



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Chelan County Fire Protection District
No. 7
(Chelan Fire and Rescue)

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

Published November 16, 2017

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Office of the Washington State Auditor
Pat McCarthy

November 16, 2017

Board of Commissioners
Chelan Fire and Rescue
Chelan, Washington

Report on Financial Statements

Please find attached our report on Chelan 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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**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**

**Chelan Fire and Rescue
Chelan County
January 1, 2016 through December 31, 2016**

Board of Commissioners
Chelan Fire and Rescue
Chelan, 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 Chelan Fire and Rescue, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 2, 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 audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

November 2, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Chelan Fire and Rescue Chelan County January 1, 2016 through December 31, 2016

Board of Commissioners
Chelan Fire and Rescue
Chelan, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Chelan Fire and Rescue, Washington, for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Chelan 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 Chelan Fire and Rescue, for the year ended December 31, 2016, 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 Chelan Fire and Rescue, as of December 31, 2016, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 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.



Pat McCarthy

State Auditor

Olympia, WA

November 2, 2017

FINANCIAL SECTION

**Chelan Fire and Rescue
Chelan County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016

Chelan County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

Beginning Cash and Investments

30810	Reserved	10
30880	Unreserved	976,832
388 / 588	Prior Period Adjustments, Net	279,462

Revenues

310	Taxes	1,848,371
320	Licenses and Permits	-
330	Intergovernmental Revenues	26,487
340	Charges for Goods and Services	187,951
350	Fines and Penalties	-
360	Miscellaneous Revenues	56,077
Total Revenues:		2,118,885

Expenditures

510	General Government	-
520	Public Safety	1,635,165
Total Expenditures:		1,635,165
Excess (Deficiency) Revenues over Expenditures:		483,721

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-

Other Decreases in Fund Resources

594-595	Capital Expenditures	223,416
591-593, 599	Debt Service	89,565
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	304
Total Other Decreases in Fund Resources:		313,285

Increase (Decrease) in Cash and Investments:	170,436
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Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	1,426,738
Total Ending Cash and Investments		1,426,738

The accompanying notes are an integral part of this statement.

**NOTES to FINANCIAL STATEMENTS for
Chelan County Fire Protection District 7
MCAG: 1047
For YEAR END
December 31, 2016**

Note 1 - Summary of Significant Accounting Policies

The Chelan County Fire Protection District 7 was incorporated on October 31, 1955 and operates under the laws of the state of Washington, applicable to a fire protection district. The Chelan County Fire Protection District 7 is a special purpose local government and provides fire suppression, fire prevention and public education.

The Chelan County Fire Protection District 7 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.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

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

B. Basis of Accounting and Measurement Focus

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

C. Budgets

The Chelan County Fire Protection District 7 adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level, the general current expense fund, where budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final appropriated Amounts	Actual Expenditures	Variance
General Fund: 001	1,822,667	1,948,450	-125,782

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 Chelan County Fire Protection District 7 legislative body.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$500. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to two (2) times yearly earned annual leave and is payable upon separation or retirement. Sick leave may be accumulated up to 1040 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Risk Management

The District's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard rates per working hour and is computed by the total number of hours worked by employees multiplied by the basic premium rate assigned to the business risk classification. The following are benefits provided by industrial insurance: medical services, damaged clothing, travel expenses, time-loss payments, vocational rehabilitation, partial disability awards, pension awards and survivor benefits.

Unemployment compensation is managed through the Federal/State system, which provides some compensation to workers who are temporarily and involuntarily unemployed. It is administered in Washington State by the Employment Security Department in accordance with provisions of the Employment Security Act. The District's employer status for unemployment insurance is as a "reimbursable" employer. In the event of unforeseen numerous unemployment claims subject to payment the Fire District has funds in the general investment fund to cover the expenditure.

The Districts insurance carrier is Nicholson and Associates Insurance. The most recent renewal of coverage is in effect as of 09-01-2016 through 09-01-2017. The District maintains insurance against most normal hazards and general liability claims against the District. The policies include coverage for property, liability, auto, and errors and omissions. Issuing company is Continental Western Insurance Company. The insurance coverage is not a pool entity.

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 Resolution 2013-02. When expenditures that meet restrictions are incurred, the fire district intends to use reserved resources first before using unreserved amounts.

Reserves of Ending Cash and Investments consist of \$0

Note 2 - Deposits and Investments

It is the Districts policy to invest all temporary cash surpluses. The fire district's investments are in the Washington State Treasurer's Local Government Investment Pool (LGIP) at the original cost. The funds in the LGIP are held by the County as agent for the fire district. Interest earnings are recorded monthly when earned.

