



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

**Financial Statements Audit Report**  
**Jefferson County Fire Protection**  
**District No. 3**  
**(Port Ludlow Fire & Rescue)**

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

**Published December 27, 2018**

**Report No. 1022973**





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

December 27, 2018

Board of Commissioners  
Port Ludlow Fire & Rescue  
Port Ludlow, Washington

**Report on Financial Statements**

Please find attached our report on Port Ludlow Fire & Rescue's financial statements.

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

Sincerely,

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

Pat McCarthy  
State Auditor  
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Port Ludlow Fire & Rescue  
January 1, 2016 through December 31, 2017**

Board of Commissioners  
Port Ludlow Fire & Rescue  
Port Ludlow, 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 Port Ludlow Fire & Rescue, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated December 20, 2018.

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

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

December 20, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Port Ludlow Fire & Rescue January 1, 2016 through December 31, 2017**

Board of Commissioners  
Port Ludlow Fire & Rescue  
Port Ludlow, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Port Ludlow Fire & Rescue, for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express 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, Port Ludlow Fire & Rescue has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Port Ludlow Fire & Rescue, for the years ended December 31, 2017 and 2016, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

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

### **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Port Ludlow Fire & Rescue, as of December 31, 2017 and 2016, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.



## Other Matters

### *Supplementary and Other Information*

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

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

December 20, 2018

## **FINANCIAL SECTION**

### **Port Ludlow Fire & Rescue January 1, 2016 through December 31, 2017**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2017

Fund Resources and Uses Arising from Cash Transactions – 2016

Notes to Financial Statements – 2017

Notes to Financial Statements – 2016

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2017

Schedule of Liabilities – 2016

**Jefferson County Fire Protection District No. 3**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General Fund</b>	<b>101 EMS Fund</b>	<b>300 Capital Project Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	2,684,540	2,036,576	615,650	32,315
388 / 588	Prior Period Adjustments, Net	(867)	(591)	(247)	(29)
<b>Revenues</b>					
310	Taxes	2,574,888	2,059,556	515,332	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	13,980	8,084	5,896	-
340	Charges for Goods and Services	283,746	32,849	250,897	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	15,666	10,855	4,167	645
Total Revenues:		2,888,281	2,111,344	776,292	645
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	2,367,896	1,700,225	667,672	-
Total Expenditures:		2,367,896	1,700,225	667,672	-
Excess (Deficiency) Revenues over Expenditures:		520,385	411,119	108,620	645
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	100,000	-	-	100,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	1,222	978	244	-
Total Other Increases in Fund Resources:		101,222	978	244	100,000
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	100,000	60,000	40,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	619	619	-	-
Total Other Decreases in Fund Resources:		100,619	60,619	40,000	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>520,988</b>	<b>351,478</b>	<b>68,864</b>	<b>100,645</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	3,204,660	2,387,463	684,267	132,930
<b>Total Ending Cash and Investments</b>		<b>3,204,660</b>	<b>2,387,463</b>	<b>684,267</b>	<b>132,930</b>

The accompanying notes are an integral part of this statement.

**Jefferson County Fire Protection District No. 3**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General Fund</b>	<b>101 EMS Fund</b>	<b>300 Capital Project Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	2,601,138	1,825,276	518,500	257,363
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	2,469,273	1,985,035	484,238	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	10,609	5,976	4,633	-
340	Charges for Goods and Services	282,813	32,360	250,453	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	9,906	8,053	1,623	231
Total Revenues:		2,772,600	2,031,423	740,947	231
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	2,530,052	1,886,256	643,797	-
Total Expenditures:		2,530,052	1,886,256	643,797	-
Excess (Deficiency) Revenues over Expenditures:		242,549	145,168	97,151	231
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	66,276	66,276	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		66,276	66,276	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	225,279	-	-	225,279
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	144	144	-	-
Total Other Decreases in Fund Resources:		225,423	144	-	225,279
<b>Increase (Decrease) in Cash and Investments:</b>		<b>83,402</b>	<b>211,300</b>	<b>97,151</b>	<b>(225,048)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	2,684,540	2,036,576	615,650	32,315
<b>Total Ending Cash and Investments</b>		<b>2,684,540</b>	<b>2,036,576</b>	<b>615,650</b>	<b>32,315</b>

*The accompanying notes are an integral part of this statement.*

**Notes to the Financial Statements**  
**For the year ended December 31, 2017**

**Note 1 - Summary of Significant Accounting Policies**

Jefferson County Fire Protection District No. 3 was incorporated in 1965 and operates under the laws of the state of Washington applicable to a Fire District. The District is a special purpose local government and provides Fire Protection and Emergency Medical 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 District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

**Special Revenue Funds**

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

**Debt Service Funds**

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

**Capital Projects Funds**

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

**Notes to the Financial Statements**  
**For the year ended December 31, 2017**

**B. Basis of Accounting and Measurement Focus**

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

In accordance with state law, the District also recognizes expenditures paid up to twenty (20) days after the close of the fiscal year for claims incurred during the previous period.

**C. Budgets**

The District adopts annual appropriated budgets for 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:

<b>Fund/Department</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenses</b>	<b>Variance</b>
001 - General Fund	1,927,050.00	1,760,844.36	166,205.64
101 - EMS Fund	717,150.00	707,671.51	9,478.49
300 - Capital Project Fund	60,000.00		60,000.00

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

**D. Cash and Investments**

See Note 2, *Deposits and Investments*.

**E. Capital Assets**

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

**Notes to the Financial Statements**  
**For the year ended December 31, 2017**

**F. Compensated Absences**

No more than ninety-six (96) hours of vacation time accrued in one year may carry-over from one year to the next with the exception of the first year of employment, and is payable upon separation or retirement.

Sick leave may be accumulated up to a maximum of one thousand four hundred and fifty six (1456) hours for twenty four (24) hours shift employees, one thousand ninety two (1092) hours for twelve (12) hour shift employees, and one thousand forty (1040) hours for eight (8) hours shift employees. Upon separation or retirement employees receive payment for unused sick leave in excess of seven hundred twenty eight (728) hours at twenty five percent (25%) of their regular rate of pay. Compensatory time may be carried over from year to year, but any hours exceeding ninety-six (96) will be automatically cashed out at the earliest payroll cycle. Upon separation or retirement, employees shall be paid at their current rate of pay for all unused compensatory time. Payments are recognized as expenditures when paid.

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

Reservations of Ending Cash and Investments consist of: No current Reserved balances.

**Note 2 – Deposits and Investments**

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

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the District or its agent in the government's name.

Investments are reported at fair value. Investments by type at December 31, 2017 are as follows:

<b><u>Type of Investment</u></b>	<b><u>The City's own investments</u></b>	<b><u>Investments</u> held by the City as an agent for other local governments, individuals, or private organizations.</b>	<b><u>Total</u></b>
LGIP (fmv)	1,306,678		1,306,678
CD (Sound Community Bank)	576,149		576,149
<i>Total</i>	\$ 1,882,827		\$ 1,882,827

**Notes to the Financial Statements**  
**For the year ended December 31, 2017**

**Note 3 - Property Tax**

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

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

The District's regular levy for the year 2017 was \$1.50 per \$1,000 on an assessed valuation of \$1,029,479,937 for a total regular levy of \$1,544,219.91.

The District's Emergency Medical Services levy for the year 2017 was \$.50 per \$1,000 on an assessed valuation of \$1,031,753,341 for a total EMS levy of \$515,876.67.

The District's temporary Maintenance and Operations levy for the year 2017 was \$.50 per \$1,000 on an assessed valuation of \$1,019,178,549 for a total M&O levy of \$517,536.24.

**Note 4 – Pension Plans**

A. State Sponsored Pension Plans

Substantially all the District's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: PERS 3 and LEOFF 2.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://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](http://www.ofm.wa.gov).

At June 30, 2017 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 9, was as follows:



**Notes to the Financial Statements**  
**For the year ended December 31, 2017**

	<b>Allocation %</b>	<b>Liability (Asset)</b>
PERS 1	0.000382	\$ 18,126.00
PERS 2/3	0.000492	\$ 17,095.00
LEOFF 2	0.040175	\$ (557,499.00)
VFFRPF	0.07	\$ (26.00)

**LEOFF Plan 2**

The District also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

**Note 5 – Risk Management**

The District purchases commercial insurance policies through Edgren Hecker & Lemmon for our auto, property, accident & sickness and liability coverage. The District also participates in the Washington State Workers Compensation and Unemployment programs.

**Note 6 - Other Disclosures**

**EMS Special Agency Fund Interlocal Agreement**

The district is a member of the EMS Special Agency Fund Interlocal Agreement with Fire Districts #1-5 in Jefferson County. The parties to this agreement participate in cooperative funding for contribution to the Emergency Medical Services (EMS) Special Agency Fund to provide financial compensation for the following contractor positions: Jefferson County Medical Program Director (MPD), Jefferson County Emergency Medical Services Training Coordinator, and the Eastern Jefferson County EMS & Trauma Care Council Secretary/Treasurer/Clerk.

**3-2 ALS Agreement**

The district has an Interlocal agreement to provide ALS services to Jefferson County Fire Protection District No. 2.

During the term of this agreement, PLFR shall furnish ALS services including ambulance transport to all persons within the geographical boundaries of the Recipient District. Such ALS services shall be rendered on the same basis as such services are rendered to persons within PLFR but PLFR assumes no liability for failure to provide such services by reason of circumstances beyond its control. In the event of simultaneous emergency medical calls whether within or outside the Recipient District whereby the facilities and personnel of PLFR are taxed beyond its ability to render ALS services, the officers and agents of PLFR shall

**Notes to the Financial Statements**  
**For the year ended December 31, 2017**

have discretion as to which call shall be answered first and shall be the sole judge as to the most expeditious manner of handling and responding to such calls. PLFR will be compensated \$30,000.00 annually in quarterly payments of \$7,500.00.

JeffCom

The district has an Interlocal agreement with JeffCom to provide emergency dispatching, communications and other public safety services.

Maintenance and Operations Levy

In November of 2013, the District successfully passed a temporary four year Maintenance and Operations Levy. 2017 is the final year to collect funds on this levy. The District did not attempt to renew this levy.

Marine 31 ILA with North Kitsap Fire & Rescue

In June of 2016 the District entered into an Interlocal Agreement with North Kitsap Fire & Rescue (NKFR) to establish Marine 31.

NKFR received a grant for a new boat and needed to maintain coverage of the west end of their District. Both Districts agreed to keep the older boat moored at the Port Ludlow Marina and Port Ludlow Fire & Rescue would insure, maintain, and respond in the boat to marine calls in our District as well as to those calls in NKFR's District. NKFR would maintain ownership of the boat until such time that the parties decide to amend or cancel the Interlocal Agreement.

Firefighter/Paramedic Back-fill ILA with North Kitsap Fire & Rescue

The District entered into an agreement with North Kitsap Fire & Rescue (NKFR) for back-fill coverage of overtime. Once the District exhausts its efforts to obtain overtime coverage through its off duty personnel as well as its approved per-diem list, a call to NKFR is made. If NKFR has someone available and willing to work the overtime shift, they let us know and are put on the schedule. They then bill the District for the full cost of that employee.

**Jefferson County Fire Protection District 3**  
**Notes to Financial Statements**  
**For the year 12/31/2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Jefferson County Fire Protection District No. 3 was incorporated in 1965 and operates under the laws of the state of Washington applicable to Fire Districts. The District is a special purpose local government and provides Fire Protection and Emergency Medical 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 statement. The following fund types are used:

**GOVERNMENTAL FUND TYPES:**

General 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.

Special Revenue Funds

These funds account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes of the district.

Capital Projects Fund

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

**B. Basis of Accounting and Measurement Focus**

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**Notes to Financial Statements**  
**For the year 12/31/2016**

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

**C. Budgets**

The District adopts annual appropriated budgets for the 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:

<b>Fund/Department</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenses</b>	<b>Variance</b>
001 - General Fund	2,013,350.00	1,886,400.18	126,949.82
101 - EMS Fund	651,200.00	643,796.50	7,403.50
300 - Capital Project Fund	240,000.00	225,279.02	14,720.98

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

**D. Cash and Investments**

See Note 2, *Deposits and Investments*.

**E. Capital Assets**

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 1 year. The Capital assets and inventory are recorded as capital expenditures when purchased.

**F. Compensated Absences**

No more than ninety-six (96) hours of vacation time accrued in one year may carry-over from one year to the next with the exception of the first year of employment, and is payable upon separation or retirement.

Sick leave may be accumulated up to a maximum of one thousand four hundred and fifty six (1456) hours for twenty four (24) hours shift employees, one thousand ninety two (1092) hours for twelve (12) hour shift employees, and one thousand forty (1040) hours for eight (8) hours shift employees. Upon separation or retirement employees receive payment for unused sick leave in excess of seven hundred twenty eight (728) hours at twenty five percent (25%) of their regular rate of pay. Compensatory time may be carried over from year to year, but any hours exceeding ninety-six (96) will be automatically cashed out at the earliest

**Jefferson County Fire Protection District 3**  
**Notes to Financial Statements**  
**For the year 12/31/2016**

payroll cycle. Upon separation or retirement, employees shall be paid at their current rate of pay for all unused compensatory time. Payments are recognized as expenditures when paid.

The accompanying compensated absences balance presented on the Schedule 9 includes an estimated employer liability of 10%.

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

**NOTE 2– Deposits and Investments**

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

All deposits and certificates of deposit are covered by (the Federal Deposit Insurance Corporation and or/the Washington Public Deposit Protection Commission). All investments are insured, registered or held by the District or its agent in the government's name.

Investments are reported at cost and/or fair market value. The District has funds invested into the Local Government Investment Pool (L.G.I.P) through the Jefferson County Treasurer. The District also has funds invested into a CD held at Sound Community Bank the amount reported below is the principle balance (cost) of that CD. Investments by type at December 31, 2016 were as follows:

<b><u>Type of Investment</u></b>	<b><u>Districts own investments</u></b>
L.G.I.P. (fmv)	\$1,622,124.29
CD (cost)	<u>\$ 576,148.87</u>
	\$2,198,273.16

**NOTE 3 – Property Tax**

The Jefferson 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 District. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The District's Regular Levy assessed in the year 2016 \$1.50 per \$1,000 on an assessed valuation of \$967,275,244.00 for a total regular levy of \$1,450,912.87.

The District's Emergency Medical Services Levy assessed in the year 2016 was \$0.50 per \$1,000 on an assessed valuation of \$969,528,276.00 for a total special levy of \$484,764.14.

The District's temporary four-year Maintenance and Operations Levy assessed in the year 2016 was \$0.56293 per \$1,000 on an assessed valuation of \$961,035,378.00 for a total special levy of \$539,654.00.

**Jefferson County Fire Protection District 3**  
**Notes to Financial Statements**  
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**NOTE 4 – Debt Service Requirements**

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

**NOTE 5 - PENSION PLANS**

A. State Sponsored Pension Plans

Substantially all of the District's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: PERS 3 and LEOFF 2.

The State Legislature establishes, and amends laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://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 of Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office on Financial Management website at [www.ofm.wa.gov](http://www.ofm.wa.gov).

At June 30, 2016 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	<b>Allocation %</b>	<b>Liability (Asset)</b>
PERS 1	0.000375	\$ 20,139.00
PERS 2/3	0.000480	\$ 24,168.00
LEOFF 2	0.041469	\$ (241,196.00)
VFFRPF	0.110000	\$ 20.00

LEOFF Plan 2

The District also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability

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**Notes to Financial Statements**  
**For the year 12/31/2016**

and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

**NOTE 6 - OTHER DISCLOSURES**

EMS Special Agency Fund Interlocal Agreement

The district is a member of the EMS Special Agency Fund Interlocal Agreement with Fire Districts #1-5 in Jefferson County. The parties to this agreement participate in cooperative funding for contribution to the Emergency Medical Services (EMS) Special Agency Fund to provide financial compensation for the following contractor positions: Jefferson County Medical Program Director (MPD), Jefferson County Emergency Medical Services Training Coordinator, and the Eastern Jefferson County EMS & Trauma Care Council Secretary/Treasurer/Clerk.

3-2 ALS Agreement

The district has an Interlocal agreement to provide ALS services to Jefferson County Fire Protection District No. 2.

During the term of this agreement, PLFR shall furnish ALS services including ambulance transport to all persons within the geographical boundaries of the Recipient District. Such ALS services shall be rendered on the same basis as such services are rendered to persons within PLFR but PLFR assumes no liability for failure to provide such services by reason of circumstances beyond its control. In the event of simultaneous emergency medical calls whether within or outside the Recipient District whereby the facilities and personnel of PLFR are taxed beyond its ability to render ALS services, the officers and agents of PLFR shall have discretion as to which call shall be answered first and shall be the sole judge as to the most expeditious manner of handling and responding to such calls. PLFR will be compensated \$30,000.00 annually in quarterly payments of \$7,500.00.

JeffCom

The district has an Interlocal agreement with JeffCom to provide emergency dispatching, communications and other public safety services.

Maintenance and Operations Levy

In November of 2013, the District successfully passed a temporary four year Maintenance and Operations Levy. 2017 will be the final year to collect funds on this levy. The District did not attempt to renew this levy.

Marine 31 ILA with North Kitsap Fire & Rescue

In June of 2016 the District entered into an Interlocal Agreement with North Kitsap Fire & Rescue (NKFR) to establish Marine 31.

NKFR received a grant for a new boat and needed to maintain coverage of the west end of their District. Both Districts agreed to keep the older boat moored at the Port Ludlow Marina and Port Ludlow Fire & Rescue would insure, maintain, and respond in the boat to marine calls in our District as well as to those

**Jefferson County Fire Protection District 3**  
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calls in NKFR's District. NKFR would maintain ownership of the boat until such time that the parties decide to amend or cancel the Interlocal Agreement.



**Jefferson County Fire Protection District No. 3**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2017**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences	12/31/2017	38,228	4,378	-	42,606
264.30	Pension Liabilities	12/31/2017	44,327	-	9,106	35,221
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>82,555</b>	<b>4,378</b>	<b>9,106</b>	<b>77,827</b>
<b>Total Liabilities:</b>			<b>82,555</b>	<b>4,378</b>	<b>9,106</b>	<b>77,827</b>

**Jefferson County Fire Protection District No. 3**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2016**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences - Gov		30,875	7,353	-	38,228
264.30	Pension Liabilities		36,545	7,782	-	44,327
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>67,420</b>	<b>15,135</b>	<b>-</b>	<b>82,555</b>
<b>Total Liabilities:</b>			<b>67,420</b>	<b>15,135</b>	<b>-</b>	<b>82,555</b>

## 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	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>