

Washington State Auditor's Office
Financial Statements Audit Report

South Whidbey Fire/EMS
Island County

Audit Period
January 1, 2011 through December 31, 2012

Report No. 1011154

Issue Date
January 27, 2014



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

January 27, 2014

Board of Commissioners
South Whidbey Fire/EMS
Freeland, Washington

Report on Financial Statements

Please find attached our report on South Whidbey Fire/EMS's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

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**South Whidbey Fire/EMS
Island County
January 1, 2011 through December 31, 2012**

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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*

**South Whidbey Fire/EMS
Island County
January 1, 2011 through December 31, 2012**

Board of Commissioners
South Whidbey Fire/EMS
Freeland, 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 South Whidbey Fire/EMS, Island County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 7, 2014.

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.

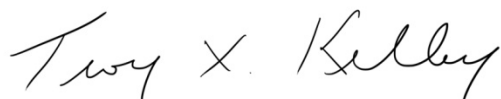
COMPLIANCE AND OTHER MATTERS

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.



TROY KELLEY
STATE AUDITOR

January 7, 2014

Independent Auditor's Report on Financial Statements

South Whidbey Fire/EMS Island County January 1, 2011 through December 31, 2012

Board of Commissioners
South Whidbey Fire/EMS
Freeland, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of South Whidbey Fire/EMS, Island County, Washington, for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of South Whidbey Fire/EMS, for the years ended December 31, 2012 and 2011, on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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

Entity Name

The name of the District was changed during the 2012 calendar year from Island County Fire District #3 to South Whidbey Fire/EMS. This matter is not required to be presented or disclosed in the financial statements and has been added based on the auditor's professional judgment that such matter is relevant to users' understanding of the audit.

Purpose of this Report

The report is intended for the information and use of the management and the Board of Commissioners of the District. 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2014 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 "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

January 7, 2014

Financial Section

South Whidbey Fire/EMS3 Island County January 1, 2011 through December 31, 2012

FINANCIAL STATEMENTS

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South Whidbey Fire / EMS

MCAG #: 1115

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2012

1 Of 1

BARS CODE		Total For All Funds	001 - General Fund	
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	0.00	0.00	0.00
308.80	Unreserved	1,861,471.63	1,861,471.63	0.00
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	2,262,015.33	2,262,015.33	0.00
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	68,113.54	68,113.54	0.00
340	Charges for Goods and Services	112,289.70	112,289.70	0.00
350	Fines and Penalties	0.00	0.00	0.00
360	Miscellaneous	19,807.56	19,807.56	0.00
370	Capital Contributions	0.00	0.00	0.00
390	Other Financing Sources	3,750.00	3,750.00	0.00
	Total Revenues and Other Financing Sources	2,465,976.13	2,465,976.13	0.00
Total Resources		4,327,447.76	4,327,447.76	0.00
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	2,099,868.91	2,099,868.91	0.00
530	Physical Environment	0.00	0.00	0.00
540	Transportation	0.00	0.00	0.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	0.00	0.00	0.00
Total Operating Expenditures		2,099,868.91	2,099,868.91	0.00
591-593	Debt Service	0.00	0.00	0.00
594-595	Capital Outlay	138,083.37	138,083.37	0.00
Total Expenditures		2,237,952.28	2,237,952.28	0.00
597-599	Other Financing Uses	0.00	0.00	0.00
Total Expenditures and Other Financing Uses		2,237,952.28	2,237,952.28	0.00
Excess (Deficit) of Resources Over Uses		2,089,495.48	2,089,495.48	0.00
380	Nonrevenues (Except 384)	0.00	0.00	0.00
580	Nonexpenditures (Except 584)	(1,383.94)	(1,383.94)	0.00
Ending Cash and Investments:				
508.10	Reserved	0.00	0.00	0.00
508.80	Unreserved	2,090,879.42	2,090,879.42	0.00

The accompanying notes are an integral part of this Statement

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2011

BARS Code		001 General Fund
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	1,424,487
38880/58880	Prior Period Adjustments, net	7,921
Operating Revenues		
310	Taxes	2,262,238
320	Licenses & Permits	0
330	Intergovernmental Revenues	36,382
340	Charges for Goods and Services	122,834
350	Fines & Penalties	0
360	Miscellaneous Revenues	18,850
Total Operating Revenues:		2,440,304
Operating Expenditures		
510	General Government	0
520	Public Safety	1,766,426
598	Intergovernmental Payments	0
Total Operating Expenditures:		1,766,426
Net Operating Increase (Decrease):		673,878
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	12,045
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		12,045
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	10,802
591-593	Debt Service	0
594-595	Capital Expenditures	246,367
597	Transfers-Out	0
Total Nonoperating Expenditures:		257,169
Increase (Decrease) in Cash and Investments		428,754
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	1,861,162

The accompanying notes are an integral part of this Statement.

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The South Whidbey Fire/EMS, hereafter referred to as the District, 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 government and provides fire protection services and emergency medical services. The district uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

b. Basis of Accounting

The South Whidbey Fire/EMS reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting* System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

c. Budgets

The district adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund	3,609,687.90	2,236,568.34	1,373,119.56

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

d. Cash

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

e. Deposits

Substantially all of the District's deposits and investments are held by the Island County Treasurer. The District maintains three checking accounts with a commercial bank. These accounts are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

f. Capital Assets

Capital assets are long-lived assets of the District, have a value of more than one thousand dollars, a life span of more than one year, and are recorded as expenditures when purchased.

g. Compensated Absences

Vacation pay may be accumulated up to the maximum amount of three years of accrual based on the next year's accrual rate. Upon separation from District employment, any regular employee may be paid for any unused vacation up to the amount at the last posting at the rate the employee is being paid at the time of separation. Sick leave may accumulate up to 960 hours for 40 hour per week employees and 1,140 hours for 56 hour shift employees. Upon separation or retirement, employees do not receive payment for unused sick pay.

h. Risk Management

South Whidbey Fire & EMS 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, 2012, there are 477 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies 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, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss;

\$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. 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. Its 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 2 - INVESTMENTS

The District's investments are in the Washington State Local Government Investment Pool (LGIP) and are held by the Island County Treasurer in the District's name. Investments are represented as fair market value.

Investments by type at December 31, 2012 were as follows:

Type of Investment	Balance
LGIP(FMV)	\$1,000,000
Total	\$1,000,000

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 Fire Protection Levy for the year 2012 was \$.61 per \$1,000 on an assessed valuation of \$3,719,956,307 for a total regular levy of \$2,269,927.02.

NOTE 4 - PENSION PLANS

Substantially all of the District's full-time employees participate in the Washington State Law Enforcement and Firefighters Plan II, administered by the Department of Retirement System under a cost sharing multiple-employer public employee defined benefit retirement system. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the system by both employee and the employer are based upon gross wages covered by plan benefits.

All other full-time and qualifying part-time employees participate in the Washington State Public Employees Retirement System, Plan II, administered by the Washington State Department of Retirement System under a cost sharing multiple-employer public employee defined benefit retirement system. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the system by both the employee and the employer are based upon gross wages covered by the plan benefits.

Historical trend or other information regarding each plan is presented in the State of Washington Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department Of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

The District has volunteer firefighters enrolled in the Washington State Volunteer Fire Fighters' And Reserve Officers' Relief and Pensions program, administered by the State Board for Volunteer Firefighters and Reserve Officers under Chapter 41.24 of the Revised Code of Washington. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to this pension system are made by the employer on an annual basis.

NOTE 5: OTHER DISCLOSURES

The District identified a theft of services (use of a fuel card) by a volunteer. The District engaged the assistance of the State Auditor's Office to assist in determining the amount of the loss to be \$2923.87. The District filed charges against the volunteer. The issue was adjudicated and restitution in the amount of the loss, \$2923.87 was made in 2012.

The district has identified the following related party transactions.

Jerry Beck & Company: Jerry Beck is the principal owner of Jerry Beck & Company and is volunteer Fire Captain. He has no budget oversight. In 2012, his business has the following relationships with the District:

- Station 31 electrical work – low quote from small works roster.
- IT Support Services Contract – Competitively bid, low bidder, 3 year contract term.
- Website Design Contract – Competitively bid, low bidder, 1 year contract term.
- Radio System Design Consultant – Consulting contract, 1 year contract term.

All Whidbey Topsoil, Inc: Eldon Baker is the principal owner of All Whidbey Topsoil, Inc. and is a volunteer Fire Lieutenant. He has no budget oversight. In 2012, his business has the following relationships with the District:

- Cultus Bay Site work and Foundation - Competitively bid, low bidder, project contract term.
- Landscape bark maintenance – low quote from small works roster.

The District has the following Interlocal Agreements in operation at the end of 2012:

- Between the District and Washington State Ferries, a division of the Washington State Department of Transportation (WSF): to assist with contingency planning regarding creation of a comprehensive system-wide plan of coordinated response to weapons of mass destruction incidents on board WSF ferry vessel or terminal and fire protection for the Clinton Ferry Terminal
- Between the District and Island County to allow the District to obtain unleaded gasoline and/or diesel fuels from the vehicle fueling station at the Bayview Road Shop facility at the same cost rate charged to County Road Department vehicles.
- Between the District and Island County Sheriff's Office: to enforce the County's uniform fire code dealing with open burning, fire prevention and fire safety, to initiate investigations, and to respond to complaints of illegal outdoor burns.
- Between the district and the Washington Governmental Entity Pool: to form a local government risk pool, to provide for joint or cooperative action by members for the purpose of provide risk

management services and risk sharing facilities to the Members and their employees and to defend and protect in any Member of the pool against liability.

- The district participates in a cooperative governmental purchasing agreement for supplies, materials equipment and services using competitively awarded contracts.
- Between the district and the Washington State Patrol: to participate in the Washington State Fire Services Resource Mobilization Plan, to notify, assemble, and deploy fire service personnel and equipment to any local fire jurisdiction in the state that has expended all local and mutual aid resources in attempting to manage, mitigate and control an emergency incident or situation for the protection of life and property. Under this agreement, WSP shall reimburse the District for costs due to each fire mobilization. This agreement expires in December 31, 2013
- Between the District and Island County Emergency Services Communications Center (I-COM 911) to use each other's procurement agreements when it is their mutual interest for the purchase of supplies, materials, equipment and services. The District participates in I-com and paid \$54,328 in FY 2012 for I-COM services.
- Hospital – Between the District and Whidbey General Hospital for provision of first response emergency medical services. The District is reimbursed for expenses for EMS response to certain medical calls.
- Mutual Aid - Between the District and Central Whidbey Island Fire & Rescue to provide Automatic Aid for emergency calls within 1 mile of the Districts' contiguous border.
- Small Works Roster - Between the District and the Municipal Research and Services Center of Washington (MRSC) for membership in the MRSC "Small Public Works Roster" and "Consultant Roster", collectively, MRSC Rosters.
- The difference on the C-4 statement ending balance of \$1,861,159.49 and the current beginning balance for 2012 of \$1,861,471.63 is \$312.14. This difference is related to changes to the general ledger for checks that were not recorded in the 2011 Bias system until they were found in June 2012 during the bank account reconciliations for 2011. The district implemented Bias, cash based accounting software, in early 2012 and hand entered all of the 2011 data including reconciling accounts. Some prior period adjustment entries were made in the 2011 numbers to match the ending balances from the previous accrual based software, Quickbooks, to cash based software, Bias. We believe the \$312.14 falls into the immaterial amount designated by the state, under \$1000.00 for the year.

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Island County Fire Protection District #3, hereafter referred to as the District, 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 government and provides fire protection services and emergency medical services. The district uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. **Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

b. **Basis of Accounting**

The Island County Fire Protection District #3 reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

c. **Cash**

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

d. **Deposits**

Substantially all of the District's deposits and investments are held by the Island County Treasurer. The District maintains two checking accounts with a commercial bank. These accounts are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

e. **Capital Assets**

Capital assets are long-lived assets of the District, have a value of more than one thousand dollars, a life span of more than one year, and are recorded as expenditures when purchased.

f. Compensated Absences

Vacation pay may be accumulated up to the maximum amount of two years of accrual based on the next year's accrual rate. Upon separation from District employment, any regular employee may be paid for an unused vacation up to the amount at the last posting at the rate the employee is being paid at the time of separation. Sick leave may accumulate up to 40 hour per week employees and 1,140 hours for 56 hour shift employees. Upon separation or retirement employees do not receive payment for unused sick pay.

NOTE 2 - INVESTMENTS

The District's investments are in the Washington State Local Government Investment Pool (LGIP) and are held by the Island County Treasurer in the District's name

Investments by type at December 31, 2011 were as follows:

Type of Investment	Balance
LGIP	\$1,000,000
Total	\$1,000,000

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 Fire Protection Levy for the year 2011 was \$.59 per \$1,000 on an assessed valuation of \$3,825,605,729 for a total regular levy of \$2,258,587

NOTE 4 - PENSION PLANS

Substantially all of the District's full-time employees participate in the Washington State Law Enforcement and Firefighters Plan II, administered by the Department of Retirement System under a cost sharing multiple-employer public employee defined benefit retirement system. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the system by both employee and the employer are based upon gross wages covered by plan benefits.

