



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Pierce County Fire Protection District No. 3

(West Pierce Fire and Rescue)

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

Published November 21, 2016

Report No. 1017866





Washington State Auditor's Office

November 21, 2016

Board of Commissioners
West Pierce Fire and Rescue
University Place, Washington

Report on Financial Statements

Please find attached our report on the West Pierce Fire and Rescue's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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

**West Pierce Fire and Rescue
Pierce County
January 1, 2015 through December 31, 2015**

Board of Commissioners
West Pierce Fire and Rescue
University Place, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the West Pierce Fire and Rescue, Pierce County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 6, 2016.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

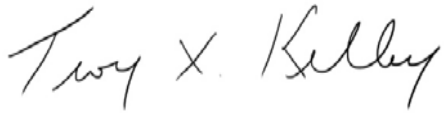
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and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

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

PURPOSE OF THIS REPORT

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

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

October 6, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

West Pierce Fire and Rescue Pierce County January 1, 2015 through December 31, 2015

Board of Commissioners
West Pierce Fire and Rescue
University Place, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the West Pierce Fire and Rescue, Pierce County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

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

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

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

Other Matters

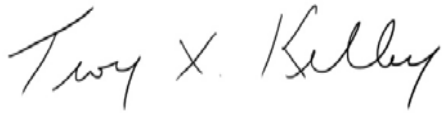
Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2016 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

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

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

October 6, 2016

FINANCIAL SECTION

**West Pierce Fire and Rescue
Pierce County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Notes to Financial Statements – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015

Pierce County Fire Protection District No 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

Beginning Cash and Investments

30810	Reserved	7,464,822
30880	Unreserved	6,851,245
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

310	Taxes	28,401,759
320	Licenses and Permits	98,893
330	Intergovernmental Revenues	584,045
340	Charges for Goods and Services	7,453,539
350	Fines and Penalties	-
360	Miscellaneous Revenues	304,400
Total Operating Revenues:		<u>36,842,636</u>

Operating Expenditures

510	General Government	-
520	Public Safety	34,201,614
598	Miscellaneous Expenses	-
Total Operating Expenditures:		<u>34,201,614</u>
Net Operating Increase (Decrease):		<u>2,641,022</u>

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	78,156
391-393	Debt Proceeds	-
397	Transfers-In	1,662,477
Total Nonoperating Revenues:		<u>1,740,633</u>

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	6,545
591-593	Debt Service	1,503,879
594-595	Capital Expenditures	1,616,933
597	Transfers-Out	1,695,977
Total Nonoperating Expenditures:		<u>4,823,334</u>

Net Increase (Decrease) in Cash and Investments: **(441,679)**

Ending Cash and Investments

5081000	Reserved	6,772,995
5088000	Unreserved	7,101,391
Total Ending Cash and Investments		<u>13,874,386</u>

The accompanying notes are an integral part of this statement.



PIERCE COUNTY FIRE PROTECTION DISTRICT No. 3
MCAG 1255
Notes to Financial Statements
January 1, 2015 through December 31, 2015

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District 3 is a special purpose government that provides fire protection services to the general public and is supported primarily through property taxes. The District was incorporated in 1944 and operates under Chapter 52 RCW and other laws of the State of Washington applicable to fire districts. In March of 2011, Fire District 2 merged into Fire District 3.

A. Fund Accounting

The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The following are the funds used by the district.

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund - This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

General Obligation (GO) Fund – This fund accounts for the accumulation of resources to pay principle, interest and related costs on general long-term debt.

B. Basis of Accounting

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

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

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

C. Cash

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

D. Deposits

The District's deposits (and certificates of deposit) are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

E. Capital Assets

Capital Assets are long-lived assets of the District and are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation pay may be accumulated up to 720 hours for the most senior shift employees and is payable upon separation or retirement. Sick leave may accumulate up to 1276 hours for shift employees and 1040 for most day employees. Upon separation or retirement most employees receive payment of 25% of accrued unused sick leave. Estimated liability for sick leave and vacation leave benefits on December 31, 2015 was \$4,202,291.

G. Reserve Fund Balance

The District maintains a reserve fund to save for large capital items as well as employee benefits liability. The amount in the fund at year-end was \$6,626,768.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

NOTE 3 – PROPERTY TAXES

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

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

The District regular levy for the year 2015 was \$1.50 per \$1,000 on an assessed valuation of \$7,951,491,395 for a total regular levy of \$11,927,237.09. The County refund fund was \$0.00 for a total of \$0.00.

