



Office of the Washington State Auditor
Pat McCarthy

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

For the period January 1, 2018 through December 31, 2019

Published July 27, 2020

Report No. 1026682





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

July 27, 2020

Board of Commissioners
Clallam County Fire Protection District No. 3
Sequim, Washington

Report on Financial Statements

Please find attached our report on Clallam County Fire Protection District No. 3's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

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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**

**Clallam County Fire Protection District No. 3
January 1, 2018 through December 31, 2019**

Board of Commissioners
Clallam County Fire Protection District No. 3
Sequim, 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 Clallam County Fire Protection District No. 3, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated July 21, 2020.

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 state law 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.

As discussed in Note 8 to the fiscal year 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District.

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 opinions 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 initial "P" and "M".

Pat McCarthy
State Auditor
Olympia, WA

July 21, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clallam County Fire Protection District No. 3 January 1, 2018 through December 31, 2019

Board of Commissioners
Clallam County Fire Protection District No. 3
Sequim, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Clallam County Fire Protection District No. 3, for the years ended December 31, 2019 and 2018, 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 state law 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, Clallam County Fire Protection District No. 3 has prepared these financial statements to meet the financial reporting requirements of state law 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 cash and investments of Clallam County Fire Protection District No. 3, and its changes in cash and investments, for the years ended December 31, 2019 and 2018, 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 Clallam County Fire Protection District No. 3, as of 31, 2019 and 2018, or the changes in financial position or cash flows thereof 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.

Matters of Emphasis

As discussed in Note 8 to the fiscal year 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Our opinion is not modified with respect to this matter.

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 July 21, 2020 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

July 21, 2020

FINANCIAL SECTION

Clallam County Fire Protection District No. 3 January 1, 2018 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019

Fund Resources and Uses Arising from Cash Transactions – 2018

Notes to Financial Statements – 2019

Notes to Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019

Schedule of Liabilities – 2018

**Clallam County Fire Protection District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019**

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	4,315,825
388 / 588	Net Adjustments	-

Revenues

310	Taxes	10,105,243
320	Licenses and Permits	-
330	Intergovernmental Revenues	662,945
340	Charges for Goods and Services	270,307
350	Fines and Penalties	-
360	Miscellaneous Revenues	162,498
Total Revenues:		11,200,993

Expenditures

510	General Government	-
520	Public Safety	9,173,278
Total Expenditures:		9,173,278
Excess (Deficiency) Revenues over Expenditures:		2,027,715

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	2,677
381, 382, 395, 398	Other Resources	761
Total Other Increases in Fund Resources:		3,438

Other Decreases in Fund Resources

594-595	Capital Expenditures	778,343
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	(1,747)
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		776,596

Increase (Decrease) in Cash and Investments: 1,254,557

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	5,570,380
Total Ending Cash and Investments		5,570,380

The accompanying notes are an integral part of this statement.

**Clallam County Fire Protection District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018**

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	3,970,579
388 / 588	Net Adjustments	-

Revenues

310	Taxes	8,243,331
320	Licenses and Permits	-
330	Intergovernmental Revenues	80,543
340	Charges for Goods and Services	539,108
350	Fines and Penalties	-
360	Miscellaneous Revenues	132,572
Total Revenues:		8,995,554

Expenditures

510	General Government	-
520	Public Safety	8,470,154
Total Expenditures:		8,470,154
Excess (Deficiency) Revenues over Expenditures:		525,400

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	1,737
381, 382, 395, 398	Other Resources	6,449
Total Other Increases in Fund Resources:		8,186

Other Decreases in Fund Resources

594-595	Capital Expenditures	182,228
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	6,112
Total Other Decreases in Fund Resources:		188,340

Increase (Decrease) in Cash and Investments: 345,246

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	4,315,825
Total Ending Cash and Investments		4,315,825

The accompanying notes are an integral part of this statement.

Clallam County Fire Protection District No. 3
Notes to the Financial Statements
For the year ended December 31, 2019

Note 1 - Summary of Significant Accounting Policies

Clallam County Fire Protection District No. 3 was incorporated in June 1948 and operates under the laws of the state of Washington applicable to Fire Protection Districts. Clallam County Fire Protection District No. 3 is a special purpose local government and provides fire protection, fire suppression, life safety and fire prevention education and emergency medical services including Basic Life Support (BLS) and Advanced Life Support (ALS) 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 - 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.

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. Cash and Investments

See Note 3, Deposits and Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of one year. Capital assets are recorded as capital expenditures when purchased.

E. Compensated Absences

Sick leave may be accumulated up to 1040 hours for 40-hour-per-week employees and up to 1380 for 24-hour shift employees. Upon separation or retirement, employees receive payment for unused sick leave at a rate between 25 to 50 percent of their leave balance, depending on the circumstances of their separation.

Bargaining Unit Holiday may be accumulated up to 336 hours and is payable upon separation or retirement.

Bargaining Unit Comp time may be accumulated up to 480 hours and is payable upon separation or retirement.

Vacation Accruals differ among District employees based upon length of service. The maximum accrual rate is 30 hours per month and employees may accumulate, at the most, 24 months of their monthly accrual rate.

