



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, 2018 through December 31, 2019

Published June 29, 2020

Report No. 1026517





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

June 29, 2020

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,

Pat McCarthy
State Auditor
Olympia, WA

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TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	11
About the State Auditor's Office.....	28

**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, 2018 through December 31, 2019**

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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated June 23, 2020.

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

June 23, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port Ludlow Fire & Rescue January 1, 2018 through December 31, 2019

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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of Port Ludlow Fire & Rescue, and its changes in cash and investments, for the years ended December 31, 2019 and 2018, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Port Ludlow Fire & Rescue, as of December 31, 2019 and 2018, or the changes in financial position or cash flows thereof for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Matters of Emphasis

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

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

June 23, 2020

FINANCIAL SECTION

Port Ludlow Fire & Rescue January 1, 2018 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019

Fund Resources and Uses Arising from Cash Transactions – 2018

Notes to the Financial Statements – 2019

Notes to the Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019

Schedule of Liabilities – 2018

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

		Total for All Funds (Memo Only)	001 General Fund	101 EMS Fund	300 Capital Project Fund
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	2,921,484	2,280,503	639,403	1,578
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	2,308,139	1,730,464	577,675	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	12,754	6,559	6,195	-
340	Charges for Goods and Services	284,313	39,262	245,051	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	34,903	25,538	9,210	155
Total Revenues:		2,640,109	1,801,823	838,131	155
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	2,597,589	1,874,758	722,831	-
Total Expenditures:		2,597,589	1,874,758	722,831	-
Excess (Deficiency) Revenues over Expenditures:		42,520	(72,935)	115,300	155
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	200,000	-	-	200,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	1,721	1,721	-	-
381, 382, 395, 398	Other Resources	9,193	7,957	1,236	-
Total Other Increases in Fund Resources:		210,914	9,678	1,236	200,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	100,000	-	-	100,000
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	200,000	100,000	100,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	(2,362)	(2,362)	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		297,638	97,638	100,000	100,000
Increase (Decrease) in Cash and Investments:		(44,204)	(160,895)	16,536	100,155
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	2,877,284	2,119,610	655,941	101,733
Total Ending Cash and Investments		2,877,284	2,119,610	655,941	101,733

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

		Total for All Funds (Memo Only)	001 General Fund	101 EMS Fund	300 Capital Project Fund
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	3,204,660	2,387,463	684,267	132,930
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	2,125,534	1,594,525	531,009	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	16,825	8,697	8,128	-
340	Charges for Goods and Services	378,479	121,839	256,641	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	33,585	24,891	8,331	363
Total Revenues:		2,554,423	1,749,951	804,109	363
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	2,560,209	1,835,661	724,548	-
Total Expenditures:		2,560,209	1,835,661	724,548	-
Excess (Deficiency) Revenues over Expenditures:		(5,786)	(85,709)	79,561	363
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	153,000	-	-	153,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	1,055	1,055	-	-
381, 382, 395, 398	Other Resources	2,622	2,047	575	-
Total Other Increases in Fund Resources:		156,677	3,102	575	153,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	284,715	-	-	284,715
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	153,000	28,000	125,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	(3,648)	(3,648)	-	-
Total Other Decreases in Fund Resources:		434,067	24,352	125,000	284,715
Increase (Decrease) in Cash and Investments:		(283,176)	(106,959)	(44,864)	(131,352)
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	2,921,484	2,280,503	639,403	1,578
Total Ending Cash and Investments		2,921,484	2,280,503	639,403	1,578

Notes to the Financial Statements
For the year ended December 31, 2019

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 EMS 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. 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.

Special Revenue Funds

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

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, 2019

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 during twenty days after the close of the fiscal year for claims incurred during the previous period.

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

E. 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.

Vacation Cost: \$28,419.83

Comp Time Cost: 6,152.67

Note 2 – Budget Compliance

The district adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
Total 001 - General Fund	2,118,170.00	1,972,394.99	145,775.01
101 - EMS Fund	873,800.00	822,830.68	50,969.32
300 - Capital Project Fund	100,000.00	100,000.00	

Notes to the Financial Statements

For the year ended December 31, 2019

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 legislative body.

Note 3 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the district and summarizes the district debt transactions for year ended December 31, 2019.

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 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, 2019 are as follows:

Type of Deposit or Investment	Districts own deposits & investments	Deposits & investments held by the county as an agent for other local governments, individuals, or private organizations.	Total
LGIP	2,242,984		2,242,984
CD	576,149		576,149
<i>Totals</i>	\$ 2,819,133	\$ -	\$ 2,819,133

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

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

Note 5 - Property Taxes

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.

Notes to the Financial Statements
For the year ended December 31, 2019

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

The district regular levy for the year 2019 was \$1.50 per \$1,000 on an assessed valuation of \$1,157,872,863 for a total regular levy of \$1,736,809.29.

The district EMS levy for the year 2019 was \$.50 per \$1,000 on an assessed valuation of \$1,160,510,854 for a total regular levy of \$580,255.43.

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all district 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 (list only applicable 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
P.O. Box 48380
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The district also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2019 (the measurement date of the plans), the district proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

Plan Type	Employer Contributions	Plan Liability / Asset	Allocation Percentage	NPL	NPA
PERS 1 UAAL	3495.31	3,845,355,000	0.00048700%	18,727	
PERS 2/3	5143.41	971,340,000	0.00063000%	6,119	
LEOFF 2	68498.04	(2,316,693,000)	0.03715200%		(860,698)
VFFRPF	60	(67,993,000)	0.030000%		(20,545)
			<i>Totals</i>	\$ 24,846	\$ (881,243)

Notes to the Financial Statements
For the year ended December 31, 2019

LEOFF Plan 1

The district also participates in LEOFF Plan 1. 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 on July 1, 2000, employers and employees contribute zero percent.

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 7 – 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 8 - 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.

Notes to the Financial Statements

For the year ended December 31, 2019

JeffCom

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

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.

District 2 Interim Fire Chief Agreement

Fire Districts 2/3 entered in to an agreement in November of 2018 to allow for the District 3 Fire Chief to also be the Interim Fire Chief at District 2 until such time as they hire a full time Fire Chief. District 2 will reimburse District 3 at an hourly rate of \$84.00 per hour service to cover the Fire Chief's wages/benefits. This agreement ended in June of 2019.

COVID – 19

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes. As a Fire District that depends on public tax dollars for our revenue, we may begin to see shortages in our anticipated revenue due to non-payment of property taxes. There is also the potential for increased expenses in our personal protective supplies and increased overtime costs. We have put a temporary interlocal agreement in place with neighboring fire districts in Clallam, Jefferson and Kitsap counties. This agreement is for staffing backfill and is in place for the duration of the COVID-19 pandemic only. The length of time these measures will be in place, and the full extent of the financial impact is unknown at this time.

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

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 EMS 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. 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.

Special Revenue Funds

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

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, 2018

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 during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 3, *Deposits and Investments*.

D. Capital Assets

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

E. 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.

Vacation Cost: \$29,536.70

Comp Time Cost: \$ 4,506.68

Note 2 – Budget Compliance

The district adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
Total 001 - General Fund	1,953,272.00	1,860,012.76	93,259.24
101 - EMS Fund	814,950.00	849,548.37	-34,598.37
300 - Capital Project Fund	285,000.00	284,715.16	284.84

Notes to the Financial Statements

For the year ended December 31, 2018

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 legislative body.

We transferred \$153,000.00 into our Capital Projects Fund for the purpose of purchasing a new Ambulance and staff vehicle, \$28,000.00 from our General Fund and \$125,000.00 from our EMS Fund.

We have a variance in our EMS Fund of \$ -34,598.37. This is a result of a significant amount of overtime hours worked that were not budgeted for.

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.

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, 2018 are as follows:

Type of Investment	The District's own investments	Investments held by the District as an agent for other local governments, individuals, or private organizations.	Total
LGIP	2,190,276	0	2,190,276
CD	576,149	0	576,149
<i>Totals</i>	\$ 2,766,425	\$ -	\$ 2,766,425

Note 4 - Property Taxes

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 district. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The district regular levy for the year 2018 was \$1.50 per \$1,000 on an assessed valuation of \$1,603,757,283 for a total regular levy of \$1,595,635.92.

The district EMS levy for the year 2018 was \$.50 per \$1,000 on an assessed valuation of \$1,066,138,437 for a total regular levy of \$533,069.22.

Notes to the Financial Statements

For the year ended December 31, 2018

Note 5 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the district and summarizes the district debt transactions for year ended December 31, 2018.

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all district 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 (list only applicable 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
P.O. Box 48380
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The district also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2018 (the measurement date of the plans), the district proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

Plan Type	Employer Contributions	Plan Liability / Asset	Allocation Percentage	NPL	NPA
PERS 1	3105.16	4,466,034,000	0.00046500%	20,767	
PERS 2/3	4579.39	1,707,411,000	0.00059300%	10,125	
LEOFF 2	68334.91	(2,030,218,000)	0.03940700%		(800,048)
VFFRPF	150	(52,844,000.00)	0.070000%		(38,685)
			<i>Totals</i>	\$ 30,892	\$ (838,733)

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

LEOFF Plan 1

The district also participates in LEOFF Plan 1. 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 on July 1, 2000, employers and employees contribute zero percent.

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 7 – 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 8 - 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.

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

JeffCom

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

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.

District 2 Interim Fire Chief Agreement

Fire Districts 2/3 entered in to an agreement in November of 2018 to allow for the District 3 Fire Chief to also be the Interim Fire Chief at District 2 until such time as they hire a full time Fire Chief. District 2 will reimburse District 3 at an hourly rate of \$84.00 per hour service to cover the Fire Chief's wages/benefits.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences - Gov		34,043	530	-	34,573
264.30	Pension Liabilities		30,892	-	6,046	24,846
Total Revenue and Other (non G.O.) Debt/Liabilities:			64,935	530	6,046	59,419
Total Liabilities:			64,935	530	6,046	59,419

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences - Gov		42,606	-	8,563	34,043
264.30	Pension Liabilities		35,221	-	4,329	30,892
Total Revenue and Other (non G.O.) Debt/Liabilities:			77,827	-	12,892	64,935
Total Liabilities:			77,827	-	12,892	64,935

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov