



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

**Chelan County Fire Protection District
No. 7
(Chelan Fire and Rescue)**

For the period January 1, 2019 through December 31, 2019

Published October 8, 2020

Report No. 1027118





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

October 8, 2020

Board of Commissioners
Chelan Fire and Rescue
Chelan, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Chelan Fire and Rescue's financial statements and compliance with federal laws and regulations.

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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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Chelan Fire and Rescue January 1, 2019 through December 31, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Chelan Fire and Rescue are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, 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 using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
97.044	Assistance to Firefighters Grant

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2019-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Chelan Fire and Rescue

January 1, 2019 through December 31, 2019

2019-001 **The District did not have adequate internal controls in place to comply with federal requirements for procurement, suspension and debarment, and equipment management.**

CFDA Number and Title:	97.044 Assistance to Firefighters Grant
Federal Grantor Name:	Federal Emergency Management Agency (FEMA)
Federal Award/Contract Number:	EMW-2017-FR-00037
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Questioned Cost Amount:	\$0

Description of Condition

The District spent \$821,578 in Assistance to Firefighters Grant funds in 2019. The program's purpose is to enhance the safety of the public and firefighters with respect to fire-related hazards by providing direct financial assistance to eligible fire districts, non-affiliated emergency medical services organizations, and state fire training academies. The District used the funds to buy self-contained breathing apparatus (SCBA) equipment used in fire suppression.

Federal regulations require recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established internal controls.

We found the District's internal controls were not adequate to ensure compliance with the following federal requirements. We consider these internal control deficiencies to be material weaknesses. These issues were not reported as a finding in the prior audit.

Procurement

Federal regulations require grant recipients to follow their own written procedures, which must reflect applicable federal, state and local laws. The procedures must conform to federal procurement thresholds to ensure recipients follow the most restrictive of federal, state or local procurement methods when using federal funds. The District's written policy included applicable state and local requirements but not federal procurement requirements specifically outlined in federal regulations. In addition, the District piggybacked on another agency's procurement procedures and bought the equipment through an interlocal agreement with the other agency. However, its policy did not include procedures for this type of procurement.

Federal grant regulations also require recipients to maintain written standards of conduct covering conflicts of interest and governing the actions of employees engaged in the selection, award, or administration of contracts procured with federal funds. We determined the District did not have written standards of conduct procedures that should include the following elements to conform to federal requirements:

- The officers, employees, and agents may not participate in the selection, award, or administration of a contract supported by a federal award if they have a real or apparent conflict of interest.
- The officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts.
- Disciplinary actions for violations of such standards

Suspension and debarment

Federal requirements prohibit grant recipients from contracting with parties suspended or debarred from doing business with the federal government. Whenever the District contracts for goods or services that it expects to equal or exceed \$25,000, paid all or in part with federal funds, the District must verify that the contractor is not suspended or debarred or otherwise excluded. The District can obtain a written certification from the contractor or insert a clause into the contract where the contractor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List System (EPLS) maintained by the U.S. General Service Administration. The District must perform this verification before entering into a contract.

Additionally, when the District does not perform the procurement procedures itself but instead piggybacks on another agency's contract, it must independently verify

that the contractor is not suspended or debarred before entering into a contract. It cannot rely on or use the lead agency's verification of the contractor's status. The District did not have controls in place, when piggybacking on another agency's contract, to verify that the vendor it paid \$782,672 was not suspended or debarred before entering into the contract.

Equipment management

Federal regulations require recipients to maintain proper records for equipment bought with federal funds. During the audit period, the District bought 97 SCBAs costing \$534,355. The District kept 49 SCBAs costing \$280,677, and it distributed the remaining equipment to partner agencies. The District did not have internal controls to safeguard, track and dispose of equipment bought with federal funds in accordance with federal program requirements. The District did not have a process to include information in its property records to identify the equipment as bought with federal funds, as required by federal regulations

Cause of Condition

Procurement

The District did not know of the requirement to have written procurement and standards of conduct procedures that conform to federal regulations. Therefore, the District had not updated its procurement policies or established standards of conduct procedures, as required.

The District also did not know that its policy needed to include specific procedures for purchasing equipment using the piggybacking process before making the purchase.

Suspension and debarment

The District obtained and relied on the verification of the vendor's suspension and debarment status performed by the lead agency. The District did not know it needed to perform its own verification of the vendor's suspension and debarment status.

Equipment management

The District did not know all of the elements it needed to include in its property records to track equipment purchased with federal funds, as required by federal regulations.

Effect of Condition

Procurement

Without written procedures, the District cannot ensure it will comply with federal procurement and standards of conduct requirements when procuring contractors and vendors paid with federal funds. Although it did not update its procurement policies or establish standards of conduct procedures, the District complied with federal requirements for purchasing SCBA equipment.

Suspension and debarment

Without adequate controls over suspension and debarment requirements, the District cannot ensure it pays federal funds to contractors that are eligible to participate in federal programs. Any payments of program funds to a contractor that has been suspended or debarred would be unallowable and subject to recovery by the grantor. We verified that the contractor was not suspended or debarred. Therefore, we are not questioning these payments.

Equipment management

Without adequate internal controls, the District cannot ensure it complied with federal equipment management requirements. The District's property inventory records did not include all of the required information, such as the funding source, the federal award identification number, and percentage of federal participation. The lack of this information reduces the District's ability to readily determine which equipment it bought with federal grant funds and which it bought using another funding source. In addition, the District must meet federal requirements when disposing of equipment, and without the required federal information, it could dispose of the equipment in an unallowable manner.

Recommendation

We recommend the District establish internal controls to ensure it complies with federal requirements for procurement, suspension and debarment, and equipment management. We recommend the District:

- Update its procurement policy to conform to federal procurement requirements
- Establish written standards of conduct procedures, as required by federal regulations
- Procure goods and services using a method allowed in policy that conforms with federal regulations

- Verify the suspension and debarment status of vendors paid \$25,000 or more with federal funds, including contractors selected from a piggybacked contract, before entering into contracts
- Update property inventory records to contain all required elements to track equipment bought with federal funds

District's Response

Chelan Fire & Rescue (Chelan County Fire District 7) had updated our Standard Operating Procedures (SOG 105 Purchasing of Items and Services) in November 2019 to conform with federal regulations outlining specific procedures for purchasing equipment using the piggyback process. These revisions were made prior to the audit during our annual review and update of our Standard Operating Guidelines.

Chelan Fire & Rescue has also updated our procurement process to include verification of vendor's suspension and debarment status prior to engaging in the purchase of products or services that exceed \$25,000 from any vendor. Chelan Fire & Rescue will require written certification from the contractor stating that they are not suspended or disbarred. In addition, the Fire District will review the federal Excluded Parties List System (US General Services Administration) before entering into a contract with a vendor.

Chelan Fire & Rescue is currently revising and updating our inventory control system to reflect the requirements in accordance with federal program regulations. This inventory system upgrade will enable us to safeguard, track, and dispose of equipment purchased with federal funds.

Auditor's Remarks

We appreciate the steps the District is taking to resolve these issues. We will follow-up on the conditions during our next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 303, internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 CFR Part 200, Uniform Guidance, section 318, General procurement standards, establishes requirements for written procedures.

Title 2 CFR Part 200, Uniform Guidance, section 313, Equipment, establishes requirements for equipment purchased with Federal funds by non-Federal entities.

Title 2 CFR Part 180, OMB Guidelines to Agencies on Government wide Debarment and Suspension (*Nonprocurement*) establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.

Department of Homeland Security (DHS) Notice of Funding Opportunity (NOFO) for Fiscal Year 2017, requires compliance with federal regulations and program requirements.

**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**

**Chelan Fire and Rescue
January 1, 2019 through December 31, 2019**

Board of Commissioners
Chelan Fire and Rescue
Chelan, 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 Chelan Fire and Rescue, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated September 15, 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 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 audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 15, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Chelan Fire and Rescue
January 1, 2019 through December 31, 2019**

Board of Commissioners
Chelan Fire and Rescue
Chelan, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of Chelan Fire and Rescue, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2019. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2019-001 that we consider to be material weaknesses.

District's Response to Findings

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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

September 15, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Chelan Fire and Rescue January 1, 2019 through December 31, 2019

Board of Commissioners
Chelan Fire and Rescue
Chelan, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Chelan Fire and Rescue, for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 23.

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 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, Chelan Fire and 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 Chelan Fire and Rescue, and its changes in cash and investments, for the year ended December 31, 2019, 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 Chelan Fire and Rescue, as of December 31, 2019, or the changes in financial position or cash flows thereof 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.

Matters of Emphasis

As discussed in Note 8 to the 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 audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is 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 September 15, 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.

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Pat McCarthy

State Auditor

Olympia, WA

September 15, 2020

FINANCIAL SECTION

Chelan Fire and Rescue January 1, 2019 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019
Notes to Financial Statements – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019
Schedule of Expenditures of Federal Awards – 2019
Notes to the Schedule of Expenditures of Federal Awards – 2019

Chelan County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	1,306,063
388 / 588	Net Adjustments	3,408

Revenues

310	Taxes	2,028,368
320	Licenses and Permits	-
330	Intergovernmental Revenues	1,032,765
340	Charges for Goods and Services	36,343
350	Fines and Penalties	-
360	Miscellaneous Revenues	20,442
Total Revenues:		<u>3,117,918</u>

Expenditures

510	General Government	-
520	Public Safety	2,233,898
Total Expenditures:		<u>2,233,898</u>
Excess (Deficiency) Revenues over Expenditures:		884,020

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<u>-</u>

Other Decreases in Fund Resources

594-595	Capital Expenditures	957,257
591-593, 599	Debt Service	92,200
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		<u>1,049,457</u>

Increase (Decrease) in Cash and Investments: **(165,437)**

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	1,144,033
Total Ending Cash and Investments		<u>1,144,033</u>

NOTES to FINANCIAL STATEMENTS
for Chelan County Fire Protection District 7

For YEAR END
December 31, 2019

Note 1 - Summary of Significant Accounting Policies

The Chelan County Fire Protection District 7 was incorporated on October 31, 1955 and operates under the laws of the state of Washington, applicable to a fire protection district. The Chelan County Fire Protection District 7 is a special purpose local government and provides fire suppression, fire prevention and public education.

The Chelan County Fire Protection District 7 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.

B. Basis of Accounting and Measurement Focus

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

C. Cash and Investments

See Note 3, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$500. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to two (2) times yearly earned annual leave and is payable upon separation or retirement. Sick leave may be accumulated up to 1040 hours. Upon separation or retirement employees do not receive payment for unused sick leave. 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 Resolution 2013-02. When expenditures that meet restrictions are incurred, the fire district intends to use reserved resources first before using unreserved amounts. Reserves of Ending Cash and Investments consist of \$0

Note 2 – Budget Compliance

H. Budgets

The Chelan County Fire Protection District 7 adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level, the general current expense fund, where budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level.

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 follow:

Fund/Department	Final appropriated Amounts	Actual Expenditures	Variance
General Fund: 001	2,362,737	3,283,354	(920,617)

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Chelan County Fire Protection District 7 legislative body.

The variance stem from unforeseen expenditures and Chelan County Fire District 7 was awarded the Assistance Firefighter Grant/FEMA for SCBA's in the amount of \$829,011 with a match of \$41,450 the expenditures totaled \$862,387. The Assistance Firefighter Grant was shared with Douglas County Fire District 4 and Chelan County Fire District 8.

