



Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Clallam County Fire Protection District No. 3

For the period January 1, 2012 through December 31, 2013

Published February 23, 2015

Report No. 1013655





Washington State Auditor
Troy Kelley

February 23, 2015

Board of Commissioners
Clallam County Fire Protection District No. 3
Sequim, Washington

Report on Financial Statements

Please find attached our report on Clallam County Fire Protection District No. 3'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

TABLE OF CONTENTS

Schedule Of Audit Findings And Responses.....	4
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	8
Independent Auditor’s Report On Financial Statements	11
Financial Section.....	14
About The State Auditor’s Office.....	26

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Clallam County Fire Protection District No. 3 January 1, 2012 through December 31, 2013

2013-001 The Fire District's internal controls over financial statement preparation are inadequate to ensure accurate reporting.

Background

It is the responsibility of District management to design and follow internal controls and processes that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in controls that affected the District's ability to produce reliable financial statements and reports.

Description of Condition

We identified the following deficiencies in internal controls that when taken together, represent a material weakness:

- The District's review process for the prepared financial statements is not effective or sufficiently detailed to ensure the financial statements are accurate, complete and in accordance with the *Budgeting Accounting and Reporting System* (BARS) Manual.
- Staff responsible for preparing the financial statements did not have sufficient technical knowledge of financial reporting requirements.
- Procedures are not in place to ensure monthly reconciliations to County Treasurer statements are performed in a timely manner. Further, monthly reconciliations are not independently reviewed to ensure they are complete and accurate.

Cause of Condition

During the audit period, the District implemented new accounting software and started processing their warrants and payroll. District management did not ensure staff preparing the financial statements received adequate training on the new accounting software system or warrant and payroll procedures to ensure accurate financial reporting.

Effect of Condition

During our review of the financial statements, we identified the following errors, which were not detected by the District:

- Transfers between managerial roll-up funds were reported in 2012 and 2013, in the amount of \$3,886,145 and \$1,400,000, respectively. These transfers should have been eliminated in the financial statement preparation process and not reported.
- Nonrevenues and expenditures were over reported in 2012 by \$283,578. This amount represents warrants outstanding at fiscal year-end and should not have been included as revenue or an expenditure on the financial statements.
- Compensated absences on the 2012 Schedule 09 were overstated by \$18,512. The District did not report compensated absences on the 2013 Schedule 09 resulting in an understatement of \$1,181,206.
- The 2012 beginning reserved fund balance was overstated by \$926,794. In addition, the 2013 beginning and ending reserved fund balance was understated by \$1,135,000.
- Imprest accounts totaling \$6,500 were not included on the District's 2012 and 2013 financial statements.

Recommendation

We recommend District management take action to establish ongoing, consistent internal controls over its financial accounting and reporting, to include the following:

- Establish an effective review process of the financial statements by a person knowledgeable of *Budgeting, Accounting and Reporting Systems* (BARS) reporting requirements to ensure accurate preparation and reporting of the District's financial statements.
- Provide adequate training to staff responsible for financial accounting and reporting and adequately research and seek technical guidance for transactions to ensure compliance with reporting requirements.
- Establish and implement monitoring and oversight procedures to ensure reconciliations to County Treasurer statements are accurate, complete and performed in a timely manner.

District's Response

Clallam County Fire Protection District No. 3 [CCFPD#3] thanks the Audit Team for the reporting clarifications. CCFPD#3 will take the necessary corrective steps.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 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 General Procedures, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

- a. Significant deficiency: 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.

b. Material weakness: 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.

**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**

**Clallam County Fire Protection District No. 3
January 1, 2012 through December 31, 2013**

Board of Commissioners
Clallam County Fire Protection District No. 3
Sequim, 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 Clallam County Fire Protection District No. 3, Clallam County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated February 3, 2015.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 2013-001 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.

