



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements Audit Report **Thurston County Fire Protection District No. 3**

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

**Published September 22, 2016**

**Report No. 1017525**





## Washington State Auditor's Office

September 22, 2016

Board of Commissioners  
Thurston County Fire Protection District No. 3  
Lacey, Washington

### Report on Financial Statements

Please find attached our report on Thurston 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,

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**

**Thurston County Fire Protection District No. 3  
January 1, 2015 through December 31, 2015**

Board of Commissioners  
Thurston County Fire Protection District No. 3  
Lacey, 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 Thurston County Fire Protection District No. 3, 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 September 15, 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

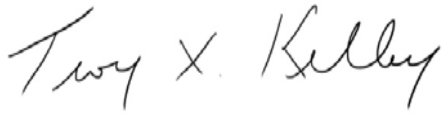
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and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

September 15, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Thurston County Fire Protection District No. 3 January 1, 2015 through December 31, 2015**

Board of Commissioners  
Thurston County Fire Protection District No. 3  
Lacey, Washington

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

We have audited the accompanying financial statements of Thurston County Fire Protection District No. 3, 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 10.

#### **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, Thurston 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 Thurston County Fire Protection District No. 3, 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 Thurston County Fire Protection District No. 3, 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.

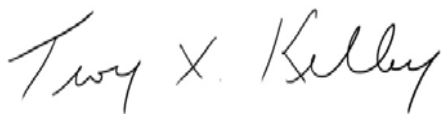
## Other Matters

### *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 September 15, 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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 15, 2016

## **FINANCIAL SECTION**

### **Thurston County Fire Protection District No. 3 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

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

	Total for All Funds (Memo Only)	001 General Fund	201 Bond Fund	301 Capital Projects Fund	305 Capital Projects - Bond Sale
<b>Beginning Cash and Investments</b>					
30810 Reserved	102,985	25,656	62,374	-	14,955
30880 Unreserved	2,670,955	2,498,378	-	172,578	-
388 & 588 Prior Period Adjustments, Net	-	-	-	-	-
<b>Operating Revenues</b>					
310 Taxes	12,895,853	12,458,155	437,698	-	-
320 Licenses and Permits	-	-	-	-	-
330 Intergovernmental Revenues	786,522	726,522	-	60,000	-
340 Charges for Goods and Services	3,363,443	3,233,398	-	130,045	-
350 Fines and Penalties	-	-	-	-	-
360 Miscellaneous Revenues	85,571	82,572	1,352	1,563	84
Total Operating Revenues:	17,131,388	16,500,647	439,050	191,608	84
<b>Operating Expenditures</b>					
510 General Government	-	-	-	-	-
520 Public Safety	15,468,826	15,468,826	-	-	-
598 Miscellaneous Expenses	-	-	-	-	-
Total Operating Expenditures:	15,468,826	15,468,826	-	-	-
Net Operating Increase (Decrease):	1,662,563	1,031,821	439,050	191,608	84
<b>Nonoperating Revenues</b>					
370-380, 395 & 398 Other Financing Sources	78,859	63,859	-	15,000	-
391-393 Debt Proceeds	-	-	-	-	-
397 Transfers-In	415,000	-	90,000	325,000	-
Total Nonoperating Revenues:	493,859	63,859	90,000	340,000	-
<b>Nonoperating Expenditures</b>					
580, 596 & 599 Other Financing Uses	4,213	4,213	-	-	-
591-593 Debt Service	551,278	-	551,278	-	-
594-595 Capital Expenditures	533,708	114,218	-	404,452	15,039
597 Transfers-Out	415,000	415,000	-	-	-
Total Nonoperating Expenditures:	1,504,200	533,431	551,278	404,452	15,039
<b>Net Increase (Decrease) in Cash and Investments:</b>	<b>652,223</b>	<b>562,249</b>	<b>(22,228)</b>	<b>127,156</b>	<b>(14,955)</b>
<b>Ending Cash and Investments</b>					
5081000 Reserved	62,606	22,461	40,145	-	-
5088000 Unreserved	3,363,557	3,063,823	-	299,733	-
<b>Total Ending Cash and Investments</b>	<b>3,426,162</b>	<b>3,086,284</b>	<b>40,145</b>	<b>299,733</b>	<b>-</b>

The accompanying notes are an integral part of this statement.

