

**Sagle Fire District**

*Financial Report*  
**September 30, 2016**

**Sagle Fire District  
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September 30, 2016**

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## Report of Independent Auditor

Board of Commissioners  
Sagle Fire District  
Sandpoint, Idaho

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Sagle Fire District (“the District”), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

### *Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 entity’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 entity’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.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the General Fund of Sagle Fire District, as of September 30, 2016, and the respective changes in financial position thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, the budgetary comparison schedule on page 33 and the schedules of employer's share of net pension liability and employer contributions on pages 35 and 36, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a separate report dated January 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 the 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.

*DeCoria, Maichel + Teague, P.S.*

DeCoria, Maichel & Teague, P.S.  
Spokane, Washington

January 10, 2017

**Sagle Fire District  
Management's Discussion and Analysis  
September 30, 2016**

As management of the Sagle Fire District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2016. Efforts have been made to provide comparisons to prior-year data when such data is available.

**FINANCIAL HIGHLIGHTS**

- The District's assets plus deferred outflows exceeded its liabilities plus deferred inflows at the close of the most recent fiscal year by \$1,077,225 (net position).
- At the end of the current fiscal year, total fund balance for the general fund was \$681,950.
- The District's net position increased by \$123,141.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The government-wide financial statements consist of the Statement of Net Position and the Statement of Activities.

The *Statement of Net Position* presents information on all of the District's assets plus deferred outflows and liabilities plus deferred inflows, with the difference between the two being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that relate to cash flows from previous or future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation and sick leave).

The government-wide financial statements can be found on pages 10 and 11 of this report.

**Sagle Fire District  
Management's Discussion and Analysis, Continued  
September 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS, Continued**

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. At this time, the District has only one governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the governmental fund *Balance Sheet* and the governmental fund *Statement of Revenues, Expenditures and Changes in Fund Balance*. A reconciliation is provided to facilitate this comparison between governmental funds and governmental activities.

The District maintains one governmental fund, the General Fund. The District adopts an annual appropriated budget for this fund; a budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10 and 11 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 through 32 of this report.

Required supplementary information: The budgetary comparison schedule may be found on page 33 of this report. The schedules related to the PERSI Base Plan may be found on pages 35 and 36.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets plus deferred outflows exceeded liabilities plus deferred inflows by \$1,077,225 at the close of the most recent fiscal year.

**Sagle Fire District  
Management's Discussion and Analysis, Continued  
September 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued**

The District's net investment in capital assets is \$878,209 at September 30, 2016. This amount reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, other improvements, infrastructure and construction in progress) less accumulated depreciation and any related debt used to acquire those assets that is still outstanding. The District uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's Statements of Net Position at September 30, 2016 and 2015 are summarized below.

	<u>2016</u>	<u>2015</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current assets	\$ 1,920,185	\$ 1,815,619
Noncurrent assets	1,002,253	937,957
Deferred outflows of resources	<u>270,411</u>	<u>173,995</u>
Total assets and deferred outflows of resources	<u>3,192,849</u>	<u>2,927,571</u>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		
Current liabilities	1,262,237	1,271,638
Noncurrent liabilities	639,824	454,799
Deferred inflows of resources	<u>213,563</u>	<u>247,050</u>
Total liabilities and deferred inflows of resources	<u>2,115,624</u>	<u>1,973,487</u>
<b>NET POSITION</b>		
Net investment in capital assets	878,209	896,252
Unrestricted	<u>199,016</u>	<u>57,832</u>
Total net position	<u>\$ 1,077,225</u>	<u>\$ 954,084</u>

At the end of the current fiscal year, 60% of total assets and deferred outflows of resources and 60% of the total liabilities and deferred inflows of resources are made up of current amounts. These amounts primarily represent unearned property taxes, which are further discussed in Note 8 of the notes to the financial statements.

**Sagle Fire District  
Management's Discussion and Analysis, Continued  
September 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued**

The District's Statements of Activities for the years ended September 30, 2016 and 2015 are summarized below.

	<u>2016</u>	<u>2015</u>
<b>PROGRAM REVENUES</b>		
Grants and contributions	\$ -	\$ 5,000
Emergency services	-	127,201
Total program revenues	<u>-</u>	<u>132,201</u>
<b>GENERAL REVENUES</b>		
Property taxes	1,153,867	1,093,159
Other income	63,873	173,259
Special fees and taxes	60,540	51,893
Interest income	1,973	705
Gain on disposal of capital assets	9,450	-
Total general revenues	<u>1,289,703</u>	<u>1,319,016</u>
<b>EXPENSES</b>		
Public safety – fire protection and emergency medical services:		
Salaries and benefits	946,837	1,163,868
Vehicle equipment maintenance	40,439	41,101
Fire operations	23,922	38,803
Professional services	13,138	20,716
Insurance	20,195	19,995
Utilities	15,177	16,464
Office expense	3,444	10,490
Interest	3,413	3,463
General and administrative	4,507	5,885
Station repairs and maintenance	9,635	5,266
Communications expense	5,773	4,234
Miscellaneous	660	600
Depreciation and amortization expense	79,422	75,792
Total expenses	<u>1,166,562</u>	<u>1,406,737</u>
<b>CHANGE IN NET POSITION</b>	123,141	44,480
<b>NET POSITION, beginning</b>	<u>954,084</u>	<u>909,604</u>
<b>NET POSITION, ending</b>	<u>\$ 1,077,225</u>	<u>\$ 954,084</u>

**Sagle Fire District  
Management's Discussion and Analysis, Continued  
September 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued**

- The majority (90%) of the District's general revenues consist of property taxes. Property taxes, special fees and taxes, and other income together make up nearly 100% of general revenues.
- When revenues are compared to expenses, it shows that none of the District's functions are self-supporting. Each function is funded by taxes or other general revenues.
- Grants and contributions were primarily received for training, asset acquisition and fighting wildfires. These grants normally have matching requirements by the District, but allow for programs and projects that may not happen without those additional funds.

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUND**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental fund: The General Fund is the District's only governmental fund. The focus of the District's governmental fund is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year.

As of September 30, 2016, the District's governmental fund reported an ending fund balance of \$681,950, an increase of \$115,490 in comparison with the prior year. With the exception of amounts classified as nonspendable, the entire amount constitutes unassigned fund balance, which is available for spending at the government's discretion.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

General fund revenues were above budgeted revenues by \$77,941 due primarily to other income and taxes.

**Sagle Fire District  
Management's Discussion and Analysis, Continued  
September 30, 2016**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital assets: The Sagle Fire District's investment in capital assets for its governmental activities as of September 30, 2016 amounts to \$1,002,253 (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings, machinery, equipment and other improvements. The total change in the District's investment in capital assets as of September 30, 2016 was \$64,296.