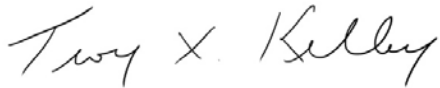
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 3, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clallam County Fire Protection District No. 3 January 1, 2012 through December 31, 2013

Board of Commissioners
Clallam County Fire Protection District No. 3
Sequim, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Clallam County Fire Protection District No. 3, Clallam County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Clallam County Fire Protection District No. 3 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 Clallam County Fire Protection District No. 3, for the years ended December 31, 2013 and 2012, 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 Clallam County Fire Protection District No. 3, as of December 31, 2013 and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

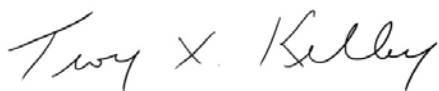
Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 3, 2015

FINANCIAL SECTION

Clallam County Fire Protection District No. 3 January 1, 2012 through December 31, 2013

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fund Resources and Uses Arising from Cash Transactions – 2012
Notes to Financial Statements – 2013
Notes to Financial Statements – 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013
Schedule of Liabilities – 2012

Clallam County Fire Protection District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		<u>001 General</u>
Beginning Cash and Investments		
30810	Reserved	1,135,000
30880	Unreserved	2,757,275
388 & 588	Prior Period Adjustments, Net	-
Operating Revenues		
310	Taxes	7,433,280
320	Licenses & Permits	3,500
330	Intergovernmental Revenues	222,744
340	Charges for Goods and Services	194,939
350	Fines & Penalties	-
360	Miscellaneous Revenues	104,621
Total Operating Revenues:		<u>7,959,084</u>
Operating Expenditures		
510	General Government	-
520	Public Safety	7,486,779
Total Operating Expenditures:		<u>7,486,779</u>
Net Operating Increase (Decrease):		472,305
Nonoperating Revenues		
370-380, 395 & 398	Other Financing Sources	267,108
391-393	Debt Proceeds	-
397	Transfers-In	-
Total Nonoperating Revenues:		<u>267,108</u>
Nonoperating Expenditures		
580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	304,504
594-595	Capital Expenditures	262,673
597	Transfers-Out	-
Total Nonoperating Expenditures:		<u>567,177</u>
Net Increase (Decrease) in Cash and Investments:		172,236
Ending Cash and Investments		
50810	Reserved	1,135,000
50880	Unreserved	2,929,511

The accompanying notes are an integral part of this statement.

Clallam County Fire Protection District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2012

		<u>001 General</u>
Beginning Cash and Investments		
30810	Reserved	-
30880	Unreserved	3,794,293
388 & 588	Prior Period Adjustments, Net	-
Operating Revenues		
310	Taxes	7,450,002
320	Licenses & Permits	2,800
330	Intergovernmental Revenues	222,215
340	Charges for Goods and Services	132,659
350	Fines & Penalties	-
360	Miscellaneous Revenues	109,028
Total Operating Revenues:		<u>7,916,704</u>
Operating Expenditures		
510	General Government	-
520	Public Safety	7,420,556
598	Intergovernmental Payments	-
Total Operating Expenditures:		<u>7,420,556</u>
Net Operating Increase (Decrease):		496,148
Nonoperating Revenues		
370-380, 395 & 398	Other Financing Sources	283,578
391-393	Debt Proceeds	-
397	Transfers-In	-
Total Nonoperating Revenues:		<u>283,578</u>
Nonoperating Expenditures		
580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	304,504
594-595	Capital Expenditures	377,240
597	Transfers-Out	-
Total Nonoperating Expenditures:		<u>681,744</u>
Net Increase (Decrease) in Cash and Investments:		97,982
Ending Cash and Investments		
50810	Reserved	1,135,000
50880	Unreserved	2,757,275

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

Clallam County Fire Protection District No. 3 referenced as CCFPD#3 is a special purpose government that provides fire protection, suppression, education and emergency medical services to the general public and is supported primarily through property taxes. The District was incorporated in June, 1948 and operates under Chapter 52 RCW and other laws of the State of Washington applicable to fire districts.

A. Fund Accounting

The accounts of CCFPD#3 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 CCFPD#3 resources are allocated to and accounted for in individual funds depending on their intended purpose. The following is the fund type used by CCFPD#3:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of CCFPD#3. It accounts for all financial resources except those required or elected to be accounted for in another fund.

B. Basis of Accounting

CCFPD#3 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 CCFPD#3'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

CCFPD#3'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 assets with an initial individual cost of more than \$30,000 and an estimated

useful life in excess of 7.5 years. The capital assets of CCFPD#3 are recorded as expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 24 months and is payable upon separation or retirement.

Sick leave may be accumulated up to 1040 hours for 40-hour-per-week employees & up to 1380 hours for 24-hour-shift employees. Upon separation or retirement employees receive 25% of total if resign and 50% if retire as payment for unused sick leave.

The Board of Commissioners adopted Resolution No. 2012 -6 on May 15, 2012 to ensure the financial backing for employee liability such as vacation, sick leave, comp time and holiday EMERGENCY cash outs. As of December 31, 2013, \$1,181,206 was the actual amount required to cover this employee liability.

G. Reserved Fund Balance

The CCFPD#3 Board of Commissioners adopted Resolution No. 2012-6 AUTHORIZATION for INTERNAL COMMITTED RESOURCES to be DEEMED RESERVED for the purpose of covering Compensated Absences. The Board of Commissioners shall be required to use a Resolution to free these resources for any other purpose. The Actual Ending Balance for the Reserved Fund Balance as of 12/31/2013 was \$1,135,000.

Note 2 - Budgets

CCFPD#3 adopts an annual appropriated budget for the General Fund. This budget is 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 budget were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
Admin Department	\$ 919,000	\$ 842,340	\$ 76,660
Fire/EMS Department	\$6,092,025	\$5,337,426	\$ 754,599
Prevention Department	\$ 280,218	\$ 248,842	\$ 31,376
Training Department	\$ 958,659	\$ 237,306	\$ 721,353
Facilities Department	\$ 932,787	\$ 780,915	\$ 151,872
Vehicles Department	\$ 348,488	\$ 551,083	\$ 202,595-
	\$	\$	\$
Total General Fund	\$9,531,177	\$7,997,912	\$1,533,265
	\$	\$	\$

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, or

that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Clallam County Fire Protection District No. 3 Board of Commissioners, the legislative body.

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 CCFPD#3. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

CCFPD#3's regular levy for the year 2013 was \$1.374600951200 per \$1,000 on an assessed valuation of \$3,886,575,220 for a total regular levy of \$5,342,489.99.

CCFPD#3's excess levy {EMS} for the year 2013 was \$.50 per \$1,000 on an assessed valuation of \$3,937,151,505 for a total excess levy of \$1,968,575.75.

Note 4 - Investments

CCFPD#3's investments are held by the Clallam County Treasurer as its agent in the District's name. Investments by type at December 31, 2013 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
L.G.I.P.	\$2,080,997
Other:Bank Certificates Of Deposit [CD]	\$1,135,000
Total	<u>\$ 3,215,997</u>

Investments are presented at maturity.

Note 5 – Debt Service Requirements

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of CCFPD#3 and summarizes the fire district's debt transactions for year ended December 31, 2013.

The debt service requirements for general obligation bonds, revenue bonds and State of Washington LOCAL loans including both principle and interest, are as follows:

	<u>Other Debt</u>	<u>Total Debt</u>
2013	\$304,504	\$853,631
2014	\$304,504	\$580,126
2015	\$304,504	\$295,727
2016	\$304,504	\$0 – paid in full.
TOTALS	<u>\$1,218,016</u>	

Note 6 - Pension Plans

Substantially all CCFPD#3's full-time and qualifying part-time employees participate in the LEOFF II and PERS II plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the fire district's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Clallam County Fire Protection District No. 3 referenced as CCFPD#3 is a special purpose government that provides fire protection, suppression, education and emergency medical services to the general public and is supported primarily through property taxes. The District was incorporated in June, 1948 and operates under Chapter 52 RCW and other laws of the State of Washington applicable to fire districts.

a. **Fund Accounting**

The accounts of CCFPD#3 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 CCFPD#3 resources are allocated to and accounted for in individual funds depending on their intended purpose. The following is the fund type used by CCFPD#3:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of CCFPD#3. It accounts for all financial resources except those required or elected to be accounted for in another fund.

b. **Basis of Accounting**

CCFPD#3 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 CCFPD#3'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**

CCFPD#3'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 leave may be accumulated up to 24 months and is payable upon separation or retirement.

