating Revenues:		<u>7,744,736</u>	<u>7,684,246</u>	<u>-</u>	<u>60,490</u>
Operating Expenditures					
510	General Government	-	-	-	-
520	Public Safety	6,735,317	6,735,317	-	-
Total Operating Expenditures:		<u>6,735,317</u>	<u>6,735,317</u>	<u>-</u>	<u>-</u>
Net Operating Increase (Decrease):		1,009,419	948,929	-	60,490
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	14,421	14,421	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	698,279	-	548,279	150,000
Total Nonoperating Revenues:		<u>712,700</u>	<u>14,421</u>	<u>548,279</u>	<u>150,000</u>
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	-	-	-	-
591-593	Debt Service	548,179	-	548,179	-
594-595	Capital Expenditures	215,755	-	-	215,755
597	Transfers-Out	698,279	698,279	-	-
Total Nonoperating Expenditures:		<u>1,462,214</u>	<u>698,279</u>	<u>548,179</u>	<u>215,755</u>
Net Increase (Decrease) in Cash and Investments:		259,906	265,071	100	(5,265)
Ending Cash and Investments					
50810	Reserved	-	-	-	-
50880	Unreserved	5,783,643	4,917,845	100	865,698

The accompanying notes are an integral part of this statement.

Bainbridge Island Fire Department
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	001 General	201 Debt Service	301 Capital
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	5,498,850	4,573,373	-	925,477
388 & 588	Prior Period Adjustments, Net	-	-	-	-
Operating Revenues					
310	Taxes	6,878,704	6,878,704	-	-
320	Licenses & Permits	-	-	-	-
330	Intergovernmental Revenues	46,674	46,674	-	-
340	Charges for Goods and Services	446,509	446,509	-	-
350	Fines & Penalties	-	-	-	-
360	Miscellaneous Revenues	65,625	56,691	-	8,934
Total Operating Revenues:		<u>7,437,512</u>	<u>7,428,578</u>	<u>-</u>	<u>8,934</u>
Operating Expenditures					
510	General Government	-	-	-	-
520	Public Safety	6,671,931	6,671,931	-	-
Total Operating Expenditures:		<u>6,671,931</u>	<u>6,671,931</u>	<u>-</u>	<u>-</u>
Net Operating Increase (Decrease):		765,581	756,647	-	8,934
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	4,500	4,500	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	681,748	-	531,748	150,000
Total Nonoperating Revenues:		<u>686,248</u>	<u>4,500</u>	<u>531,748</u>	<u>150,000</u>
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	-	-	-	-
591-593	Debt Service	531,748	-	531,748	-
594-595	Capital Expenditures	213,448	-	-	213,448
597	Transfers-Out	681,748	681,748	-	-
Total Nonoperating Expenditures:		<u>1,426,944</u>	<u>681,748</u>	<u>531,748</u>	<u>213,448</u>
Net Increase (Decrease) in Cash and Investments:		24,885	79,399	-	(54,514)
Ending Cash and Investments					
50810	Reserved	-	-	-	-
50880	Unreserved	5,523,739	4,652,776	-	870,963

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The Bainbridge Island Fire Department was incorporated on October 19, 1942 and operates under the laws of the state of Washington applicable to a fire district. The Bainbridge Island Fire Department is a general purpose local government and provides fire protection and emergency medical services.

The Bainbridge Island Fire Department reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The Schedule of Liabilities is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the Bainbridge Island Fire Department. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Debt Service Funds

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

Capital Projects Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law the Bainbridge Island Fire Department also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The Bainbridge Island Fire Department adopts annual appropriated budgets for all of its funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$7,635,716	\$7,433,596	\$202,120
Debt Service Fund	\$554,538	\$548,179	\$6,359
Capital Fund	\$302,300	\$215,755	\$86,545

Budgeted amounts are authorized to be transferred between funds; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Bainbridge Island Fire Department's legislative body.

D. Cash and Investments See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets of the Bainbridge Island Fire Department are recorded as expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to a maximum of one year's accrual days and is payable upon separation or retirement. Sick leave may be accumulated indefinitely. Upon separation or retirement employees receive a calculated distribution to their Health Reimbursement Account for unused sick leave. Payments are recognized as expenditures when paid.

G. Risk Management

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

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive, and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs. The program acquires liability insurance through their Administrator, Canfield that is subject to a per-occurrence self-insured retention of \$100,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy, **with an attachment point of \$3,259,396**, to cap the total claims paid by the program in any one policy term.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible. Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of **Pumps & Motors which is \$10,000**. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

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

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

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

H. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restriction on use imposed by external parties or due to internal commitments established by the Board of Commissioners. When expenditures that meet restriction are incurred, the Department intends to use reserved resources first before using unreserved amounts. Reservation of Ending Cash and Investments consist of \$0.

Note 2 – Deposits and Investments

It is the Department's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposits are covered by FDIC. All investments are insured, registered or held by the Kitsap County Treasurer or its agent in the Bainbridge Island Fire Department's name.

Investments are reported at original cost. Investments by type at December 31, 2014 are as follows:

<u>Type of Investment</u>	①	②	③
		Investments held by Kitsap County as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$ _____	\$5,935,306	\$ _____
_____	_____	_____	_____
Total	\$ _____	\$5,935,306	\$ _____

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed daily.

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

The Bainbridge Island Fire Department's regular levy for the year 2014 was \$.923343 per \$1,000 on an assessed valuation of \$5,232,391,419 for a total regular levy of \$4,831,586.

The Bainbridge Island Fire Department's Emergency Medical Services levy for the year 2014 was \$.40 per \$1,000 on an assessed valuation of \$5,232,391,419 for a total EMS levy of \$2,093,083.

Note 4 - Pension Plans

Substantially all Bainbridge Island Fire Department's full-time and qualifying part-time employees participate in the Law Enforcement Officers' and Fire Fighters' Plan II 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 Bainbridge Island Fire Department's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

Note 5 - Other Disclosures

Subsequent to December 31, 2014 the Department passed a levy and a voted Capital Bond measure. The regular levy will increase to \$.95 per \$1,000 assessed valuation and the Bond measure will be approximately \$.16 per \$1,000 assessed valuation for collection starting in 2016.

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The Bainbridge Island Fire Department reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The Bainbridge Island Fire Department was incorporated on October 19, 1942 and operates under the laws of the state of Washington applicable to a fire district. The Bainbridge Island Fire Department is a general purpose government and provides fire protection and emergency medical services. The Bainbridge Island Fire Department uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the Bainbridge Island Fire Department are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The Bainbridge Island Fire Department resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the Bainbridge Island Fire Department:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the Bainbridge Island Fire Department. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Debt Service Funds

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

Capital Projects Funds

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

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the Bainbridge Island Fire Department also recognizes expenditures paid during thirty days after the close of the fiscal year for claims incurred during the previous period.

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.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The Bainbridge Island Fire Department adopts annual appropriated budgets for all of its funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$7,517,752	\$7,353,679	\$164,073
Debt Service Fund	\$531,748	\$531,748	\$0
Capital Fund	\$241,500	\$213,448	\$28,052

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 Bainbridge Island Fire Department’s legislative body.

D. Cash and Investments See Note 2, *Deposits and Investments*.

E. Deposits

The Bainbridge Island Fire Department deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets of the Bainbridge Island Fire Department are recorded as expenditures when purchased.

G. Compensated Absences

Vacation leave may be accumulated up to a maximum of one year’s accrual days and is payable upon separation or retirement.

Sick leave may be accumulated indefinitely. Upon separation or retirement employees sick leave hours are calculated at their current hourly rate of pay and distributed to the employee’s Health

Reimbursement Account.

H. Long-Term Debt See Note 4, *Debt Service Requirements*.

I. Reserved Fund Balance

Bainbridge Island Fire Department uses a Reserve Fund for managerial purposes to account for resources being held by the Department for specific purposes and liabilities as determined by Resolution of the Board of Commissioners. The Reserve Fund is rolled up into the General Fund for reporting purposes.

Note 2 – Deposits and Investments

The Bainbridge Island Fire Department’s investments are either insured, registered or held by the Kitsap County Treasurer or its agent in the Bainbridge Island Fire Department’s name.

Investments by type at December 31, 2013 are as follows:

<u>Type of Investment</u>	①	②	③
		Investments held by Kitsap County as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$ _____	\$5,671,623	\$ _____
U.S. Government Securities	_____	_____	_____
Other: _____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
Total	\$ _____	\$5,671,623	\$ _____

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed daily.

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

The Bainbridge Island Fire Department’s regular levy for the year 2013 was \$.908905 per \$1,000 on an assessed valuation of \$5,226,583,214 for a total regular levy of \$4,750,774.

Note 4 – Debt Service Requirements

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the Bainbridge Island Fire Department and summarizes the Bainbridge Island Fire Department’s debt transactions for year ended December 31, 2013.

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

follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2014	\$554,538	\$	\$	\$
TOTALS	\$554,538	\$_____	\$_____	\$_____

Note 5 - Pension Plans

Substantially all Bainbridge Island Fire Department's full-time and qualifying part-time employees participate in the Law Enforcement Officers' and Fire Fighters' Plan II 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 Bainbridge Island Fire Department's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

Note 6 - Other Disclosures

In 2011 a lawsuit was brought against the Bainbridge Island Fire Department for a personnel issue. This suit was settled in January, 2013 by the Bainbridge Island Fire Department's insurance carrier.

**Bainbridge Island Fire Department
Schedule of Liabilities
For the Year Ended December 31, 2014**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	Bond	12/1/2014	545,000	-	545,000	-
259.11	Compensated Absences		1,348,979	80,442	-	1,429,421
	Total General Obligations:		1,893,979	80,442	545,000	1,429,421
	Total Liabilities:		1,893,979	80,442	545,000	1,429,421

**Bainbridge Island Fire Department
Schedule of Liabilities
For the Year Ended December 31, 2013**

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
251.11	Bond	12/1/2014	1,060,000	-	515,000	545,000
259.11	Compensated Absences		1,179,200	169,779	-	1,348,979
Total General Obligations:			<u>2,239,200</u>	<u>169,779</u>	<u>515,000</u>	<u>1,893,979</u>
Total Liabilities:			<u>2,239,200</u>	<u>169,779</u>	<u>515,000</u>	<u>1,893,979</u>

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.

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