



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

**Financial Statements Audit Report**

**Island County Fire Protection District  
No. 5**

**(Central Whidbey Island Fire and  
Rescue)**

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

**Published November 16, 2017**

**Report No. 1020211**





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

November 16, 2017

Board of Commissioners  
Central Whidbey Island Fire and Rescue  
Coupeville, Washington

**Report on Financial Statements**

Please find attached our report on the Central Whidbey Island 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**

**Central Whidbey Island Fire and Rescue  
Island County  
January 1, 2015 through December 31, 2016**

Board of Commissioners  
Central Whidbey Island Fire and Rescue  
Coupeville, 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 Central Whidbey Island Fire and Rescue, Island 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 November 10, 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**

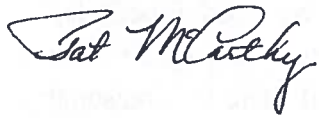
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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.



Pat McCarthy

State Auditor

Olympia, WA

November 10, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Central Whidbey Island Fire and Rescue Island County January 1, 2015 through December 31, 2016

Board of Commissioners  
Central Whidbey Island Fire and Rescue  
Coupeville, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Central Whidbey Island Fire and Rescue, Island 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 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 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 Central Whidbey Island 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 Central Whidbey Island 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 Central Whidbey Island 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**

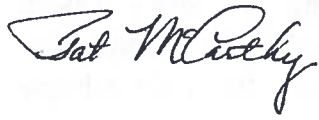
### ***Supplementary and Other Information***

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 November 10, 2017 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, looped initial "P".

Pat McCarthy

State Auditor

Olympia, WA

November 10, 2017

# FINANCIAL SECTION

## Central Whidbey Island Fire and Rescue Island County January 1, 2015 through December 31, 2016

### FINANCIAL STATEMENTS

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**Island County Fire Protection District No. 5**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		Total for All Funds (Memo Only)	001 General Fund	210 LTGO Debt Service Fund	310 General Capital Projects
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	3,424,187	2,349,169	7	1,075,011
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	2,228,270	2,228,270	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	10,601	10,601	-	-
340	Charges for Goods and Services	215,194	215,194	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	39,484	34,948	-	4,535
Total Revenues:		2,493,549	2,489,014	-	4,535
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	1,907,798	1,907,684	-	114
Total Expenditures:		1,907,798	1,907,684	-	114
Excess (Deficiency) Revenues over Expenditures:		585,751	581,329	-	4,421
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	288,000	-	-	288,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	12,894	12,894	-	-
Total Other Increases in Fund Resources:		300,894	12,894	-	288,000
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	36,401	-	-	36,401
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	288,000	288,000	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		324,401	288,000	-	36,401
<b>Increase (Decrease) in Cash and Investments:</b>		<b>562,244</b>	<b>306,223</b>	<b>-</b>	<b>256,020</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	3,986,431	2,655,393	7	1,331,031
<b>Total Ending Cash and Investments</b>		<b>3,986,431</b>	<b>2,655,393</b>	<b>7</b>	<b>1,331,031</b>

The accompanying notes are an integral part of this statement.

**Island County Fire Protection District No. 5**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		Total for All Funds (Memo Only)	001 General Fund	210 LTGO Debt Service Fund	310 General Capital Projects
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	3,231,847	2,237,151	-	994,695
388 & 588	Prior Period Adjustments, Net	-	61,018	7	(61,024)
<b>Operating Revenues</b>					
310	Taxes	2,218,774	2,218,774	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	3,445	3,445	-	-
340	Charges for Goods and Services	205,127	205,127	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	73,870	72,822	-	1,048
Total Operating Revenues:		2,501,216	2,500,168	-	1,048
<b>Operating Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	1,843,875	1,843,875	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		1,843,875	1,843,875	-	-
Net Operating Increase (Decrease):		657,341	656,293	-	1,048
<b>Nonoperating Revenues</b>					
370-380, 395 & 398	Other Financing Sources	-	-	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	605,293	-	-	605,293
Total Nonoperating Revenues:		605,293	-	-	605,293
<b>Nonoperating Expenditures</b>					
580, 596 & 599	Other Financing Uses	-	-	-	-
591-593	Debt Service	-	-	-	-
594-595	Capital Expenditures	465,001	-	-	465,001
597	Transfers-Out	605,293	605,293	-	-
Total Nonoperating Expenditures:		1,070,294	605,293	-	465,001
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>192,340</b>	<b>51,000</b>	<b>-</b>	<b>141,340</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	3,424,187	2,349,169	7	1,075,011
<b>Total Ending Cash and Investments</b>		<b>3,424,187</b>	<b>2,349,169</b>	<b>7</b>	<b>1,075,011</b>