All other full-time and qualifying part-time employees participate in the Washington State Public Employees Retirement System, Plan II or III administered by the Washington State Department of Retirement System under a cost sharing multiple-employer public employee defined benefit retirement system. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the system by both the employee and the employer are based upon gross wages covered by the plan benefits.

Historical trend or other information regarding each plan is presented in the State of Washington Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department Of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

The District has volunteer firefighters enrolled in the Washington State Volunteer Fire Fighters' And Reserve Officers' Relief and Pensions program, administered by the State Board for Volunteer Firefighters and Reserve Officers under Chapter 41.24 of the Revised Code of Washington. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to this pension system are made by the employer on an annual basis.

NOTE 5: OTHER DISCLOSURES

The District identified a theft of services (use of a fuel card) by a volunteer. The District engaged the assistance of the State Auditor's Office to assist in determining the amount of the loss to be \$2923.87. The District filed charges against the volunteer. The issue has yet to be resolved.

The district has identified the following related party transactions.

Jerry Beck & Company: Jerry Beck is the principal owner of Jerry Beck & Company and is volunteer Fire Captain. He has no budget oversight. In 2011, his business has the following relationships with the District:

- Station 31 electrical work – low quote from small works roster.
- IT Support Services Contract – Competitively bid, low bidder, 3 year contract term.
- Website Design Contract – Competitively bid, low bidder, 1 year contract term.
- Radio System Design Consultant – Consulting contract, 1 year contract term.

All Whidbey Topsoil, Inc: Eldon Baker is the principal owner of All Whidbey Topsoil, Inc. and is a volunteer Fire Lieutenant. He has no budget oversight. In 2011, his business has the following relationships with the District:

- Cultus Bay Site work and Foundation - Competitively bid, low bidder, project contract term.
- Landscape bark maintenance – low quote from small works roster.

Rip & Stitch: Elaine Elliot is a principal owner of Rip & Stitch and is married to a current member of volunteer fire fighter. The member has no budget oversight. In 2011, this business has the following relationships with the District:

- Uniform alterations – Occasional uniform alterations as needed. No contract for service due to minimal use.

The District has the following Interlocal Agreements in operation at the end of 2011:

- Between the District and Washington State Ferries, a division of the Washington State Department of Transportation (WSF): to assist with contingency planning regarding creation of a comprehensive system-wide plan of coordinated response to weapons of mass destruction incidents on board WSF ferry vessel or terminal.
- Between the District and Island County to allow the District to obtain unleaded gasoline and/or diesel fuels from the vehicle fueling station at the Bayview Road Shop facility at the same cost rate charged to County Road Department vehicles.
- Between the District and Island County Sheriff's Office: to enforce the County's uniform fire code dealing with open burning, fire prevention and fire safety, to initiate investigations, and to respond to complaints of illegal outdoor burns.
- Between the district and the Washington Governmental Entity Pool: to form a local government risk pool, to provide for joint or cooperative action by members for the purpose of provide risk management services and risk sharing facilities to the Members and their employees and to defend and protect in any Member of the pool against liability.

- The district participates in a cooperative governmental purchasing agreement for supplies, materials equipment and services using competitively awarded contracts.
- Between the district and the Washington State Patrol: to participate in the Washington State Fire Services Resource Mobilization Plan, to notify, assemble, and deploy fire service personnel and equipment to any local fire jurisdiction in the state that has expended all local and mutual aid resources in attempting to manage, mitigate and control an emergency incident or situation for the protection of life and property. Under this agreement, WSP shall reimburse the District for costs due to each fire mobilization. This agreement expires in December 31, 2013
- Between the District and Island County Emergency Services Communications Center (I-COM 911) to use each other's procurement agreements when it is their mutual interest for the purchase of supplies, materials, equipment and services. The District participates in I-com and paid \$50,191 in FY 2011 for I-COM services.

Schedule of Liabilities
For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2012
General Obligations								
	259.11	Compensated Absences		60,341	15,822			76,163
Total General Obligations:				60,341	15,822			76,163
Total Liabilities:				60,341	15,822			76,163

Schedule of Liabilities
For the year ended December 31, 2011

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2011	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2011
General Obligations								
	259.11	Compensated Absences	12/31/2012	0	60,341	0	59122	60,341
Total General Obligations:				0	60,341	0		60,341
Total Liabilities:				0	60,341	0		60,341



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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Quality Assurance
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