**Sagle Fire District's Capital Assets**  
(Net of accumulated depreciation and amortization)

Land	\$ 19,000
Buildings and improvements	402,906
Equipment and vehicles	<u>580,347</u>
Total capital assets, net	<u>\$ 1,002,253</u>

Long-term obligations: At the end of the current fiscal year, the District had total capital leases and compensated absences outstanding of \$210,081. Of the total, \$86,037 or 41% represents compensated sick leave and vacation accrued by employees and the remainder represents capital leases. Other long-term obligations including the net pension liability and the related deferred outflows and deferred inflows of resources are discussed in Note 12, on pages 24 through 28 of the financial statements.

**Sagle Fire District's Long-Term Obligations**

Compensated absences	\$ 86,037
Capital leases	<u>124,044</u>
Total long-term obligations	<u>\$ 210,081</u>

Additional information on the District's long-term obligations can be found in Note 11, on pages 22 and 23 of the financial statements.

**Sagle Fire District  
Management's Discussion and Analysis, Continued  
September 30, 2016**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND REVENUE**

- Interest rates continue to be reasonably low and investment interest has been budgeted to reflect this trend.
- The District will need to replace non-compliant self contained breathing apparatus within the next two years.
- The District's main Fire Engine will need to be replaced within 5 years.
- A significant challenge for the fire district will be the necessary replacement of the existing main fire station within the next five years.

These factors were considered in preparing the District's budget for the fiscal year ending September 30, 2017.

The District was very conservative in its operations during the fiscal year ended September 30, 2016 and will continue this practice in subsequent years.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Sagle Fire District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Oversight Commissioner, 1123 Lake Street, Sandpoint, ID 83864.

## **Basic Financial Statements**

**Sagle Fire District**  
**Governmental Fund Balance Sheet/Statement of Net Position**  
**September 30, 2016**

	Governmental Fund Balance Sheet	Adjustments (Note 13)	Statement of Net Position
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (Note 6)	\$ 43,127	\$ -	\$ 43,127
Investments (Note 7)	627,107	-	627,107
Receivables, net (Notes 8 and 15)	1,244,546	-	1,244,546
Prepaid expenses	5,405	-	5,405
Total current assets	<u>1,920,185</u>	<u>-</u>	<u>1,920,185</u>
Noncurrent assets:			
Capital assets, net (Note 9)	-	1,002,253	1,002,253
Total noncurrent assets	<u>-</u>	<u>1,002,253</u>	<u>1,002,253</u>
Total assets	<u>1,920,185</u>	<u>1,002,253</u>	<u>2,922,438</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to the net pension liability (Note 12)	-	270,411	270,411
Total deferred outflows of resources	<u>-</u>	<u>270,411</u>	<u>270,411</u>
Total assets and deferred outflows of resources	<u>\$ 1,920,185</u>		
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable (Note 15)	\$ 9,247	-	9,247
Accrued payroll and related liabilities	35,108	-	35,108
Accrued interest	685	-	685
Unearned property tax revenue (Note 8)	1,148,968	-	1,148,968
Compensated absences, due within one year (Note 11)	-	43,018	43,018
Capital lease obligations, due within one year (Note 11)	-	25,211	25,211
Total current liabilities	<u>1,194,008</u>	<u>68,229</u>	<u>1,262,237</u>
Noncurrent liabilities:			
Compensated absences, due after one year (Note 11)	-	43,019	43,019
Capital lease obligations, due after one year (Note 11)	-	98,833	98,833
Net pension liability (Note 12)	-	497,972	497,972
Total noncurrent liabilities	<u>-</u>	<u>639,824</u>	<u>639,824</u>
Total liabilities	<u>1,194,008</u>	<u>708,053</u>	<u>1,902,061</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property tax revenue (Note 8)	44,227	(44,227)	-
Deferred inflows of resources related to the net pension liability (Note 12)	-	213,563	213,563
Total deferred inflows of resources	<u>44,227</u>	<u>169,336</u>	<u>213,563</u>
Commitments and contingencies (Notes 15 through 18)			
<b>FUND BALANCE</b>			
Nonspendable	5,405	(5,405)	-
Unassigned	676,545	(676,545)	-
Total fund balance	<u>681,950</u>	<u>(681,950)</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,920,185</u>		
<b>NET POSITION</b>			
Net investment in capital assets		878,209	878,209
Unrestricted		199,016	199,016
Total net position		<u>\$ 1,077,225</u>	<u>\$ 1,077,225</u>

The accompanying notes are an integral part of the basic financial statements.

**Sagle Fire District**  
**Statement of Governmental Fund Revenues, Expenditures and**  
**Changes in Fund Balance/Statement of Activities**  
**Year Ended September 30, 2016**

	Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance	Adjustments (Note 14)	Statement of Activities
<b>REVENUES</b>			
Property taxes	\$ 1,148,343	\$ 5,524	\$ 1,153,867
Sales tax	34,602	-	34,602
Special fees and taxes	25,938	-	25,938
Other income	63,873	-	63,873
Interest income	1,973	-	1,973
Total revenues	<u>1,274,729</u>	<u>5,524</u>	<u>1,280,253</u>
<b>EXPENDITURES/EXPENSES</b>			
Salaries and benefits	967,007	(20,170)	946,837
Equipment and capital outlay	144,768	(144,768)	-
Vehicle equipment maintenance	40,439	-	40,439
Debt service/interest	33,031	(29,618)	3,413
Fire operations	23,922	-	23,922
Insurance	20,195	-	20,195
Utilities	15,177	-	15,177
Professional services	13,138	-	13,138
Station repairs and maintenance	9,635	-	9,635
Communications expense	5,773	-	5,773
General and administrative	4,507	-	4,507
Office expense	3,444	-	3,444
Miscellaneous	660	-	660
Depreciation and amortization expense	-	79,422	79,422
Total expenditures/expenses	<u>1,281,696</u>	<u>(115,134)</u>	<u>1,166,562</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(6,967)	6,967	-
<b>OTHER FINANCING SOURCES</b>			
Proceeds from capital lease obligations	111,957	(111,957)	-
Proceeds from sale of capital assets	10,500	(10,500)	-
Gain on sale of capital assets	-	9,450	9,450
Total other financing sources	<u>122,457</u>	<u>(113,007)</u>	<u>9,450</u>
Net changes in fund balance	115,490	(115,490)	-
Changes in net position	-	123,141	123,141
<b>FUND BALANCE/NET POSITION</b>			
Beginning of year	566,460	-	954,084
End of year	<u>\$ 681,950</u>	<u>\$ -</u>	<u>\$ 1,077,225</u>

**Sagle Fire District  
Notes to Financial Statements  
September 30, 2016**

**1. Organization**

Sagle Fire District (“the District”) is a local governmental unit governed by a Board of Commissioners. The purpose of the District is to provide fire protection and specialized fire rescue operations within the specific boundaries adjacent to and including Sagle, Idaho. In addition, the District operates under a Joint Powers Agreement entered into on December 3, 2014 with the City of Sandpoint for the purpose of establishing a joint fire service operating under the name of the Sagle and Sandpoint Fire Service (“S&S”) with a Joint Powers Board to operate, manage and coordinate the unified provision of fire and emergency services within the legal boundaries of the entities. The Board consists of two currently-serving members of each governing body and one citizen member appointed by the Board. A fire chief is appointed by the Board to manage the consolidated S&S. Each party funds and supports the S&S in the same manner they had funded and supported their respective fire services prior to the agreement. Administrative costs, including those of the Chief, are shared between the parties (see Note 15).

The District’s financial statements include the accounts of all District operations. The District meets the criteria established by the Governmental Accounting Standards Board (“GASB”) to be considered a primary governmental entity for financial reporting purposes. Component units are legally separate organizations that are financially accountable to the primary government. The District has no component units, and is not a component unit of any other governmental unit based on the criteria established by the GASB.

**2. District-Wide and Fund Financial Statements**

GASB Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments* (GASB No. 34) defines the financial reporting requirements and the reporting model for the annual financial reports of state and local governments. The financial information required by GASB No. 34 includes:

Management’s Discussion and Analysis

The management’s discussion and analysis introduces the basic financial statements and provides an analytical overview of the District’s financial activities in a narrative format. An analysis of the District’s overall financial position and results of operations is included to assist users in assessing whether the District’s financial position has improved or deteriorated as a result of the year’s activities.

District-Wide Financial Statements

The district-wide financial statements, including the Statement of Net Position and the Statement of Activities, report information on all of the activities of the District. Governmental transactions are generally financed through taxes, intergovernmental revenues and other nonexchange transactions.

Depreciation and amortization is presented in its entirety on the Statement of Activities. No depreciation and amortization has been allocated to any of the District’s specific functions.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**2. District-Wide and Fund Financial Statements, Continued**

Fund Financial Statements

The fund financial statements provide information on the District's General Fund. The emphasis of fund financial statements is on major governmental funds.

Budgetary Comparison Schedule

The budgetary comparison schedule is presented to demonstrate whether resources were obtained and used in accordance with the District's legally adopted budget (see Note 4). The District may revise the original budget over the course of the year for various reasons. Under the reporting model prescribed by GASB No. 34, budgetary information provides comparisons of the District's original adopted budget to the final budget and actual results.

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The Statement of Net Position and Statement of Activities are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the accrual basis, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements stipulated by the provider have been met and satisfied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, judgments, compensated absences, and early retirement liabilities, which are recognized to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

The General Fund is the sole operating fund of the District. It is used to account for all financial resources of the District. This is a budgeted fund, and any unassigned fund balances are considered as resources available for use.

**4. Budgetary Information**

The District's budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at year-end.

**Sagle Fire District  
Notes to Financial Statements, Continued  
September 30, 2016**

**4. Budgetary Information, Continued**

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- a) The District publishes a proposed budget for public review.
- b) Public hearings are set to obtain taxpayer comments.
- c) Prior to October 1, the budget is adopted by resolution of the Board of Commissioners and published.
- d) The final budget is then filed with the State of Idaho. Expenditures may not legally exceed budgeted appropriations at the functional level. The legal level of budgetary control is the functional level at which the Commissioners must approve any over-expenditures of appropriations or transfers of appropriated amounts.

During the fiscal year ended September 30, 2016, the budget was not amended.

**5. Summary of Significant Accounting Policies**

Accounting Principles Generally Accepted in the United States of America

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles and standards. The District has adopted and applied all applicable GASB pronouncements, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of Statement No. 68 was to improve accounting and financial reporting by state and local governments for pensions. This statement established standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit pension plans, this statement identified the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information about pensions were addressed. Statement No. 68 became effective for the District beginning in the fiscal year ended September 30, 2015. Implementation required the restatement of amounts previously not reported as liabilities, deferred outflows and deferred inflows of resources on the District's Statement of Net Position for the fiscal year ended September 30, 2014.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**5. Summary of Significant Accounting Policies, Continued**

Recent Accounting Pronouncements, Continued

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of Statement No. 71 was to address an issue regarding application of the transition provisions of Statement No. 68. The issue related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amended paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, required that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it was practical to determine all such amounts. The provisions of Statement No. 71 were required to be applied simultaneously with the provisions of Statement No. 68.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of Statement No. 72 is to address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Statement No. 72 is effective for the District beginning in the fiscal year ended September 30, 2016. Implementation did not have a material impact on the District's financial results.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of Statement No. 79 is to address accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. Statement No. 79 is effective for the District beginning in the fiscal year ended September 30, 2016. Implementation did not have a material impact on the District's financial results.

Cash and Cash Equivalents

The District considers all short-term deposits and highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

**Sagle Fire District  
Notes to Financial Statements, Continued  
September 30, 2016**

**5. Summary of Significant Accounting Policies, Continued**

Investments

The District has no formal investment policy that has been established by the Board of Commissioners. Investments include the Idaho State Treasurer's Local Government Investment Pool (LGIP), which is stated at fair market value, which approximates cost, and consists of local certificates of deposit, repurchase agreements and U.S. government securities.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. When considered necessary, management provides for probable uncollectible amounts through an allowance for doubtful accounts based on its assessment of the current status of individual receivables from grants, contracts and others. Balances which are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to the applicable accounts receivable. Because management expects all September 30, 2016 receivables to be collectible, no allowance for doubtful accounts has been provided as of that date.

Capital Assets

Capital assets are reported in the Statement of Net Position at historical cost, less accumulated depreciation and amortization. If historical cost is unknown, estimated historical cost is used. Donated capital assets are recorded at estimated fair market value at the date of donation, less accumulated depreciation and amortization. The District uses a capitalization threshold of \$5,000 for most assets; items such as self-contained breathing apparatuses (SCBA's) over \$15,000 (total value of a group) are capitalized as well. Normal maintenance and repairs are charged to expense as incurred. When capital assets are sold or otherwise disposed of, the cost and associated accumulated depreciation and amortization are removed from the respective accounts, and the resulting gain or loss, if any, is recorded in the Statement of Activities.

Depreciation and amortization is calculated on capital assets using the straight-line method over the estimated useful lives of those assets, as follows:

	<u>Years</u>
Buildings and improvements	20 to 40
Equipment and vehicles	7 to 20

Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurements and Application*, establishes a fair value hierarchy for those assets and liabilities measured at fair value, that distinguishes between assumptions based on market data (observable inputs) and the District's own assumptions (unobservable inputs). The hierarchy consists of: Level 1 – quoted market prices in active markets for identical instruments; Level 2 – inputs other than Level 1 inputs that are observable; and Level 3 – unobservable inputs developed using estimates and assumptions determined by the District.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**5. Summary of Significant Accounting Policies, Continued**

Fair Value Measurements, Continued

At September 30, 2016, the assets and liabilities of the District that were measured at fair value on a recurring basis are summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in the LGIP	\$ --	\$ 627,107	\$ --	\$ 627,107

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The District had no assets or liabilities measured at fair value on a nonrecurring basis during 2016.

Liabilities

Liabilities shown on the Governmental Fund Balance Sheet are those that have become due and payable at the end of the fiscal year, which are expected to be paid during the upcoming fiscal year, and are reported as an expenditure and fund liability. On the district-wide financial statements, liabilities that become due and payable within one year after the financial statement date are included in current liabilities, while liabilities that become due and payable after that time are shown as noncurrent liabilities.

Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Compensated absences consist of accumulated vacation and sick leave balances that are unpaid as of the financial statement date.

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees who qualify.

Sick leave benefits of up to 1,200 hours are paid upon termination at 40% of the value; therefore, sick leave is accrued as a liability up to the maximum amount allowed per the policy.

Accumulated vacation and sick leave that has become due and payable at the end of the fiscal year, which is expected to be paid during the upcoming fiscal year, is reported as an expenditure and fund liability. Accumulated vacation and sick leave that is expected to be utilized by employees during the upcoming fiscal year is reported as a current obligation in the district-wide financial statements. Accumulated vacation and sick leave that is not expected to be utilized by employees during the upcoming fiscal year is reported as a noncurrent obligation in the district-wide financial statements.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**5. Summary of Significant Accounting Policies, Continued**

Pensions

For purposes of measuring the net pension liability and pension expense (revenue), information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan), and additions to, or deductions from, the Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Property Taxes

In accordance with Idaho State Law, an ad valorem property tax is levied in September for each calendar year. Taxes are recorded by the District using the modified accrual basis of accounting. Levies are made on the second Monday of September. All of the personal property taxes are due on or before June 20 of the following year. One-half of the real property taxes and personal property taxes are due on or before December 20 of the current year and June 20 of the following year. Property taxes attach as an enforceable lien on property as of January 1 of the following year. Notice of foreclosure is filed with the County Clerk on property three years from the date of delinquency. The property tax revenue is budgeted for the ensuing fiscal year. Bonner County acts as an agent for the District in both the assessment and collection of property taxes. The County remits tax revenues to the District monthly, with the majority of the collections being remitted in January and July.

In the governmental funds financial statements, property taxes are recorded as revenue in the period for which the taxes are levied, to the extent that they are both measurable and available. Property taxes receivable which are collectible subsequent to 60 days after the financial statement date are reflected in the fund financial statements as deferred inflows of resources. In the district-wide financial statements, all property taxes receivable, regardless of when they are collected, are recorded as revenue in the period for which the taxes are levied.

Grant Revenue

The District receives financial assistance from governmental agencies in the form of grants. Revenue is deemed earned and thus recognized when applicable program expenditures are recorded. Grant funds received but not earned, if any, at September 30, 2016 are recorded as deferred revenue.

Donated Services

Donated services are recognized as contributions if the services either create or enhance non-financial assets or require specialized skills, which are performed by people with those skills, and would otherwise be purchased by the District. Some members of the Board and the community have donated significant amounts of their time in furthering the District's programs and objectives. No amounts have been included in the financial statements for donated services since they do not meet the criteria for recognition under professional accounting standards.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**5. Summary of Significant Accounting Policies, Continued**

Net Position

Net position represents the difference between assets plus deferred outflows, and liabilities plus deferred inflows. Net position is comprised of the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following components.

*Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* – This component of net position consists of amounts subject to constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The District had no restricted net position at September 30, 2016.

*Unrestricted net position* – This component of net position consists of amounts that do not meet the definition of “net investment in capital assets” or “restricted net position.”

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance

GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions* (GASB No. 54), defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB No. 54 requires the fund balance amounts to be properly reported within one of the following fund balance classifications:

*Nonspendable*: The portion of fund balance that is not expected to be converted to cash, such as inventories and prepaid expenses, if any;

*Restricted*: The portion of fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation;

*Committed*: The portion of fund balance that can be used only for the specific purposes determined by a formal action of the District’s Board of Commissioners (the District’s highest level of decision-making authority);

*Assigned*: The portion of fund balance that is intended to be used by the District for specific purposes, but does not meet the criteria to be classified as restricted or committed; and

*Unassigned*: The residual portion of fund balance for the District’s General Fund, which includes all spendable amounts not included in the other categories.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**5. Summary of Significant Accounting Policies, Continued**

Fund Balance Spending Policy

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then, restricted fund balances for specific purposes are determined (not including nonspendable amounts). Then, any remaining fund balance amounts for governmental funds other than the General Fund, if any, are classified as restricted fund balance.

It is possible for governmental funds other than the General Fund to have negative unassigned fund balances when nonspendable amounts plus restricted amounts exceed the positive fund balance.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of the formal budgetary process in the General Fund.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the District to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates and affect the amounts reported in the financial statements.

Subsequent Events

The District has evaluated subsequent events through January 10, 2017, the date as of which these financial statements were available to be issued. With the exception of the item described in Note 15, no material subsequent events have occurred since September 30, 2016 that required recognition or disclosure in these financial statements.

**6. Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and deposits held in a checking account with a local bank. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

The combined carrying amount of cash and cash equivalents on the District's books at September 30, 2016 was \$43,127 and bank balances totaled \$49,345. The differences between the carrying amount of cash and cash equivalents on the District's books and the bank balance consisted of outstanding checks and deposits not processed by the bank as of September 30, 2016. The District's bank balances at September 30, 2016 were fully covered by FDIC insurance.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**7. Investments**

As of September 30, 2016, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Idaho State Local Government Investment Pool	90 days (weighted average)	<u>\$ 627,107</u>

The District has not adopted a formal investment policy. The District's investments are subject to the following types of risk:

Interest Rate Risk The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk State law limits investments to obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and State of Idaho investment pools and funds. The District has no investment policy that would further limit its investment choices. At September 30, 2016, the District's investments in the Idaho State Local Government Investment Pool are not rated.

Concentration of Credit Risk The District places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in the Idaho State Local Government Investment Pool (100% of total investments).

The Idaho State Local Government Investment Pool is overseen and managed by the State of Idaho Treasurer's Office.

**8. Receivables**

Receivables at September 30, 2016 are summarized as follows:

Unearned property taxes receivable	\$ 1,148,968
Property taxes receivable	4,812
Delinquent property taxes receivable	44,227
Accounts receivable, net	<u>46,539</u>
	<u>\$ 1,244,546</u>

Unearned property taxes receivable consist of property taxes levied for the next fiscal year. These amounts have been offset by unearned property tax revenue in the district-wide and governmental fund financial statements.

Property taxes receivable consist of property taxes received within the first 60 days after the end of the District's fiscal year that relate to taxes levied for the current and prior fiscal years.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**8. Receivables, Continued**

Delinquent property taxes receivable consist of property taxes levied for the current and prior fiscal years, which were not collected within the current period or within the first 60 days after the end of the District's fiscal year. These amounts have been offset by deferred inflows of resources in the governmental fund financial statements.

Accounts receivable primarily consist of amounts due for wildfire services provided by the District to the State and administration services provided in connection with S&S in the amount of \$17,826 (see Note 15).

**9. Capital Assets**

Capital asset activity for the year ended September 30, 2016 is as follows:

	Balance September 30, <u>2015</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	Balance September 30, <u>2016</u>
Buildings and improvements	\$ 639,351	\$ 23,911	\$ --	\$ --	\$ 663,262
Equipment and vehicles	<u>1,264,513</u>	<u>120,857</u>	<u>--</u>	<u>(51,500)</u>	<u>1,333,870</u>
Capital assets in service	1,903,864	144,768	--	(51,500)	1,997,132
Accumulated depreciation and amortization	<u>(984,907)</u>	<u>(79,422)</u>	<u>--</u>	<u>50,450</u>	<u>(1,013,879)</u>
	918,957	65,346	--	(1,050)	983,253
Land	<u>19,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>19,000</u>
	<u>\$ 937,957</u>	<u>\$ 65,346</u>	<u>\$ --</u>	<u>\$ (1,050)</u>	<u>\$ 1,002,253</u>

Capital assets used by governmental activities include leased buildings and equipment with a cost of \$214,441 and accumulated amortization of \$30,516 at September 30, 2016 (see Note 11).

Depreciation and amortization expense for governmental activities has not been allocated to any of the District's individual functions. Rather, the District has included all depreciation and amortization related to governmental activities as a single line item on the Statement of Activities.

**10. Short-Term Borrowings**

The District had no short-term borrowings at September 30, 2016, nor were there any short-term borrowings or repayments for the year then ended.

**11. Long-Term Obligations**

Accrued Compensated Absences

No portion of accrued compensated absences was considered to be due and payable as of September 30, 2016. Accordingly, the District has not recorded any amount of accrued compensated absences in the governmental fund financial statements.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**11. Long-Term Obligations, Continued**

Capital Leases

The District entered into a capital lease agreement on December 6, 2005 with Panhandle Area Council (a non-profit entity) for the rental and use of two fire station facilities. The lease had an initial term of one year, is renewable annually for 16 additional one-year terms, and is cancelable at the District's discretion without penalty. The lease payment, which is adjustable every three years, is currently \$743 per month, and reflects an implicit interest rate of 3.08%. The District has the option to purchase the fire stations at various times, as set forth in the lease agreement. If the District renews the lease for all 16 additional one-year terms, it will have the option to purchase the fire stations from Panhandle Area Council for \$1. Future minimum lease payments under the capital lease obligation, assuming that all 16 additional one-year renewal terms are exercised, are included in the summary below.

In addition, during 2016, the District entered into a capital lease agreement for the purchase of a 2016 brush truck. The lease has a term of 5 years, and calls for annual payments of \$19,341, including interest at 2.95%.

Future minimum lease payments under the remaining capital lease obligations are as follows:

Year ending September 30,

2017	\$ 28,261
2018	28,261
2019	28,261
2020	28,261
2021	<u>21,570</u>
Total future minimum lease payments	134,614
Less amount representing interest	<u>(10,570)</u>
Present value of net minimum lease payments	124,044
Less amount due within one year	<u>(25,211)</u>
Amount due after one year	<u>\$ 98,833</u>

Interest expense associated with capital lease obligations totaled \$3,413 for the year ended September 30, 2016.

A summary of changes in long-term obligations of the District for the year ended September 30, 2016 is as follows:

	Long-Term Obligations September 30, 2015	Long-Term Obligations Incurred	Long-Term Obligations Paid	Long-Term Obligations September 30, 2016	Due Within One Year
Compensated absences	\$ 107,909	\$ 45,618	\$ (67,490)	\$ 86,037	\$ 43,018
Capital leases	<u>41,705</u>	<u>111,957</u>	<u>(29,618)</u>	<u>124,044</u>	<u>25,211</u>
	<u>\$ 149,614</u>	<u>\$ 157,575</u>	<u>\$ (97,108)</u>	<u>\$ 210,081</u>	<u>\$ 68,229</u>

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**12. Public Employee Retirement System of Idaho Base Plan**

Plan Description

The District contributes to the Base Plan, which is a cost-sharing, multiple-employer defined benefit pension plan administered by the Public Employee Retirement System of Idaho (PERSI or the System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at [www.persi.idaho.gov](http://www.persi.idaho.gov).

Responsibility for administration of the Base Plan is assigned to the PERSI Board, which is comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members be Idaho citizens who are not members of the Base Plan, except by reason of having served on the Board.

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (five months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months. Amounts in parenthesis represent police/firefighters.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases, up to a maximum of the Consumer Price Index increase or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates, which are expressed as percentages of annual covered payroll, if current rates are actuarially determined to be inadequate or in excess of the rates needed to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% (72%) of the employer rate. As of June 30, 2016, the required contribution rate as a percentage of covered payroll for members was 6.79% (8.36%). The employer contribution rate is set by the Retirement Board and was 11.32% (11.66%) of covered compensation. The District's employer contributions required and paid were \$72,478, \$87,854 and \$90,428 for the three years ended September 30, 2016, 2015 and 2014, respectively.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**12. Public Employee Retirement System of Idaho Base Plan, Continued**

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2016, the District reported a liability of \$497,972 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the Base Plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2016, the District's proportionate allocation was 0.000245651.

For the year ended September 30, 2016, the District recognized net pension expense of \$73,814, including employer contributions of \$72,112 made to the Plan.

