



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report Grant County Fire Protection District No. 3

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

Published November 17, 2016

Report No. 1017884





Washington State Auditor's Office

November 17, 2016

Board of Commissioners
Grant County Fire Protection District No. 3
Quincy, Washington

Report on Financial Statements

Please find attached our report on Grant 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**

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

Board of Commissioners
Grant County Fire Protection District No. 3
Quincy, 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 Grant County Fire Protection District No. 3, 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 28, 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.

In addition, we noted certain matters that we will report to the management of the District in a separate letter dated October 31, 2016.

COMPLIANCE AND OTHER MATTERS

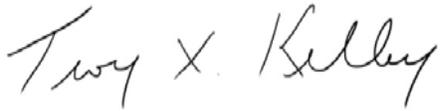
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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 28, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Board of Commissioners
Grant County Fire Protection District No. 3
Quincy, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Grant 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, Grant 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 Grant 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 Grant 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 28, 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 28, 2016

FINANCIAL SECTION

Grant 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

Grant 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	101 EMS Fund - Reporting Only
Beginning Cash and Investments				
30810	Reserved	604,617	-	232,973
30880	Unreserved	1,210,821	727,842	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,622,777	1,009,431	357,945
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	145,383	143,830	1,502
340	Charges for Goods and Services	582,441	503,581	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	54,858	30,973	5,148
Total Operating Revenues:		<u>2,405,459</u>	<u>1,687,815</u>	<u>364,594</u>
Operating Expenditures				
510	General Government	-	-	-
520	Public Safety	1,706,930	1,410,403	296,047
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		<u>1,706,930</u>	<u>1,410,403</u>	<u>296,047</u>
Net Operating Increase (Decrease):		<u>698,529</u>	<u>277,412</u>	<u>68,547</u>
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	7,635	4,455	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	56,200	-	-
Total Nonoperating Revenues:		<u>63,835</u>	<u>4,455</u>	<u>-</u>
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	323,750	14,000	-
594-595	Capital Expenditures	220,017	200,628	19,390
597	Transfers-Out	56,200	56,200	-
Total Nonoperating Expenditures:		<u>599,967</u>	<u>270,828</u>	<u>19,390</u>
Net Increase (Decrease) in Cash and Investments:		<u>162,397</u>	<u>11,039</u>	<u>49,157</u>
Ending Cash and Investments				
5081000	Reserved	657,627	-	282,131
5088000	Unreserved	1,320,208	738,882	-
Total Ending Cash and Investments		<u>1,977,835</u>	<u>738,882</u>	<u>282,131</u>

The accompanying notes are an integral part of this statement.

<u>201 Bond Fund</u>	<u>202 LTGO Fund</u>	<u>302 Reserve Fund</u>
46,644	-	325,000
-	-	482,979
-	-	-
255,401	-	-
-	-	-
52	-	-
-	-	78,860
-	-	-
2,429	-	16,307
<u>257,882</u>	<u>-</u>	<u>95,168</u>
-	-	-
479	-	-
-	-	-
<u>479</u>	<u>-</u>	<u>-</u>
<u>257,403</u>	<u>-</u>	<u>95,168</u>
-	-	3,180
-	-	-
-	56,200	-
<u>-</u>	<u>56,200</u>	<u>3,180</u>
-	-	-
253,550	56,200	-
-	-	-
-	-	-
<u>253,550</u>	<u>56,200</u>	<u>-</u>
3,853	-	98,348
50,496	-	325,000
-	-	581,326
<u>50,496</u>	<u>-</u>	<u>906,326</u>

The accompanying notes are an integral part of this statement.

