



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Pierce County Fire Protection District No. 5

(Gig Harbor Fire & Medic One)

For the period January 1, 2018 through December 31, 2019

Published April 5, 2021

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

April 5, 2021

Board of Commissioners
Gig Harbor Fire & Medic One
Gig Harbor, Washington

Report on Financial Statements

Please find attached our report on Gig Harbor Fire & Medic One'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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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2019-001 The District's internal controls over accounting and financial statement preparation were not adequate to ensure accurate and complete financial reporting.

Background

District Management, the public, state and federal agencies and other interested parties rely on information included in the financial statements and reports to make decisions. District Management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are prepared and fairly presented in accordance with the *Budgeting, Accounting and Reporting System* (BARS) manual.

Our audit identified internal control deficiencies that hindered the District's ability to produce accurate financial statements. *Government Auditing Standards* requires auditors to communicate significant deficiencies, as defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over financial statement preparation that, when taken together, represent a significant deficiency:

- The District did not perform an adequate reconciliation of its ending cash and investment balances. The District only reconciled deposits and withdrawals between the County Treasurer statements and general ledger instead of reconciling all cash and investment activity, including beginning and ending balances, outstanding transactions and general ledger activity.
- District staff responsible for financial statement preparation lacked technical knowledge and experience necessary to prepare accurate financial statements.
- The District did not have an effective review process to detect and correct errors before submitting the annual financial report for audit.

Cause of Condition

Staff responsible for financial statement preparation lacked the technical knowledge to accurately and completely reconcile the County Treasurer's statements to the District's general ledger. Further, the District did not have an effective review process of the financial statements to ensure they were accurate.

Effect of Condition

During our audit we identified the following errors, which were not detected by the District:

2018

- The District misclassified \$272,382 of the total beginning cash and investments that should have been reported as a prior period adjustment. This was corrected in the final financial statements.
- Total reported ending cash and investments were \$45,898 more than expected based on County Treasurer's statements and known reconciling items.

2019

- Total reported beginning cash and investments were understated \$485,707 due to the District classifying debt payments paid in 2019 as a prior period adjustment. This was corrected in the final financial statements.
- Total reported beginning cash and investments were \$256,077 less than expected based on County Treasurer's statements and known reconciling items.
- Expenditures were understated by \$485,707 because the District did not include debt payments paid in 2019. This was corrected in the final financial statements.
- Total reported ending cash and investments were \$188,561 less than expected based on County Treasurer's statements and known reconciling items.

Recommendation

We recommend the District:

- Establish controls to reconcile County Treasurer activity to the financial statements to ensure the amounts reported on the financial statements are accurate and complete.
- Ensure staff responsible for financial statement preparation receive adequate training to ensure accurate reporting of financial activity.
- Establish an effective review process to detect and correct errors before submitting the annual report for audit

District's Response

Proper oversight of public funds is of great importance to the District. While it is important to note that no public funds were missing or misspent, we recognize the need to continuously improve our financial systems.

To make these improvements, the District has already taken steps to strengthen reconciliation and review efforts, improve staff training, provide increased technical support, and increase finance division staffing to support strong accounting functions. We anticipate that these changes will allow us to correct the concerns raised by this audit and maintain the high standards of our District.

Auditor's Remarks

We thank the District for its assistance throughout the audit and the steps it is taking to address these issues. Our Office is committed to providing additional guidance and resources to support accurate reporting. The District's corrective action will be reviewed during our next audit.

Applicable Laws and Regulations

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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*

Gig Harbor Fire & Medic One January 1, 2018 through December 31, 2019

Board of Commissioners
Gig Harbor Fire & Medic One
Gig Harbor, 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 Gig Harbor Fire & Medic One, 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 March 26, 2021.

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 6 to the financial statements, during the year ended December 31, 2018, the District adopted new accounting guidance for the presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual.

