



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

# **Financial Statements Audit Report**

## **East Pierce Fire & Rescue**

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

**Published December 19, 2019**

**Report No. 1025215**





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

December 19, 2019

Board of Commissioners  
East Pierce Fire & Rescue  
Bonney Lake, Washington

**Report on Financial Statements**

Please find attached our report on East Pierce 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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## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### East Pierce Fire and Rescue January 1, 2018 through December 31, 2018

**2018-001 The District's internal controls over financial statements preparation were inadequate to ensure accurate financial reporting.**

#### *Background*

The Board of Commissioners, state and federal agencies, and the public rely on the information included in financial statements and reports to make decisions. District management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and to provide reasonable assurance regarding the reliability of financial reporting. The District prepares its financial statements in accordance with the cash basis *Budgeting, Accounting and Reporting System* (BARS) manual.

Our audit identified deficiencies in the District's internal controls over financial reporting that hindered its ability to produce reliable financial statements.

*Government Auditing Standards* requires the auditor to communicate significant deficiencies in internal controls, as defined in the Applicable Laws and Regulations section below, as a finding.

#### *Description of Condition*

In December 2018, the District issued voted General Obligation bonds totaling \$40 million. The bond covenants restrict the use of bond proceeds. These bond proceeds should be reported on the financial statements as part of the reserved fund balance.

#### *Cause of Condition*

District employees did not recognize the requirement to report bond proceeds as reserved fund balance on financial statements. Although the District had procedures in place to review the prepared financial statements, the review did not seek enough detail to detect and correct the classification error.

## ***Effect of Condition***

The District misclassified the ending cash balances in the Capital fund relating to bond proceeds, totaling \$40 million, as unreserved. This amount should have been reported as reserved.

Inaccurate financial reports limit access to financial information used by the District officials, the public, state and federal agencies, and other interested parties.

## ***Recommendations***

We recommend the District strengthen its internal controls over financial reporting for infrequent types of transactions to ensure it complies with BARS Manual requirements. Further, we recommend the District conduct an effective, independent financial statement review that ensures it prepares the financial statements and footnotes in accordance with BARS manual requirements.

## ***District's Response***

*East Pierce Fire & Rescue (District) would like to respond to the finding that has been issued by the State Auditor's Office to East Pierce Fire & Rescue. The finding addresses a misclassification on the district's financial statement filed with the SAO. Voter approved bond proceeds were mistakenly reported on the wrong line of the 2018 Annual Financial Report filed with the State of Washington Auditors Office. The District has since corrected the problem and resubmitted the Financial Statement Report to the State Auditor's Office.*

*The District stresses to the SAO and the public that the actual funds are and have always been in a reserved account through Pierce County and are handled and processed by the governing rules and regulations set by the Board of Fire Commissioners and the State of Washington. The District takes handling of public funds very serious and strides to be transparent to the public. A Treasurer's Report is posted monthly on the District's website as part of the Board of Fire Commissioners meeting packet clearly stating the bond funds as reserved.*

*The District has filled the position of Finance Manager in 2019 which will provide an additional person to increase internal control in the Finance Division.*

*The District disagrees with the State Auditor's Office for assessing this issue as a Finding. The District respectfully requests that be classified as a Management Letter.*

## ***Auditor's Remarks***

We appreciate the timely action taken by the District staff during the audit to correct the reports and to improve internal controls. We have consistently reported

misclassifications such as this as a finding statewide. We will review the corrective action taken during our next regular audit.

### ***Applicable Laws and Regulations***

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting, and Reporting System* (BARS) manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

**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**

**East Pierce Fire & Rescue  
January 1, 2018 through December 31, 2018**

Board of Commissioners  
East Pierce Fire & Rescue  
Bonney Lake, 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 East Pierce Fire & Rescue, 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 November 21, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2018-001 to be material weaknesses.

## 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*.

## DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.



## 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 fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy  
State Auditor  
Olympia, WA

November 21, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## East Pierce Fire & Rescue January 1, 2018 through December 31, 2018

Board of Commissioners  
East Pierce Fire & Rescue  
Bonney Lake, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of East Pierce Fire & Rescue, 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 13.

#### 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, East Pierce 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 cash and investments of East Pierce Fire & Rescue, 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 East Pierce Fire & Rescue, 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 November 21, 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

November 21, 2019

## **FINANCIAL SECTION**

### **East Pierce Fire & Rescue January 1, 2018 through December 31, 2018**

#### **FINANCIAL STATEMENTS**

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

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

Schedule of Liabilities – 2018

**East Pierce Fire & Rescue**  
**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 Debt</b>	<b>301 Capital</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	5,199,843	5,156,881	-	42,962
30880	Unreserved	7,608,515	7,608,515	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	27,263,643	27,263,643	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	1,478,067	1,478,067	-	-
340	Charges for Goods and Services	3,301,449	3,301,449	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	270,152	267,026	-	3,126
Total Revenues:		32,313,312	32,310,186	-	3,126
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	27,573,551	27,573,551	-	-
Total Expenditures:		27,573,551	27,573,551	-	-
Excess (Deficiency) Revenues over Expenditures:		4,739,761	4,736,634	-	3,126
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	40,208,417	-	40,208,417	-
397	Transfers-In	40,259,586	43,521	216,065	40,000,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	3,500	3,500	-	-
381, 395, 398	Other Resources	44,985	44,985	-	-
Total Other Increases in Fund Resources:		80,516,488	92,006	40,424,482	40,000,000
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	422,659	422,659	-	-
591-593, 599	Debt Service	397,535	-	397,535	-
597	Transfers-Out	40,259,586	216,065	40,000,000	43,521
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	3,500	3,500	-	-
Total Other Decreases in Fund Resources:		41,083,280	642,224	40,397,535	43,521
<b>Increase (Decrease) in Cash and Investments:</b>		<b>44,172,969</b>	<b>4,186,416</b>	<b>26,947</b>	<b>39,959,605</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	46,298,183	6,268,669	26,947	40,002,567
5088000	Unreserved	10,683,144	10,683,144	-	-
<b>Total Ending Cash and Investments</b>		<b>56,981,327</b>	<b>16,951,813</b>	<b>26,947</b>	<b>40,002,567</b>

The accompanying notes are an integral part of this statement.

**East Pierce Fire & Rescue**  
**For the Year Ended December 31, 2018**

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

East Pierce Fire & Rescue was incorporated on January 1, 1963 and operates under the laws of the state of Washington applicable to a fire district. The District is a special purpose local government that provides fire protection 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 government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

**General Fund**

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund. For reporting purposes, we include the Reserve Fund. This managerial fund accounts for specific revenue sources that are restricted or committed by the Board of Commissioners to expenditures for specified purposes of the District.

**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.

State law allows the District to recognize expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period. However, Pierce County required receipt of all 2018 business by 10 am Thursday, January 3, 2019, so the District was limited to that window.

C. Cash and Investments

See Note 4, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5000 and an estimated useful life in excess of 2 years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

For the Fire Chief, Assistant Chiefs, and union personnel, sick leave is accumulated up to a maximum of 2500 hours. In the event of termination of employment, accumulated but unused sick leave is paid at the employee's regular rate of pay and according to the following schedule:

Reason for separation	Percent	Max hours accrued	Max hour paid out
Resignation or Layoff	12.5%	2500	312.5
Disability, Retirement, or Death	25%	2500	625
Line of Duty Death	100%	2500	2500

Any of those personnel who accrues more than the 2500 hour cap is paid for those hours at 25% of their base pay rate, buying the employee back down to the 2500 hour cap.

There is a modified arrangement for eight union members who transferred from the City of Bonney Lake to East Pierce on December 31, 1999. In the event of their resignation or layoff, payout is based on 25% of accumulated unused sick leave to a maximum of 720 hours. For disability, death, or retirement, payout is based on the percentage established by taking the member's total accrued sick leave on the books with the City as of December 31, 1999 to a maximum of 720 hours and dividing the total by 720 hours. The resulting percentage may be higher than 50% but in no case shall it be lower than 50%. That agreement will remain in effect unless superseded by a higher percentage for sick leave pay-off.

Administrative support personnel may accumulate up to 1400 hours of sick leave. These employees are compensated at their regular rate of pay in effect when permanently separated from employment in accordance with the following: resignation or layoff 12.5% of unused sick leave and disability,



death, or retirement, 25%.

Vacation pay may be accumulated for salaried administrative personnel to a maximum of 400 hours annually for the Fire Chief and Assistant Chiefs. Administrative support personnel accrue vacation to a maximum of 240 hours (varies by tenure). Union personnel on 8- and 10-hour shifts may accumulate vacation 240 hours annually. Union personnel on 24-hour shifts may accumulate vacation of 360 hours annually. For union personnel, any vacation voluntarily accrued in excess of the maximum total is forfeited; any vacation that is involuntarily accrued in excess of the maximum is paid to the employee at the employee's normal straight time rate of pay. In the event of termination of employment, all employees will be reimbursed for all earned and accrued vacation hours.

Union personnel working 24-hour shifts are granted 120 hours of leave with pay in lieu of holidays at the beginning of each calendar year. Holiday leave must be used within the year earned, but personnel may sell back up to 96 hours at straight-time wage. Any employee who leaves the service of the employer for any reason receives their unused accrued holiday leave in pay or the equivalent in paid leave.

Compensatory Time may be accumulated to a maximum of 60 hours for hourly administrative support personnel and 96 hours for union personnel. Accumulation is reduced by personnel taking time off or, for union personnel, by cash compensation at the employee's basic rate of pay in effect at the time of reimbursement. Administrative support personnel must use compensatory time in the calendar year in which it is earned.

The District's estimated liability for employee compensated sick, vacation, comp, and, for union personnel, holiday, time on December 31, 2018 was \$1,812,356.09. This calculation incorporates the presumed "resignation or layoff" payout conditions for all employees save three who had declared, in advance in accordance with District policy, their intent to retire in 2019.

Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 5, *Debt Service Requirements*.

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 District's Board. 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 for the General Fund consist of \$10,100, specifically \$5000 for an Advance Travel checking account, \$5000 for a Petty Cash checking account (increased from \$1500 by Resolution in June 2018), and \$100 in a Petty Cash cashbox. There are no legal restrictions on the District's use of reserve funds. The District has committed funds in the managerial Reserve Fund for use on facilities, equipment, employee termination/retirement liability, and a remodel of Edgewood Station 118. The Reserve Fund balance at year end was \$6,258,568.81. Because this is a managerial fund, its balance is captured in the General Fund totals. The General Fund's balance at year end was \$16,951,812.83, including the managerial Reserve Fund and \$10,100 imprest accounts noted.

The Capital Fund is committed for projects as directed by the Board. The Capital Fund balance at year end was \$40,002,566.82, made up of bond proceeds as discussed in Note 2.

## **Note 2 – Budget Compliance**

The District adopts annual appropriated budgets for its General, Debt (GO Bond), and Capital 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.

It should be noted that when the budget resolutions were passed, the General Fund and the managerial fund contained within it (referred to as the “Reserve Fund”) were recognized separately. The amounts presented in the annual report reflect the roll-up of that managerial fund into the General Fund.

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

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$45,379,199	\$28,215,775	\$17,163,424
Debt (Bond) Fund	\$216,265	\$40,397,535	(\$40,181,270)
Capital Fund	\$43,202	\$43,521	(\$392)

Budgeted amounts are authorized to be transferred between line items within a division or to make technical corrections that do not alter the intent of the adopted budget; 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. The District passed Resolution 838 in March 2018, amending the original budget, to incorporate actual beginning fund balances and revisions, and Resolution 843 in June 2018 to increase a capital vehicle line item.

The large variance in the Debt (Bond) Fund is due to transactions related to a voted bond issuance that was approved in the November general election. The purpose of the bond issuance is to fund new stations and apparatus. The election results were not certified until November 27, and it was uncertain as to whether the bonds would be issued – and monies deposited to or paid out (for issuance fees) before year’s end or in 2019. In late December it was determined that the issuance would take place and monies both received and paid out, with those transactions to take place on December 28. The Board authorized the hiring of bond counsel in April and was kept as continuously as possible, so the variance, though resulting from events too late to incorporate into a budget amendment, was not unexpected. Bond proceeds were initially deposited by Pierce County into the District’s Bond Fund, then transferred out to the Capital Fund. The variance in the Capital Fund is related to the bond issuance, in that bond counsel requested that the entire balance of that fund be transferred out to the managerial Reserve Fund prior to the deposit of any bond proceeds.

## **Note 3 - Property Tax**

The Pierce County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Property tax levied on District-served territory in King County is collected by King County and forwarded to Pierce County for deposit to the District’s accounts. 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 \$1.50 per \$1,000 on an assessed valuation of \$13,603,869,270 for a total regular levy of \$20,405,803.91.

The District's Emergency Medical Services (EMS) levy for the year 2018 was \$0.50 per \$1,000 on an assessed valuation of \$13,644,374,082 for a total EMS levy of \$6,822,187.04.

#### **Note 4 – 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 County-held deposits are covered by the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the Pierce County Treasurer as its agent in the District's name. The District has separate bank accounts for Advance Travel, ambulance transport, credit card receipts (largely public education class fees), and Petty Cash Checking, all covered by federal depository insurance (FDIC). Transport and credit card receipts are regularly transferred to the County.

Investments are reported at fair value. Investments by type at December 31, 2018 are as follows:

<b>Type of Investment</b>	<b>Deposits</b>	<b>Held by Pierce</b>	
		<b>County</b>	<b>Total</b>
General Fund	\$0	\$16,920,088	\$16,920,088
G.O. Bond Fund	0	26,947	26,947
Capital Fund	0	40,002,567	40,002,567
Cash in Transit	21,625	0	21,625
Imprest: Bank + Petty Cash Box	10,100	0	10,100
Total deposits and investments	\$31,725	\$56,949,602	\$56,981,327

#### **Note 5 – 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 District's debt service requirements, shown below, consist of principal and interest payments on LTGO Bonds issued in May 2012 and UTGO Bonds voted in November 2018. The 2012 bonds funded the purchase of property for a new headquarters station in Bonney Lake, and the UTGO bonds will fund land for and construction of fire stations, along with apparatus and equipment upgrades. The last payment on the LTGO schedule is December 1, 2031; the first payment on the UTGO bonds is scheduled for June 1, 2019 and the last December 1, 2038.

	Principal	Interest	Total Debt
2018	\$ 145,000.00	\$ 70,765.00	\$ 215,765.00
2019	\$ 315,000.00	\$ 1,582,161.25	\$ 1,897,161.25
2020	\$ 345,000.00	\$ 1,695,775.00	\$ 2,040,775.00
2021	\$ 440,000.00	\$ 1,684,675.00	\$ 2,124,675.00
2022	\$ 705,000.00	\$ 1,666,875.00	\$ 2,371,875.00
2023-2027	\$ 5,830,000.00	\$ 7,859,325.00	\$ 13,689,325.00
2028-2032	\$ 10,470,000.00	\$ 6,185,525.00	\$ 16,655,525.00
2033-2037	\$ 15,845,000.00	\$ 3,364,850.00	\$ 19,209,850.00
2038	\$ 4,110,000.00	\$ 205,500.00	\$ 4,315,500.00
Totals	\$ 38,205,000.00	\$ 24,315,451.25	\$ 62,520,451.25

### **Note 6 - Pension Plans**

Substantially all of the District's full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) or the Law Enforcement Officers & Fire Fighters Retirement System (LEOFF) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

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

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

Department of Retirement Systems  
Communications Unit  
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 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.

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, 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:

	Allocation %	Liability (Asset)
PERS 1	0.006895%	\$ 307,933
PERS 2/3	0.008894%	\$ 151,857
LEOFF 2	0.495008%	(\$10,049,742)
VFFRPF	0.18%	(\$92,845)

### **Note 7 - OPEB Plans**

Under the current bargaining unit agreement, the District includes a post-medical option in its contract with the LEOFF Health and Welfare Trust, committing the District to pay 100% of the necessary health insurance premiums for employees that belong to LEOFF 2 and meet eligibility requirements. Also under the current agreement, the District contributes the difference in the amount of the health plan's corresponding out of pocket maximum between Plan A and Plan F into each employee's mutually agreed-upon HRA VEBA account with BPAS/SWFFT. That stipend is paid in January.

The District began the year paying 5 retirees' premiums. A sixth employee was added in May, two more in July, and one each in October and December, so that at year's end there were 10 retirees whose premiums were being paid. Because he'd retired under the current labor agreement, a stipend was paid to one of the initial retiree group of 5; employees who retired during 2018 had been provided their stipends in January 2018 while still working.

The total paid to the LEOFF Health & Welfare Trust for retiree premiums was \$65,665.76. Stipends paid to BPAS/SWFFT totaled \$600. An administrative fee of \$22 was paid to a third vendor, Rehn and Associates, for the preparation of a COBRA rights letter sent to the December retiree. The sum for all three vendors is \$66,287.76.

### **Note 8 – Risk Management**

The District carries commercial property and liability insurance policies. The coverage in 2018 is summarized below:

PROPERTY –Buildings: Guaranteed Replacement Cost valuation with 4% Inflation Guard  
 Contents: Blanket Coverage-Replacement Cost valuation with 4% Inflation Guard  
 Deductibles: \$5,000 property / \$1,000 flood / 2% earthquake  
 Special Property Floater: 1996 golf cart \$7,500 replacement cost/ \$250 deductible  
 GENERAL LIABILITY – \$1,000,000 per occurrence / \$10,000,000 aggregate limit

Also:

Professional Healthcare Liability: \$1,000,000 per occurrence

Owned Watercraft Liability: \$1,000,000 per occurrence

Maritime Liability: \$1,000,000 per occurrence

Operational Pollution Liability: \$1,000,000 per occurrence

Line of Duty Accidental Death Benefit: \$10,000 each person

Employers Liability (WA Stop Gap):

Bodily injury by accident-\$1,000,000 each accident

Bodily injury by disease-\$1,000,000 each employee or volunteer

Bodily injury by disease-\$2,500,000 policy limit

MANAGEMENT LIABILITY – (Claims made basis):

Wrongful acts-\$1,000,000 per occurrence / \$10,000,000 aggregate limit

Each action for injunctive relief-\$50,000  
 Cyber Liability-\$1,000,000 each electronic info security event  
 Privacy Crisis Mgt Expense-\$50,000 each privacy event / Cyber Extortion Expense-\$20,000  
 each cyber extortion threat / \$50,000 aggregate limit  
 BUSINESS AUTO – Coverage-\$1,000,000 per accident  
 Auto physical damage deductibles: \$250 comprehensive / \$250 collision  
 Coverage for on-duty employees/volunteers/commissioners-primary liability  
 coverage for personal autos  
 Vehicle valuation-Agreed Values:  
 Engines-Primary \$750,000; Reserves \$200,000/Aerial \$1,200,000  
 Medics \$160,000 / Brush Vehicles \$140,000 / Tender \$550,000  
 Staff vehicles & Trailers-Various Agreed Values (AGV)  
 1995 Int'l Pumper-Liability Only  
 3 Service vehicles-Actual Cash Value (ACV)  
 4 Antique vehicles-1951 IHC \$10,000 AGV / 1947 Int'l \$15,000 AGV / 1932 Kenworth  
 & 1929 Howard – both liability only  
 EXCESS LIABILITY – Provides coverage in excess of the primary liability policy limits  
 \$10,000,000 per occurrence / \$20,000,000 aggregate limit  
 PORTABLE EQUIPMENT – Deductible: \$250  
 Blanket coverage-Guaranteed Replacement Cost  
 Scheduled item-1989 Gregor Octopod Boat w/motor: \$85,000 Replacement Cost  
 CRIME – Employee Dishonesty (includes volunteers): \$1,000,000 with faithful performance;  
 no deductible  
 3 Position Schedule Bonds (with faithful performance):  
 1 – Finance Administrator: \$1,000,000; no deductible  
 1 – District Secretary: \$50,000; no deductible  
 1 – Fire Chief: \$50,000; no deductible  
 Forgery or Alteration coverage: \$1,000,000; no deductible  
 Computer Fraud coverage: \$10,000; no deductible  
 Identity Fraud Expense coverage: \$10,000; no deductible  
 Fraudulent Impersonation coverage: \$10,000; no deductible

## **Note 9 - Other Disclosures**

The annual letter from our attorney will address any legal matters, if applicable.

In March 2019, the District's Board passed a resolution approving the redemption of the 2012 LTGO bonds referenced in Note 5 – Debt Service Requirements. The total principal and interest, amounting to \$2,265,666.88 was paid off in April 2019. A revised debt schedule, reflecting only the new 2018 UTGO bonds is provided here:

	Principal	Interest	Total Debt
2018	\$ -	\$ -	\$ -
2019	170,000	1,513,716	1,683,716
2020	195,000	1,629,650	1,824,650
2021	290,000	1,621,850	1,911,850
2022	550,000	1,607,350	2,157,350
2023-2027	4,980,000	7,636,875	12,616,875
2028-2031	9,680,000	6,115,000	15,795,000
2032-2037	15,845,000	3,364,850	19,209,850
2038	4,110,000	205,500	4,315,500
Totals	\$ 35,820,000	\$ 23,694,791	\$ 59,514,791

**East Pierce Fire & Rescue  
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	2012 G.O. Bond - Non-Voted	12/1/2031	2,385,000	-	145,000	2,240,000
251.12	2018 UTGO Bond - Voted	12/1/2038	-	35,820,000	-	35,820,000
263.51	Ricoh Copy Machine Lease	6/30/2020	14,333	-	5,733	8,600
<b>Total General Obligation Debt/Liabilities:</b>			<b>2,399,333</b>	<b>35,820,000</b>	<b>150,733</b>	<b>38,068,600</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		1,751,931	3,582,555	3,522,130	1,812,356
264.30	Pension Liability		617,155	-	157,365	459,790
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>2,369,086</b>	<b>3,582,555</b>	<b>3,679,495</b>	<b>2,272,146</b>
<b>Total Liabilities:</b>			<b>4,768,419</b>	<b>39,402,555</b>	<b>3,830,228</b>	<b>40,340,746</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>