



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements and Federal Single Audit  
Report**

**Lincoln County Fire Protection  
District No. 1**

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

**Published November 20, 2014**

**Report No. 1012998**





**Washington State Auditor**  
**Troy Kelley**

November 20, 2014

Board of Commissioners  
Lincoln County Fire Protection District No. 1  
Sprague, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on Lincoln County Fire Protection District No. 1's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR

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# Federal Summary

## Lincoln County Fire Protection District No. 1 January 1, 2013 through December 31, 2013

The results of our audit of Lincoln County Fire Protection District No. 1 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### ***FINANCIAL STATEMENTS***

An unmodified opinion was issued on the financial statements.

#### ***Internal Control Over Financial Reporting:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.228	CDBG - State-Administered CDBG Cluster - Community Development Block Grants/State's Program
97.052	Emergency Operations Center

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

# Schedule of Audit Findings and Responses

## Lincoln County Fire Protection District No. 1 January 1, 2013 through December 31, 2013

### 1. The District's internal controls over financial statement preparation are inadequate to ensure accurate and timely financial and grant reporting.

#### Background

District management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affect the District's ability to produce reliable financial statements, notes and required schedules.

All local governments in Washington that spend federal funds are required to prepare a Schedule of Expenditures of Federal Awards (SEFA) and notes to the SEFA as part of the annual financial report. U.S. Office of Management and Budget Circular A-133 requires grantees that spend federal funds or receive federal non-cash assistance of \$500,000 or more during the fiscal year to obtain a single audit and have an audit report issued within nine months of fiscal year-end.

#### Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- District staff did not have technical knowledge or experience with financial statement preparation requirements detailed in the *Budgeting, Accounting and Reporting Standards* (BARS) manual for fire districts or federal grant reporting requirements in OMB Circular A-133.
- The District hired a consultant to assist with the preparation of its annual financial report. District management did not perform a review of the financial statements, notes, or required schedules to ensure they were complete and accurate.

#### Cause of Condition

The District is small and generally operates on less than \$500,000 in property taxes, fees for service and donations. As such, it is not regularly required to obtain a financial statement audit. In addition, the District rarely receives federal grants or participates in projects supported by federal funding and was not aware that federal regulations require non-cash assistance to be reported on the SEFA or that an A-133 audit must be obtained when federal expenditures are \$500,000 or more.

## Effect of Condition

District staff did not detect errors in the District's annual financial report. During our audit of the District's financial statements, notes and required schedules, we found the following errors:

- The District identified the SEFA and related footnotes, and the notes to the financial statements as not applicable and did not prepare or include them in the original submission of its annual financial report. The schedule and notes were subsequently prepared and submitted by the District.
- The District spent \$39,642 in federal grant expenditures and received \$1,779,000 in federal non-cash assistance. Since the District did not originally prepare a SEFA as required, it did not receive a federal single audit by the deadline (September 30, 2014).
- Ending Cash and Investments in the General Fund was understated by \$53,166 due to a mathematical error. There was no impact on beginning cash and investments, revenues or expenditures.

We also identified other less significant errors that were communicated to management. The District subsequently corrected the misstatements described above.

## Recommendation

We recommend District management dedicate the necessary time and resources to establish and follow effective internal controls over financial and grant reporting by ensuring:

- Employees responsible for the preparation of the annual financial report receive training over requirements outlined in the BARS Manual and OMB Circular A-133.
- An independent, detailed review of the financial statements, notes and required schedules is performed. The District may wish to consider the use of a checklist or other review tools for this purpose.