Grant 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)	001 General Fund	101 EMS Fund
Beginning Cash and Investments				
30810	Reserved	809,871	-	208,519
30880	Unreserved	517,378	517,378	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,487,243	912,452	314,851
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	120,415	118,379	1,869
340	Charges for Goods and Services	564,025	478,711	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	51,133	32,304	3,964
Total Operating Revenues:		<u>2,222,815</u>	<u>1,541,846</u>	<u>320,684</u>
Operating Expenditures				
510	General Government	-	-	-
520	Public Safety	1,490,466	1,195,631	294,233
Total Operating Expenditures:		<u>1,490,466</u>	<u>1,195,631</u>	<u>294,233</u>
Net Operating Increase (Decrease):		732,349	346,215	26,451
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	150,000	150,000	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	235,414	-	-
Total Nonoperating Revenues:		<u>385,414</u>	<u>150,000</u>	<u>-</u>
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	328,613	14,000	-
594-595	Capital Expenditures	65,547	63,551	1,997
597	Transfers-Out	235,414	208,200	-
Total Nonoperating Expenditures:		<u>629,574</u>	<u>285,751</u>	<u>1,997</u>
Net Increase (Decrease) in Cash and Investments:		488,190	210,464	24,454
Ending Cash and Investments				
5081000	Reserved	604,617	-	232,973
5088000	Unreserved	1,210,821	727,842	-
Total Ending Cash and Investments		1,815,438	727,842	232,973

The accompanying notes are an integral part of this statement.

<u>201 Bond Fund</u>	<u>202 LTGO Fund</u>	<u>301 Construction Fund</u>	<u>302 Reserve Fund</u>
41,335	-	27,076	532,941
-	-	-	-
-	-	-	-
259,940	-	-	-
-	-	-	-
167	-	-	-
-	-	-	85,314
-	-	-	-
2,216	-	139	12,510
<u>261,323</u>	<u>-</u>	<u>139</u>	<u>97,823</u>
-	-	-	-
602	-	-	-
<u>602</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>261,721</u>	<u>-</u>	<u>139</u>	<u>97,823</u>
-	-	-	-
-	-	-	-
-	58,200	-	177,214
<u>-</u>	<u>58,200</u>	<u>-</u>	<u>177,214</u>
-	-	-	-
256,413	58,200	-	-
-	-	-	-
-	-	27,214	-
<u>256,413</u>	<u>58,200</u>	<u>27,214</u>	<u>-</u>
5,309	-	(27,075)	275,037
46,644	-	-	325,000
-	-	-	482,979
<u>46,644</u>	<u>-</u>	<u>-</u>	<u>807,979</u>

The accompanying notes are an integral part of this statement.

**Grant County Fire Protection District #3
MCAG#1089**

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

The accompanying notes are considered integral to the financial statements.

Note 1 - Summary of Significant Accounting Policies

Grant County Fire District #3 was incorporated on July 7th, 1942 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 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.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

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.

In accordance with state law, the District also recognizes expenditures paid up to twenty (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 follows:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund	\$ 1,897,962	\$ 1,681,231	\$ 216,732
101 - EMS Fund - Reporting Only	\$ 353,395	\$ 315,437	\$ 37,958
201 - Bond Fund	\$ 253,550	\$ 254,029	\$ (479)
202 - LTGO Fund	\$ 56,200	\$ 56,200	
301 - Construction Fund	\$ 26,940		\$ 26,940

Budgeted amounts are authorized to be transferred between departments within any fund or 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

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and meet with the requirements in District policy 7.4.1. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 300 hours per year, and is payable upon separation or retirement. The total unpaid liability of vacation leave as of December 31, 2015 was \$70,221.90.

Sick leave may be accumulated up to 1040 hours in a “long term bank,” and an “Annual Bank” of up to 80 hours per year. Unused hours in the annual bank will accrue to the long term bank at the end of each year until the long term bank is fully funded. Once the long term bank is fully funded any hours remaining in the annual bank at the end of each year shall be bought out at one quarter of the employee’s current hourly wage rate. Upon separation or retirement employees do not receive payment for unused sick leave.

Comp time may be accrued up to 80 hours per year, and is payable upon separation or retirement. The total unpaid liability of comp time as of December 31, 2015 was \$3,792.61.

Each employee will also have an accident bank established in the amount of 160 hours that is not payable upon separation or retirement.

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* consists of sales of surplus assets.

I. Risk Management

Grant County Fire District #3 is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **As of December 1, 2015, there are 210 members in the program.**

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members’ various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with **the exception of Wrongful Acts and Law Enforcement Liability which have a self-insured retention of \$25,000.** The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint

liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, **with an attachment point of \$2,140,107.**

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of **Pumps & Motors, which is \$10,000.** Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending **December 1, 2015, were \$627,702.49**

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 District’s Board of 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:

Fund	Amount	Reason for restriction
101	\$ 282,131	Restricted Due to Revenue Source
201	\$ 50,496	Restricted due to bond covenants and revenue sources
302	\$ 325,000	Restricted for construction of Station 37

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 after the end of each month.

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

The district's regular levy for the year 2015 was \$.8107425419 per \$1,000 on an assessed valuation of \$1,179,339,199 for a total regular levy of \$956,140.46.

The District's EMS levy for the Year 2015 was .2795352179 per \$1,000 on an assessed valuation of 1,179,339,199 for a total EMS levy of \$329,666.84.

The District's Bond levy for the year 2015 was .1139835185 per \$1,000 on an assessed valuation of 2,196,496,685 for a totally levy of \$250,364.

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 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.

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

Type of Investment	District's own Investments	Investments held by the District as an agent for other local governments, individuals, or private organizations.	Total
County Pool	\$ 1,970,393		\$ 1,970,393

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 debt transactions for year ended December 31, 2015.

The debt service requirements for general obligation bonds, revenue bonds and other debt are as follows:

Year	Principal	Interest	Total Debt
2016	\$ 250,000	\$ 55,750	\$ 305,750
2017	260,000	49,750	309,750
2018	210,000	43,450	253,450
2019	220,000	38,200	258,200
2020	225,000	32,700	257,700
2021-2025	940,000	70,575	1,010,575
Total	\$ 2,105,000	\$ 290,425	\$ 2,395,425

Note 5 – Pension Plans

A. State Sponsored 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 (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans PERS 2/3 and LEOFF 2.

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:

Plan Type	Plan Liability / Asset	Responsibility Percentage	NPL	NPA
PERS 2/3	\$ 3,573,057,000	0.001124%	\$ 40,161.16	
LEOFF 1	\$ (1,205,221,000)	0.004005%		\$ (48,269.10)
LEOFF 2	\$ (1,027,800,000)	0.016521%		\$ (169,802.84)
VFFRPF	\$ (19,271,000)	0.659280%		\$ (127,049.85)
		<i>Total</i>	\$ 40,161	\$ (345,122)

LEOFF Plan 1

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

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

Legal Compliance

The District overexpended Fund 201 in 2015 by \$479. A difference in amortization schedules was responsible for the overage.

Other Post Employment Benefits

The District maintains two (2) LEOFF 1 retirees. Total OPEB costs in 2015 were \$11,288.06.

Future Construction

The District's Board of Commissioners has determined that the construction of Station 37 has become a priority in 2016 due to a dispute over the location of an existing station. The Board has reserved fund balance from Fund 302 for the purpose of the new station construction. Expected costs for the construction total \$325,000.

Interlocal Agreements

The District maintains the following Interlocal and Interagency Agreements:

The District is a member of the Region 6 Fire Investigation Task Force for the purpose of jointly investigating the causes and origins of fires within the District's boundaries.

The District has an agreement with the Washington State Patrol to provide for the reimbursement of costs.

The District maintains an Automatic Aid Agreement with Douglas County Fire District #2 upon request from that District.

The District maintains a Mutual Aid and Assistance Agreement between Grant County Fire Districts 4,5,6,7,8,10,11,12,13,14, and 15, the Port of Moses Lake, the City of Ephrata, the City of Moses Lake, the Town of Coulee City, the City of Electric City, the City of Grand Coulee, the City of Soap Lake, and Grant County.