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

Type of Investment	Fire District	Chelan County Treasurer	Total
L.G.I.P.	\$0.00	\$451,519.47	\$451,519.47
Total	\$0.00	\$451,519.47	\$451,519.47

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 throughout month and reconciled month end.

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

The Chelan County Fire Protection District 7 regular levy for the year 2016 was \$1.03232 per \$1,000 on an assessed valuation of \$1,811,334,611 for a total regular levy of \$1,796,053 less new construction and annexations.

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Chelan County Fire Protection Dist 7 and summarizes the Chelan County Fire Protection Dist 7 debt transactions for year ended December 31, 2016.

The debt service requirements for non-voted general obligation bonds include principle and interests as follows:

Year	Principle	Interest	Total
2017	55,000	33,770	88,770
2018	55,000	33,275	88,275
2019	60,000	31,900	91,900
2020	60,000	30,400	90,400
2021	60,000	28,900	88,900
2022–2026	355,000	115,475	470,475
2027–2031	410,000	49,825	459,825
TOTALS	1,055,000	323,545	1,378,545

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all Chelan County Fire Protection Dist 7 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 LEOFF II, PERS II & III. Currently Chelan County Fire Protection District 7 does not have employees who participate in PERS I or LEOFF 1 retirement plan but reports the pension liability as recorded in the schedule and listed in the PEFI for PERS 1.

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

The Chelan County Fire Protection Dist 7 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, 2016 (the measurement date of the plans), the Chelan County Fire Protection Dist 7 proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows: *(VFFRPF and LEOFF II are allocated assets and not reported on schedule 9 but listed below for review)*

	Allocation %	Liability (Asset)
PERS 1 UAAL	0.001413	75,885
PERS 2/3	0.001808	91,031
VFFRPF	0.64	(110,692)
LEOFF 2	0.023192	(134,892)

LEOFF Plan II

The Chelan County Fire Protection Dist 7 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

Chelan County Fire Protection Dist. 7 Commissioner's approved Standard Operating Guidelines (SOG) 105 Related Party Transactions to ensure that no member of the fire district shall participate in a decision making process and/or decision that they would have a direct or indirect material interest. There were no related party transaction for the 2016 reporting year.

Chelan County Fire Protection Dist. 7 notified Department of Retirement Systems that a correction of wages was imminent and that social security taxes would need to be refunded for LEOFF members. Washington State Social Security Administration determined that a voluntary Social Security coverage for employees of Chelan County Fire Protection Dist 7 filling fire fighters positions covered by the Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) for the tax years August 2009 – April 15, 2017 of social security taxes withheld where erroneous on LEOFF members. Chelan County Fire Protection Dist 7 took the appropriate steps to refund the members for the open years

of 2013 to April 15, 2016 per statute limitation of 3 years. The total employee and employer social security portion in the amount of \$307,077.17 was refunded and applicable Federal and Medicare taxes withheld. The refund was not completed until February 2017 receiving \$25,421.05 as the remaining amount due. The Social Security funds accounted in revenue under BARS #3881 (Prior YR Adjustments) for 2016 & 2017 and expended from BARS#5222010 in 2017.

Chelan County Fire Protection Dist 7 was awarded the FY 2015 Staffing for Adequate Fire and Emergency SAFER Grant to assist local fire departments with staffing and deployment capabilities in order to respond to emergencies, and assure that communities have adequate protection from fire and fire-related hazards. The award notice was received August 15, 2016 with a federal contribution of \$847,152.00. The grant program is for a two (2) year period starting February 2, 2017 and ending February 1, 2019. The grant awarded the hiring of 6 firefighters which was completed January 2, 2017. The Board of Fire Commissioners approved a budgeted amount of \$506,450 for the 2017 year and estimate federal grant revenue of \$430,200.00 for the programs first year.

Chelan County Fire Protection Dist 7 hired a full time Assistant Fire Chief July 1, 2016 and a Captain resigned. We did not fill the Captain position.

END

Chelan County Fire Protection District No. 7
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						
251.11	GO Bonds nonvoted	12/1/2031	1,110,000	-	55,000	1,055,000
	Total General Obligation Debt/Liabilities:		1,110,000	-	55,000	1,055,000
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	PERS 1, 2 + 3		144,747	166,916	144,747	166,916
259.12	Compensated Absences		47,288	65,744	-	113,032
	Total Revenue and Other (non G.O.) Debt/Liabilities:		192,035	232,660	144,747	279,948
	Total Liabilities:		1,302,035	232,660	199,747	1,334,948

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