## District's Response

*Due to a reporting requirement change by the State Auditor's Office the District was required to use an unfamiliar reporting format and reporting site. The State Auditor's Office did provide a three-hour training session in March 2014 for small districts introducing the new format and site for financial reporting; the new site was not available for immediate use. The training was a solid overview of the system; however, the site is difficult to navigate for individuals unfamiliar with the reporting site and who use it only on an annual basis. The District hired an individual for their reporting site knowledge to assist with the filing of the annual report. As noted, mathematical errors in*

*the financial statements (annual report) were recognized and corrected immediately. Additional schedules and notes were provided as required. All financial records requested by the auditor in house for verification of annual report information were supplied immediately. The District is small, operating on an annual budget of less than \$200,000 per year and is not regularly required to attach financial notes to the annual report.*

*The District was unaware, as the subrecipient, that the CDBG funds received via Lincoln County retained their federal identity and were therefore subject to reporting on the SEFA with notes attached and was not aware the grant was subject to federal audit and reporting at the District level. Prior to receiving the CDBG funding, the District made every effort to ensure that the funds would be reported appropriately. The District obtained guidance from the Washington State Department of Commerce and the Grants Program Division of the Federal Emergency Management Agency (FEMA) that CDBG funds awarded and used to help build the Sprague Emergency Response Center would be considered matching state funds for the FEMA award as it loses its Federal identity. With this assurance, the District felt that all necessary reporting on the SEFA and auditing of the funds would be done at the County level.*

*The District recognizes that the “Capital Bond Fund” should be a Debt Service Fund; however, with only three years left on the Bond no changes will be made.*

## **Auditor’s Remarks**

We appreciate the steps the District is taking to resolve the issue. We will review the condition during our next audit.

## **Applicable Laws and Regulations**

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart E, Section 500, states in part:

(a) General. The audit shall be conducted in accordance with GAGAS . . . .

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Material weakness.** A deficiency, or a 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.

**Significant deficiency.** 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.

RCW 43.09.200, Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

*Budget Accounting and Reporting System (BARS) Manual, Accounting, Accounting Principles and Internal Control*, Internal Control states in part:

#### Purpose and Definition of Internal Controls

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring

adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

#### Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart B, Section 200, states in part:

(a) Audit required. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in § \_\_\_.205.

(b) Single audit. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single audit conducted in accordance with § \_\_\_.500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart B, Section 205, states in part:

(a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and, the period when insurance is in force.

(g) Valuing non-cash assistance. Federal non-cash assistance, such as free rent, food stamps, food commodities, donated property, or donated surplus property, shall be valued at fair market value at the time of receipt or the assessed value provided by the Federal agency.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart C, Section 300, states in part:

The auditee shall . . .

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § \_\_\_.310.

(e) Ensure that the audits required by this part are properly performed and submitted when due. When extensions to the report submission due date required by § \_\_\_.320(a) are granted by the cognizant or oversight agency for audit, promptly notify the Federal clearinghouse designated by OMB and each pass-through entity providing Federal awards of the extension.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart C, Section 310, states in part:

(b) Schedule of expenditures of Federal awards.

The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements . . .

(4) Include notes that describe the significant accounting policies used in preparing the schedule . . .

(6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

# **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***

## **Lincoln County Fire Protection District No. 1 January 1, 2013 through December 31, 2013**

Board of Commissioners  
Lincoln County Fire Protection District No. 1  
Sprague, 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 Lincoln County Fire Protection District No. 1, Lincoln County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 9, 2014.

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 or permitted 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.

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 Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

## ***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*.

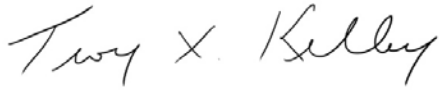
## ***DISTRICT'S RESPONSE TO FINDINGS***

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## ***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 cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

October 9, 2014

# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

## **Lincoln County Fire Protection District No. 1 January 1, 2013 through December 31, 2013**

Board of Commissioners  
Lincoln County Fire Protection District No. 1  
Sprague, Washington

### ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the compliance of Lincoln County Fire Protection District No. 1, Lincoln County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

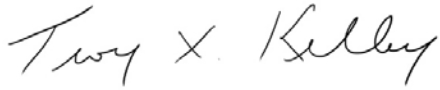
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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 cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

October 9, 2014

# **Independent Auditor's Report on Financial Statements**

## **Lincoln County Fire Protection District No. 1 January 1, 2013 through December 31, 2013**

Board of Commissioners  
Lincoln County Fire Protection District No. 1  
Sprague, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of Lincoln County Fire Protection District No. 1, Lincoln County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 21.

#### ***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, Lincoln County Fire Protection District No. 1 has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and 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 Lincoln County Fire Protection District No. 1, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

### ***Basis for Adverse Opinion on U.S. GAAP***

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

### ***Adverse Opinion on U.S. GAAP***

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Lincoln County Fire Protection District No. 1, as of December 31, 2013, 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***

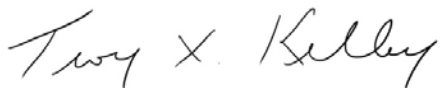
#### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Liabilities is also presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The

information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2014 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.



**TROY KELLEY**  
STATE AUDITOR

October 9, 2014

## **Financial Section**

### **Lincoln County Fire Protection District No. 1 January 1, 2013 through December 31, 2013**

#### ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2013  
Notes to the Financial Statements – 2013

#### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Liabilities – 2013  
Schedule of Expenditures of Federal Awards – 2013  
Notes to the Schedule of Expenditures of Federal Awards – 2013

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General	308 Capital Bond	340 Capital Project
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	153,414	0	63,119	90,295
30880	Beg Fund Bal-Unreserved	155,107	155,107	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	118,594	92,827	25,767	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	606,334	16,208	0	590,126
340	Charges for Goods and Services	83,417	83,417	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	34,174	31,406	38	2,730
Total Operating Revenues:		842,519	223,858	25,805	592,856
<b>Operating Expenditures</b>					
510	General Government	0	0	0	0
520	Public Safety	121,453	121,453	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		121,453	121,453		
Net Operating Increase (Decrease):		721,066	102,405	25,805	592,856
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:		0			
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	36,281	0	36,281	0
594-595	Capital Expenditures	726,268	41,445	0	684,823
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		762,549	41,445	36,281	684,823
Increase (Decrease) in Cash and Investments		-41,483	60,960	-10,476	-91,967
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	52,643	0	52,643	0
50880	End Fund Balance-Unreserved	214,395	216,067	0	-1,672

The accompanying notes are an integral part of this Statement.

**Lincoln County Fire Protection District #1**  
**Notes to the Financial Statements**  
**January 1, 2013 through December 31, 2013**

**Note 1 - Summary of Significant Accounting Policies**

The Lincoln County Fire District #1 is a special purpose government that provides fire protection services and emergency medical response services to the general public and is supported primarily through property taxes. The District was incorporated in 1947 and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts.

**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 District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

**GOVERNMENTAL FUND TYPES:**

**General Fund**

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

**Debt Service Funds**

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

**Capital Project Funds**

These funds account for financial resources that are designated for the acquisition or construction of general government capital projects.

**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 an other 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 fund resources and uses arising from cash transactions as cash and investments.

#### D. Deposits

The District's deposits are covered by the Federal Deposit Insurance Corporation.

#### E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. The capital assets of the district are recorded as expenditures when purchased.

#### F. Compensated Absences

The District does not provide vacation pay or sick leave since all employees are employed on a part time basis.

#### G. Reserved Fund Balance

Fund 308 Capital Bond: The reserved fund balance is required for bond payment.

### Note 2 – Budgets

The Lincoln County Fire District #1 adopts annual appropriated budgets for three funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

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

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
001 General Fund	162,898	162,898	0
308 Capital Bond	37,474	36,281	1,193
340 Capital Project	700,000	684,823	15,177

### Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month. Property tax revenues are recognized when cash is received by district. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied. The district's regular levy for the year 2013 was \$0.87538 per \$1,000 on an assessed valuation of \$68,775,435 for a total regular levy of \$59,913.

In 2013, the district also levied \$0.45589 per \$1,000 for Emergency Medical Services for a total additional levy of \$31,202. The district also had a Capital Bond levy \$0.36436 per \$1000 on an assessed valuation of \$68,612,745 for a total of \$25,000.

### Note 4 – Investments

The district's investments are held by the county as its agent in the district's name. Investments by type at December 31, 2013 were as follows:

Type of Investment	Balance
<u>LGIP</u>	<u>\$ 200,000</u>
Total	<u>\$200,000</u>

## **Note 5 – Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for year ended December 31, 2013. The debt service requirements for general obligation bonds including principle, interest and administration fees are as follows:

	General Obligation Debt
2014	35,073
2015	38,757
2016	37,331
2017	<u>35,896</u>

TOTALS     \$147,057

## **Note 6 - Pension Plans**

Substantially all of the district's qualifying volunteer firefighters/EMTs participate in the Board for Volunteer Firefighters and Reserve Officers pension plan. No employee receives benefits under the LEOFF program within Washington State Department of Retirement Systems.

Board for Volunteer Firefighters  
Box 114  
Olympia, WA 98507

## **Note 7 - Other Disclosures**

The Capital Fund balance shows a negative balance in fund 340 of (\$1,672) because the district was waiting on final grant reimbursement from CDBG.

The District is self-insured for unemployment and files quarterly reports with hours and salary to Washington State Employment Security Department. The District makes payments to the department if and when a claim is filed.

There is a group in the community called "Lincoln County Protection District Auxiliary" with a mission statement of "It is the mission of the Lincoln County Protection District Auxiliary to assist the Sprague Volunteer Firefighter's Association and Lincoln County Fire District #1 with protection of all assets with the District's purview; including, but not limited to the Lincoln County Fire District #1 Emergency Response Center, all apparatus and individual volunteer firefighters; and to support the local community." The Fire District does not have financial authority over the auxiliary nor does any Commission serve on their board.

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	251.12	Equipment Bond	6/1/2017	165,000	0	30,000	135,000
Total General Obligations:				165,000	0	30,000	135,000
Total Liabilities:				165,000	0	30,000	135,000

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****For the Year Ended December 31, 2013**

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Office Of Community Planning And Development, Department Of Housing And Urban Development/State Department of Commerce/Lincoln County	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	11-64100-042	818,642		818,642	1,2,4
Department Of Homeland Security/WA State Military Dept./City of Sprague	Emergency Operations Center	97.052	E12-293	1,000,000		1,000,000	1, 2, 3
<b>Total Federal Awards Expended:</b>				<b>1,818,642</b>	<b>0</b>	<b>1,818,642</b>	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

Lincoln County Fire Protection District #1

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2013**

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the district's financial statements. The district uses cash basis of accounting.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the district's portion, are more than shown.

Note 3 – Noncash Awards – Capital Facilities

The district received an emergency operating center that was funded in part with federal Homeland Security funds by the state of Washington. The amount reported on the schedule is the value of the federal portion of the total funding of the facility. The grant was passed through to the City of Sprague which disbursed the FEMA funds for the project. The City of Sprague received \$387,871.97 in 2012 and \$612,128.03 in 2013 for a total of \$1,000,000. The district and the City of Sprague had an interlocal agreement for the pass through of the FEMA grant for the project.

Note 4 – Noncash Awards – Capital Facilities

The emergency operating center, in conjunction with paved parking, which the district received was also funded in part with HUD funds thru the Washington State Department of Commerce as a Community Development Block Grant (CDBG). The amount reported on the schedule is the value of the federal portion of the total funding of the facility. The grant passed through the Lincoln County Auditor's office under the direction of the county commissioners. The district and the county had an interlocal agreement for the pass through of the CDBG grant for the project. The county received \$131,514.00 in 2012 and \$647,486.00 in 2013. The District also had expenditures of \$39,642.00. Total CDBG grant expenditures were \$818,642.

# Corrective Action Plan for Findings Reported Under OMB Circular A-133

## Lincoln County Fire Protection District No. 1 January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Lincoln County Fire Protection District No. 1.

<b>Finding ref number: 1</b>	<b>Finding caption:</b> The District's internal controls over financial statement preparation are inadequate to ensure accurate and timely financial and grant reporting.
<b>Name, address, and telephone of auditee contact person:</b> Arletta Hoffman, Secretary P.O. Box 278 Sprague, WA 99032 (509) 257-2926	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The District will ensure staff responsible for preparation and review of the annual financial report receives training to further understand the financial reporting requirements. The District will also work on establishing a review process for the annual financial report.</i>	
<b>Anticipated date to complete the corrective action:</b> May 30, 2015	

## 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.

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