The District maintains another Mutual Aid Agreement between Grant County Fire Districts 1, 4, 5, 6, 7, 8, and 9, Douglas County Fire Protection Districts #1, 2, 3, 4, 5, and 8, Douglas / Okanogan County Fire Protection District #15, the Chelan County Sheriff's Office, and the Douglas County Sheriff's Office.

The District maintains a separate Mutual Aid Agreement with North Central Regional EMS & Trauma Care for ongoing training.

The District maintains a Memorandum of Understanding with the United States Coast Guard LORAN Station in George, for fire protection services.

The District is a member of the Multi Agency Communications Center (MACC), an E911 communications center for Grant County. The District does not make a financial contribution to MACC other than through the 911 tax imposed upon its residents by State Law and contract payments for dispatch services. The Grant County MACC is a joint venture of its participating entities. The Board of Directors established under the Interlocal Agreement has the authority to establish a fair and equitable contribution from each participating entity for MACC. The Interlocal Agreement provides enhanced 911 services to members within its service area. Members are appointed to the Board of Directors by participants in the Interlocal Agreement, and the property acquired by MACC is shared by the participants in the Agreement to the same extent as they have made financial contributions to MACC. Detailed financial statements for this entity can be obtained from MACC at 6500 32nd Ave NE, Suite 911, Moses Lake, WA 98837.

Grant County Fire Protection District #3
MCAG#1089

Notes to the Financial Statements
For the Year Ended December 31, 2014

The accompanying notes are considered integral to the financial statements.

Note 1 - Summary of Significant Accounting Policies

Grant County Fire District #3 was incorporated on July 7th, 1942 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 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.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

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.

In accordance with state law the District also recognizes expenditures paid during twenty 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 follows:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund	1,626,898.78	1,481,381.90	145,516.88
101 - EMS Reporting Fund	319,098.00	296,229.74	22,868.26
201 - Bond Fund	256,413.00	257,014.25	-601.25
202 - LTGO Fund	59,642.00	58,200.00	1,442.00
301 - Construction Fund	26,940.00	27,214.38	-274.38
302 - Reserve Fund			
	2,288,991.78	2,120,040.27	168,951.51

Budgeted amounts are authorized to be transferred between departments within funds, 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 initial individual cost of more than \$5,000 and meet with the requirements in District policy 7.4.1. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 300 hours per year, and is payable upon separation or retirement.

Sick leave may be accumulated up to 1040 hours in a “long term bank,” and an “Annual Bank” of up to 80 hours per year. Unused hours in the annual bank will accrue to the long term bank at the end of each year until the long term bank is fully funded. Once the long term bank is fully funded any hours remaining in the annual bank at the end of each year shall be bought out at one quarter of the employee’s current hourly wage rate. Upon separation or retirement employees do not receive payment for unused sick leave

Each employee will also have an accident bank established in the amount of 160 hours that is not payable upon separation or retirement.

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 an insurance recovery for damage to a fire apparatus vehicle and interfund transfers between the General, the LTGO, and the Capital Reserve funds.

I. Risk Management

Grant County Fire District #3 is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2014, there are 223 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive, and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator (Canfield) that is subject to a per-occurrence self-insured retention of \$100,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy, with an attachment point of \$3,259,396, to cap the total claims paid by the program in any one policy term.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible. Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of Pumps & Motors which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW. Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. On July 21, 2014, the Board passed a resolution changing the CIAW's renewal date from September 1, to December 1st beginning with the 2014-15 policy term. An endorsement was added to the 2013-14 Memorandum of Coverage, extending coverage to December 1, 2014. The next full policy year will begin on December 1, 2014. Premiums were prorated for the extension period. Invoices and certificates were issued.

The program has no employees. Claims are filed by members/brokers with Canfield, who has been contracted to perform program administration, claims adjustment, administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2014, were \$1,817,654.59.

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 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:

Fund	Amount	Reason for restriction
101	232,973	Restricted due to revenue sources
201	46,644	Restricted due to bond covenants and revenue sources
302	325,000	Restricted for construction of Station 37

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 after the end of each month.

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

The District’s regular levy for the year 2014 was \$1.048345 per \$1,000 on an assessed valuation of \$913,670,724 for a total regular levy of \$957,843.00

The District’s EMS levy for the Year 2014 was \$.38 per \$1,000 on an assessed valuation of \$913,670,724 for a total EMS levy of \$347,195.00

The District’s Bond levy for the year 2014 was \$.123343 per \$1,000 on an assessed valuation of \$2,056,108,682 for a total levy of \$253,606.

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 in accordance to their balances held by the county.

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. The District uses Grant County as its investment agent.

Investments are reported at fair market value. Investments by type at December 31, 2014 are as follows:

Type of Investment	District's own Investments	Investments held by the District as an agent for other local governments, individuals, or private organizations.	Total
County Pool	\$ 1,795,103		\$ 1,795,103

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, 2014.

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

Year	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2015	\$ 309,750		\$ 14,000	\$ 323,750
2016	305,750			305,750
2017	309,750			309,750
2018	253,450			253,450
2019	258,200			258,200
2020-2024	1,268,275			1,268,275
Total	\$ 2,705,175	\$ -	\$ 14,000	\$ 2,719,175

Note 5 - Pension Plans

Substantially all District’s full-time and qualifying part-time employees participate in PERS 2 and LEOFF 2 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 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

Note 6 - Other Disclosures

Interlocal Agreements

The District maintains the following Interlocal and Interagency Agreements:

The District is a member of the Region 6 Fire Investigation Task Force for the purpose of jointly investigating the causes and origins of fires within the District’s boundaries.

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Debt Service

In 2012 the District refinanced its existing debt. Bonds issued in 2005 were refinanced using an Advance Refunding method in which the original bonds and the refinance issue were held in escrow between 2012 and 2014 when the original issue could be called. The refinance bonds were then the primary debt after 12/1/2014. The refinance bond issue has a face value of \$2,250,000 and was sold with a premium for a total of \$2,326,855. The bonds that were extinguished at the end of 2014 had a face value at time of extinguishment of \$2,110,000. The difference between the extinguished bond's face value and the refinance bonds face value was placed in the advance refunding escrow account, along with a portion of the premium on bonds sold, to pay the interest and principal due on the original issue. Issuance costs and the underwriter's discount were deducted from the premium, and the small remaining balance was also placed in the escrow fund as a contingency amount.

Subsequent Events

The District's Board of Commissioners has determined that the construction of Station 37 has become a priority in 2015 due to a dispute over the location of an existing station. The Board has reserved fund balance from Fund 302 for the purpose of the new station construction.

Grant 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>
General Obligation Debt/Liabilities						
251.12	Main Station Loan - Refinance Issue	12/1/2024	2,200,000	-	200,000	2,000,000
251.11	Station 35 Loan	12/1/2017	155,000	-	50,000	105,000
263.81	SIP Loan	8/15/2015	14,000	-	14,000	-
Total General Obligation Debt/Liabilities:			2,369,000	-	264,000	2,105,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		77,874	-	3,859	74,015
264.30	Pension Liability		-	40,161	-	40,161
Total Revenue and Other (non G.O.) Debt/Liabilities:			77,874	40,161	3,859	114,176
Total Liabilities:			2,446,874	40,161	267,859	2,219,176

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

<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>
General Obligation Debt/Liabilities						
251.12	Main Station Loan - Refinance Issue	12/1/2024	2,225,000	-	25,000	2,200,000
251.11	Station 35 Loan	12/1/2017	205,000	-	50,000	155,000
263.81	SIP Loan	8/15/2015	28,000	-	14,000	14,000
	Total General Obligation Debt/Liabilities:		2,458,000	-	89,000	2,369,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		63,980	13,894	-	77,874
	Total Revenue and Other (non G.O.) Debt/Liabilities:		63,980	13,894	-	77,874
	Total Liabilities:		2,521,980	13,894	89,000	2,446,874

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