



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Franklin County Fire Protection District No. 3

For the period January 1, 2014 through December 31, 2015

Published October 20, 2016

Report No. 1017680





Washington State Auditor's Office

October 20, 2016

Board of Commissioners
Franklin County Fire Protection District No. 3
Pasco, Washington

Report on Financial Statements

Please find attached our report on Franklin 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**

**Franklin County Fire Protection District No. 3
January 1, 2014 through December 31, 2015**

Board of Commissioners
Franklin County Fire Protection District No. 3
Pasco, 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 Franklin County Fire Protection District No. 3, Franklin County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 11, 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 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.

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

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

COMPLIANCE AND OTHER MATTERS

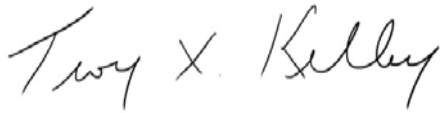
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and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

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

PURPOSE OF THIS REPORT

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

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

October 11, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Franklin County Fire Protection District No. 3 January 1, 2014 through December 31, 2015

Board of Commissioners
Franklin County Fire Protection District No. 3
Pasco, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Franklin County Fire Protection District No. 3, Washington, for the years ended December 31, 2015 and 2014, 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 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, Franklin 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 Franklin County Fire Protection District No. 3, for the years ended December 31, 2015 and 2014, 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 Franklin County Fire Protection District No. 3, as of December 31, 2015 and 2014, 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.

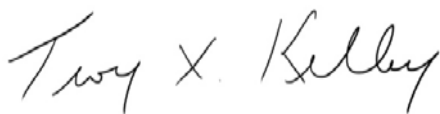
Other Matters

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 October 11, 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

October 11, 2016

FINANCIAL SECTION

Franklin County Fire Protection District No. 3 January 1, 2014 through December 31, 2015

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015

Fund Resources and Uses Arising from Cash Transactions – 2014

Notes to Financial Statements – 2015

Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015

Schedule of Liabilities – 2014

Franklin 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 Franklin County FPD #3 Expense Fund	200 Debt Service Fund
Beginning Cash and Investments				
30810	Reserved	86,935	80,140	6,795
30880	Unreserved	1,301,183	1,301,183	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,473,489	1,392,814	80,676
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	11,544	11,544	-
340	Charges for Goods and Services	50,869	50,869	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	37,353	37,353	-
Total Operating Revenues:		1,573,256	1,492,580	80,676
Operating Expenditures				
510	General Government	-	-	-
520	Public Safety	1,002,837	1,002,837	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		1,002,837	1,002,837	-
Net Operating Increase (Decrease):		570,419	489,743	80,676
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	24,821	24,821	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
Total Nonoperating Revenues:		24,821	24,821	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	774	774	-
591-593	Debt Service	79,823	-	79,823
594-595	Capital Expenditures	514,848	514,848	-
597	Transfers-Out	-	-	-
Total Nonoperating Expenditures:		595,445	515,623	79,823
Net Increase (Decrease) in Cash and Investments:		(204)	(1,058)	854
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	1,387,912	1,380,264	7,648
Total Ending Cash and Investments		1,387,912	1,380,264	7,648

The accompanying notes are an integral part of this statement.

Franklin County Fire Protection District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	000 General	200 Debt
Beginning Cash and Investments				
30810	Reserved	84,085	80,140	3,945
30880	Unreserved	951,299	951,299	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,362,524	1,279,402	83,122
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	10,649	10,649	-
340	Charges for Goods and Services	50,689	50,689	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	27,066	27,066	-
Total Operating Revenues:		1,450,928	1,367,806	83,122
Operating Expenditures				
510	General Government	-	-	-
520	Public Safety	884,312	884,312	-
Total Operating Expenditures:		884,312	884,312	-
Net Operating Increase (Decrease):		566,616	483,494	83,122
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	1,106	1,106	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
Total Nonoperating Revenues:		1,106	1,106	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	3,984	3,984	-
591-593	Debt Service	80,273	-	80,273
594-595	Capital Expenditures	130,733	130,733	-
597	Transfers-Out	-	-	-
Total Nonoperating Expenditures:		214,990	134,717	80,273
Net Increase (Decrease) in Cash and Investments:		352,732	349,883	2,849
Ending Cash and Investments				
5081000	Reserved	86,935	80,140	6,795
5088000	Unreserved	1,301,183	1,301,183	-
Total Ending Cash and Investments		1,388,118	1,381,323	6,795

The accompanying notes are an integral part of this statement.

FRANKLIN COUNTY FIRE PROTECTION DISTRICT NO. 3
Amended Notes to the Financial Statements
For the year ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

The Franklin County Fire Protection District No. 3 was formed on September 8, 1953 and operates under the laws of the state of Washington applicable to a fire protection district. The district is a special purpose local government and provides fire protection and emergency medical services.

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 government'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. The county treasurer deposits tax collections for those properties that were annexed into the City of Pasco after the district became committed under non-voted general obligation bonds. The county treasurer also deposits general tax collections from properties that are still within the district that relate only to the obligation owing under those non-voted general obligation bonds.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

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.

In accordance with state law, the district also recognizes expenditures paid during 20 days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The district adopts annual appropriated budgets for all 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/Department	Final Appropriated Amounts	Actual Expenditures	Variance
001 - General Fund:			
General Fund	\$1,648,207.43	\$1,518,459.22	\$129,748.21
Total General Fund	\$1,648,207.43	\$1,518,459.22	\$129,748.21
200 – Debt Service Fund	\$-0-	\$79,822.50	(\$79,822.50)

The district budgets its obligation under non-voted general obligation bonds in its General Fund budget, although the county treasurer deposits all funds necessary to pay the annual obligation into the Debt Service Fund and pays all bond payments directly from that fund.

Budgeted amounts are authorized to be transferred between any fund/object classes; 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

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an estimated useful life in excess of 1 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 150 days. Upon separation or retirement employees do receive payment for twenty-five percent (25%) of unused sick leave. 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 insurance.

I. Risk Management

See Note 6, *Other Disclosures, Insurance*.

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 \$1.27189579 per \$1,000 on an assessed valuation of \$1,066,402,634.00 for a total regular levy of \$1,356,353.02. The district's levy for the year 2015 for the district's non-voted general obligation bonds was \$0.06456238 per \$1,000 on an assessed valuation of \$1,236,354,697.00 for a total levy for the non-voted general obligation bonds of \$79,822.00.

Note 3 – Deposits and Investments

All investments of the district are invested by the county treasurer through a treasurer investment pool. There are no investments at the district level. All funds of the district are highly liquid.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the district or its agent in the government's name.

Note 4 – Debt Service Requirements

Debt Service

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 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 60,000.00	\$19,372.50	\$ 79,372.50
2017	\$ 65,000.00	\$18,652.50	\$ 83,652.50
2018	\$ 65,000.00	\$17,742.50	\$ 82,742.50
2019	\$ 65,000.00	\$16,767.50	\$ 81,767.50
2020 – 2027	\$580,000.00	\$77,135.00	\$657,135.00
TOTALS	<u>\$835,000.00</u>	<u>\$149,670.00</u>	<u>\$984,670.00</u>

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all 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 (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees' Retirement System and Law Enforcement Officers' and Fire Fighters' Retirement System.

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.

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.

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:

	<u>Allocation %</u>	<u>Liability (Asset)</u>
PERS 1	.000023%	\$1,203.00
PERS 2/3	.000030%	\$1,072.00
LEOFF 2	.009805%	(100,776.00)

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 - Other Disclosures

Insurance

The district is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$10 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

FRANKLIN COUNTY FIRE PROTECTION DISTRICT NO. 3

Amended Notes to the Financial Statements

For the year ended December 31, 2014

Note 1 - Summary of Significant Accounting Policies

The Franklin County Fire Protection District No. 3 was formed on September 8, 1953 and operates under the laws of the state of Washington applicable to a fire protection district. The district is a special purpose local government and provides fire protection and emergency medical services.

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:

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- 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.
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- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

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Debt Service Funds

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FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

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.

In accordance with state law, the district also recognizes expenditures paid during 20 days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The district adopts annual appropriated budgets for all 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/Department	Final Appropriated Amounts	Actual Expenditures	Variance
001 - General Fund:			
General Fund	\$1,392,383.89	\$1,019,028.34	\$373,355.55
Total General Fund	\$1,392,383.89	\$1,019,028.34	\$373,355.55
200 – Debt Service Fund	\$-0-	\$80,272.50	(\$80,272.50)

The district budgets its obligation under non-voted general obligation bonds in its General Fund budget, although the county treasurer deposits all funds necessary to pay the annual obligation into the Debt Service Fund and pays all bond payments directly from that fund.

Budgeted amounts are authorized to be transferred between any fund/object classes; 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

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an estimated useful life in excess of 1 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 150 days. Upon separation or retirement employees do receive payment for twenty-five percent (25%) of unused sick leave. 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 insurance.

I. Risk Management

See Note 6, *Other Disclosures, Insurance*.

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 2014 was \$1.33705685 per \$1,000 on an assessed valuation of \$942,186,493.00 for a total regular levy of \$1,259,756.90. The district's levy for the year 2014 for the district's non-voted general obligation bonds was \$0.07584788 per \$1,000 on an assessed valuation of \$1,081,111,337.00 for a total levy for the non-voted general obligation bonds of \$82,000.00.

Note 3 – Deposits and Investments

All investments of the district are invested by the county treasurer through a treasurer investment pool. There are no investments at the district level. All funds of the district are highly liquid.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the district or its agent in the government's name.

Note 4 – Debt Service Requirements

Debt Service

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, 2014.

The debt service requirements for general obligation bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 60,000.00	\$19,822.50	\$ 79,822.50
2016	\$ 60,000.00	\$19,372.50	\$ 79,372.50
2017	\$ 65,000.00	\$18,652.50	\$ 83,652.50
2018	\$ 65,000.00	\$17,742.50	\$ 82,742.50
2019	\$ 65,000.00	\$16,767.50	\$ 81,767.50
2020 – 2027	\$580,000.00	\$77,135.00	\$657,135.00
TOTALS	<u>\$895,000.00</u>	<u>\$169,492.50</u>	<u>\$1,064,492.50</u>

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all 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 (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees' Retirement System and Law Enforcement Officers' and Fire Fighters' Retirement System.

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.

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.

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 - Other Disclosures

Insurance

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2014, there are 491 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers crime coverage up to a limit of \$1,000,000 per occurrence.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown on the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Limited tax G.O. Bonds	12/1/2027	895,000	-	60,000	835,000
	Total General Obligation Debt/Liabilities:		895,000	-	60,000	835,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated absences		17,179	27,655	17,179	27,655
264.30	Net Pension Liability		-	2,275	-	2,275
	Total Revenue and Other (non G.O.) Debt/Liabilities:		17,179	29,930	17,179	29,930
	Total Liabilities:		912,179	29,930	77,179	864,930

Franklin County Fire Protection District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2014

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Limited Tax G. O. Bonds	12/1/2027	955,000	-	60,000	895,000
259.11	Compensated Absences		20,699	17,179	20,699	17,179
	Total General Obligation Debt/Liabilities:		975,699	17,179	80,699	912,179
	Total Liabilities:		975,699	17,179	80,699	912,179

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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