



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Clallam County Fire Protection
District No. 3

For the period January 1, 2016 through December 31, 2017

Published April 12, 2018

Report No. 1020929





Office of the Washington State Auditor

Pat McCarthy

April 12, 2018

Board of Commissioners
Clallam County Fire Protection District No. 3
Sequim, Washington

Report on Financial Statements

Please find attached our report on Clallam County Fire Protection District No. 3's financial statements.

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

Sincerely,

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

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**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**

**Clallam County Fire Protection District No. 3
January 1, 2016 through December 31, 2017**

Board of Commissioners
Clallam County Fire Protection District No. 3
Sequim, 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 Clallam County Fire Protection District No. 3, Washington, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 3, 2018.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our 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 opinion 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 style with a large initial "P" and "M".

Pat McCarthy
State Auditor
Olympia, WA

April 3, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clallam County Fire Protection District No. 3 January 1, 2016 through December 31, 2017

Board of Commissioners
Clallam County Fire Protection District No. 3
Sequim, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Clallam County Fire Protection District No. 3, Washington, for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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, Clallam County Fire Protection District No. 3 has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Clallam County Fire Protection District No. 3, for the years ended December 31, 2017 and 2016, 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 Clallam County Fire Protection District No. 3, as of December 31, 2017 and 2016, or the changes in financial position or cash flows 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.

Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion 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 April 3, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

April 3, 2018

FINANCIAL SECTION

Clallam County Fire Protection District No. 3 January 1, 2016 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017

Fund Resources and Uses Arising from Cash Transactions – 2016

Notes to Financial Statements – 2017

Notes to Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

Schedule of Liabilities – 2016

Clallam County Fire Protection District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	3,457,097
388 / 588	Prior Period Adjustments, Net	-

Revenues

310	Taxes	8,071,126
320	Licenses and Permits	1,700
330	Intergovernmental Revenues	34,818
340	Charges for Goods and Services	136,755
350	Fines and Penalties	-
360	Miscellaneous Revenues	73,193
Total Revenues:		8,317,592

Expenditures

510	General Government	-
520	Public Safety	8,070,052
Total Expenditures:		8,070,052
Excess (Deficiency) Revenues over Expenditures:		247,540

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	348,759
Total Other Increases in Fund Resources:		348,759

Other Decreases in Fund Resources

594-595	Capital Expenditures	84,536
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	(1,719)
Total Other Decreases in Fund Resources:		82,817

Increase (Decrease) in Cash and Investments: 513,482

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	3,970,579
Total Ending Cash and Investments		3,970,579

The accompanying notes are an integral part of this statement.

Clallam County Fire Protection District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

Beginning Cash and Investments

30810	Reserved	1,812,384
30880	Unreserved	1,852,384
388 / 588	Prior Period Adjustments, Net	-

Revenues

310	Taxes	7,769,098
320	Licenses and Permits	5,700
330	Intergovernmental Revenues	33,862
340	Charges for Goods and Services	262,146
350	Fines and Penalties	-
360	Miscellaneous Revenues	90,537
Total Revenues:		8,161,343

Expenditures

510	General Government	-
520	Public Safety	8,328,744
Total Expenditures:		8,328,744
Excess (Deficiency) Revenues over Expenditures:		(167,401)

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	708,142
Total Other Increases in Fund Resources:		708,142

Other Decreases in Fund Resources

594-595	Capital Expenditures	450,242
591-593, 599	Debt Service	304,504
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	(6,335)
Total Other Decreases in Fund Resources:		748,411

Increase (Decrease) in Cash and Investments: **(207,670)**

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	3,457,097
Total Ending Cash and Investments		3,457,097

The accompanying notes are an integral part of this statement.

Clallam County Fire Protection District No. 3
Notes to the Financial Statements
For the year ended December 31, 2017

Note 1 - Summary of Significant Accounting Policies

Clallam County Fire Protection District No. 3 was incorporated in June, 1948 and operates under the laws of the state of Washington applicable to Fire Protection Districts. Clallam County Fire Protection District No. 3 is a special purpose local government and provides fire protection, fire suppression, life safety and fire prevention education and emergency medical services including Basic Life Support (BLS) and Advanced Life Support (ALS) Services.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. 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. Budgets

The District adopts an annual appropriated budget for the General Fund and the budget constitutes the legal authority for expenditures at that level. The budget is appropriated at the department level. Annual appropriations for these funds lapse at the fiscal year end.

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

The appropriated and actual expenditures for the General Fund, by Department were as follows:

General Fund Department	Final Appropriated Amounts	Actual Expenditures	Variance
Commissioners	\$ 81,639	\$ 94,033	\$ (12,394)
General Administration	896,912	828,193	68,719
Volunteer Programs	162,415	167,361	(4,946)
Risk Reduction	283,340	255,367	27,973
Fire Suppression	807,309	778,170	29,139
EMS	5,108,213	4,896,903	211,310
HazMat	8,000	4,952	3,048
Emergency Management	12,100	9,509	2,591
TEMS	2,000	391	1,609
Wildland	23,500	15,572	7,928
Tech Rescue	7,050	6,571	479
Facilities	611,831	590,720	21,111
Debt Service	-	-	-
Vehicles	556,723	423,593	133,130
Capital Expenditures	58,500	84,536	(26,036)
Total General Fund	\$ 8,619,532	\$ 8,155,869	\$ 463,663

Budgeted amounts are authorized to be transferred between departments within the General Fund; however, any revisions that alter the total expenditures of the General Fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Fire Protection Districts' legislative body.

D. Cash and Investments

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of one year. Capital assets are recorded as capital expenditures when purchased.

F. Compensated Absences

Sick leave may be accumulated up to 1040 hours for 40-hour-per-week employees and up to 1380 for 24-hour shift employees. Upon separation or retirement, employees receive payment for unused sick leave at a rate between 25 to 50 percent of their leave balance, depending on the circumstances of their separation.

Bargaining Unit Holiday may be accumulated up to 336 hours and is payable upon separation or retirement.

Bargaining Unit Comp time may be accumulated up to 480 hours and is payable upon separation or retirement.

Vacation Accruals differ among District employees based upon length of service. The maximum accrual rate is 30 hours per month and employees may accumulate, at the most, 24 months of their monthly accrual rate.

Payments for Compensated Absences are recognized as expenditures when paid.

G. Long-Term Debt

Clallam County Fire District 3 has no long-term debt.

H. Other Financing Sources or Uses

The District's Other Financing Sources or Uses consist of sale of county timber and insurance recoveries.

I. Risk Management

Clallam County Fire District 3 is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an inter-local governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.

\$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss.

Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

J. 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 Board of Commissioner Resolution. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts. The District does not have any Reservations of Ending Cash and Investments at December 31, 2017.

Note 2 – Deposits and Investments

It is the District’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by Clallam County or its agent in the government’s name.

At year end, all of the Districts Investments were held in the Local Government Investment Pool (LGIP) and are reported at original cost. At December 31, 2017, the Clallam County Fire District 3 had \$2,829,681 in the LGIP.

Note 3 - Property Tax

The County 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 cash is received by the County. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District's regular levy for the year 2017 was \$1.335277833053 per \$1,000 on an assessed valuation of \$4,369,563,671 for a total regular levy of \$5,834,581.51.

The District's EMS levy for the year 2017 was \$.499999999093 per \$1,000 on an assessed valuation of \$4,410,748,488 for a total EMS levy of \$2,205,374.24.

Note 4 – Liabilities

Clallam County Fire District 3 compensated absences liability reported in the Comprehensive Annual Financial Report for 2017 was \$1,797,104 and includes retirement and accrued leave liabilities and satisfies the recommended reporting from the Washington State Auditor's Office.

Note 5 – Pension Plans

State Sponsored Pension Plans

Substantially all District full-time and qualifying part-time employees participate in LEOFF Plan 2 or PERS Plan 2 administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

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

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

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

At June 30, 2017 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, is as follows:

	Allocation %	Liability (Asset)
PERS 1	0.005397%	\$256,092
PERS 2/3	0.006942%	\$241,200
SERS 2/3		
PSERS 2		
LEOFF 1		
LEOFF 2	0.138355%	(\$1,919,919)
VFFRPF	0.490000%	(\$181,790)

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 Disclosures

Key Personnel Information

Steven K. Chinn was re-elected to Fire District 3 Commissioner, Position 2 on November 7, 2017.

Labor Relations

IAFF Local 2933 Fire Fighters Collective Bargaining Agreement contract for 2017-2019 is currently being negotiated.

Clallam County Fire Protection District No. 3
Notes to the Financial Statements
For the year ended December 31, 2016

Note 1 - Summary of Significant Accounting Policies

Clallam County Fire Protection District No. 3 was incorporated in June, 1948 and operates under the laws of the state of Washington applicable to Fire Protection Districts. Clallam County Fire Protection District No. 3 is a special purpose local government and provides fire protection, fire suppression, life safety and fire prevention education and emergency medical services including Basic Life Support (BLS) and Advanced Life Support (ALS) Services.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. **Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. 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.

In accordance with state law, Clallam County Fire Protection District No. 3 also recognizes expenditures paid twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The District adopts an annual appropriated budget for the General Fund and the budget constitutes the legal authority for expenditures at that level. The budget is appropriated at the department level. Annual appropriations for these funds lapse at the fiscal year end.

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

The appropriated and actual expenditures for the General Fund, by Department were as follows:

General Fund Department	Final Appropriated Amounts	Actual Expenditures	Variance
Commissioners	\$ 54,873	\$ 32,520	\$ 22,353
General Administration	899,405	891,139	8,266
Volunteer Programs	130,415	159,376	(28,961)
Risk Reduction	319,574	310,828	8,746
Fire Suppression	1,003,957	871,800	132,157
EMS	5,013,629	4,960,079	53,550
HazMat	8,000	-	8,000
Emergency Management	8,100	969	7,131
TEMS	2,000	394	1,606
Wildland	30,300	10,529	19,771
Tech Rescue	7,650	6,073	1,577
Facilities	636,566	588,778	47,788
Debt Service	304,504	304,504	0
Vehicles	477,322	531,136	(53,814)
Capital Expenditures	434,000	409,030	24,970
Total General Fund	\$ 9,330,295	\$ 9,077,155	\$ 253,140

Budgeted amounts are authorized to be transferred between departments within the General Fund; however, any revisions that alter the total expenditures of the General Fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Fire Protection Districts' legislative body.

D. Cash and Investments

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded as capital expenditures when purchased.

F. Compensated Absences

Sick leave may be accumulated up to 1040 hours for 40-hour-per-week employees and up to 1380 for 24-hour shift employees. Upon separation or retirement, employees receive payment for unused sick leave at a rate between 25 to 50 percent of their leave balance, depending on the circumstances of their separation.

Bargaining Unit holiday may be accumulated up to 336 hours and is payable upon separation or retirement.

Bargaining Unit Comp time may be accumulated up to 480 hours and is payable upon separation or retirement.

Vacation Accruals differ among District employees based upon length of service. The maximum accrual rate is 30 hours per month and employees may accumulate, at the most, 24 months of their monthly accrual rate.

Payments for Compensated Absences are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The District's Other Financing Sources or Uses consist of sale of county timber and insurance recoveries.

I. Risk Management

The District purchases its property and liability insurance coverage from Enduris, a risk sharing pool established under RCW 48.62. Below is a summary of coverage and deductibles:

<u>Class of Insurance</u>	<u>Limit</u>	<u>Deductible Amount</u>
General Liability	\$20,000,000	\$1,000
Auto Liability	\$20,000,000	\$1,000
Cyber Coverage	\$2,000,000	20% Co Pay
Crime Blanket Coverage	\$250,000	\$1,000
Property	\$11,296,419	\$1,000
Other Equipment	Replacement Cost	\$1,000

J. 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 Board of Commissioner Resolution. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts. The District does not have any Reservations of Ending Cash and Investments at December 31, 2016.

Note 2 – Deposits and Investments

It is the District’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by Clallam County or its agent in the government’s name.

Investments are reported at original cost. Investments by type at December 31, 2016 are as follows:

Type of Investment

L.G.I.P.	\$1,638,286
Total	<u>\$1,638,286</u> =====

Note 3 - Property Tax

The County 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 cash is received by the County. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District's regular levy for the year 2016 was \$1.393108510471 per \$1,000 on an assessed valuation of \$4,095,366,913 for a total regular levy of \$5,705,291.

The District's EMS levy for the year 2016 was \$.485984440739 per \$1,000 on an assessed valuation of \$4,138,380,597 for a total EMS levy of \$2,011,189.

Note 4 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2016.

The debt service requirements for the State of Washington LOCAL loan are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$295,727	\$ 8,777	\$304,504
TOTALS	<u>\$295,727</u>	<u>\$ 8,777</u>	<u>\$ 304,504</u>

Note 5 – Pension Plans

State Sponsored Pension Plans

Substantially all District full-time and qualifying part-time employees participate in LEOFF Plan 2 or PERS 2 administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

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

At June 30, 2016 (the measurement date of the plans), the District’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.005050%	\$271,209
PERS 2/3	0.006459%	\$325,205
SERS 2/3		
PSERS 2		
LEOFF 1		
LEOFF 2	0.153884%	(\$895,036)
VFFRPF	0.460000%	(\$78,977)

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 Disclosures

Key Personnel Information

Commissioner Richard H. Houts retired as Fire District 3 Commissioner, Position 2 on June 30, 2016.

Steven K. Chinn was appointed to Fire District 3 Commissioner, Position 2 on July 5, 2016.

Labor Relations

IAFF Local 2933 Fire Fighters Collective Bargaining Agreement contract for 2017-2019 is currently being negotiated.

IAFF Local 2933 Maintenance and Mechanics Collective Bargaining Agreement ratified their 2017-2019 on August 2, 2016.

Clallam County Fire Protection District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2017

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences - Employee Benefits Accounts		1,251,358	48,453	-	1,299,811
264.30	Pension Liability - PERS 1		271,209	-	15,117	256,092
264.30	Pension Liability - PERS 2/3		325,205	-	84,004	241,201
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,847,772	48,453	99,121	1,797,104
Total Liabilities:			1,847,772	48,453	99,121	1,797,104

Clallam County Fire Protection District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2016

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.96	Local Program - Maintenance/Training Facility	12/1/2016	295,727	-	295,727	-
Total General Obligation Debt/Liabilities:			295,727	-	295,727	-
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Employee Benefit Liabilities		1,293,838	-	42,480	1,251,358
264.30	Pension Liability - PERS 1		247,632	23,577	-	271,209
264.30	Pension Liability - PERS 2/3		218,492	106,713	-	325,205
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,759,962	130,290	42,480	1,847,772
Total Liabilities:			2,055,689	130,290	338,207	1,847,772

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov