

Washington State Auditor's Office
Financial Statements Audit Report

**King County Fire Protection District
No. 39
(Federal Way Fire Department)**

Audit Period
January 1, 2004 through December 31, 2004

Report No. 69727

Issue Date
November 23, 2005



Washington _____
State Auditor

Brian Sonntag



**Washington State Auditor
Brian Sonntag**

November 23, 2005

Board of Commissioners
Federal Way Fire Department
Federal Way, Washington

Report on Financial Statements

Please find attached our report on the Federal Way Fire Department's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

**Federal Way Fire Department
King County
January 1, 2004 through December 31, 2004**

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards	1
Independent Auditor's Report on Financial Statements	3
Financial Section	5

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards

Federal Way Fire Department King County January 1, 2004 through December 31, 2004

Board of Commissioners
Federal Way Fire Department
Federal Way, Washington

We have audited the financial statements of the Federal Way Fire Department, King County, Washington, as of and for the year ended December 31, 2004, and have issued our report thereon dated November 1, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Commissioners. 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, appearing to read "Brian Sonntag", with a stylized, cursive script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 1, 2005

Independent Auditor's Report on Financial Statements

Federal Way Fire Department King County January 1, 2004 through December 31, 2004

Board of Commissioners
Federal Way Fire Department
Federal Way, Washington

We have audited the accompanying financial statements of the Federal Way Fire Department, King County, Washington, for the year ended December 31, 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b to the financial statements, the District prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Federal Way Fire Department, for the year ended December 31, 2004, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued our report 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 grants. That report is an integral part of an audit performed

in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 1, 2005

Financial Section

**Federal Way Fire Department
King County
January 1, 2004 through December 31, 2004**

FINANCIAL STATEMENTS

Resources and Uses Arising from Cash Transactions – 2004
Notes to Financial Statements – 2004

RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For The Year Ended December 31, 2004

BARS Code	Description	Total for All Funds		Current Expense - 001		Current Reserve - 101		G.O. Bond - 201	
		Actual Amount	Amount	Actual Amount	Amount	Actual Amount	Amount	Actual Amount	Amount
308	Beginning Net Cash and Investments	7,215,775		6,705,315		510,315		146	
Revenues and Other Sources									
310	Taxes	12,464,955		12,464,929				26	
320	Licenses and Permits	145,592		145,592					
330	Intergovernmental Revenues	1,367,574		1,367,574					
360	Miscellaneous	340,880		329,818		11,058		3	
	Total Revenue and Other Sources	14,319,000		14,307,913		11,058		29	
	Total Resources	21,534,775		21,013,227		521,373		174	
Expenditures and Other Uses									
510	General Government Services	95,432		95,432					
520	Public Safety	13,045,665		13,045,665					
	Total Operating Expenditures	13,141,097		13,141,097					
594	Capital Expenditures	1,092,954		1,092,954					
	Total Expenditures	14,234,051		14,234,051					
	Excess (Deficit) of Resources Over Use	84,949		73,862		11,058		29	
508	Ending Net Cash and Investments	7,300,724		6,779,176		521,373		174	

KING COUNTY FIRE PROTECTION DISTRICT 39
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

King County Fire Protection District 39 (District) is a special purpose government that provides fire protection and emergency services to the general public and is supported primarily through property taxes. The District was incorporated in February 1949 and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts.

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 double-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.

Reserve Fund

This fund was established by the Board of Commissioners to be used as an emergency reserve fund in the case that the board declares a financial emergency. After declaration of such emergency and approval from the Board of Commissioners, all or a portion of the fund will be transferred to the General Fund for district expenses.

Debt Service Funds

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

b. Basis of Accounting

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the *Budgeting, Accounting and Reporting System for Fire Districts in the State of Washington*.

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 statement of resources and uses arising from cash transactions as net cash and investments. All cash is invested in the King County Investment Pool

d. Deposits

The District's deposits (and certificates of deposit) 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 days may be accumulated for up to one current calendar year's accruals and the addition of a single year accruals may be carried over with the Chief's approval. Accrued vacation days are payable upon separation or retirement.

Sick leave is accrued at ten hours per month for contract employees or eight hours per month for non-contract employees. A 1248 hour sick leave bank cap is in place for all employees. If an employee retires with at least twenty years of service for contract employees or fifteen years for non-contract employees, he/she will be paid in cash for their sick leave balance, at one-quarter his/her final pay rate. The District's estimated liability for sick leave retirement benefits on December 31, 2004 was \$279,743.71.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

A single incident of non-material employee misconduct has been identified and reported to the State Auditors Office in October 2004.

NOTE 3 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month.

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

The District's regular levy for the year 2004 was \$1.50 per \$1,000 on an assessed valuation of \$8,311,488,666 for a total regular levy of \$12,467,223.

NOTE 4 – INVESTMENTS

The District has no investments separate from the King County Investment Pool.

NOTE 5 - LONG-TERM DEBT

As of December 31, 2004, the District had no long-term debt.

NOTE 6 - PENSION PLANS

Substantially all of the King County Fire Protection District No. 39's full-time and qualifying part-time employees participate in the LEOFF or PERS pension plan administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems. 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 employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

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

NOTE 7 - RISK MANAGEMENT

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. An additional excess liability policy to provide additional limits over and above that provided by the commercial general liability policy is carried. Public official performance bonds were obtained for the Fire Chief, Chief Financial Officer, etc. to provide public officials liability protection.

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.

The District's unemployment insurance is 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 the provisions of the Employment Security Act. The District's employer status for unemployment insurance is as a "reimbursable" employer.

There were no significant reductions in insurance coverage from 2003 in any of the major categories of risk. Also, the amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

The District changed its insurance carrier in the beginning 2005 through an open bid process. Our new insurance carrier starting January 1, 2005 is Cities Insurance Association of Washington.

NOTE 8 - MERGER

King County Fire Protection District No. 39 (Federal Way Fire Department) and King County Fire Protection District No. 26 (Des Moines Fire), two junior taxing districts in South King County, have determined it is in the best interest of the citizens they serve to formally merge their fire departments.

Therefore, by a vote of the Board of Commissioner's of both entities and a subsequent vote of the citizens of King County Fire Protection District No. 26 authorizing King County Fire Protection District No. 26 to merge into Federal Way Fire Department effective January 1, 2006.

Further, the combined entities shall be renamed to reflect the following:

King County Fire Protection District No. 39
dba South King Fire & Rescue

OTHER DISCLOSURES

No other disclosures.