The accompanying notes are an integral part of this statement.

## Note 1-Summary of Significant Accounting Policies

The Central Whidbey Island Fire & Rescue Fire District was incorporated in 1952 and operates under the laws of the state of Washington applicable to a fire district. Central Whidbey Island Fire & Rescue is a special purpose local government providing fire prevention, public education, fire suppression, emergency medical services, hazardous materials response, and technical rescue service within the District's boundaries.

The Central Whidbey Island Fire & Rescue (CWIFR) 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 Revised Code of Washington (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 an accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

#### **Governmental Fund Types**

**General Fund:** This fund is the primary operating fund of the district. It accounts for all financial resources except those required or elected to be accounted for in another fund.

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

**B. Basis of Accounting and Measurement Focus**

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

**C. Budgets**

CWIFR adopts annual appropriated budgets for all 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.

It is budget policy to maintain a balanced budget, defined as funds total resources comprised of beginning fund balance, revenues, and other funds equal to the total expenditures, other fund use, and the funds ending balance.

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund	2,198,164.49	2,195,683.99	2,480.50
310 - General Capital Projects	67,906.00	36,515.26	31,390.74

Budgeted amounts are authorized to be transferred between departments within any fund/object classes; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the district’s legislative body.

**D. Cash and Investments**

See Note 2 - *Deposits and Investments*.

**E. Capital Assets**

Capital assets are assets with an initial individual cost of more than \$5000 and an estimated useful life in excess of 3 years. The capital assets and inventory of the district are recorded as expenditures when purchased.

**F. Compensated Absences**

District policy states the executive staff which includes the Fire Chief, Deputy Chief and the Office Manager will be provided Paid Time Off (PTO) to provide for holidays, vacation, and in the event of illness or off-the job-injury. Executive staff shall accrue PTO monthly based on their length of service with the District. The Board of Commissioners may choose to place a member of the Executive Staff at an accrual rate higher than their actual length of service. Payments are recognized as expenditures when paid.

**Central Whidbey Island Fire & Rescue  
Island County Fire District No. 5  
For the Year Ended December 31, 2016**

Notes

Length of Service	Monthly Accrual (Hours)	Annual Accrual (Hours)	Maximum Carryover (Hours)
< 5 Years	25.33	304	280
5-10 Years	28.66	344	280
>10 Years	32.00	384	280

Up to 280 hours of accrued PTO can be carried over from one year to the next. Hours in excess of the Maximum Carryover on December 31 will be transferred to Long Term Sick Leave. In addition, Executive may elect to transfer accrued hours from PTO to Long Term Sick Leave between November 30<sup>th</sup> and December 31<sup>st</sup>.

Upon separation or retirement from the District, Executive Staff will be paid for all unused PTO. Payments are recognized as expenditures when paid.

**Long Term Sick Leave:** Long Term Sick Leave was established to provide paid time off benefits for Executive Staff in the event of a long term illness or off-the-job injury.

If an Executive Staff member is sick they will use PTO until such time as they have expended 140 hours of PTO (single illness or injury) or their PTO balance reaches 40 hours (whichever comes first). When this threshold is reached, paid leave for this illness or injury will be charged against the members Long Term Sick Leave Accrual.

Executive Staff member may donate unlimited accrued sick leave to any other Executive Staff member that meets the following criteria:

1. No demonstrated sick leave abuse during the previous twelve (12) months.
2. Member suffering from a serious illness, injury, or medical condition certified by the employee's treating physician that prevents regular assigned duties.
3. The employee's condition has exhausted his or her PTO and Long Term Sick Leave.