Sick leave may be accumulated up to 1040 hours for 40-hour-per-week employees & up to 1380 hours for 24-hour-shift employees. Upon separation or retirement employees receive 25% of total if resign and 50% if retire as payment for unused sick leave. The actual Ending Balance for Compensated Absences as of 12/31/2012 was \$1,116,488.

g. **Reserved Fund Balance**

The CCFPD#3 Board of Commissioners adopted Resolution No. 2012-6 AUTHORIZATION for INTERNAL COMMITTED RESOURCES to be DEEMED RESERVED for the purpose of covering the sum of Employee Benefit Liability which equates to more than one million dollars for a sick leave, vacation, comp time and / or holiday cash-out for all employees should there be a catastrophic financial incident. And, the Board of Commissioners shall be required to use a Resolution to free these resources for any other purpose. The actual Ending Balance for the Reserved Fund Balance as of 12/31/2012 was \$1,135,000.

NOTE 2 – PROPERTY TAX

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

Property tax revenues are recognized when cash is received by CCFPD#3. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The CCFPD#3 regular levy for the year 2012 was \$1.284615778666 per \$1,000 on an assessed valuation of \$4,134,281,945 for a total regular levy plus new construction & the annexation of the community of Gardiner of \$5,430,964.

The CCFPD#3 excess levy [EMS] for the year 2012 was \$0.50 per \$1,000 on an assessed valuation of \$4,189,715,086 for a total regular levy plus new construction & the annexation of the community of Gardiner of \$2,118,168.

NOTE 3 - INVESTMENTS

CCFPD#3's investments are held by the Clallam County Treasurer as its agent in the District's name. Investments by type at December 31, 2012 were as follows:

<u>Type of Investment</u>	<u>Balance</u>
L.G.I.P.	\$2,750,775.46
Other:Bank Certificates Of Deposit [CD]	\$1,135,000.00
Total	<u>\$ 3,885,775.46</u>

NOTE 4 – LONG-TERM DEBT

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt of the District and summarizes the District's debt transactions for year 2012. The debt service requirements, including interest, are as follows:

	<u>Other Debt</u>	<u>Total Debt</u>
2012	\$304,504	\$1,116,658
2013	\$304,504	\$ 853,631
2014	\$304,504	\$ 580,126
2015	\$304,504	\$ 295,727
2016	\$304,504	\$0 – paid in full.
TOTALS	<u>\$1,522,520</u>	

NOTE 5 – PENSION PLANS

Substantially all CCFPD#3's full-time and qualifying part-time employees participate in the LEOFF II and PERS II plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the fire district's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

OTHER DISCLOSURES

In August 2012, CCFPD#3 began printing our own warrants instead of having the Clallam County Auditor's office do so, which has eliminated one layer of deadlines and timelines and given the fire district the opportunity to pay expenditures on our business terms and not the County's terms.

In October 2012, Stewart Ganser, author of the fire service BARS accounting program, announced that his company would merge with BIAS Software in Spokane, WA.

Clallam County Fire Protection District 3 had already decided to process our own payroll as of January 1, 2013, so CCFPD#3 began the set-up and training in BIAS during the month of December, 2012.

Clallam County Fire Protection District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2013

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
259.11	Compensated Absences		1,116,488	64,718	-	1,181,206
263.96	WA St Treasurer LOCAL Maintenance/Training bldg	12/1/2016	1,116,658	-	263,028	853,630
Total General Obligations:			2,233,146	64,718	263,028	2,034,836
Total Liabilities:			2,233,146	64,718	263,028	2,034,836

Clallam County Fire Protection District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2012

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
263.96	WA St Treasurer LOCAL Maintenance/Training bldg	12/1/2016	1,369,610	-	252,952	1,116,658
259.11	Compensated Absences		1,025,574	90,914	-	1,116,488
Total General Obligations:			2,395,184	90,914	252,952	2,233,146
Total Liabilities:			2,395,184	90,914	252,952	2,233,146

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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