The District EMS levy for the year 2015 was \$0.50 per \$1,000 on an assessed valuation of \$7,951,491,395 for a total EMS levy of \$3,975,745.70. The County refund fund was \$0.00 for a total of \$0.00.

The District excess levy for the year 2015 was \$1.422670678063 per \$1,000 on an assessed valuation of \$7,854,339,147 for a total excess levy of \$11,174,138.00. The County refund fund was \$0.00 for a total of \$0.00.

Previous District 2's Bond for the year 2015 was \$0.245801362059 per \$1,000 on an assessed valuation of \$4,881,990,848 for a total bond levy of \$1,200,000.00. The County refund fund was \$0.00 for a total of \$0.00.

NOTE 4 – INVESTMENTS

The District's investments are held by Pierce County as its agent in the District's name. Investments by type at December 31, 2015 were as follows:

General (Current Expense) Fund - \$0

Reserve Fund - \$0

Communications Reserve Fund - \$0

NOTE 5 – LONG-TERM DEBT

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

<u>District 3</u>	<u>Non-Voter Approved GOB</u>		
<u>Year</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2015	285,000	48,225	333,225
2016	290,000	41,100	331,100
2017	305,000	32,400	337,400
2018	310,000	23,250	333,250
2019	105,000	12,400	117,400
2020	110,000	8,725	118,725
2021	115,000	4,600	119,600
Total	1,520,000	170,700	1,690,700

<u>District 2</u>	<u>Voter Approved GOB</u>		
<u>Year</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2015	935,000	235,600	1,170,600
2016	990,000	216,900	1,206,900
2017	1,050,000	197,100	1,247,100
2018	1,140,000	155,100	1,295,100
2019	1,205,000	120,900	1,325,900
2020	1,290,000	84,750	1,374,750
2021	1,380,000	43,470	1,423,470
Total	7,990,000	1,053,820	9,043,820

NOTE 6 - PENSION PLANS

Substantially all of Fire District 3's full-time and qualifying part-time employees participate in either the Public Employees Retirement System (PERS) or under the Law Enforcement Officers and Fire Fighters (LEOFF) pension plans administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

At June 30, 2015, the District's proportionate share of the collective net pension liabilities, as reported on Schedule 9, was as follows:

	<i>Allocation %</i>	<i>Liability (Asset)</i>
PERS 1	0.019961%	\$1,044,146
PERS 2	0.025782%	\$921,206
LEOFF 1	0.111138%	\$(1,339,459)
LEOFF 2	0.655201%	\$(6,734,156)

The District also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

The District also participates in the LEOFF Plan 2. The legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

OTHER DISCLOSURES

In November 2010, the citizens of Fire District 2 approved the merger of Fire District 2 into Fire District 3. The merge became effective March 1, 2011. Fire District 3 is the remaining legal entity; and it is doing business as West Pierce Fire & Rescue. All assets and liabilities of District 2 became those of District 3 with the exception of the debt listed under Note 5 and Schedule 9 - it remains with the citizens who approved it in 2001, within the boundary of Fire District 2.

The District has a commitment to pay for post-employment benefits that belong to LEOFF 1 (medical, dental, prescriptions, and long-term care insurance) and LEOFF 2 and PERS 2 (medical insurance and Retiree HRA).

LEOFF 1 includes 33 retirees; amount paid out for those benefits in 2015 was \$300,430.

PERS 2 and LEOFF 2 includes 24 retirees; amount paid out for those benefits in 2015 was \$189,611.

The District has a related party relationship with South Sound 911. District 3 maintains a seat on the policy board for this organization, which is filled by one of the elected members of the Board of Fire Commissioners for the District.

Pierce County Fire Protection District No 3
Schedule of Liabilities
For the Year Ended December 31, 2015

<i>ID No.</i>	<i>Description</i>	<i>Date of Maturity</i>	<i>Beginning</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>
251.11	Refunded Non-voter approved GOB	12/1/2021	1,520,000	0	285,000	1,235,000
251.12	Voter approved GOB	12/1/2021	7,990,000	0	935,000	7,055,000
259.11	Compensated Absenses		3,945,873	2,857,411	2,600,993	4,202,291
264.30	Pension Liability			1,965,351		1,965,351

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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