Upon separation or retirement from the District, Executive Staff will be paid for up to 240 hours of accrued Long Term Sick Leave. Payments are recognized as expenditures when paid.

**Union Employees:** Vacation monthly and maximum accrual in hours is based on employees normal work schedule as follows:

Work Schedule	<1 Year	2 Years	3 Years	4 Years	>5 Years	Maximum Accrual
24-Hour	10.00	14.00	20.00	24.00	25.92	720
12-Hour Shift	7.92	11.08	15.83	19.90	21.03	597
10.5 Hour Shift	7.92	11.08	15.83	19.90	21.03	597
8.4 Hour Shift	7.92	11.08	15.83	19.90	21.03	597



**Central Whidbey Island Fire & Rescue  
Island County Fire District No. 5  
For the Year Ended December 31, 2016**

**Notes**

Upon separation or retirement from the department, the employee is compensated for any unused vacation time at their basic hourly rate of pay. Payments are recognized as expenditures when paid.

Sick Leave monthly and maximum accrual in hours is based on employees normal work schedule as follows:

Work Schedule	Monthly Accrual	Primary Bank Maximum Accrual	Secondary Bank Maximum Accrual
24-Hour Shift	24.00 Hours	1200 Hours	1000 Hours
12-Hour Shift	19.90 Hours	995 Hours	829 Hours
10.5 Hour Shift	19.90 Hours	995 Hours	829 Hours
8.4 Hour Shift	19.90 Hours	995 Hours	829 Hours

New employees are provided an advance of two times the monthly accrual rate for their normal shift schedule.

Employees shall accrue sick leave in their primary bank until they reach their bank maximum and then accrue in their secondary sick leave bank. The secondary sick leave bank provides an extended period of salary protection in the event of a serious injury or long term illness. The secondary sick leave bank may only be used after the primary sick leave bank has been exhausted and prior to the donation of leave by other employees.

## Note 2-Deposits and Investments

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

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the county or its agent in the district's name. Investments are presented at fair market value. Ending cash and investments were \$3,986,430.72 and held by the Island County Treasurers Office as an agent for the District.

Investments by type at December 31, 2016 are as follows:

Type of Investment	Total
LGIP State Pool (fmv)	\$2,100,776

**Central Whidbey Island Fire & Rescue  
Island County Fire District No. 5  
For the Year Ended December 31, 2016**

**Notes**

**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 after the end of each month.

Property tax revenues are recognized when cash is received by the county. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied. The district's regular levy for the year 2016 was \$1.3812422309 per \$1,000 on an assessed valuation of \$1,609,475,594 for a total regular levy of \$2,223,075.66.

## Note 4-Pension Plans

### A. State Sponsored Pension Plans

Substantially all of the district's full-time and qualifying part-time employees participate in following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit contribution retirement plans Public Employees' Retirement Systems (PERS) and Law officers' and Firefighters' Retirement System (LEOFF).

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

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

Central Whidbey Island Fire & Rescue also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at [www.ofm.wa.gov](http://www.ofm.wa.gov).

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

Plan	Allocation %	Liability (Asset)
PERS 1 UAAL	0.001728%	\$92,802
PERS 2/3	0.002211%	\$111,322
LEOFF 2	0.027590%	(\$160,472)
VFFRPF	0.12%	(\$20,331.26)

**Central Whidbey Island Fire & Rescue  
Island County Fire District No. 5  
For the Year Ended December 31, 2016**

**Notes**

**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 5-Other Disclosures

### Inter-Local Agreements

- WhidbeyHealth Hospital to provide BLS transports.
- ICOM for cell tower land use
- Sprint/Nextel for cell tower land use
- Island County for fire inspections
- Town of Coupeville for fire inspections
- WhidbeyHealth Hospital to split utility costs as a shared building

### CWIFR Mutual Aid Agreements

- East Fire & Rescue to increase the effectiveness and efficiency of emergency response by CWIFR and East Jefferson Fire Rescue
- Commander Navy Region Northwest Fire & Emergency to augment fire protection, technical rescue, and basic and advanced medical and life support services
- Department of Natural Resources to provide mutual assistance in the control and suppression of forestland fires
- The City of Oak Harbor, City of Coupeville, City of Langley, Island County, Island County Sheriff, Fire Districts 1, 2, 3 and WhidbeyHealth Hospital to provide additional manpower and equipment as necessary to control emergencies or a disaster

### Miscellaneous Contracts

- Day Road Water Association

### Automatic Aid Agreements

- Camano Island Fire & Rescue #1 - to increase the effectiveness and efficiency of emergency response by CWIFR and Camano Island Fire Rescue within their respective districts.
- North Whidbey Fire & Rescue #2 - to increase the effectiveness and efficiency of emergency response by CWIFR and NWFR within their respective districts
- South Whidbey Fire & Emergency Services #3 - to increase the effectiveness and efficiency of emergency response by CWIFR and SWFR within their respective districts

## Note 1-Summary of Significant Accounting Policies

The Central Whidbey Island Fire & Rescue Fire District was incorporated in 1952 and operates under the laws of the state of Washington applicable to a fire district. Central Whidbey Island Fire & Rescue is a special purpose local government providing fire prevention, public education, fire suppression, emergency medical services, hazardous materials response, and technical rescue service within the District's boundaries.

The Central Whidbey Island Fire & Rescue (CWIFR) 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 Revised Code of Washington (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 an accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

#### **Governmental Fund Types**

**General Fund:** This fund is the primary operating fund of the district. It accounts for all financial resources except those required or elected to be accounted for in another fund.

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

**B. Basis of Accounting and Measurement Focus**

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

**C. Budgets**

CWIFR adopts annual appropriated budgets for all 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.

It is budget policy to maintain a balanced budget, defined as funds total resources comprised of beginning fund balance, revenues, and other funds equal to the total expenditures, other fund use, and the funds ending balance.

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund	2,076,395.00	2,449,168.24	-372,773.24
310 - General Capital Projects	503,967.25	465,000.84	38,966.41

Budgeted amounts are authorized to be transferred between departments within any fund/object classes; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the district’s legislative body.

**D. Cash and Investments**

See Note 3 - *Deposits and Investments*.

**E. Capital Assets**

Capital assets are assets with an initial individual cost of more than \$5000 and an estimated useful life in excess of 3 years. The capital assets and inventory of the district are recorded as expenditures when purchased.

**F. Compensated Absences**

District policy states the executive staff which includes the Fire Chief, Deputy Chief and the Office Manager will be provided Paid Time Off (PTO) to provide for holidays, vacation, and in the event of illness or off-the job-injury. Executive staff shall accrue PTO monthly based on their length of service with the District. The Board of Commissioners may choose to place a member of the Executive Staff at an accrual rate higher than their actual length of service. Payments are recognized as expenditures when paid.



**Central Whidbey Island Fire & Rescue  
Island County Fire District No. 5  
For the Year Ended December 31, 2015**

Notes

Length of Service	Monthly Accrual (Hours)	Annual Accrual (Hours)	Maximum Carryover (Hours)
< 5 Years	25.33	304	280
5-10 Years	28.66	344	280
>10 Years	32.00	384	280

Up to 280 hours of accrued PTO can be carried over from one year to the next. Hours in excess of the Maximum Carryover on December 31 will be transferred to Long Term Sick Leave. In addition, Executive may elect to transfer accrued hours from PTO to Long Term Sick Leave between November 30<sup>th</sup> and December 31<sup>st</sup>.

Upon separation from the District, Executive Staff will be paid for all unused PTO.

**Long Term Sick Leave:** Long Term Sick Leave was established to provide paid time off benefits for Executive Staff in the event of a long term illness or off-the-job injury.

If an Executive Staff member is sick they will use PTO until such time as they have expended 140 hours of PTO (single illness or injury) or their PTO balance reaches 40 hours (whichever comes first). When this threshold is reached, paid leave for this illness or injury will be charged against the members Long Term Sick Leave Accrual.

