



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Pierce County Fire Protection District No. 16

(Key Peninsula Fire)

For the period January 1, 2016 through December 31, 2017

Published November 13, 2018

Report No. 1022563





**Office of the Washington State Auditor
Pat McCarthy**

November 13, 2018

Board of Commissioners
Key Peninsula Fire
Lakebay, Washington

Report on Financial Statements

Please find attached our report on Key Peninsula Fire's financial statements.

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

Sincerely,

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

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**

**Key Peninsula Fire
January 1, 2016 through December 31, 2017**

Board of Commissioners
Key Peninsula Fire
Lakebay, 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 Key Peninsula Fire, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 30, 2018.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy

State Auditor

Olympia, WA

October 30, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Key Peninsula Fire January 1, 2016 through December 31, 2017

Board of Commissioners
Key Peninsula Fire
Lakebay, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Key Peninsula Fire, for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

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, Key Peninsula Fire 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 Key Peninsula Fire, for the years ended December 31, 2017 and 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 Key Peninsula Fire, as of December 31, 2017 and 2016, 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 conducted 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 30, 2018 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 30, 2018

FINANCIAL SECTION

Key Peninsula Fire January 1, 2016 through December 31, 2017

FINANCIAL STATEMENTS

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Schedule of Liabilities – 2016

Pierce County Fire Protection District No. 16
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 Current Expense Fund #686-016	200 LGO #692-016	300 Construction Fund #687-016
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	1,851,485	1,821,343	(144)	30,286
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	5,026,342	5,026,342	-	-
320	Licenses and Permits	840	840	-	-
330	Intergovernmental Revenues	16,560	16,560	-	-
340	Charges for Goods and Services	659,370	659,370	-	-
350	Fines and Penalties	2,124	2,124	-	-
360	Miscellaneous Revenues	19,193	19,106	-	87
Total Revenues:		<u>5,724,428</u>	<u>5,724,341</u>	<u>-</u>	<u>87</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	5,247,745	5,247,745	-	-
Total Expenditures:		<u>5,247,745</u>	<u>5,247,745</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		<u>476,684</u>	<u>476,597</u>	<u>-</u>	<u>87</u>
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	111,483	-	45,383	66,100
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	(2,533)	(2,533)	-	-
381, 395, 398	Other Resources	1,750	1,750	-	-
Total Other Increases in Fund Resources:		<u>110,700</u>	<u>(783)</u>	<u>45,383</u>	<u>66,100</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	311,188	214,779	-	96,409
591-593, 599	Debt Service	45,237	-	45,237	-
597	Transfers-Out	111,483	111,483	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		<u>467,908</u>	<u>326,262</u>	<u>45,237</u>	<u>96,409</u>
Increase (Decrease) in Cash and Investments:		<u>119,476</u>	<u>149,552</u>	<u>146</u>	<u>(30,222)</u>
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	1,970,961	1,970,895	2	64
Total Ending Cash and Investments		<u>1,970,961</u>	<u>1,970,895</u>	<u>2</u>	<u>64</u>

The accompanying notes are an integral part of this statement.

Pierce County Fire Protection District No. 16
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 Current Expense Fund #686-016	200 LGO #692-016	300 Construction Fund #687-016
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	1,480,020	1,479,765	0	255
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	4,706,146	4,706,146	-	-
320	Licenses and Permits	990	990	-	-
330	Intergovernmental Revenues	15,698	15,698	-	-
340	Charges for Goods and Services	562,160	562,160	-	-
350	Fines and Penalties	3,523	3,523	-	-
360	Miscellaneous Revenues	10,579	10,548	-	31
Total Revenues:		5,299,096	5,299,064	-	31
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	4,789,292	4,789,292	-	-
Total Expenditures:		4,789,292	4,789,292	-	-
Excess (Deficiency) Revenues over Expenditures:		509,804	509,773	-	31
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	151,828	-	151,828	-
397	Transfers-In	260,833	150,000	80,833	30,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	4,590	4,590	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		417,251	154,590	232,661	30,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	211,953	211,953	-	-
591-593, 599	Debt Service	80,977	-	80,977	-
597	Transfers-Out	260,833	110,833	150,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		553,762	322,785	230,977	-
Increase (Decrease) in Cash and Investments:		373,293	341,578	1,684	30,031
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	1,851,485	1,821,343	(144)	30,286
Total Ending Cash and Investments		1,851,485	1,821,343	(144)	30,286

The accompanying notes are an integral part of this statement.