As discussed in Note 7 the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-001 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

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

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

DISTRICT'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy

State Auditor

Olympia, WA

March 26, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Gig Harbor Fire & Medic One January 1, 2018 through December 31, 2019

Board of Commissioners
Gig Harbor Fire & Medic One
Gig Harbor, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Gig Harbor Fire & Medic One, 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 14.

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, Gig Harbor Fire & Medic One 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 Gig Harbor Fire & Medic One, 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 Gig Harbor Fire & Medic One, 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.

As discussed in Note 6 to the financial statements, during the year ended December 31, 2018, the District adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. Our opinion is not modified with respect to this matter.

As discussed in Note 7 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. 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 March 26, 2021 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 style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

March 26, 2021

FINANCIAL SECTION

Gig Harbor Fire & Medic One January 1, 2018 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019
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Schedule of Liabilities – 2018

Pierce County Fire Protection District No. 5
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	11,948,418
388 / 588	Net Adjustments	-

Revenues

310	Taxes	22,597,837
320	Licenses and Permits	-
330	Intergovernmental Revenues	2,145,693
340	Charges for Goods and Services	3,098,714
350	Fines and Penalties	-
360	Miscellaneous Revenues	220,328
Total Revenues:		28,062,572

Expenditures

510	General Government	-
520	Public Safety	23,998,274
Total Expenditures:		23,998,274
Excess (Deficiency) Revenues over Expenditures:		4,064,298

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:		-

Other Decreases in Fund Resources

594-595	Capital Expenditures	-
591-593, 599	Debt Service	576,512
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		576,512

Increase (Decrease) in Cash and Investments: **3,487,786**

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	15,436,204
Total Ending Cash and Investments		15,436,204

Pierce County Fire Protection District No. 5
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	9,108,460
388 / 588	Net Adjustments	272,382

Revenues

310	Taxes	20,727,214
320	Licenses and Permits	-
330	Intergovernmental Revenues	327,862
340	Charges for Goods and Services	2,390,110
350	Fines and Penalties	-
360	Miscellaneous Revenues	172,143
Total Revenues:		23,617,330

Expenditures

510	General Government	-
520	Public Safety	20,722,898
Total Expenditures:		20,722,898
Excess (Deficiency) Revenues over Expenditures:		2,894,431

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:		-

Other Decreases in Fund Resources

594-595	Capital Expenditures	-
591-593, 599	Debt Service	326,856
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
Total Other Decreases in Fund Resources:		326,856

Increase (Decrease) in Cash and Investments: 2,567,575

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	11,948,418
Total Ending Cash and Investments		11,948,418

Pierce County Fire Protection District No. 5
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Investment Trust
308	Beginning Cash and Investments	187,005
388 & 588	Net Adjustments	-
310-390	Additions	28,450
510-590	Deductions	110,647
	Net Increase (Decrease) in Cash and Investments:	(82,197)
508	Ending Cash and Investments	104,808

The accompanying notes are an integral part of this statement.

Pierce County Fire Protection District No. 5
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Investment Trust
308	Beginning Cash and Investments	172,457
388 & 588	Net Adjustments	-
310-390	Additions	30,814
510-590	Deductions	16,267
	Net Increase (Decrease) in Cash and Investments:	14,547
508	Ending Cash and Investments	187,005

The accompanying notes are an integral part of this statement.

Pierce County Fire District 5: MCAG No.1257

NOTES TO FINANCIAL STATEMENTS – 2019

Note 1 – Summary of Significant Accounting Policies

Pierce County Fire Protection District #5 is a special purpose government that provides fire protection and emergency medical services to the general public and is supported primarily through property taxes. The District was incorporated in 1945 and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts. The following are the fund types used by the District:

A. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues, and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Debt Service (General Obligation Bond) Fund

This fund accounts for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

FIDUCIARY FUND TYPES:

Agency Funds

These funds are used to account assets that District holds for others in an agency capacity.

The District is the lead agency for a county-wide special-operations response team (PCSORT) made up of employees from participating districts. Equipment and supply costs associated with the team are split equally between the participating districts. A PCSORT policy board consisting of employees and commissioners from each of the participating district provides oversight to the team. The PCSORT policy board adopts a mutually agreed annual budget and the

participating districts remit advance operating funds each year to the lead agency as needed. At the end of each budget year any remaining funds are retained by the lead agency for future capital expenses by the team. As of 12/31/19 the following districts are members of PCSORT: Gig Harbor Fire – lead agency, West Pierce Fire, Central Pierce Fire and East Pierce Fire.

B. Basis of Accounting

The District reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the *Cash Basis Budgeting Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

C. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statements of resources and uses arising from cash transactions as cash and investments.

D. Deposits

The District's deposits (and certificates of deposit, if any) are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

E. Capital Assets

Capital assets are long-lived assets of the District and are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation and comp-time pay may be accumulated based upon years of service and is payable upon separation or retirement. The maximum vacation accumulation for an employee is based upon years of service to the district. The maximum comp-time accumulation is limited by the individual's contract. As of

12/31/19, the accumulated vacation and comp-time liability for all employees totaled \$1,671,691.50. Sick leave may accumulate up to 1,295 hours or less, depending on the individual employee's contract. Upon retirement employees may receive payment in the form of wages or an employer contribution to the employees' Health Reimbursement Arrangement (HRA) account, for unused sick leave at a rate equal to 25% of its value based upon the employee's regular hourly rate. As of 12/31/19, accumulated sick leave benefits for all employees totaled \$1,771,251.18.

Note 2 – Property Tax

The Pierce County Assessor-Treasurer acts as an agent to collect property tax levied in the County for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when Pierce County Fire District 5 receives cash. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Pierce County Fire District 5 regular FIRE levy for 2019 was \$1.500 per \$1,000 on an assessed valuation of \$11,489,618,336.00 for a total regular FIRE levy of \$16,961,012.83 of which \$117,464.84 is used by the county for refunds.

The Pierce County Fire District 5 regular EMS levy for 2019 was \$0.500 per \$1,000 on an assessed valuation of \$11,489,618,336.00 for a total regular EMS levy of \$5,447,062.09 of which \$37,858.10 is used by the county for refunds.

Note 3 – Investments

Pierce County Fire Protection District #5 investments are held by Pierce County as its agent in the District's name. Investments by Fund and type on December 31, 2019 were as follows:

<u>Fund Name</u>	<u>Type of Investment</u>	<u>Balance</u>
Expense Fund	Certificates of Deposit	\$6,092,639.20
Reserve Fund		\$5,605,967.58
Total		\$11,6988,606.78

Note 4 – Long Term Debt

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2019. There are no remaining debt service requirements.

Note 5– Pension Plans

A. State Sponsored Pension Plans

Substantially all District full-time and qualifying part-time employees participate in the LOEFF or PERS retirement plans administered by the Washington State Department of Retirement Systems, under a cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements.

Contributions to the systems by both the employee and employer are based upon gross wages covered by plan benefits.

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

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

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

Employees that are not part of the LEOFF or PERS retirement plans have standard withholdings for Social-Security.

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

At June 30, 2019, Pierce County Fire District #5's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.006001 %	\$ 249,948.00
PERS 2	0.007719 %	\$ 81,466.00
LEOFF 1	0.011172 %	(\$227,132.00)
LEOFF 2	0.307564 %	(\$7,860,053.00)

264.30 GASB Pension Liabilities 12/31/2019 \$331,414.00

LEOFF Plan 2

Pierce County Fire District #5 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 6 - Other Post-Employment Benefits

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the District as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2019, the plan had 4 members, all retirees. As of December 31, 2019, the District's total OPEB liability was \$1,216,227, as calculated using the alternative measurement method. For the year ended December 31, 2019, the District paid \$55,953.80 in benefits.

Note 7 – Subsequent Event 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, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

To continually monitor the potential financial impact of the COVID-19 pandemic, the District's revenues and expenses are reviewed at least monthly for changes that will endanger our financial situation. We are prepared to cut expenses as needed to avoid financial problems. In addition to funds needed for regular operations, the District holds a minimum of 90 days operating cash to maintain stability during unanticipated events. Finally, we have diligently used the Federal and State programs designed to assist local governments during the COVID pandemic.

District revenue remained relatively stable in 2020 and will increase in 2021. In 2021, 87% of District revenues will be derived from ad valorem property taxes. Because the real estate market has remained robust through the pandemic, our funding stream has been reliable. Another 10% of our revenue is based on government contracts and ambulance transport fees. These funds have also remained reliable or have been backfilled by the Federal Cares program.

On the expense side, we have seen an increase in spending to cover the costs of additional medical supervisory crews, incident management team personnel, and

overtime costs related to backfill quarantined members. However, these costs have been largely offset by a reduction in the cost of training and maintenance projects that could not be completed due to COVID restrictions. We ended our 2020 year 3.8% under budget with revenues that exceeded expenses.

**** END ****

Pierce County Fire District 5: MCAG No.1257

NOTES TO FINANCIAL STATEMENTS – 2018

Note 1 – Summary of Significant Accounting Policies

Pierce County Fire Protection District #5 is a special purpose government that provides fire protection and emergency medical services to the general public and is supported primarily through property taxes. The District was incorporated in 1945 and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts. The following are the fund types used by the District:

A. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues, and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Debt Service (General Obligation Bond) Fund

This fund accounts for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

FIDUCIARY FUND TYPES:

Agency Funds

These funds are used to account assets that District holds for others in an agency capacity.

The District is the lead agency for a county-wide special-operations response team (PCSORT) made up of employees from participating districts. Equipment and supply costs associated with the team are split equally between the participating districts. A PCSORT policy board consisting of employees and commissioners from each of the participating district provides oversight to the team. The PCSORT policy board adopts a mutually agreed annual budget and the

participating districts remit advance operating funds each year to the lead agency as needed. At the end of each budget year any remaining funds are retained by the lead agency for future capital expenses by the team. As of 12/31/18 the following districts are members of PCSORT: Gig Harbor Fire – lead agency, West Pierce Fire, Central Pierce Fire and East Pierce Fire.

B. Basis of Accounting

The District reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the *Cash Basis Budgeting Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

C. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statements of resources and uses arising from cash transactions as cash and investments.

D. Deposits

The District's deposits (and certificates of deposit, if any) are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

E. Capital Assets

Capital assets are long-lived assets of the District and are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation and comp-time pay may be accumulated based upon years of service and is payable upon separation or retirement. The maximum vacation accumulation for an employee is based upon years of service to the district. The maximum comp-time accumulation is limited by the individual's contract. As of

12/31/18, the accumulated vacation and comp-time liability for all employees totaled \$1,393,940.77. Sick leave may accumulate up to 1,295 hours or less, depending on the individual employee's contract. Upon retirement employees may receive payment in the form of wages or an employer contribution to the employees' Health Reimbursement Arrangement (HRA) account, for unused sick leave at a rate equal to 30% (2019) of its value based upon the employee's regular hourly rate. As of 12/31/18, accumulated sick leave benefits for all employees totaled \$1,174,871.77.

Note 2 – Property Tax

The Pierce County Assessor-Treasurer acts as an agent to collect property tax levied in the County for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when Pierce County Fire District 5 receives cash. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Pierce County Fire District 5 regular FIRE levy for 2018 was \$1.500 per \$1,000 on an assessed valuation of \$10,491,594,238.00 for a total regular FIRE levy of \$16,961,012.83 of which \$117,464.84 is used by the county for refunds.

The Pierce County Fire District 5 regular EMS levy for 2018 was \$0.500 per \$1,000 on an assessed valuation of \$10,491,594,238.00 for a total regular EMS levy of \$5,447,062.09 of which \$37,858.10 is used by the county for refunds.

Note 3 – Investments

Pierce County Fire Protection District #5 investments are held by Pierce County as its agent in the District's name. Investments by Fund and type on December 31, 2018 were as follows:

<u>Fund Name</u>	<u>Type of Investment</u>	<u>Balance</u>
Expense Fund	Certificates of Deposit	\$5,500,000
Total		\$5,500,000

Note 4 – Long Term Debt

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2018. The remaining debt service requirements, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u>
2018			
Total	0	0	0

Note 5– Pension Plans

A. State Sponsored Pension Plans

Substantially all District full-time and qualifying part-time employees participate in the LOEFF or PERS retirement plans administered by the Washington State Department of Retirement Systems, under a cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District’s financial statements. Contributions to the systems by both the employee and employer are based upon gross wages covered by plan benefits.

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

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

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

Employees that are not part of the LEOFF or PERS retirement plans have standard withholdings for Social-Security.

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

At June 30, 2018, Pierce County Fire District #5’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.006001 %	\$279,529.00
PERS 2	0.007719 %	\$ 137,856.00
LEOFF 1	0.011172 %	(\$204,970.00)
LEOFF 2	0.307564 %	(\$6,300,132.00)

LEOFF Plan 2

Pierce County Fire District #5 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 6 - Other Post-Employment Benefits

During the year ended December 31, 2018, the District adopted guidance for the presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a postemployment benefit liability reported on the Schedule of Liabilities.

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the District as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2018, the plan had 4 members, all retirees. As of December 31, 2018, the District's total OPEB liability was \$1,083,836, as calculated using the alternative measurement method. For the year ended December 31, 2018, the District paid \$61,733.63 in benefits.

**** END ****

Pierce County Fire Protection District No. 5
Schedule of Liabilities
For the Year Ended December 31, 2019

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General Obligation Debt/Liabilities						
263.96	Medic Unit A-18	12/1/2019	90,805	-	90,805	-
Total General Obligation Debt/Liabilities:			90,805	-	90,805	-
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences - Vac/Comp	12/31/2019	1,393,940	277,751	-	1,671,691
259.12	Compensated Absences - Sick	12/31/2019	1,174,872	596,379	-	1,771,251
264.40	Retiree Medical	12/31/2019	1,083,836	132,391	-	1,216,227
264.30	GASB Pension Liabilities	12/31/2019	417,385	-	85,971	331,414
Total Revenue and Other (non G.O.) Debt/Liabilities:			4,070,033	1,006,521	85,971	4,990,583
Total Liabilities:			4,160,838	1,006,521	176,776	4,990,583

Pierce County Fire Protection District No. 5
Schedule of Liabilities
For the Year Ended December 31, 2018

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.98	HRA Account Balance	12/31/2018	163,978	-	163,978	-
263.96	Medic Unit A-16	12/1/2018	64,383	-	64,383	-
263.96	Medic Unit A-17	12/1/2018	75,387	-	75,387	-
263.96	Zoll Monitors	12/1/2018	116,312	-	116,312	-
263.96	Medic Unit A-18	12/1/2019	161,579	-	70,774	90,805
Total General Obligation Debt/Liabilities:			581,639	-	490,834	90,805
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences - Vac/Comp	12/31/2018	1,124,677	269,263	-	1,393,940
259.12	Compensated Absences - Sick	12/31/2018	1,055,698	119,174	-	1,174,872
264.40	Retiree Medical	12/31/2018	1,075,418	8,418	-	1,083,836
264.30	GASB Pension Liabilities	12/31/2018	522,950	-	105,565	417,385
Total Revenue and Other (non G.O.) Debt/Liabilities:			3,778,743	396,855	105,565	4,070,033
Total Liabilities:			4,360,382	396,855	596,399	4,160,838

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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