Executive Staff member may donate unlimited accrued sick leave to any other Executive Staff member that meets the following criteria:

1. No demonstrated sick leave abuse during the previous twelve (12) months.
2. Member suffering from a serious illness, injury, or medical condition certified by the employee's treating physician that prevents regular assigned duties.
3. The employee's condition has exhausted his or her PTO and Long Term Sick Leave.

Upon separation from the District, Executive Staff will be paid for up to 240 hours of accrued Long Term Sick Leave.

**Union Employees:** Vacation monthly and maximum accrual in hours is based on employees normal work schedule as follows:

Work Schedule	<1 Year	2 Years	3 Years	4 Years	>5 Years	Maximum Accrual
24-Hour	10.00	14.00	20.00	24.00	25.92	720
12-Hour Shift	7.92	11.08	15.83	19.90	21.03	597
10.5 Hour Shift	7.92	11.08	15.83	19.90	21.03	597
8.4 Hour Shift	7.92	11.08	15.83	19.90	21.03	597

**Central Whidbey Island Fire & Rescue  
Island County Fire District No. 5  
For the Year Ended December 31, 2015**

**Notes**

Upon separation, the employee is compensated for any unused vacation time at their basic hourly rate of pay.

Sick Leave monthly and maximum accrual in hours is based on employees normal work schedule as follows:

Work Schedule	Monthly Accrual	Primary Bank Maximum Accrual	Secondary Bank Maximum Accrual
24-Hour Shift	24.00 Hours	1200 Hours	1000 Hours
12-Hour Shift	19.90 Hours	995 Hours	829 Hours
10.5 Hour Shift	19.90 Hours	995 Hours	829 Hours
8.4 Hour Shift	19.90 Hours	995 Hours	829 Hours

New employees are provided an advance of two times the monthly accrual rate for their normal shift schedule.

Employees shall accrue sick leave in their primary bank until they reach their bank maximum and then accrue in their secondary sick leave bank. The secondary sick leave bank provides an extended period of salary protection in the event of a serious injury or long term illness. The secondary sick leave bank may only be used after the primary sick leave bank has been exhausted and prior to the donation of leave by other employees.

**Management Set Aside:**

\$123,848 is set aside for compensated absences.

## Note 2-Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the county. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied. The district's regular levy for the year 2015 was \$1.3757027327 per \$1,000 on an assessed valuation of \$1,594,863,329 for a total regular levy of \$2,194,057.84.

### Note 3-Deposits and Investments

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

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the county or its agent in the district's name. Investments are presented at fair market value. Ending cash and investments were \$3,424,186 and held by the Island County Treasurers Office as an agent for the District.

Investments by type at December 31, 2015 are as follows:

Type of Investment	Total
LGIP State Pool (fmv)	1,930,416

## Note 4-Pension Plans

### A. State Sponsored Pension Plans

Substantially all of the district's full-time and qualifying part-time employees participate in following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit contribution retirement plans Public Employees' Retirement Systems (PERS) and Law officers' and Firefighters' Retirement System (LEOFF).

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

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

Central Whidbey Island Fire & Rescue also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at [www.ofm.wa.gov](http://www.ofm.wa.gov).

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

Plan	Allocation %	Liability (Asset)
PERS 1 UAAL	0.001943%	\$101,637.00
PERS 2/3	0.002509%	\$89,648.00
LEOFF 2	0.026542%	(\$272,790.00)
VFFRPF	0.24%	(\$45,546.21)

**Central Whidbey Island Fire & Rescue  
Island County Fire District No. 5  
For the Year Ended December 31, 2015**

**Notes**

**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 5-Other Disclosures

### Legal Compliance

001 General Fund was over budget by \$372,773.24 due to unbudgeted interfund transfers out to the General Capital Projects Fund.

### Inter-Local Agreements

- Whidbey General Hospital to provide BLS transports.
- ICOM for cell tower land use
- Sprint/Nextel for cell tower land use
- Island County for fire inspections

### CWIFR Mutual Aid Agreements

- East Fire & Rescue to increase the effectiveness and efficiency of emergency response by CWIFR and East Jefferson Fire Rescue
- Commander Navy Region Northwest Fire & Emergency to augment fire protection, technical rescue, and basic and advanced medical and life support services
- Department of Natural Resources to provide mutual assistance in the control and suppression of forestland fires
- The City of Oak Harbor, City of Coupeville, City of Langley, Island County, Island County Sheriff, Fire Districts 1, 2, 3 and Whidbey General Hospital to provide additional manpower and equipment as necessary to control emergencies or a disaster

### Miscellaneous Contracts

- Whidbey General Hospital to split utility costs as a shared building
- Day Road Water Association

### Automatic Aid Agreements

- Camano Island Fire & Rescue #1 - to increase the effectiveness and efficiency of emergency response by CWIFR and Camano Island Fire Rescue within their respective districts.
- North Whidbey Fire & Rescue #2 - to increase the effectiveness and efficiency of emergency response by CWIFR and NWFR within their respective districts
- South Whidbey Fire & Emergency Services #3 - to increase the effectiveness and efficiency of emergency response by CWIFR and SWFR within their respective districts

**Island County Fire Protection District No. 5  
Schedule of Liabilities  
For the Year Ended December 31, 2016**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		123,848	16,351	-	140,199
264.30	Pension Liabilities		191,285	12,838	-	204,123
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>315,133</b>	<b>29,189</b>	<b>-</b>	<b>344,322</b>
	<b>Total Liabilities:</b>		<b>315,133</b>	<b>29,189</b>	<b>-</b>	<b>344,322</b>



**Island County Fire Protection District No. 5**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2015**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		101,491	22,357	-	123,848
264.30	Pension Liabilities		-	191,285	-	191,285
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>101,491</b>	<b>213,642</b>	<b>-</b>	<b>315,133</b>
	<b>Total Liabilities:</b>		<b>101,491</b>	<b>213,642</b>	<b>-</b>	<b>315,133</b>


## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>



# Office of the Washington State Auditor

Pat McCarthy

## Exit Recommendations

### **Island County Fire Protection District No. 5 dba Central Whidbey Island Fire and Rescue November 10, 2017**

#### **Procurement**

During fiscal year 2015, the District purchased a used safety boat for approximately \$95,000. The boat was exempt from bidding requirements as it was considered a sole source purchase. The District did not review prices of other similar used boats to ensure they received the lowest price.

In fiscal year 2015, the District purchased a water tender for approximately \$185,000, that was originally bid in fiscal year 2013. We noted the following issues regarding the 2013 bid:

- Notice of the bid was not advertised 13 days prior to the last date upon which bids were accepted.
- Bids were not opened on the advertised date.
- There was no documentation that only one bid was received.

We recommend the District establish adequate internal controls to ensure compliance with procurement requirements, specifically:

- If a sole source exception is used, effort should still be made to ensure that the District is receiving the lowest price.
- When applicable, follow all formal bidding requirements including advance publication and bid opening.

#### **Petty cash**

The District maintains a \$500 petty cash fund. The Budget, Accounting and Reporting System (BARS) Manual states the petty cash funds should be reconciled to the authorized balance at least monthly and be checked or re-performed by someone other than the custodian. During our testing, we found the District did not reconcile the petty cash fund monthly and reconciliations were not reviewed. During testing we also identified several instances the petty cash balance was over the authorized balance.

RCW 42.26.060 establishes the allowable use of petty cash funds and restricts its use to miscellaneous petty or emergency expenditures. The District used its petty cash fund for quarterly water and tax fees, a seminar payment, annual DRS fees, and late fee payments to DRS.



# Office of the Washington State Auditor

Pat McCarthy

We recommend the District follow the BARS manual and RCWs regarding petty cash and ensure that petty cash is reconciled and only used for allowable purposes.

## **Secondary review**

The District did not have documentation to demonstrate that a timely review of monthly cash reconciliations occurred. The District also does not have a documented secondary review process for adjusting entries or secondary review of non-adjusting journal entries.

We recommend the District document timely secondary review of all journal entries and cash reconciliations.

## **Credit cards**

During our review of disbursements, we noted a significant number of missing receipt declarations as supporting documentation for credit card charges.

We recommend the District ensure adequate oversight over credit card charges and obtain supporting receipts when possible.