



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Cowlitz 2 Fire and Rescue

Cowlitz County

For the period January 1, 2015 through December 31, 2016

Published November 13, 2017

Report No. 1020095





Office of the Washington State Auditor
Pat McCarthy

November 13, 2017

Board of Commissioners
Cowlitz 2 Fire and Rescue
Kelso, Washington

Report on Financial Statements

Please find attached our report on Cowlitz 2 Fire and Rescue's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2016-001 The District's internal controls over financial statement preparation were inadequate to ensure accurate financial reporting.

Background

District management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting. Controls must ensure that financial data is reliably authorized processed and reported.

Our audit identified material weaknesses in internal controls over financial reporting that affect the District's ability to produce reliable financial statements.

Description of Condition

We identified the following deficiencies in internal controls that represent a material weakness:

- Although District staff reviewed the *Budgeting, Accounting and Reporting System (BARS) Manual* for guidance when preparing the District's financial statements, they did not accurately interpret and apply guidance on how to report items such as bond and pension liabilities on the Schedule of Liabilities.
- District management performed a review of the financial statements but did not detect several significant issues during the review process.
- Although the District had controls and processes in place, these did not operate as effectively as they should have. The primary reason is that those involved lacked sufficient technical knowledge to effectively carry out these processes.

Cause of Condition

The District has limited financial staff and experienced turnover during the period under audit. Although the District has invested in some training for its staff, that was not sufficient to prevent errors in the financial statements. Also, during the audit period, a new, complex requirement to report pension liabilities challenged the District's control structure.

Effect of Condition

The District's financial statements contained significant errors that were not detected by management. We identified the following errors in the original financial statements we received for audit:

- The District did not correctly implement the new requirement to report its pension liability in 2015 or 2016, which resulted in overstating the pension liability by \$198,669,595 and \$275,344, respectively.
- The District overstated its loan and bond liabilities by \$4,956,025 on its 2016 Schedule of Liabilities because it incorrectly included expected interest to be paid over the course of the debt.

Recommendation

We recommend the District:

- Establish a process for reviewing and implementing accounting and reporting changes
- Ensure an individual who understands the reporting requirements performs an independent review of the financial statements, notes and additional schedules at the appropriate level of detail to ensure information prepared is complete and accurate
- Provide adequate time and training to staff responsible for accounting and financial reporting to ensure the District's financial statements are accurate and comply with current reporting requirements.

District's Response

The Audit report has identified issues related to the District's internal controls over financial statement preparation to ensure accurate financial reporting. As background to this finding, there is documentation that has, "...identified weaknesses in internal controls over financial reporting that affect the District's ability to produce reliable financial statements."

The issue is clearly articulated within the report description of the condition, the determination of cause of condition as well as the effect of the condition. I believe this is accurately reflected; however, I would like to make several observations regarding cause only, and believe the other finding information does not require to be restated with a response. This will also support recommendations to prevent further concerns related to the identified issues.

We have placed an emphasis for our current Financial Analyst to acquire an associate's degree in accounting as well as additional training in utilization of our systems and processes. She was placed into this position just prior to this audit occurring. She was not in place at the time of the reported audit period. While we recognize the difficulty with any transition, this transition was more difficult and contributed to a loss or inability to rapidly locate necessary information and maintain continuity. Furthermore, the Fire District intends to acquire third party accounting services that provides periodic audit services and review on scheduled intervals to ensure we maintain the highest standards and accuracy.

We plan to implement the recommendations provided and outlined within the report to ensure there are no further issues related to this finding. Our current Financial Analyst, responsible for these tasks, is developing more advanced skills and training than our agency has previously possessed to support improved internal controls, reporting and processes. In addition, we will ensure qualified individual reviews these reports in their draft form. We had implemented these actions prior to initiation of this audit for the period identified. This was done proactively to improve our internal processes and controls without knowledge of the impending audit report. I believe this demonstrates our intent and commitment to have and maintain the highest standards possible for our financial and budgeting functions.

We appreciate the opportunity to work with our Washington State Auditor's Office.

Auditor's Remarks

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

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23

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

Budget Accounting and Reporting System (BARS) Manual - Accounting, Accounting Principles and Controls, Internal Control, Controls over Financial Reporting.

RCW 43.09.200 – Local government accounting – Uniform system of accounting

**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**

**Cowlitz 2 Fire and Rescue
Cowlitz County
January 1, 2015 through December 31, 2016**

Board of Commissioners
Cowlitz 2 Fire and Rescue
Kelso, 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 Cowlitz 2 Fire and Rescue, Cowlitz County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 27, 2017.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2016-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

DISTRICT'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

October 27, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Cowlitz 2 Fire and Rescue Cowlitz County January 1, 2015 through December 31, 2016

Board of Commissioners
Cowlitz 2 Fire and Rescue
Kelso, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Cowlitz 2 Fire and Rescue, Cowlitz County, Washington, for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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, Cowlitz 2 Fire and Rescue 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 Cowlitz 2 Fire and Rescue, for the years ended December 31, 2016 and 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Cowlitz 2 Fire and Rescue, as of December 31, 2016 and 2015, 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 opinions on the financial statements taken as a whole. The 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 27, 2017 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.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

October 27, 2017

FINANCIAL SECTION

Cowlitz 2 Fire and Rescue Cowlitz County January 1, 2015 through December 31, 2016

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
Fund Resources and Uses Arising from Cash Transactions – 2015
Notes to Financial Statements – 2016
Notes to Financial Statements – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016
Schedule of Liabilities – 2015

Cowlitz 2 Fire and Rescue
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General Expense Fund (656.635)	301 2016 Capital Improvement Project
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	1,695,107	1,695,107	-
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	3,542,010	3,542,010	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	188,765	188,765	-
340	Charges for Goods and Services	2,496,939	2,496,939	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	51,734	51,734	-
Total Revenues:		6,279,449	6,279,449	-
Expenditures				
510	General Government	-	-	-
520	Public Safety	6,261,837	6,261,837	-
Total Expenditures:		6,261,837	6,261,837	-
Excess (Deficiency) Revenues over Expenditures:		17,612	17,611	-
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	11,333,954	316,117	11,017,837
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	8,342	8,342	-
Total Other Increases in Fund Resources:		11,342,296	324,459	11,017,837
Other Decreases in Fund Resources				
594-595	Capital Expenditures	172,199	172,199	-
591-593, 599	Debt Service	86,118	86,118	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		258,317	258,317	-
Increase (Decrease) in Cash and Investments:		11,101,591	83,753	11,017,837
Ending Cash and Investments				
5081000	Reserved	11,017,837	-	11,017,837
5088000	Unreserved	1,778,860	1,778,860	-
Total Ending Cash and Investments		12,796,696	1,778,860	11,017,837

The accompanying notes are an integral part of this statement.

Cowlitz 2 Fire and Rescue
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	2,069,158
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

310	Taxes	3,463,462
320	Licenses and Permits	-
330	Intergovernmental Revenues	202,333
340	Charges for Goods and Services	2,615,695
350	Fines and Penalties	-
360	Miscellaneous Revenues	63,634
Total Operating Revenues:		6,345,124

Operating Expenditures

510	General Government	-
520	Public Safety	6,332,083
598	Miscellaneous Expenses	-
Total Operating Expenditures:		6,332,083
Net Operating Increase (Decrease):		13,041

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	145,019
391-393	Debt Proceeds	-
397	Transfers-In	-
Total Nonoperating Revenues:		145,019

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	80,860
594-595	Capital Expenditures	456,068
597	Transfers-Out	-
Total Nonoperating Expenditures:		536,928
Net Increase (Decrease) in Cash and Investments:		(378,868)

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	1,690,290
Total Ending Cash and Investments		1,690,290

The accompanying notes are an integral part of this statement.

Cowlitz 2 Fire & Rescue
Notes to the Financial Statements
For the year ended December 31, 2016

Note 1 - Summary of Significant Accounting Policies

Cowlitz 2 Fire & Rescue (District) was created by special election held on December 6, 1947, and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts. Cowlitz 2 Fire & Rescue is a special purpose local government and provides fire prevention, suppression, medical aid and ambulance transport services to the general public and is supported primarily through property taxes.

Cowlitz 2 Fire & Rescue 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. The following fund types are used by Cowlitz 2 Fire & Rescue:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Capital Projects Fund

This fund accounts for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

B. Basis of Accounting and Measurement Focus

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

C. Budgets

The District adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level and constitute 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 for 2016 were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Expense Fund	\$6,586,430.00	\$6,520,154.31	\$66,275.69

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial investment of more than \$1,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 552 hours and is payable upon separation or retirement. Sick leave may accumulate indefinitely. Upon separation or retirement, employees receive payment for unused sick leave up to 480 hours. Comp time may be accumulated up to 48 hours and is payable upon separation or retirement. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Risk Management

- a. The District is self-insured for unemployment compensation.

I. 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. The \$11,017,500 in our Capital Improvement Project fund is reserved to be used for related expenditures that meet restrictions.

Note 2 – Deposits and Investments

It is the District's policy to invest all temporary cash surpluses. The interest on these investments is deposited to the appropriate fund by the Cowlitz County Treasurer's Office.

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 District's name.

Investments are reported at original cost. Investments by type at December 31, 2016, are as follows:

<u>Type of Investment</u>	<u>Investments held by Cowlitz County</u>
State Investment Pool Certificate of Deposit	\$ 765,710.49
State Investment Pool Certificate of Deposit	\$ 860,083.54
Total	<u>\$1,625,794.03</u>

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed typically 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 2016 was \$1.50 per \$1,000 on an assessed valuation of \$2,369,906,048 for a total regular levy of \$3,550,620.

Note 4 – Debt Service Requirements

The accompanying Schedules of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for the year ended December 31, 2016.

The debt service requirements for debt including both principal and interest for at the end of 2016, are as follows:

Year	Principal	Interest	Total
2017	\$497,594.65	\$364,609.13	\$862,203.78
2018	\$451,139.06	\$385,960.79	\$837,099.85
2019	\$421,775.40	\$381,542.29	\$803,317.69
2020	\$433,364.17	\$370,933.80	\$804,297.97
2021	\$445,032.38	\$357,223.89	\$802,256.27
2022-2026	\$2,385,961.55	\$1,554,735.64	\$2,385,961.55
2027-2031	\$2745,000.00	\$1,069,900	\$3,814,900
2032-2036	\$3,355,000.00	\$459,700.00	\$3,814,700.00
TOTAL	\$10,734,867.21	\$4,944,605.54	\$14,124,737.11

Note 5 - Pension Plans

A. State Sponsored Pension Plans

Substantially all of the District's full-time and qualifying part-time employees participate in one of the statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans (Public Employees' Retirement System [PERS], Law Enforcement Officers' and Fire Fighters' Retirement System [LEOFF]).

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
PO Box 48380
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Cowlitz 2 Fire & Rescue 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:

	Allocation %	Liability (Asset)
PERS 1	.005127%	\$275,344
PERS 2/3	.006563%	\$330,442
LEOFF 1	.00165%	(\$17,000)
LEOFF 2	.107260%	(\$623,542)
VFFRPF	1.11%	(\$189,758)

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

The District has a commitment to pay for post-employment benefits for two LEOFF 1 retirees. These benefits include medical insurance, Medicare, and a long-term care insurance plan. The District paid out \$22,078.58 during 2016.

Cowlitz 2 Fire & Rescue's other financing sources or uses consist of Sale of Capital Assets, DNR Other Trust (Timber Trust), Insurance Recovery, Redemption of Long-Term Debt/Interest, and Capital Expenditures.

Cowlitz 2 Fire & Rescue
Notes to the Financial Statements
For the year ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

Cowlitz 2 Fire & Rescue was created by special election held on December 6, 1947, and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts. Cowlitz 2 Fire & Rescue is a special purpose local government and provides fire prevention, suppression, medical aid and ambulance transport services to the general public and is supported primarily through property taxes.

Cowlitz 2 Fire & Rescue 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. The following fund types are used by Cowlitz 2 Fire & Rescue:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

B. Basis of Accounting and Measurement Focus

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

C. Budgets

The District adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level and constitute 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 for 2015 were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Expense Fund	\$7,551,982.00	\$6,869,011.00	\$682,971.00

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial investment of more than \$1,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 552 hours and is payable upon separation or retirement. Sick leave may accumulate indefinitely. Upon separation or retirement, employees receive payment for unused sick leave up to 480 hours. Comp time may be accumulated up to 48 hours and is payable upon retirement or separation. 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 Sale of Capital Assets, DNR Other Trust (Timber Trust), Insurance Recovery, Redemption of Long-Term Debt/Interest, and Capital Expenditures.

I. Risk Management

a. The District is self-insured for unemployment compensation.

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. There were no ending cash/investments that were reserved at year-end

for 2015.

Note 2 – Deposits and Investments

It is the District's policy to invest all temporary cash surpluses. The interest on these investments is deposited to the appropriate fund by the Cowlitz County Treasurer's Office.

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 District's name.

Investments are reported at original cost. Investments by type at December 31, 2015, are as follows:

<u>Type of Investment</u>	<u>Investments held by Cowlitz County</u>
State Investment Pool Certificate of Deposit	\$ 550,000.00
State Investment Pool Certificate of Deposit	\$ 683,391.34
State Investment Pool Certificate of Deposit	\$ 883.99
Total	<u>\$1,234,275.33</u>

Note 3 - Property Tax

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

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

The District's regular levy for the year 2015 was \$1.50 per \$1,000 on an assessed valuation of \$2,303,842,135 for a total regular levy of \$3,455,763.20.

Note 4 – Debt Service Requirements

The accompanying Schedules of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for the year ended December 31, 2015.

The debt service requirements for debt including both principal and interest for 2015, are as follows:

Year	Principal	Interest	TOTAL
2016	\$68,233.06	\$5,848.38	\$74,081.44
2017	\$61,078.56	\$3,512.63	\$64,591.19
2018	\$35,585.79	\$1,293.89	\$36,879.68
TOTAL	\$164,897.41	\$10,654.90	\$175,552.31

Note 5 - Pension Plans

A. State Sponsored Pension Plans

Substantially all of the District's full-time and qualifying part-time employees participate in one of the statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans (Public Employees' Retirement System [PERS], Law Enforcement Officers' and Fire Fighters' Retirement System [LEOFF]).

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
PO Box 48380
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Cowlitz 2 Fire & Rescue 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:

	Allocation %	Liability (Asset)
PERS 1 UAAL	.004512%	\$236,020
PERS 2/3	.005830%	\$208,309
LEOFF 1	.001633%	(\$19,681)
LEOFF 2	.103816%	(\$1,067,021)
VFFRPF	1.26%	(\$242,114)

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

The District has a commitment to pay for post-employment benefits for two LEOFF 1 retirees. These benefits include medical insurance, Medicare, and a long-term care insurance plan. The District paid out \$8,453.89 during 2015.

Cowlitz 2 Fire and Rescue
Schedule of Liabilities
For the Year Ended December 31, 2016

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.51	LifePak 15 Monitors	1/1/2017	52,545	-	25,805	26,740
263.51	Used Pierce Pumper	11/15/2018	103,056	-	33,133	69,923
263.51	Used Engine & Ambulance	6/1/2024	-	273,203	-	273,203
263.51	60 ICOM F70 Portable Radios	8/1/2016	9,296	-	9,296	-
251.12	Voted GO Bond - Series 1	12/1/2036	-	9,230,000	-	9,230,000
251.12	Voted GO Bond - Series 2	12/1/2019	-	1,135,000	-	1,135,000
Total General Obligation Debt/Liabilities:			164,897	10,638,203	68,234	10,734,866
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		585,143	41,318	-	626,461
264.30	Pension Liabilities		444,329	161,457	-	605,786
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,029,472	202,775	-	1,232,247
Total Liabilities:			1,194,369	10,840,978	68,234	11,967,113

**Cowlitz 2 Fire and Rescue
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						
263.51	LifePak 15 Monitors	1/1/2017	77,447	-	24,902	52,545
263.51	Used 2007 Pierce Pumper	11/15/2018	135,026	-	31,970	103,056
263.51	60 ICOM F70 Portable Radios	8/1/2016	24,465	-	15,169	9,296
Total General Obligation Debt/Liabilities:			236,938	-	72,041	164,897
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		492,512	92,631	-	585,143
264.30	Pension Liabilities		-	444,329	-	444,329
Total Revenue and Other (non G.O.) Debt/Liabilities:			492,512	536,960	-	1,029,472
Total Liabilities:			729,450	536,960	72,041	1,194,369

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