Note 3 – Deposits and Investments

It is the District's policy to invest all temporary cash surpluses. The fire district's investments are in the Washington State Treasurer's Local Government Investment Pool (LGIP) at the original cost. The funds in the LGIP are held by the County as agent for the fire district. Interest earnings are recorded monthly when earned. Investments are reported at original cost. Investments by type at December 31, 2018 are as follows:

Type of Investment	Chelan County Treasurer	Total
L.G.I.P.	\$602,516	\$602,516
Bank Deposit	\$541,517	\$541,517
TOTAL	\$1,144,033	\$1,144,033

Note 4 - Property Tax

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

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

The Chelan County Fire Protection District 7 regular levy for the year 2019 was \$0.87 per \$1,000 on an assessed valuation of \$2,515,265,760 for a total regular levy of \$2,051,759.13 less new construction and annexations.

Note 5 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities

of the Chelan County Fire Protection District 7 and summarizes the Chelan County Fire Protection District 7 debt transactions for year ended December 31, 2019.

The debt service requirements for non-voted general obligation bonds include principal and interests as follows:

Year	Principle	Interest	Total
2020	60,000	30,400	90,400
2021	60,000	28,900	88,900
2022	70,000	27,400	97,400
2023	70,000	25,300	95,300
2024-2028	370,000	92,200	462,200
2029-2031	255,000	20,400	275,400
TOTALS	885,000	224,600	1,109,600

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all Chelan County Fire Protection Dist. 7 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 LEOFF II, PERS II & III. Currently Chelan County Fire Protection District 7 does not have employees who participate in PERS I or LEOFF 1 retirement plan but reports the pension liability as recorded in the schedule and listed in the PEFI for PERS 1.

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

The Chelan County Fire Protection Dist. 7 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 Chelan County Fire Protection Dist. 7 proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows: *(VFFRPF and LEOFF II are allocated assets and not reported on schedule 9 but listed below for review)*

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	10,437	0.001456	55,988
PERS 2/3	15,356	0.001880	18,261
LEOFF 2	59,105	0.032058	(742,685)
VFFRPF	1,350	0.68	462,257

LEOFF Plan II

The Chelan County Fire Protection Dist. 7 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.

B. Defined Contribution Pension Plans

Chelan Fire and Rescue participates in the Department of Retirement Systems Deferred Compensation Program. The program is a tax deferred program IRC section 457 plan administered by Washington State Department of Retirement Systems.

LEOFF II employees, employed prior to 04-01-2016 are entitled to the then Social Security District contribution of 6.2% of the salaried wage into their deferred compensation account.

Two contractual employees, the district contributes 3% and 10% of salary into their deferred compensation account as of November 2018.

One PERS 3 and One PERS 2 employees, the district contributes 3% of salary into their deferred compensation account.

Chelan Fire and Rescue contributed \$50,166 in 2019 to DCP

Note 7 – Risk Management

The District's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard rates per working hour and is computed by the total number of hours worked by employees multiplied by the basic premium rate assigned to the business risk classification. The following are benefits provided by industrial insurance: medical services, damaged clothing, travel expenses, time-loss payments, vocational rehabilitation, partial disability awards, pension awards and survivor benefits.

Unemployment compensation is managed through the Federal/State system, which provides some compensation to workers who are temporarily and involuntarily unemployed. It is administered in Washington State by the Employment Security Department in accordance with provisions of the Employment Security Act. The District's employer status for unemployment insurance is as a "reimbursable" employer. In the event of unforeseen numerous unemployment claims subject to payment the Fire District has funds in the general investment fund to cover the expenditure.

The District's insurance carrier is Nicholson and Associates Insurance. The most recent renewal of coverage is in effect as of 09-01-2019 through 09-01-2020. The District maintains insurance against most normal hazards and general liability claims against the District. The policies include coverage for property, liability, auto, and errors and omissions. Issuing company is Continental Western Insurance Company. The insurance coverage is not a pool entity.

Note 8 Subsequent Events

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, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. Actual or potential financial or operational impact on the agency; length of time and full extent of the financial impact on the Chelan County Fire Protection District 7 is unknown at this time.

Chelan County Fire Protection District No. 7
Schedule of Liabilities
For the Year Ended December 31, 2019

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	GO NON Voted Bonds	12/1/2031	945,000	-	60,000	885,000
Total General Obligation Debt/Liabilities:			945,000	-	60,000	885,000
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liabilities		88,935	-	14,685	74,250
259.12	Compensated Absenses		157,234	-	86,339	70,895
Total Revenue and Other (non G.O.) Debt/Liabilities:			246,169	-	101,024	145,145
Total Liabilities:			1,191,169	-	161,024	1,030,145

Chelan County Fire Protection District No. 7
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	Assistance to Firefighters Grant	97.044	EMW-2017-FR- 00037	-	821,578	821,578	-	2
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2016-FH- 00119	-	243,263	243,263	-	2
Total Federal Awards Expended:				-	1,064,841	1,064,841	-	

The accompanying notes are an integral part of this schedule.

CHELAN COUNTY FIRE PROTECTION DISTRICT 7

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019**

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the Chelan County Fire Protection District 7 financial statements. The Chelan County Fire Protection District 7 uses the cash basis of accounting, revenues are recognized when funds are received and expenditures are recognized when paid. Reporting 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. The manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP).

Note 2 – Program Costs

The amounts shown as current year expenditures represent the federal grant portion of the program costs.

The 2018 Assistance to Firefighters Grant for Self - Contained Breathing Apparatus (SCBA) was awarded in the amount of \$829,011 with a cumulative non-federal commitment of \$41,450 for a total of \$870,461. The grant included Chelan County Fire District 8 and Douglas County Fire District 4. Chelan County Fire District 7 is the acting project agency. Expenditures total \$862,387. The performance period 08-12-2019 extended to 02-28-2020.

The 2016 Staffing for Adequate Fire and Emergency Response (SAFER) Grant to recruit reserve firefighters (volunteers) was awarded in the amount of \$924,308. The grant includes Chelan County Fire District 8 and Douglas County Fire District 4. Chelan County Fire District 7 is the acting project agency. Expenditures for the 2019 year \$243,263. The performance period 12-08-2017 to 12-07-2021.

Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

The Chelan County Fire Protection District 7 has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



CHELAN
FIRE and RESCUE
233 E. Wapato Avenue, P.O. Box 1317
Chelan, WA 98816
509-682-4476

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER
UNIFORM GUIDANCE**

Chelan Fire and Rescue
January 1, 2019 through December 31, 2019

This schedule presents the corrective action planned by the District for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2019-001	Finding caption: The District did not have adequate internal controls in place to comply with federal requirements for procurement, suspension and debarment, and equipment management.
Name, address, and telephone of District contact person: Carol Kibler, Administrative Office Manager P.O. Box 1317, Chelan, WA 98816 509-682-4476	
Corrective action the auditee plans to take in response to the finding: <ol style="list-style-type: none">1. Chelan Fire & Rescue (Chelan County Fire District 7) had updated our Standard Operating Procedures (SOG 105 Purchasing of Items and Services) in November 2019 to conform with federal regulations outlining specific procedures for purchasing equipment using the piggyback process. These revisions were made prior to the audit during our annual review and update of our Standard Operating Guidelines.2. Chelan Fire & Rescue has also updated our procurement process to include verification of vendor's suspension and debarment status prior to engaging in the purchase of products or services that exceed \$25,000 from any vendor. Chelan Fire & Rescue will require written certification from the contractor stating that they are not suspended or	

disbarred. In addition, the Fire District will review the federal Excluded Parties List System (US General Services Administration) before entering into a contract with a vendor.

- 3. Chelan Fire & Rescue is currently revising and updating our inventory control system to reflect the requirements in accordance with federal program regulations. This inventory system upgrade will enable us to safeguard, track, and dispose of equipment purchased with federal funds.*

Anticipated date to complete the corrective action:

Chelan Fire and Rescue (Chelan County Fire District 7) has already completed the policy and procedure changes for procurement and suspension/disbarment as identified by the 2019 audit. We will have the updated inventory control system completed and in place by October 15, 2020.

ABOUT THE STATE AUDITOR'S OFFICE

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Website	www.sao.wa.gov