Payments for Compensated Absences are recognized as expenditures when paid.

F. Long-Term Debt

Clallam County Fire District 3 has no long-term debt.

G. 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 Board of Commissioner Resolution. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts.

Note 2 – Budget Compliance

The District adopts an annual appropriated budget for the General Fund and the budget constitutes the legal authority for expenditures at that level. The budget is appropriated at the department 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 General Fund, by Department were as follows:

General Fund Department	Final Appropriated Amounts	Actual Expenditures	Variance
Commissioners	\$ 109,852	\$ 31,298	\$ 78,554
General Administration	968,112	854,899	113,213
Volunteer Programs	238,608	247,716	(9,108)
Fire Suppression	950,507	938,304	12,203
Risk Reduction	300,575	290,521	10,054
EMS	5,860,758	5,710,783	149,975
HazMat	3,000	-	3,000
Emergency Management	14,500	4,239	10,261
TEMS	2,000	327	1,673
Wildland	19,500	10,896	8,604
Tech Rescue	9,400	4,898	4,502
Facilities	627,866	570,812	57,054
Vehicles	507,787	506,836	950
Capital Expenditures	951,901	778,344	173,558
Total General Fund	\$ 10,564,366	\$ 9,949,873	\$ 614,493

Budgeted amounts are authorized to be transferred between departments within the General Fund; however, any revisions that alter the total expenditures of the General Fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Fire Protection Districts' legislative body.

Note 3 – Deposits and Investments

Investments are reported at amortized cost. Deposits and Investments by type at December 31, 2019 are as follows:

	District's Own Deposits	Deposits and Investments held by Clallam County as the custodian for the District	Total
Bank Deposits	\$ 5,100	\$ 671,831	\$ 676,931
Local Government Investment Pool	-	4,893,449	4,893,449
Total	\$ 5,100	\$ 5,565,280	\$ 5,570,380

It is the District's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

Investments in the State Local Government Investment Pool

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The District's deposits and certificates of deposit are mostly covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All investments are insured, registered or held by the District or its agent in the government's name.

Note 4 - Property Tax

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

Property tax revenues are recognized when cash is received by the County. 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 2019 was \$1.50 per \$1,000 on an assessed valuation of \$5,088,016,949 for a total regular levy of \$7,632,025.42.

The District's EMS levy for the year 2019 was \$.4505798206 per \$1,000 on an assessed valuation of \$5,126,375,697 for a total EMS levy of \$2,309,841.44.

Note 5 – Liabilities

Liabilities reported in the 2018 Financial Report totaled \$1,849,002 and includes amounts for both pension and compensated absence liabilities and satisfies the recommended reporting from the Washington State Auditor's Office.

Note 6 – Pension Plans

State Sponsored Pension Plans

Substantially all District full-time and qualifying part-time employees participate in LEOFF Plan 2 or PERS Plan 2 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 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, 2019 (the measurement date of the plans), the District’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, is as follows:

	Allocation %	Liability (Asset)
PERS 1	0.005634%	\$216,647
PERS 2/3	0.007280%	\$70,713
SERS 2/3		
PSERS 2		
LEOFF 1		
LEOFF 2	0.145459%	(\$3,369,838)
VFFRPF	0.710000%	(\$482,750)

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 7 – Risk Management

Clallam County FPD #3 is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

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

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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

The contract requires members to remain in the Pool for a minimum of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

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

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Note 8 - Other Disclosures

Elections

On November 5, 2019, William (Bill) Miano was elected to Fire District 3 Commissioner Position No. 3 replacing incumbent James Barnfather. Also on November 5, 2019, district voters approved to renew the Fire Districts EMS Levy at a rate of \$.50 per \$1,000 of assessed property values to be levied in the years 2020 2029 and collected during the years 2021 2030.

COVID-19

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

Several District personnel were significantly involved in standing up the Sequim Emergency Coordination Center in order to respond to and prepare for the community needs during the pandemic outbreak. District Emergency responders continued to operate and respond as usual using increased PPE measures and equipment. District staff that were able to work remotely have done so in response to the Governor's request. While the District has invested additional time and expenditures responding to the pandemic, reimbursement for a substantial portion of these costs will be sought from FEMA.

As of the date of the financial statements, District offices and stations remain closed to public and Board of Commissioner meetings continue to be held via a virtual platform. The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

Clallam County Fire Protection District No. 3
Notes to the Financial Statements
For the year ended December 31, 2018

Note 1 - Summary of Significant Accounting Policies

Clallam County Fire Protection District No. 3 was incorporated in June, 1948 and operates under the laws of the state of Washington applicable to Fire Protection Districts. Clallam County Fire Protection District No. 3 is a special purpose local government and provides fire protection, fire suppression, life safety and fire prevention education and emergency medical services including Basic Life Support (BLS) and Advanced Life Support (ALS) 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.

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. Cash and Investments

See Note 3, Deposits and Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of one year. Capital assets are recorded as capital expenditures when purchased.

E. Compensated Absences

Sick leave may be accumulated up to 1040 hours for 40-hour-per-week employees and up to 1380 for 24-hour shift employees. Upon separation or retirement, employees receive payment for unused sick leave at a rate between 25 to 50 percent of their leave balance, depending on the circumstances of their separation.

Bargaining Unit Holiday may be accumulated up to 336 hours and is payable upon separation or retirement.

Bargaining Unit Comp time may be accumulated up to 480 hours and is payable upon separation or retirement.

Vacation Accruals differ among District employees based upon length of service. The maximum accrual rate is 30 hours per month and employees may accumulate, at the most, 24 months of their monthly accrual rate.

Payments for Compensated Absences are recognized as expenditures when paid.

F. Long-Term Debt

Clallam County Fire District 3 has no long-term debt.

G. 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 Board of Commissioner Resolution. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts

Note 2 – Budget Compliance

The District adopts an annual appropriated budget for the General Fund and the budget constitutes the legal authority for expenditures at that level. The budget is appropriated at the department 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 General Fund, by Department were as follows:

General Fund Department	Final Appropriated Amounts	Actual Expenditures	Variance
Commissioners	\$ 47,251	\$ 34,865	\$ 12,386
General Administration	910,809	924,190	(13,381)
Volunteer Programs	202,024	242,121	(40,096)
Fire Suppression	902,528	774,905	127,622
Risk Reduction	281,947	274,514	7,433
EMS	5,275,656	5,099,224	176,432
HazMat	3,000	14	2,986
Emergency Management	12,500	10,080	2,420
TEMS	2,000	253	1,747
Wildland	23,500	30,147	(6,647)
Tech Rescue	12,050	8,465	3,585
Facilities	616,021	609,082	6,939
Vehicles	498,052	468,407	29,645
Capital Expenditures	221,114	182,228	38,886
Total General Fund	\$ 9,008,452	\$ 8,658,495	\$ 349,957

Budgeted amounts are authorized to be transferred between departments within the General Fund; however, any revisions that alter the total expenditures of the General Fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Fire Protection Districts' legislative body.

Note 3 – Deposits and Investments

Investments are reported at amortized cost. Deposits and Investments by type at December 31, 2018 are as follows:

	District's Own Deposits	Deposits and Investments held by Clallam County as the custodian for the District	Total
Bank Deposits	\$ 5,100	\$ -	\$ 5,100
Local Government Investment Pool	-	4,310,725	4,310,725
Total	\$ 5,100	\$ 4,310,725	\$ 4,315,825

It is the District's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

Investments in the State Local Government Investment Pool

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The District's deposits and certificates of deposit are mostly covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All investments are insured, registered or held by the District or its agent in the government's name.

Note 4 - Property Tax

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

Property tax revenues are recognized when cash is received by the County. 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 2018 was \$1.2557331307 per \$1,000 on an assessed valuation of \$4,693,971,025 for a total regular levy of \$5,894,374.93.

The District's EMS levy for the year 2018 was \$.4712520820 per \$1,000 on an assessed valuation of \$4,733,039,733 for a total EMS levy of \$2,230,454.83.

Note 5 – Liabilities

Liabilities reported in the 2018 Financial Report totaled \$1,858,117 and includes amounts for both pension and compensated absence liabilities and satisfies the recommended reporting from the Washington State Auditor's Office.

Note 6 – Pension Plans

State Sponsored Pension Plans

Substantially all District full-time and qualifying part-time employees participate in LEOFF Plan 2 or PERS Plan 2 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 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, 2018 (the measurement date of the plans), the District’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, is as follows:

	Allocation %	Liability (Asset)
PERS 1	0.005461%	\$243,890
PERS 2/3	0.006986%	\$119,279
SERS 2/3		
PSERS 2		
LEOFF 1		
LEOFF 2	0.132896%	(\$2,698,079)
VFFRPF	0.790000%	(\$3,301)

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 7 – Risk Management

Clallam County FPD #3 is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2018, there are 549 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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

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

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

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

Enduris did not have any claim settlements that exceeded limits in the last three years.

Note 8 - Other Disclosures

Labor Relations

The IAFF Local 2933 Firefighters Collective Bargaining Agreement for 2017-2019 was ratified on March 25, 2019. Retro-active back-pay for contract years 2017 and 2018 was paid to Local 2933 members on April 17, 2019.

Clallam County Fire Protection District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2019

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences - Employee Benefits Accounts		1,494,947	66,694	-	1,561,641
264.30	Pension Liability - PERS 1		243,890	-	27,243	216,647
264.30	Pension Liability - PERS 2/3		119,280	-	48,566	70,714
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,858,117	66,694	75,809	1,849,002
Total Liabilities:			1,858,117	66,694	75,809	1,849,002

Clallam County Fire Protection District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2018

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences - Employee Benefits Accounts		1,299,811	195,136	-	1,494,947
264.30	Pension Liability - PERS 1		256,092	-	12,202	243,890
264.30	Pension Liability - PERS 2/3		241,201	-	121,921	119,280
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,797,104	195,136	134,123	1,858,117
Total Liabilities:			1,797,104	195,136	134,123	1,858,117

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	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov