



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

**Financial Statements Audit Report**  
**Thurston County Fire Protection**  
**District No. 3**  
**(Lacey Fire District 3)**

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

**Published October 28, 2019**

**Report No. 1024719**





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

October 28, 2019

Board of Commissioners  
Lacey Fire District 3  
Lacey, Washington

**Report on Financial Statements**

Please find attached our report on Lacey Fire District 3'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 "Pat McCarthy". The signature is cursive and fluid.

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**

**Lacey Fire District 3  
January 1, 2018 through December 31, 2018**

Board of Commissioners  
Lacey Fire District 3  
Lacey, 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 Lacey Fire District 3, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 9, 2019.

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

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

Pat McCarthy

State Auditor

Olympia, WA

October 9, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Lacey Fire District 3 January 1, 2018 through December 31, 2018**

Board of Commissioners  
Lacey Fire District 3  
Lacey, Washington

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

We have audited the accompanying financial statements of Lacey Fire District 3, for the year ended December 31, 2018, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, Lacey Fire District 3 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 cash and investments of Lacey Fire District 3, and its changes in cash and investments, for the year ended December 31, 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 Lacey Fire District 3, as of December 31, 2018, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

## Other Matters

### *Supplementary and Other Information*

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

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2019 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

October 9, 2019

## **FINANCIAL SECTION**

### **Lacey Fire District 3 January 1, 2018 through December 31, 2018**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2018  
Notes to Financial Statements – 2018

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

Schedule of Liabilities – 2018

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

		<b>Total for All Funds (Memo Only)</b>	<b>001 General</b>	<b>201 Bond</b>	<b>202 Bond</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	9,977,445	17,553	41,553	3,085
30880	Unreserved	4,085,742	3,974,502	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	16,003,094	15,197,969	464,280	340,845
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	21,195	21,169	19	7
340	Charges for Goods and Services	4,983,850	4,983,850	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	603,911	337,006	3,220	778
Total Revenues:		21,612,050	20,539,994	467,519	341,630
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	19,368,983	19,368,983	-	-
Total Expenditures:		19,368,983	19,368,983	-	-
Excess (Deficiency) Revenues over Expenditures:		2,243,067	1,171,011	467,519	341,630
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	91,000	-	91,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	3,494	3,494	-	-
381, 395, 398	Other Resources	28,645	28,645	-	-
Total Other Increases in Fund Resources:		123,139	32,139	91,000	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	1,644,698	264,187	-	-
591-593, 599	Debt Service	887,388	-	556,573	330,815
597	Transfers-Out	91,000	91,000	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		2,623,086	355,187	556,573	330,815
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(256,880)</b>	<b>847,963</b>	<b>1,946</b>	<b>10,815</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	8,706,754	1,463	43,499	13,900
5088000	Unreserved	5,099,553	4,838,555	-	-
<b>Total Ending Cash and Investments</b>		<b>13,806,307</b>	<b>4,840,018</b>	<b>43,499</b>	<b>13,900</b>

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

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

		<u>301 Capital</u>	<u>306 Capital</u>
<b>Beginning Cash and Investments</b>			
30810	Reserved	-	9,915,254
30880	Unreserved	111,240	-
388 / 588	Prior Period Adjustments, Net	-	-
<b>Revenues</b>			
310	Taxes	-	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	-
340	Charges for Goods and Services	-	-
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	153,162	109,745
Total Revenues:		<u>153,162</u>	<u>109,745</u>
<b>Expenditures</b>			
510	General Government	-	-
520	Public Safety	-	-
Total Expenditures:		<u>-</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		<u>153,162</u>	<u>109,745</u>
<b>Other Increases in Fund Resources</b>			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	-
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 395, 398	Other Resources	-	-
Total Other Increases in Fund Resources:		<u>-</u>	<u>-</u>
<b>Other Decreases in Fund Resources</b>			
594-595	Capital Expenditures	3,404	1,377,107
591-593, 599	Debt Service	-	-
597	Transfers-Out	-	-
585	Special or Extraordinary Items	-	-
586 / 589	Custodial Activities	-	-
Total Other Decreases in Fund Resources:		<u>3,404</u>	<u>1,377,107</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b><u>149,758</u></b>	<b><u>(1,267,362)</u></b>
<b>Ending Cash and Investments</b>			
5081000	Reserved	-	8,647,892
5088000	Unreserved	260,998	-
<b>Total Ending Cash and Investments</b>		<b><u>260,998</u></b>	<b><u>8,647,892</u></b>

**THURSTON COUNTY FIRE PROTECTION DISTRICT THREE – MCAG #1346**

**Notes to the Financial Statements**  
**For the year ended December 31, 2018**

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

Thurston County Fire Protection District Number Three (hereinafter referred to as “The District”) was incorporated in 1948 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 and emergency medical services to the general public and is supported primarily through property taxes.

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 District 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 District’s resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

**GOVERNMENTAL FUND TYPES:**

**General Fund**

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

**Debt Service Funds**

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

### Capital Projects Funds

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

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

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

#### C. Budgets

The 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 2018 appropriated and actual expenditures for the legally adopted budgets were as follow:

<b>Fund</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenditures</b>	<b>Variance</b>
General Fund	\$24,437,257	\$19,724,173	\$4,713,083
Bond Fund - 201	\$619,685	\$556,573	\$63,112
Bond Fund - 202	\$335,585	\$330,815	\$4,770
Capital Projects Fund	\$168,393	\$3,404	\$164,989
2017 Capital Project Fund	\$9,101,000	\$1,377,107	\$7,723,893

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 3, *Deposits and Investments*.

#### E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

#### F. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable in full upon separation or retirement.

Sick leave may be accumulated up to 1,440 hours and may be used for paid time off for any FMLA designated purpose. Upon resignation or layoff, employees with five (5) or more years of service shall be paid a total of fifteen percent (15%) of the employee's sick leave balance at separation or the average end-of-calendar-year sick leave balance for the most recent three (3) full years, whichever is lower. Upon retirement or the award of a duty disability pension, employees with five (5) or more years of service shall be paid a total of fifty percent (50%) of the employee's sick leave balance at separation or the average end-of-calendar-year sick leave balance for the most recent three (3) full years, whichever total is lower. In the event of a line-of-duty death, the designated beneficiary will receive one hundred percent (100%) of the employee's sick leave balance at the time of death.

Employees eligible for retirement or awarded a duty disability pension with twenty (20) or more years of service shall be paid a total of seventy-five (75%) of the employee's sick leave balance or the cash value equivalent of four hundred and fifty Dollars (\$450.00) per month for every month up to the age of sixty-five (65).

Notification and payment shall be made as follows:

- Payment for retirees or duty disability pensions will be made in three (3) installments over a three (3) year period; one-third (1/3) at separation, one-third (1/3) mid-year of the second year, and one-third (1/3) mid-year of the third year.

On December 31<sup>st</sup> of each year, members with a balance in their sick leave bank exceeding 1440 hours will have their balance reduced to 1440 hours. Any hours above the 1440 hour "cap" shall be applied to the Employee's Medical Expense Reimbursement Program (MERP) plan at 25% of the employee's hourly rate.

All sick leave cash outs will be allocated into the employee's Employer adopted, HRA VEBA medical expense reimbursement plan. All payments are recognized as expenditures when paid.

As of December 31, 2018 the total compensated leave balance liability as adjusted by policy was \$1,398,367.

Please refer to Schedule 9.

#### G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

#### H. 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 Fire 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 portions of the Donations Managerial Fund (101) which have been specifically marked for designated purposes, a portion of the balance of the

Bond Debt Fund (201), the entire balance of the 2017 Bond Debt Fund (202) and the entire balance of the 2017 Capital Projects Fund (306).

## **Note 2 - Property Tax**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed 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 tax is levied.

The District's regular levy for the year 2018 was \$1.4978569207050 per \$1,000 on an assessed valuation of \$10,200,777,243 for a total regular levy of \$15,279,304.79.

The District's bond 20 year (2002) debt levy for the year 2018 was \$.101990254102 per \$1,000 on an assessed valuation of \$4,585,655,013 for a total additional levy of \$467,692.12.

The District's bond (voted 2017) debt levy for the year 2018 was \$.034205093124 per \$1,000 on an assessed valuation of \$10,086,217,241 for a total additional levy of \$345,000.

## **Note 3 – Deposits and Investments**

It is the District's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds. As of December 31, 2018, the District had a total balance on deposit at Thurston County of \$13,800,795.

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.

In accordance with State law, the District's governing body has entered into a formal agreement with the District's *ex officio* treasurer, Thurston County, to have all its funds not required for immediate expenditure to be invested in the Thurston County Investment Pool (TCIP).

As of December 31, 2018, the District had the following Investments:

**Investment Type**  
Thurston County Investment Pool

**Fair Value Multiplier (1)**  
.990905

**Effective Duration**  
1.59 years

The TCIP pool is not rated by a nationally recognized statistical rating organization (NRSRO).

A TCIP participant can calculate the fair value of its investments in the TCIP by taking the multiplier

supplied by Thurston County for the end of the fiscal year and multiplying this number times the amount of cash that the participant had in the TCIP. For example, if a participant had \$1,000,000 in cash invested in the TCIP, the fair value of its investments in the TCIP at December 31, 2018 would be calculated by taking \$1,000,000 times .990905, or \$990,905

#### **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, 2018.

The debt service requirements for general obligation bonds, revenue bonds and other debts, including both principal and interest, are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$480,000	\$406,036	\$886,036
2019	\$490,000	\$417,898	\$907,898
2020	\$510,000	\$401,613	\$911,613
2021	\$280,000	\$384,255	\$664,255
2022	\$315,000	\$376,275	\$691,275
2023-2027	\$2,060,000	\$1,697,225	\$3,757,225
2028-2032	\$3,090,000	\$1,212,850	\$4,302,850
2033-2037	\$4,165,000	\$525,400	\$4,690,400
<b>Totals</b>	<b>\$11,390,000</b>	<b>\$5,421,551</b>	<b>\$16,811,551</b>

#### **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, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans: LEOFF 2 and PERS 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 <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 <https://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, was as follows (pursuant to SAO instructions, assets were not included on Schedule 09, but are listed in these Notes as "assets" in parenthesis):

	Allocation %	Liability (Asset)
PERS 1	.006350%	\$283,593
PERS 2/3	.008118%	\$138,608
LEOFF 1	.015364%	(\$278,934)
LEOFF 2	.355271%	(\$7,212,776)
VFFRPF	.28%	(\$147,004)

#### LEOFF Plan 1

The District participated in LEOFF Plan 1. All District LEOFF 1 employees are retired. As of December 31, 2018, the District had seven (7) LEOFF Plan 1 retirees. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting July 1, 2000 employers and employees contribute zero percent.

#### LEOFF Plan 2

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

### **Note 6 – Post Employment Benefits Other Than Pension Benefits**

In addition to the pension benefits described in Note 5 above, The District provides health insurance benefits in accordance with Plan 1 of the Law Enforcement Officers and Firefighters Retirement System (LEOFF). As of December 31, 2018, seven (7) LEOFF 1 retirees meet those eligibility requirements.

The Thurston County Disability Board administers the medical services provisions of the LEOFF 1 plan. It decides whether medical services are necessary and determines "reasonable" cost. The District is required to pay for necessary medical services not covered by insurance and/or Medicare to include dental and vision. During the year total expenditures of \$107,445.64 were recognized for LEOFF 1 retiree health benefits, Medicare premiums and other eligible medical expenses.

### **Note 7 – Risk Management**

The District maintains insurance against most normal hazards except for unemployment insurance. All unemployment claims are processed and paid by the Washington State Employment Security Department,

which then bills the District for reimbursement.

WFCA Health Care Program – The District is a member of the Washington Fire Commissioners Association Health Care Program (“The Trust”). The Trust is funded by member organization premiums deposited into the Insurance Rate Stabilization Reserve Account (IRSRA). The IRSRA was created by WFCA Board of Directors Resolution 12-80(b) in 1999 to improve and facilitate the provision of medical and dental insurance for member fire service organization employees and their families. The self-insurance risk pool complies with the requirements of Chapter 48.62 RCW (Local Government Insurance Transactions), Chapter 200-110 WAC (Local Government Self-Insurance Health and Welfare Program Requirements) and Chapter 30.34 RCW (Interlocal Cooperation Act).

The District is a signatory to the WFCA Health Care Program Interlocal Agreement specifying the responsibilities of participating member organizations and the WFCA Health Care Program. The WFCA Health Care Program provides access to self-insured and insured medical plans, dental plans and life insurance coverage. The fire service organizations’ financial exposure is limited to monthly premium contributions made to the IRSRA for the purchase of medical, dental and life insurance coverage. The WFCA Health Care Program maintains stop loss insurance and has funding reserves that meet and exceed state solvency requirements.

The operations of the WFCA Health Care Program are overseen by a five-member Health Care Committee appointed by the Board of Directors. The Health Care Committee reviews and analyzes the operational needs, benefit and rate changes and makes recommendations to the Board of Directors. Final decisions are made by the WFCA Board of Directors.

Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP) –

The District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2018, 257 cities/towns/non-city entities participate in the AWC Trust HCP. The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2018, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers' contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

#### **Note 8 - Other Disclosures**

In August of 2014, the voters in the Fire District approved a measure authorizing the levy of regular property taxes in excess of the limitations of Chapter 84.55 RCW for specified purposes, including fire protection, prevention and emergency medical services in the District. In 2014, the regular property tax rate was \$1.3939. This "levy lid lift" measure authorized an increase in the levy rate up to the \$1.50 per \$1,000 of assessed value. This measure further authorized an exception from the one percent (1%) annual increase in levy rate up to a six percent (6%) annual increase in the levy rate for up to six years.

On August 10, 2016, the District purchased a piece of undeveloped property located at 8447 Steilacoom Road Southeast, Olympia, WA 98513. The property is adjacent to existing District Station #34.

During 2017, a new enterprise level governmental Financial Management and Human Resources program was purchased and implemented. The District purchased Tyler Technology's InCode 10 ERP. The District converted all programs to the new platform by year's end.

In November of 2017, the voters in the Fire District approved a measure authorizing a 20-year \$19,115,000 bond for Capital Equipment and Facilities. Key bond funded purchases will include new fire apparatus and other equipment, the construction of a new fire station (District Station #34) and much needed remodeling and upgrades to most facilities throughout the District.

In 2018, a 9.65-acre property was annexed into the District. The property was formerly part of Thurston Co Fire Protection District 8. The general location is south of 32<sup>nd</sup> Ave NE, east of Bonanza Drive NE and west of Eagle Loop NE. This annexation resulted in the District taking on primary responsibility for fire and emergency medical response to that portion of the property being annexed which was not already located within the District's boundaries. This annexation also resulted in a corresponding increase in the assessed valuation of the Fire District for that property which was not already located within the District's boundaries.

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

<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>General Obligation Debt/Liabilities</b>						
251.11	LTGO Bond 2012	12/1/2031	975,000	-	60,000	915,000
251.12	UTGO Bond 2017	12/1/2037	9,115,000	-	-	9,115,000
251.12	UTGO Bond 2005	12/31/2025	885,000	-	285,000	600,000
251.12	UTGO Bond 2012	12/1/2020	415,000	-	135,000	280,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>11,390,000</b>	<b>-</b>	<b>480,000</b>	<b>10,910,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		1,314,805	83,562	-	1,398,367
264.30	Pension Liabilities		551,133	-	128,932	422,201
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>1,865,938</b>	<b>83,562</b>	<b>128,932</b>	<b>1,820,568</b>
<b>Total Liabilities:</b>			<b>13,255,938</b>	<b>83,562</b>	<b>608,932</b>	<b>12,730,568</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	
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