At September 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions made subsequent to the measurement date	\$ 16,969	\$ --
Change in proportionate share	--	50,696
Changes of assumptions or other inputs	11,070	--
Differences between expected and actual experience	--	49,619
Net difference between projected and actual earnings on investments	<u>242,372</u>	<u>113,248</u>
Total	<u>\$ 270,411</u>	<u>\$ 213,563</u>

The amount reported as deferred outflows of resources related to pensions resulting from the District's contributions made subsequent to the measurement date, in the amount of \$16,969, will be recognized as a reduction of the net pension liability and included in pension expense for the year ending September 30, 2017.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees), which was determined at July 1, 2015, the beginning of the measurement period ended June 30, 2016, is 4.9 years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ending September 30,

2017	\$ (12,737)
2018	(12,737)
2019	44,530
2020	<u>20,823</u>
	<u>\$ 39,879</u>

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**12. Public Employee Retirement System of Idaho Base Plan, Continued**

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year’s earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		3.25%
Salary increases		4.25 – 10.00%
Salary inflation		3.75%
Investment rate of return	7.10%, net of investment expenses	
Cost-of-living adjustments		1.00%

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male police/firefighters
- Forward one year for female police/firefighters
- Set back one year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2009 through June 30, 2013 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2016 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2016 is based on the results of an actuarial valuation date of July 1, 2016.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2015**

**12. Public Employee Retirement System of Idaho Base Plan, Continued**

Actuarial Assumptions, Continued

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of the System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2016.

*Capital Market Assumptions*

<u>Asset Class</u>	<u>Expected Return*</u>	<u>Expected Risk</u>	<u>Strategic Normal</u>	<u>Strategic Ranges</u>
Equities			70%	66%-77%
Broad Domestic Equity	9.15%	19.00%	55%	50%-65%
International	9.25%	20.20%	15%	10%-20%
Fixed Income	3.05%	03.75%	30%	23%-33%
Cash	2.25%	00.90%	00%	00%-05%
			Expected	
<u>Total Fund</u>	<u>Expected Return*</u>	<u>Expected Inflation</u>	<u>Real Return</u>	<u>Expected Risk</u>
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%

\* Expected arithmetic return net of fees and expenses

*Other Actuarial Assumptions*

Assumed inflation – mean	3.25%
Assumed inflation – standard deviation	2.00%
Portfolio arithmetic mean return	8.42%
Portfolio long-term expected geometric rate of return	7.50%
Assumed investment expenses	<u>0.40%</u>
Long-term expected geometric rate of return, net of investment expenses	<u>7.10%</u>

**Sagle Fire District  
Notes to Financial Statements, Continued  
September 30, 2015**

**12. Public Employee Retirement System of Idaho Base Plan, Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the Base Plan's net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense, but without reduction for pension plan administrative expense.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or higher than the current rate:

	1% Decrease (6.10%)	Current Rate (7.10%)	1% Increase (8.10%)
Employer's proportionate share of net pension liability (asset)	\$ 976,845	\$ 497,972	\$ 99,737

Pension Plan Fiduciary Net Position

Detailed information about the Base Plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at [www.persi.idaho.gov](http://www.persi.idaho.gov).

Payables to the Pension Plan

At September 30, 2016, the District reported \$3,052 in payables to the defined benefit pension plan for legally required employer contributions or employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**13. Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position**

Adjustments to reconcile the Governmental Fund Balance Sheet to the Statement of Net Position are as follows:

Total fund balance, Governmental Fund Balance Sheet	\$ 681,950
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund:	
The cost of capital assets is	\$ 2,016,132
Accumulated depreciation and amortization is	<u>(1,013,879)</u>
	1,002,253
Property taxes and accounts receivable will be collected, but are not available soon enough to pay liabilities of the current period, and are therefore deferred inflows of resources in the governmental fund.	44,227
Noncurrent liabilities, including compensated absences, capital lease obligations and net pension liability, are not due and payable in the current period and therefore are not reported as liabilities in the governmental fund:	
Compensated absences, due within one year	(43,018)
Capital lease obligations, due within one year	(25,211)
Compensated absences, due after one year	(43,019)
Capital lease obligations, due after one year	(98,833)
Net pension liability	<u>(497,972)</u>
	(708,053)
Deferred outflows and deferred inflows of resources pertaining to the net pension liability are not financial resources and therefore are not reported in the governmental fund:	
Deferred outflows of resources related to the net pension liability	270,411
Deferred inflows of resources related to the net pension liability	<u>(213,563)</u>
	<u>56,848</u>
Total net position, Statement of Net Position	<u>\$ 1,077,225</u>

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**14. Reconciliation of the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities**

Adjustments to reconcile the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities are as follows:

Net changes in fund balance, Governmental Fund \$ 115,490

Some property taxes will not be collected until several months after the District's fiscal year end, and therefore are not available to pay liabilities of the current period. Accordingly, they are recorded as deferred inflows of resources. They are however recorded as revenue in the Statement of Activities. The change in deferred inflows of resources in the governmental fund during the 2016 fiscal year is an adjustment. 5,524

Capital outlays to purchase capital assets are reported as expenditures in governmental funds. In the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation. Amounts recognized for these items in the current year are as follows:

Capital outlays	\$ 144,768	
Depreciation and amortization expense	<u>(79,422)</u>	65,346

In the Statement of Activities, certain operating expenses, including compensated absences and net pension expense, are measured by the amount earned or incurred during the year. In the governmental fund, expenditures for these items are measured by the amount of financial resources used (i.e., the amount actually paid). In the current year, the amount paid exceeded the amounts earned. 20,170

Borrowings under capital leases are considered revenue and repayment of capital lease principal is an expenditure in the governmental fund, but the proceeds and repayments are recorded within long-term obligations in the Statement of Net Position. Amounts recognized for these items in the current year are as follows:

Proceeds from capital lease obligations	(111,957)	
Repayment of capital lease principal	<u>29,618</u>	(82,339)

In the governmental fund, proceeds from the sale of capital assets are recognized as revenues. However, in the Statement of Activities, the book value of capital assets disposed of is deducted from the proceeds to determine the gain or loss on the disposal of capital assets. The net book value of capital assets disposed of in the current year was \$1,050. (1,050)

Changes in net position, Statement of Activities \$ 123,141

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**15. Joint Powers Agreement**

As described in Note 1, through September 30, 2016, the District operated under a Joint Powers Agreement entered into on December 3, 2014 with the City of Sandpoint (“the City”) for the purpose of establishing a joint fire service operating under the name of the Sagle and Sandpoint Fire Service (“S&S”). Each party funded and supported the S&S in the same manner they had funded and supported their respective fire services prior to the agreement. Administrative costs, including those of the Chief and Executive Assistant, were shared between the parties. The Chief was an employee of the City and the Executive Assistant was an employee of the District, and each participate in their respective employer’s benefit plans, the costs of which were shared equally and reimbursed approximately on a monthly basis. During 2016, the District paid the City \$54,056 and the City paid the District \$31,648 for these services. At September 30, 2016, the District owed the City \$7,563 and the City owed the District \$17,826 for unreimbursed costs incurred for these services, which are recorded within accounts payable and accounts receivable, respectively.

The agreement was originally effective through September 30, 2016 and was renewable for successive one year terms thereafter, indefinitely. During 2016, the Joint Powers Agreement was renewed through September 30, 2017 and was amended to include Westside Fire District effective October 1, 2016. The City and the Districts will operate under the name of Selkirk Fire Rescue and EMS Service (“Selkirk”) and will continue to operate in a similar manner, with each party funding and supporting Selkirk based on their respective fire services prior to the agreement. Administrative costs, including those of the Chief, an Assistant Chief and the Executive Assistant, will be shared equally between the parties.

**16. Risk Management**

Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District contracts with an insurance company for property and general liability insurance. The District has no reserve established for the payment of uninsured claims. Expenditures are recognized when amounts are paid. Settled claims did not exceed coverage during any of the past three fiscal years.

Additionally, the District is a named defendant in U.S. District Court, Court of Idaho, in which the former Chief is asserting claims of retaliation, post-employment retaliation, violation of the substantive due process, and breach of implied contract and covenants of good faith and fair dealing. The matter is still in the discovery phase and the District has submitted the incident to its insurance carrier, which represents the only significant outstanding claim. The District’s insurance carrier has sent the District a reservation of rights letter indicating that there is no coverage for these claims. A mediation for the insurance matter has been scheduled for February 2017. If the claim results in an unfavorable ruling, and the claim is not covered by insurance or exceeds insurance coverage, there exists a reasonable possibility of a material adverse impact on the District for the period in which the ruling occurs, or future periods. However, the District’s administration is vigorously defending its actions and believes the outcome of these claims will not have a material adverse effect on the accompanying district-wide financial statements and, accordingly, no provision for loss has been recorded.

The District pays the State Workers’ Compensation System a premium at an experience-based rate. This rate is calculated based on accident history and administrative costs.

Health care coverage is provided through Blue Cross.

**Sagle Fire District**  
**Notes to Financial Statements, Continued**  
**September 30, 2016**

**17. Real Estate Lease**

The District leases .35 acres of land on which its Carrywood station is located. The lease currently requires annual lease payments of \$600, with increases of ten percent every five years. The lease was renewed effective September 2008 for a term of 30 years.

**18. Contingencies**

Grant Program

The District received financial assistance from a federal governmental agency in the form of a grant, which is governed by various rules and regulations of the grantor agency. The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the District's independent auditors and other governmental auditors. Therefore, if the District has not complied with the terms and conditions governing the grant, refunds of any money received may be required, and the collectability of any related receivables at September 30, 2016 may be impaired. Based on prior experience, the District's administration believes such amounts, if any, would be immaterial.

Litigation

With the exception of the item described in Note 16, the District's management is not aware of any pending claims against the District at September 30, 2016. The District has no reserve established for the payment of uninsured claims. Expenditures are recognized when amounts are paid.

**Required Supplementary Information**

**Sagle Fire District**  
**Budgetary Comparison Schedule**  
**Year Ended September 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances</b>	
	<b>Original</b>	<b>Final</b>	<b>Modified</b>	<b>Positive/(Negative)</b>	
			<b>Accrual</b>	<b>Original</b>	<b>Final</b>
			<b>Basis</b>	<b>to Final</b>	<b>to Actual</b>
<b>REVENUES</b>					
Property taxes	\$ 1,139,608	\$ 1,139,608	\$ 1,148,343	\$ -	\$ 8,735
Grants and contributions	5,000	5,000	-	-	(5,000)
Sales tax	-	-	34,602	-	34,602
Special fees and taxes	-	-	25,938	-	25,938
Other income	51,780	51,780	63,873	-	12,093
Interest income	300	300	1,973	-	1,673
Donations	100	100	-	-	(100)
<b>Total revenues</b>	<b>1,196,788</b>	<b>1,196,788</b>	<b>1,274,729</b>	<b>-</b>	<b>77,941</b>
<b>EXPENDITURES</b>					
Salaries and benefits	917,148	917,148	967,007	-	(49,859)
Equipment and capital outlay	51,957	51,957	144,768	-	(92,811)
Vehicle equipment maintenance	41,850	41,850	40,439	-	1,411
Debt service/interest	33,600	33,600	33,031	-	569
Fire operations	60,881	60,881	23,922	-	36,959
Insurance	20,000	20,000	20,195	-	(195)
Utilities	21,355	21,355	15,177	-	6,178
Professional services	19,000	19,000	13,138	-	5,862
Station repairs and maintenance	13,880	13,880	9,635	-	4,245
Communications expense	9,200	9,200	5,773	-	3,427
General and administrative	2,825	2,825	4,507	-	(1,682)
Office expense	7,900	7,900	3,444	-	4,456
Miscellaneous	600	600	660	-	(60)
<b>Total expenditures</b>	<b>1,200,196</b>	<b>1,200,196</b>	<b>1,281,696</b>	<b>-</b>	<b>(81,500)</b>
Excess (deficiency) of revenues over (under) expenditures	(3,408)	(3,408)	(6,967)	-	(3,559)
<b>OTHER FINANCING SOURCES</b>					
Proceeds from capital lease obligations	-	-	111,957	-	111,957
Proceeds from sale of capital assets	-	-	10,500	-	10,500
<b>Net changes in fund balance</b>	<b>(3,408)</b>	<b>(3,408)</b>	<b>115,490</b>	<b>-</b>	<b>118,898</b>
<b>Total fund balance, beginning of year</b>	<b>566,460</b>	<b>566,460</b>	<b>566,460</b>	<b>-</b>	<b>-</b>
<b>Total fund balance, end of year</b>	<b>\$ 563,052</b>	<b>\$ 563,052</b>	<b>\$ 681,950</b>	<b>\$ -</b>	<b>\$ 118,898</b>

**Sagle Fire District**  
**Notes to Budgetary Comparison Schedule**  
**September 30, 2016**

**1. Basis of Presentation**

The budgetary comparison schedule has been prepared on the modified accrual basis of accounting, which is the same basis of accounting used in the governmental fund financial statements.