Pierce County Fire Protection District No. 16
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	Investment Trust
308	Beginning Cash and Investments	48,122	48,122
388 & 588	Prior Period Adjustment, Net	-	-
310-390	Additions	41,272	41,272
510-590	Deductions	17,351	17,351
	Net Increase (Decrease) in Cash and Investments:	23,921	23,921
508	Ending Cash and Investments	72,043	72,043

The accompanying notes are an integral part of this statement.

Pierce County Fire Protection District No. 16
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	Investment Trust
308	Beginning Cash and Investments	-	-
388 & 588	Prior Period Adjustment, Net	44,923	44,923
310-390	Additions	31,772	31,772
510-590	Deductions	28,572	28,572
	Net Increase (Decrease) in Cash and Investments:	3,200	3,199
508	Ending Cash and Investments	48,122	48,122

The accompanying notes are an integral part of this statement.

Pierce County Fire Protection District No. 16
Notes to the Financial Statements
For the year ended December 31, 2017

Note 1 - Summary of Significant Accounting Policies

Pierce County Fire Protection District No. 16 was incorporated in 1952 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 suppression, advanced life support and basic life support services.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Debt Service Funds

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

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.

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

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 a memo from the Pierce County Finance Department dated December 29, 2017, the District also recognizes expenditures paid up to four (4) days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The District adopts annual appropriated budgets for the general, reserve, debt service and capital projects funds. These budgets are appropriated at the fund level, except the general (current expense) fund, where budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - Current Expense Fund #686-016			
Current Expense Fund #686-016	\$ 6,789,054.00	\$5,574,006.50	\$ 1,215,047.50
Reserve #690-016	\$ 334,678.86		\$ 334,678.86
Reserve - AED Replacement	\$ 30,000.00		\$ 30,000.00
Reserve - Unfunded Liabilities	\$ 40,407.00		\$ 40,407.00
Reserve - Apparatus Replacement	\$ 95,324.00		\$ 95,324.00
Reserve - Wildland Equipment	\$ 37,234.00		\$ 37,234.00
Reserve - Computer Replacement	\$ 24,108.00		\$ 24,108.00
Total 001 - Current Expense Fund #686-016	\$ 7,350,805.86	\$5,574,006.50	\$ 1,776,799.36
200 - LGO #692-016	\$ 45,477.15	\$ 45,237.07	\$ 240.08
300 - Construction Fund #687-016	\$ 95,473.06	\$ 96,409.36	\$ (936.30)

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 2, *Deposits and Investments*.

E. Capital Assets

The District does not have a formal capitalization policy. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

a. Represented Employees:

- i. The maximum total accrual of vacation pay shall not exceed the sum of the present calendar year plus the two (2) previous year's vacation leave benefit. The maximum total accrual of comp time pay shall not exceed 216 hours. Employees (or the legal beneficiary) shall be compensated, in cash, at the rate of pay in effect at the time of accumulation, for any unused accumulation of vacation leave or comp time, when they are permanently separated from the fire service (death, retirement, layoff or discharge). The maximum amount of hours of unused vacation leave to be paid to the employee upon resignation shall be two hundred-forty (240) hours.
- ii. Employees who are separated from service due to retirement, injury or illness shall be paid for unused accrued sick leave up to a maximum of 1,250 hours. All sick leave buy-out will be computed on the basis of the eligible employee's 25% straight-time base hourly rate of pay. All sick leave buy-out will be paid to the employee's Medical Expense Reimbursement Plan (MERP) account, held in trust by the Washington State Council of Firefighters.

b. Non-Represented and Exempt Employees:

- Maximum accumulation of working days of vacation shall be equal to the working days of vacation available for the present year, together with the working days of vacation carried over from the previous calendar year. Thus, at no time, may the accrued vacation pay exceed one and one-half times the yearly accrual.
- Employees will accrue sick leave throughout the period of their employment by the Employer. In the event of separation from service due to death, disability, retirement or termination from employment with Pierce County Fire District #16. Compensation for unused sick leave will be paid to the employee or closest surviving relative in accordance with the following schedule:
- 5% of the employee's straight time base hourly pay for first 200 hours or less of accrued sick leave
 - 7% between 201 and 400 hours of sick leave
 - 9% between 401 and 600 hours of sick leave
 - 11% between 601 and 800 hours of sick leave
 - 13% between 801 and 1,000 hours of sick leave
 - 15% between 1,001 and 1,200 hours of sick leave
 - 17% between 1,201 and 1,400 hours of sick leave
 - 19% between 1,401 and 1,600 hours of sick leave
 - 20% between 1,601 and 1,800 hours of sick leave
 - 22% between 1,801 and 2000 hours of sick leave
 - 100% straight hourly wage for each accrued hour of sick leave at the time of separation, due to line of duty death.

Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

Note 2 – 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 original cost. The District held no investments on December 31, 2017, as investments carried into the next fiscal year are prohibited by the District's County Treasurer.

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 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 2017 was \$1.47 per \$1,000 on an assessed valuation of \$2,143,772,446 for a total regular levy of \$3,151,446.75.

The District's EMS levy for the year 2017 was \$0.50 per \$1,000 on an assessed valuation of \$2,143,772,446 for a total EMS levy of \$1,071,886.22.

The District's Maintenance & Operation levy for the year 2017 was \$0.378 per \$1,000 on an assessed valuation of \$2,121,730,131 for a total Maintenance & Operations levy of \$802,824.28.

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 debt transactions for year ended December 31, 2017.

The debt service requirements for general obligation bonds, revenue bonds and the Local Loan Program are as follows:

Year	Principal	Interest	Total Debt Service
2018	48,919	3,791	52,711
2019	51,365	1,284	52,649
Totals	\$ 100,285	\$ 5,075	\$ 105,360

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.

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, 2017 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 9, was as follows:

Plan Type	Employer Contributions	Plan Liability / Asset	Responsibility Percentage	NPL	NPA
PERS 1	11,899.44	4,745,078,000	0.00197800%	93,858	
PERS 2/3	15,541.56	3,474,522,000	0.00254500%	88,427	
LEOFF 2	135,783.77	(1,387,676,000)	0.08595400%		(1,192,763)
VFFRPF	390.00	(37,100,000)	0.180000%		67,606
				\$ 182,284	\$ (1,125,157)

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 – Risk Management

- a. The District purchases property and liability insurance on an annual basis effective January 1st of each year. Property insurance consists of guaranteed replacement cost, special risk coverage including earthquake and flood on all real and personal property including portable firefighting equipment. There is a \$2,500 single occurrence deductible per loss. However, the deductible for earthquake and flood is \$1,000 per occurrence. Physical damage coverage for fleet equipment differs for vehicles classed as either emergency service apparatus or those classed as private passenger type vehicles. Emergency Service Vehicles are covered on an agreed amount basis per the schedule in the insurance contract with a \$1,000 deductible. Private Passenger type vehicles are covered on an actual cash value basis with a \$1,000 collision and a \$1,000 comprehensive deductible. Vehicle liability (\$1,000,000 combined single limit) includes liability coverage for all vehicles including non-owned and hired autos. Portable equipment is covered with a \$1,000 deductible and guaranteed replacement cost. Earthquake and flood coverage provides a per occurrence and annual aggregate at each location of \$1,000,000. Employee Dishonesty Coverage is \$250,000 with no deductible. Liability coverage includes general liability, medical malpractice, personal injury and completed operations. Coverage also provides Directors and Officers liability, Pollution Liability and Employment Practices Liability coverage. The basic limits for all the above described liability coverage is \$1,000,000 per occurrence and \$10,000,000 Aggregate. The District purchases a \$5,000,000 Occurrence/\$15,000,000 Aggregate Umbrella liability policy which covers and adds to the \$1,000,000 basic liability coverage above. There are no liability deductibles and all defense costs, if any, are in addition to the policy limits.
- b. The District purchases health insurance coverage for all full time employees, which includes vision and prescription coverage, through The LEOFF Health and Welfare Trust, under the Premiera Blue Cross benefit plan.
- c. The District purchases dental insurance coverage for all full time employees through The Washington Counties Insurance Fund, under the Delta Dental benefit plan.
- d. The District participates in the Washington State Department of Labor & Industries Workers Compensation Insurance plan and reports and pays premiums each quarter based on hours of employee work already performed, and is liable for premiums found later to be due. **Industrial insurance accounts have no policy periods, cancellation dates, and limitations of coverage or waiver of subrogation.**
- e. The District reports all wages and hours worked for eligible employees to the Washington State Employment Security Department for unemployment insurance. The District reimburses Employment Security when claims are paid.
 - i. During the 2017 fiscal year, the District had one (1) claim.

Note 7 - Other Disclosures

None.

Pierce County Fire Protection District No. 16
Notes to the Financial Statements
For the year ended December 31, 2016

Note 1 - Summary of Significant Accounting Policies

Pierce County Fire Protection District No. 16 was incorporated in 1952 and operates under the laws of the state of Washington applicable to a local government agency. The District is a special purpose local government and provides fire suppression, advanced life support and basic life support services.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Debt Service Funds

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

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.

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account for assets that the government holds on behalf of others in a custodial capacity.

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 (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 the general, reserve fund, debt service fund and capital projects fund. These budgets are appropriated at the fund level, except the general (current expense) fund, where budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated	Actual Expenditures	Variance
General Fund #686-016	\$ 5,561,501.00	\$ 5,112,076.72	\$ 449,424.28
Reserve Fund #690-016	\$ 0.00	\$ 216,955.00	\$ (216,955.00)
Debt Service Fund #692-016	\$ 232,928.09	\$ 231,890.72	\$ 1,037.37
Capital Projects Fund 687-016	\$ 0.00	\$ 0.00	\$ 0.00

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

The District does not have a formal capitalization policy. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

a. Represented Employees:

- i. The maximum total accrual of vacation pay shall not exceed the sum of the present calendar year plus the two (2) previous year's vacation leave benefit. The maximum total accrual of comp time pay shall not exceed 216 hours. Employees (or the legal beneficiary) shall be compensated, in cash, at the rate of pay in effect at the time of accumulation, for any unused accumulation of vacation leave or comp time, when they are permanently separated from the fire service (death, retirement, layoff or discharge). The maximum amount of hours of unused vacation leave to be paid to the employee upon resignation shall be two hundred-forty (240) hours.
- ii. Employees who are separated from service due to retirement, injury or illness shall be paid for unused accrued sick leave up to a maximum of 1,250 hours. All sick leave buy-out will be computed on the basis of the eligible employee's 25% straight-time base hourly rate of pay. All sick leave buy-out will be paid to the employee's Medical Expense Reimbursement Plan (MERP) account, held in trust by the Washington State Council of Firefighters.

b. Non-Represented and Exempt Employees:

- a. Maximum accumulation of working days of vacation shall be equal to the working days of vacation available for the present year, together with the working days of vacation carried over from the previous calendar year. Thus, at no time, may the accrued vacation pay exceed one and one-half times the yearly accrual.
- b. Employees will accrue sick leave throughout the period of their employment by the Employer. In the event of separation from service due to death, disability, retirement or termination from employment with Pierce County Fire District #16. Compensation for unused sick leave will be paid to the employee or closest surviving relative in accordance with the following schedule:
 - 5% of the employee's straight time base hourly pay for first 200 hours or less of accrued sick leave
 - 7% between 201 and 400 hours of sick leave
 - 9% between 401 and 600 hours of sick leave
 - 11% between 601 and 800 hours of sick leave
 - 13% between 801 and 1,000 hours of sick leave
 - 15% between 1,001 and 1,200 hours of sick leave
 - 17% between 1,201 and 1,400 hours of sick leave
 - 19% between 1,401 and 1,600 hours of sick leave
 - 20% between 1,601 and 1,800 hours of sick leave
 - 22% between 1,801 and 2000 hours of sick leave
 - 100% straight hourly wage for each accrued hour of sick leave at the time of separation, due to line of duty death.

Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Risk Management

- a. The District purchases property and liability insurance on an annual basis effective January 1st of each year. Property insurance consists of guaranteed replacement cost, special risk coverage including earthquake and flood on all real and personal property including portable firefighting equipment. There is a \$2,500 single occurrence deductible per loss. However, the deductible for earthquake and flood is \$1,000 per occurrence. Physical damage coverage for fleet equipment differs for vehicles classed as either emergency service apparatus or those classed as private passenger type vehicles. Emergency Service Vehicles are covered on an agreed amount basis per the schedule in the insurance contract with a \$1,000 deductible. Private Passenger type vehicles are covered on an actual cash value basis with a \$1,000 collision and a \$1,000 comprehensive deductible. Vehicle liability (\$1,000,000 combined single limit) includes liability coverage for all vehicles including non-owned and hired autos. Portable equipment is covered with a \$1,000 deductible and guaranteed replacement cost. Earthquake and flood coverage provides a per occurrence and annual aggregate at each location of \$1,000,000. Employee Dishonesty Coverage is \$250,000 with no deductible. Liability coverage includes general liability, medical malpractice, personal injury and completed operations. Coverage also provides Directors and Officers liability, Pollution Liability and Employment Practices Liability coverage. The basic limits for all the above described liability coverage is \$1,000,000 per occurrence and \$10,000,000 Aggregate. The District purchases a \$5,000,000 Occurrence/\$15,000,000 Aggregate Umbrella liability policy which covers and adds to the \$1,000,000 basic liability coverage above. There are no liability deductibles and all defense costs, if any, are in addition to the policy limits.
- b. The District purchases health insurance coverage for all full time employees, which includes vision and prescription coverage, through The LEOFF Health and Welfare Trust, under the Premiera Blue Cross benefit plan.
- c. The District purchases dental insurance coverage for all full time employees through The Washington Counties Insurance Fund, under the Delta Dental benefit plan.
- d. The District participates in the Washington State Department of Labor & Industries Workers Compensation Insurance plan and reports and pays premiums each quarter based on hours of employee work already performed, and is liable for premiums found later to be due. Industrial insurance accounts have no policy periods, cancellation dates, and limitations of coverage or waiver of subrogation.
- e. The District reports all wages and hours worked for eligible employees to the Washington State Employment Security Department for unemployment insurance. The District reimburses Employment Security when claims are paid.
 - i. During the 2016 fiscal year, the District had no claims.

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 2016 was \$1.500000 per \$1,000 on an assessed valuation of \$1,964,097,223 for a total regular levy of \$2,946,145.83, with no additional refunds.

The district's EMS levy for the year 2016 was \$0.500000 per \$1,000 on an assessed valuation of \$1,964,097,223 for a total EMS levy of \$1,096,998.32; however, due to the levy rate limit, the total EMS levy was reduced to \$982,048.61.

In 2016, the district also levied \$0.411737 per \$1,000 on an assessed valuation of \$1,915,064,343 for a total additional levy of \$800,000.00, with an additional \$2,091.02 in Levy Refunds.

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 (city/county/district) or its agent in the government's name.

Investments are reported at fair value. Investments by type at December 31, 2016 are as follows:

<u>Type of Investment</u>	District's own investments	Investments held by county as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$ 0.00	\$ 0.00	\$ 0.00
U.S. Government Securities	\$ 0.00	\$ 0.00	\$ 0.00
Other:	\$ 0.00	\$ 0.00	\$ 0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for year ended December 31, 2016.

The debt service requirements for Washington State Local Loan Program are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 42,749.35	\$ 5,995.76	\$ 45,256.47
2018	\$ 48,919.37	\$3,791.25	\$52,710.62
2019	\$ 51,365.33	\$1,284.13	\$52,649.46
TOTALS	\$ <u>139,545.41</u>	\$ <u>11,071.13</u>	\$ <u>150,616.54</u>

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all District 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 under LEOFF II, PERS 2 and PERS 3.

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, 2016 (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 %	Employer Contributions	Liability (Asset)
PERS 1	0.001878%	\$ 10,652.79	\$ 100,857.00
PERS 2/3	0.002410%	\$ 13,912.93	\$ 121,342.00
LEOFF 2	0.082258%	\$ 125,842.47	\$ (478,437.00)
VFFRPF	0.21%	\$ 480.00	\$ (36,177.79)

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

1. The District added to its accounting system two existing and unreported agency funds on January 1, 2016 resulting in prior period adjustments totaling \$44,922.71:
 - a. Health Reimbursement Account (600). Prior period adjustment of \$42,455.39
 - b. Unreimbursed Medical Account (601). Prior period adjustment of \$2,467.32
2. A negative ending balance of (\$143.74) was reported in the Debt Service Fund (200) by Pierce County Budget and Finance. The District, however, reported an ending balance of (\$17.16). This is due to an accounting error of \$19.38 by Pierce County Budget & Finance and a transfer error of \$126.58 by the District. This was corrected in January 2017.
3. The District did not adopt a formal budget for the Reserve Fund (#690-016) in 2016. However, beginning in 2017, the District now adopts a formal budget for all funds.

Pierce County Fire Protection District No. 16
Schedule of Liabilities
For the Year Ended December 31, 2017

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.96	LOCAL Loan Program	6/1/2019	139,545	-	39,261	100,284
Total General Obligation Debt/Liabilities:			139,545	-	39,261	100,284
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	12/31/2017	358,693	-	37,890	320,803
264.30	Net Pension Liabilities	12/31/2017	222,199	-	39,915	182,284
Total Revenue and Other (non G.O.) Debt/Liabilities:			580,892	-	77,805	503,087
Total Liabilities:			720,437	-	117,066	603,371

Pierce County Fire Protection District No. 16
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 Non-Voted Bonds	12/1/2016	75,000	-	75,000	-
Total General Obligation Debt/Liabilities:			75,000	-	75,000	-
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		237,226	121,467	-	358,693
264.30	Net Pension Liabilities		218,954	3,245	-	222,199
252.11	Local Loan Program	6/1/2019	-	139,545	-	139,545
Total Revenue and Other (non G.O.) Debt/Liabilities:			456,180	264,257	-	720,437
Total Liabilities:			531,180	264,257	75,000	720,437

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