**THURSTON COUNTY FIRE PROTECTION DISTRICT THREE – MCAG #1346**

**Notes to the Financial Statements**  
**For the Year Ended December 31, 2015**

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

Thurston County Fire Protection District Number Three (hereinafter referred to as “The District”) was incorporated in 1948 and operates under the laws of the state of Washington applicable to a fire district. The District is a special purpose local government and provides fire and emergency medical services to the general public and is supported primarily through property taxes.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor’s Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

**A. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The District’s resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

**GOVERNMENTAL FUND TYPES:**

**General Fund**

This fund is the primary operating fund of the government. 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 financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

**Capital Projects Funds**

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

B. Basis of Accounting and Measurement Focus

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

C. Budgets

The District adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department 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 2015 appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
Support Svs Department	\$1,585,359	\$1,235,507	\$349,852
Operations Department	\$14,838,656	\$14,072,661	\$765,995
Executive Department	\$287,419	\$237,172	\$50,247
Inter-Fund Transfers	\$540,000	\$415,000	\$125,000
Total General Fund	\$17,251,434	\$15,960,339	\$1,291,094
Donations Fund	\$28,831	\$3,700	\$25,131
Reserve Fund	\$267,000	\$00	\$267,000
Eqpm Repair/Repl Fund	\$45,000	\$38,217	\$6,783
Bond Fund	\$550,843	\$551,278	(\$435)
Capital Projects Fund	\$712,000	\$404,452	\$307,548
Capitol Proj. 2012 Fund	\$15,005	\$15,038	(\$34)

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 District's legislative body.

D. Cash and Investments

It is The District's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds based on the individual fund balances.

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 one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement.

Sick leave may be accumulated up to 1,440 hours and may be used for paid time off for any FMLA designated purpose. Upon resignation or layoff, employees with five (5) or more years of service shall be paid a total of fifteen percent (15%) of the employee's sick leave balance at separation or the average end-of-calendar-year sick leave balance for the most recent three (3) full years, whichever is lower. Upon retirement or the award of a duty disability pension, employees with five (5) or more years of service shall be paid a total of fifty percent (50%) of the employee's sick leave balance at separation or the average end-of-calendar-year sick leave balance for the most recent three (3) full years, whichever total is lower. In the event of a line-of-duty death, the designated beneficiary will receive one hundred percent (100%) of the employee's sick leave balance at the time of death.

Employees eligible for retirement or awarded a duty disability pension with twenty (20) or more years of service shall be paid a total of seventy-five (75%) of the employee's sick leave balance or the cash value equivalent of four hundred and fifty Dollars (\$450.00) per month for every month up to the age of sixty-five (65). Employees may request member-to-member shared leave and notification and payment shall be made as follows:

- Payment for retirees or duty disability pensions will be made in three (3) installments over a three (3) year period; one-third (1/3) at separation, one-third (1/3) mid-year of the second year, and one-third (1/3) mid-year of the third year.

All sick leave cash outs will be allocated into the employee's Employer adopted, HRA VEBA medical expense reimbursement plan. All payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of:

Fund	Description	Amount
001 – General	386 - Sales Tax Collected	\$73.64
001 – General	389 - Expense Reimb – General	\$17,096.74
001 – General	395 - Sale of Fixed Assets	\$4,350.00
001 – General	395 - Insurance Recovery	\$8,729.74
301 – Capital Project	395 – Sale of Capital Assets	\$15,000.00

I. Risk Management

The District maintains insurance against most normal hazards except for unemployment insurance where it is self-insured. All unemployment claims are processed and paid by the Washington State Employment Security Department, which then bills The District for reimbursement.

WFCA Health Care Program – The District is a member of the Washington Fire Commissioners Association Health Care Program (“The Trust”). The Trust is funded by member organization premiums deposited into the Insurance Rate Stabilization Reserve Account (IRSRA). The IRSRA was created by WFCA Board of Directors Resolution 12-80(b) in 1999 to improve and facilitate the provision of medical and dental insurance for member fire service organization employees and their families. The self-insurance risk pool complies with the requirements of Chapter 48.62 RCW (Local Government Insurance Transactions), Chapter 200-110 WAC (Local Government Self-Insurance Health and Welfare Program Requirements) and Chapter 30.34 RCW (Interlocal Cooperation Act).

The District is a signatory to the WFCA Health Care Program Interlocal Agreement specifying the responsibilities of participating member organizations and the WFCA Health Care Program. The WFCA Health Care Program provides access to self-insured and insured medical plans, dental plans and life insurance coverage. The fire service organizations’ financial exposure is limited to monthly premium contributions made to the IRSRA for the purchase of medical, dental and life insurance coverage. The WFCA Health Care Program maintains stop loss insurance and has funding reserves that meet and exceed state solvency requirements.

The operations of the WFCA Health Care Program are overseen by a five-member Health Care Committee appointed by the Board of Directors. The Health Care Committee reviews and analyzes the operational needs, benefit and rate changes and makes recommendations to the Board of Directors. Final decisions are made by the WFCA Board of Directors.

AWC Employee Benefits Trust – The District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance

for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

#### J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Fire Commissioners. When expenditures that meet restrictions are incurred, The District intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of the entire balance of the Bond Debt Fund (201) and portions of the Donations Fund (101) which have been specifically marked for designated purposes. Pursuant to the terms of the 2012 LTGO Bond issuance, the Capital Projects 2012 Fund (305) was completely expended mid-year 2015.

### **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 The 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 2015 was \$1.50 per \$1,000 on an assessed valuation of \$8,305,063,120 for a total regular levy of \$12,457,594.68.

The District's bond debt levy for the year 2015 was \$.115674155136 per \$1,000 on an assessed valuation of \$3,782,625,423 for a total additional levy of \$437,552.00.

### **Note 3 – Deposits and Investments**

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

All investments are insured, registered or held by the Thurston County Investment Pool (TCIP) as it's agent in The District's name.

Investments are reported at fair market value. Investments by type at December 31, 2015 are as follows:

Thurston County Investment Pool	\$3,421,305.59
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The District also maintains a "petty cash" account at Key Bank. The petty cash account balance at December 31, 2015 was:

Key Bank (Petty Cash Fund)	\$ 4,856.47
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### **Note 4 – 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, 2015.

The debt service requirements for general obligation bonds, revenue bonds and other debts, including both principal and interest, are as follows:

	Principal	Interest	Total
2015 compensated absences	\$1,711,270		\$1,711,270
Pension Liabilities	\$529,292		\$529,292
2016	\$450,000	\$102,602	\$552,602
2017	\$465,000	\$89,675	\$554,675
2018	\$480,000	\$75,672	\$555,672
2019	\$490,000	\$60,747	\$550,747
2020	\$510,000	\$44,462	\$554,462
2021-2025	\$325,000	\$116,355	\$441,355
2026-2030	\$385,000	\$56,525	\$441,525
2031	85,000	\$2,975	\$87,975
Totals	\$5,430,562	\$549,013	\$5,979,575

## **Note 5 - Pension Plans**

Substantially all The District's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans: LEOFF II and PERS II.

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  
P.O. Box 48380  
Olympia, WA 98540-8380

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

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

At June 30, 2015 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows (pursuant to SAO instructions, assets were not included on Schedule 09, but are listed in these Notes as "assets" in parenthesis):

	Allocation %	Liability (Asset)
PERS 1	.005376%	\$281,215
PERS 2/3	.006943%	\$248,077
LEOFF I	.016272%	(\$196,114)
LEOFF 2	.3379%	(\$3,472,936)
VFFRPF	.15%	(\$43)

### **LEOFF Plan 1**

The District participated in LEOFF Plan 1, but all District LEOFF 1 employees are now retired. As of December 31, 2015, the District had eight (8) LEOFF Plan 1 retirees. 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.

#### LEOFF Plan 2

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

#### **Note 6 – Post Employment Benefits Other Than Pension Benefits**

In addition to the pension benefits described in Note 5 above, The District provides health insurance benefits in accordance with Plan 1 of the Law Enforcement Officers and Firefighters Retirement System (LEOFF). As of January 1, 2015, nine (9) LEOFF 1 retirees meet those eligibility requirements. During the 2015 calendar year one LEOFF 1 retiree passed away, leaving eight (8) LEOFF 1 retirees as of December 31, 2015.

The Thurston County Disability Board administers the medical services provisions of the LEOFF 1 plan. It decides whether medical services are necessary and determines “reasonable” cost. The District is required to pay for necessary medical services not covered by insurance and/or Medicare to include dental and vision. In 2015, The District also reimbursed a total of \$8,216.31 to LEOFF 1 retirees for Medicare premiums and other eligible medical expenses.

During the year 2015, total expenditures of \$218,975.98 were recognized for LEOFF 1 retiree health benefits.

#### **Note 7 – Contingencies and Litigation**

In the opinion of management, The District insurance policies are adequate to pay all known or pending claims.

The District participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowance, if any, will be immaterial.

#### **Note 8 - Other Disclosures**

In April of 2010, the voters in the Fire District and the City of Lacey approved two separate measures to annex the City of Lacey into the Fire District for fire protection purposes. This annexation resulted in the termination of the fire protection contract between the City of Lacey and the Fire District as well as a corresponding increase in the assessed valuation of the Fire District.

In August of 2012, the Board of Fire Commissioners approved Resolution No. 826-08-12, authorizing the issuance of \$1,150,000 in Unlimited Tax General Obligation Refunding Bonds, to provide money with which to pay the cost of refunding Unlimited Tax General Obligation Bonds originally issued in 2001.

At the same time, the Board of Fire Commissioners also approved Resolution Number 827-08-12, authorizing the issuance of \$1,305,000 in Limited Tax General Obligation Bonds, for the purpose of paying the costs of acquiring fire fighting and emergency medical service equipment and vehicles, modernizing existing fire stations, and making other capital improvements. This LTGO Bond will be paid from the general operating fund.

In 2012 The District was notified of a Federal SAFER Grant award for hiring twelve career firefighters. No expenditures or revenue occurred in 2012; in March of 2013, the District hired twelve career firefighters under that Grant award; the first (partial) year of expenditures and associated revenue from this grant are reflected in the 2013 annual report. The first full year of expenditures and associated revenue from this grant are reflected in the 2014 annual report. The last full year of expenditures and associated revenue from this grant are reflected in this 2015 annual report, and the last partial year of expenditures and associated revenue from this grant will be reflected in the 2016 annual report.

On July 24, 2013 the City of Olympia annexed 8.69 acres and adjacent street rights-of-way located at 1412 Boulevard Road SE, lying contiguous to Olympia City limits and within the Olympia Urban Growth Area. This annexation resulted in the City of Olympia taking on primary responsibility for fire and emergency medical response to the properties being annexed, as well as a corresponding decrease in the assessed valuation of the Fire District.

On June 20, 2014, the City of Olympia annexed approximately 205 acres along the I-5 corridor within the Olympia Urban Growth Area. This annexation resulted in the City of Olympia taking on primary responsibility for fire and emergency medical response to the properties being annexed, as well as a corresponding decrease in the assessed valuation of the Fire District.

In August of 2014, the voters in the Fire District approved a measure authorizing the levy of regular property taxes in excess of the limitations of Chapter 84.55 RCW for specified purposes, including fire protection, prevention and emergency medical services in the District. In 2014, the regular property tax rate was \$1.3939. This “levy lid lift” measure authorized an increase in the levy rate up to the \$1.50 per \$1,000 of assessed value for collection in 2015. This measure further authorized an exception from the one percent (1%) annual increase in levy rate up to a six percent (6%) annual increase in the levy rate for up to six years.

In 2014 an internal audit of the Donations fund was conducted; as a result of that audit, a change in the presentation of reserved versus unreserved ending cash was made.

On May 28, 2015, the City of Lacey annexed property along Marvin Road NE into the City of Lacey. This annexation resulted in The District taking on primary responsibility for fire and emergency medical response to that portion of the property being annexed which was not already located within The District’s boundaries. This annexation also resulted in a corresponding increase in the assessed valuation of the Fire District for that property which was not already located within The District’s boundaries.

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

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>General Obligation Debt/Liabilities</b>						
251.11	LTGO Bond 2012	8/31/2032	1,140,000	-	55,000	1,085,000
251.12	UTGO Bond 2005	12/31/2025	1,675,000	-	250,000	1,425,000
251.12	UTGO Bond 2012	8/31/2032	810,000	-	130,000	680,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>3,625,000</b>	<b>-</b>	<b>435,000</b>	<b>3,190,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated absences		1,495,115	216,155	-	1,711,270
264.30	Pension Liabilities		-	529,292	-	529,292
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>1,495,115</b>	<b>745,447</b>	<b>-</b>	<b>2,240,562</b>
<b>Total Liabilities:</b>			<b>5,120,115</b>	<b>745,447</b>	<b>435,000</b>	<b>5,430,562</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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