**2. Expenditures in Excess of Budgeted Amounts**

As disclosed in Note 1 above, the budgetary comparison schedule has been prepared in conformance with the presentation used in the preparation of the governmental fund financial statements. This presentation differs from the account groupings required by Idaho Statutes for Board of Commissioners budgetary control at the functional level. As a result, the budgetary comparison schedule for the General Fund at page 33 discloses five instances in which actual expenditures exceeded budgeted expenditures. In fact, there were no instances in which General Fund expenditures exceeded budgeted expenditures at the functional levels required by Idaho Statutes.

**Sagle Fire District**  
**Schedule of Employer's Share of Net Pension Liability - PERSI Base Plan**  
**Last 10 Fiscal Years \***

<u>Plan Year</u>	<u>Employer's Portion of NPL</u>	<u>Employer's Proportionate Share of NPL ( a )</u>	<u>Employer's Covered Employee Payroll ( b )</u>	<u>Employer's NPL as a Percentage of Covered Payroll ( a / b )</u>	<u>Plan Net Position as a Percentage of Total Pension Liability</u>
2014	0.000285991	\$ 210,534	\$ 833,125	25.27%	94.95%
2015	0.000278217	366,367	766,445	47.80%	91.38%
2016	0.000245651	497,972	699,945	71.14%	87.26%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of June 30, 2016.

**Sagle Fire District**  
**Schedule of Employer Contributions - PERSI Base Plan**  
**Last 10 Fiscal Years \***

<b>Fiscal Year</b>	<b>Statutorily Required Contribution ( a )</b>	<b>Actual Employer Contribution ( b )</b>	<b>Contribution Excess (Deficiency) ( b - a )</b>	<b>Employer's Covered Employee Payroll ( c )</b>	<b>Contributions as a Percentage of Covered Employee Payroll ( b / c )</b>
2014	\$ 90,129	\$ 90,428	\$ 299	\$ 772,978	11.70%
2015	89,025	87,854	(1,171)	764,663	11.49%
2016	72,731	72,478	(253)	624,925	11.60%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of September 30, 2016.

**Sagle Fire District**  
**Notes to PERSI Base Plan Schedules**  
**September 30, 2016**

**1. Changes in Benefit Terms**

There were no changes in benefit terms during the Plan year ended June 30, 2016.

**2. Changes in Composition of the Population**

There were no changes in the composition of the population during the Plan year ended June 30, 2016.

**3. Changes in Assumptions**

There were no changes in actuarial assumptions during the Plan year ended June 30, 2016.

## **Compliance Report**

  
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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***

Board of Commissioners  
Sagle Fire District  
Sagle, Idaho

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 governmental activities and the General Fund of Sagle Fire District ("the District"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 10, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be significant deficiencies, which were considered to be, in the aggregate, a material weakness.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings 2016-001 and 2016-002, in the aggregate, to be a material weakness.

A *significant deficiency* is a deficiency, or 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings 2016-001 and 2016-002 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its 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*.

## **The District's Responses to the Findings**

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The sole purpose of this report is 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*DeCoria, Maichel + Teague, P.S.*

DeCoria, Maichel & Teague, P.S.  
Spokane, Washington

January 10, 2017

**Sagle Fire District  
Schedule of Findings and Responses  
Year Ended September 30, 2016**

**Section I – Summary of Auditor’s Results**

*Financial Statements*

The report of independent auditor expressed unmodified opinions on the basic financial statements of Sagle Fire District.

The audit of the financial statements of Sagle Fire District disclosed two significant deficiencies in internal control over financial reporting.

The significant deficiencies in internal control over financial reporting were considered to be, in the aggregate, a material weakness.

The audit disclosed no compliance findings material to the financial statements of Sagle Fire District.

**Section II – Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

**Finding 2016-001**

Condition	The size of the District’s staff is not large enough to permit an adequate segregation of duties for an effective system of internal control over financial reporting.
Criteria	An effective system of internal control over financial reporting requires that closely related duties be segregated.
Effect	The concentration of closely related duties and responsibilities by a small staff makes it difficult to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records.
Cause	The District’s staff is too small to allow an adequate segregation of duties.
Recommendation	Although the District’s staff is not large enough to permit an adequate segregation of duties for an effective system of internal control over financial reporting, we recommend that officials be aware that the condition does exist.
Management’s Response	Management and the District’s Board of Commissioners are aware of this condition and have made a conscious decision to accept the resulting degree of risk because of cost or other considerations.

**Sagle Fire District  
Schedule of Findings and Responses, Continued  
Year Ended September 30, 2016**

**Finding 2016-002**

Condition	The District's year-end closing procedures related to the modified accrual and accrual bases of accounting for financial reporting purposes are not fully formalized and documented for all balances reported in the basic financial statements.
Criteria	An effective system of internal control over financial reporting includes reconciling each general ledger account, and adjusting the recorded balances if necessary, including balances reported in the basic financial statements on the modified accrual and accrual bases of accounting.
Effect	In connection with performing our audit testing, we proposed 4 material audit adjustments to correct account balances, which primarily arose as a result of converting the District's budgetary basis of accounting to the modified accrual and accrual bases of accounting. Clarified Statements on Auditing Standards Section 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i> (AU-C 265), indicates that identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control over financial reporting should at least be regarded as a significant deficiency and should be considered as a strong indicator of a material weakness in internal control.
Cause	The District does not have fully formalized, documented procedures for reviewing and reconciling all balances included in the basic financial statements that are prepared on the modified accrual and accrual bases of accounting.
Recommendation	We recommend that year-end closing procedures related to the modified accrual and accrual bases of accounting be further developed, documented and implemented. The implementation of increased procedures should reduce or eliminate the need for audit adjustments.
Management's Response	The District will continue to develop and implement documented procedures for reconciling and adjusting account balances for each general ledger account in an effort to eliminate audit adjustments.

**Sagle Fire District  
Status of Prior Year Findings  
Year Ended September 30, 2016**

**Finding 2015-001**

Condition      The size of the District's staff is not large enough to permit an adequate segregation of duties for an effective system of internal control over financial reporting.

Status            This condition continues to exist at September 30, 2016. See Finding 2016-001.

**Finding 2015-002**

Condition      Due in part to the organization's size and limited resources, month-end and year-end closing procedures are not formalized and documented, and are not always performed in a timely manner, for certain accounts.

Status            This condition continues to exist for certain of the financial statement amounts at September 30, 2016. See Finding 2016-002.

**Finding 2015-003**

Condition      The District's records lack the necessary support for certain of the amounts in the district-wide financial statements.

Status            This condition has been substantially resolved.