

# **Washington State Auditor's Office**

## **Financial Statements Audit Report**

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### **Island County Fire Protection District No. 3**

Audit Period  
**January 1, 2006 through December 31, 2008**

**Report No. 1002830**

Issue Date  
**January 19, 2010**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

January 19, 2010

Board of Commissioners  
Island County Fire Protection District No. 3  
Freeland, Washington

***Report on Financial Statements***

Please find attached our report on Island 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,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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

**Island County Fire Protection District No. 3  
January 1, 2006 through December 31, 2008**

Board of Commissioners  
Island County Fire Protection District No. 3  
Freeland, Washington

We have audited the financial statements of Island County Fire Protection District No. 3, Island County, Washington, as of and for the years ended December 31, 2008, 2007 and 2006, and have issued our report thereon dated November 2, 2009.

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.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain matters that we have reported to the management of the District in a separate letter dated December 9, 2009.

## **COMPLIANCE AND OTHER MATTERS**

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 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*.

This report is intended for the information and use 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", is positioned above the printed name.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

November 2, 2009

# **Independent Auditor's Report on Financial Statements**

## **Island County Fire Protection District No. 3 January 1, 2006 through December 31, 2008**

Board of Commissioners  
Island County Fire Protection District No. 3  
Freeland, Washington

We have audited the accompanying financial statements of Island County Fire Protection District No. 3, Island County, Washington, for the years ended December 31, 2008, 2007 and 2006. 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 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 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 audits provide a reasonable basis for our opinion.

As described in Note 1 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 Island County Fire Protection District No. 3, for the years ended December 31, 2008, 2007 and 2006, on the basis of accounting described in Note 1.

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 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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 2, 2009

## **Financial Section**

**Island County Fire Protection District No. 3  
January 1, 2006 through December 31, 2008**

### ***FINANCIAL STATEMENTS***

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## RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For The Year Ended December 31, 2008

BARS CODE		Total for	Current
		All Funds	Expense-001
		Actual Amount	Actual Amount
308	Beginning Net Cash and Investments	\$3,346,005	\$3,346,005
	Revenues and Other Sources		
310	TOTAL TAXES	\$2,080,696	\$2,080,696
330	Interlocal & In-Lieu Taxes	\$301,768	\$301,768
360	Miscellaneous	\$68,561	\$68,561
361	Interest Earnings	\$97,847	\$97,847
362	Rents, Leases, and Concessions	\$10,038	\$10,038
360	Miscellaneous	\$176,446	\$176,446
390	Other Financing Uses	\$0	\$0
	Total Revenues and Other Sources	\$2,558,910	\$2,558,910
	<b>Total Resources</b>	<b>\$5,904,915</b>	<b>\$5,904,915</b>
	Expenditures and Other Uses		
510	General Government	\$0	\$0
522	Fire Control	\$1,763,206	1,763,206
	Total Operating Expenditures	\$1,763,206	1,763,206
591-593	Debt Service	\$0	\$0
594-595	Capital Outlay	\$2,452,550	2,452,550
	<b>Total Expenditures</b>	<b>\$4,215,756</b>	<b>4,215,756</b>
597-599	Other Financing Uses	\$0	\$0
	<b>Total Expenditures and Other Uses</b>	<b>\$4,215,756</b>	<b>\$4,215,756</b>
	<b>Excess (Deficit) of Resources Over Uses</b>	<b>\$0</b>	<b>\$0</b>
380	Nonrevenues (Except 384 and 388.80)	\$0	\$0
580	Nonexpenditures (Except 584 and 588.80)	\$0	\$0
	<b>Ending Net Cash and Investments</b>	<b>\$1,689,159</b>	<b>\$1,689,159</b>
	<i>The Accompanying Notes Are An Integral Part Of This Statement.</i>		

## RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For The Year Ended December 31, 2007

BARS CODE		Total for	Current
		All Funds	Expense-001
		Actual Amount	Actual Amount
308	Beginning Net Cash and Investments	\$3,072,343	\$3,072,343
	Revenues and Other Sources		
310	TOTAL TAXES	\$2,020,057	\$2,020,057
330	Interlocal & In-Lieu Taxes	\$4,599	\$4,599
360	Miscellaneous	\$139,817	\$139,817
361	Interest Earnings	\$137,224	\$137,224
362	Rents, Leases, and Concessions	\$5,369	\$5,369
360	Miscellaneous	\$282,410	\$282,410
390	Other Financing Uses	\$252,135	\$252,135
	Total Revenues and Other Sources	\$2,559,201	\$2,559,201
	<b>Total Resources</b>	<b>\$5,631,544</b>	<b>\$5,631,544</b>
	Expenditures and Other Uses		
510	General Government	\$0	\$0
522	Fire Control	\$1,560,292	\$1,560,292
	Total Operating Expenditures	\$1,560,292	\$1,560,292
591-593	Debt Service	\$0	\$0
594-595	Capital Outlay	\$725,247	\$725,247
	Total Expenditures	\$2,285,539	\$2,285,539
597-599	Other Financing Uses	\$0	\$0
	Total Expenditures and Other Uses	\$2,285,539	\$2,285,539
	Excess (Deficit) of Resources Over Uses	\$0	\$0
380	Nonrevenues (Except 384 and 388.80)	\$0	\$0
580	Nonexpenditures (Except 584 and 588.80)	\$0	\$0
	Ending Net Cash and Investments	\$3,346,005	\$3,346,005
The Accompanying Notes Are An Integral Part Of This Statement.			

## RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the year Ended December 31, 2006

BARS CODE		Total for	Current
		All Funds	Expense-001
		Actual Amount	Actual Amount
308	Beginning Net Cash and Investments	\$2,469,254	\$2,469,254
	Revenues and Other Sources		
310	TOTAL TAXES	\$1,939,303	\$1,939,303
330	Interlocal & In-Lieu Taxes	\$4,857	\$4,857
360	Miscellaneous	\$43,246	\$43,246
361	Interest Earnings	\$115,279	\$115,279
362	Rents, Leases, and Concessions	\$4,006	\$4,006
360	Miscellaneous	\$162,530	\$162,530
390	Other Financing Uses	\$114,250	\$114,250
	Total Revenues and Other Sources	\$2,216,084	\$2,220,941
	<b>Total Resources</b>	<b>\$4,690,195</b>	<b>\$4,690,195</b>
	Expenditures and Other Uses		
510	General Government		
522	Fire Control	1,399,527	1,399,527
	Total Operating Expenditures	\$1,399,527	1,399,527
591-593	Debt Service	\$0	\$0
594-595	Capital Outlay	218,325	218,325
	<b>Total Expenditures</b>	<b>\$1,617,852</b>	<b>1,617,852</b>
597-599	Other Financing Uses		
	<b>Total Expenditures and Other Uses</b>	<b>\$1,617,852</b>	<b>\$1,617,852</b>
	<b>Excess (Deficit) of Resources Over Uses</b>		
380	Nonrevenues (Except 384 and 388.80)	\$0	\$0
580	Nonexpenditures (Except 584 and 588.80)	\$0	\$0
	<b>Ending Net Cash and Investments</b>	<b>\$3,072,342</b>	<b>\$3,072,342</b>
<i>The Accompanying Notes Are An Integral Part Of This Statement.</i>			

Island County Fire Protection District No. 3  
Notes to Financial Statements  
January 1, 2008 through December 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Island County Fire Protecting District No. 3 is a special purpose government that provides fire protection services, fire suppression services, emergency medical and protection of life and property to the southern third of Whidbey Island, Island County and is supported primarily through property taxes. The District was incorporated in 1950 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 one primary fund as an accounting entity. The fund is accounted for with a separate sets 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 this fund depending on their intended purpose. The following are the fund types used by the district:

GOVERNMENTAL FUND TYPES:

Current Expenses

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. At this time there are no other funds.

B. Basis of Accounting

The fire 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 Washing 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 statement of resources and uses arising from cash transactions as net cash and investment.

#### D. Deposits

The District's deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

#### E. Capital Assets

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

#### F. Compensated Absences

Vacation pay may be accumulated up to the maximum amount of two years of accrual based on the next year's accrual rate. Upon separation from District employment, any regular employee may be paid for any unused vacation up to the amount at the last posting at the rate the employee is being paid at the time of separation. Sick leave may accumulate nine hundred sixty (960) hours for forty (40) hour per week employees and one thousand four hundred forty (1440) hours for fifty six (56) hour shift employees. Upon separation or retirement employees do not receive payment for unused sick leave.

#### NOTE 2 – Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions.

#### NOTE 3

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 recorded as received by Island County Fire Protection District No. 3. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The district's regular property tax levy for the year 2007 for collection in 2008 was \$.51 per \$1,000 on an assessed valuation of \$4,125,712,840.22.

NOTE 4

The District's investments are held by Island County Treasurer as its agent in the District's name. Investment held by the Treasurer in the state pool for the year end 2008 was \$1,100,000.00.

State Pool	200,000.00
State Pool	250,000.00
State Pool	50,000.00
State Pool	100,000.00
State Pool	100,000.00
Banner Bank CD	400,000.00

NOTE 5

There is no Long Term Debt.

NOTE 6

All Island County Fire Protection District No. 3's full time and qualifying part-time employees participate in LEOFF II and PERS II administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee 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 the plan.

Historical trend information showing the system's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's Comprehensive Annual Financial Report. Please refer to said report for detailed trend information.

Department of Retirement Systems  
Communication Unit  
P.O. Box 48380  
Olympia, WA 94504

2Island County Fire Protection District No. 3  
Notes to Financial Statements  
January 1, 2007 through December 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Island County Fire Protection District No. 3 is a special purpose government that provides fire protection services, fire suppression services, emergency medical and protection of life and property to the southern third of Whidbey Island, Island County and is supported primarily through property taxes. The District was incorporated in 1950 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 one primary fund as an accounting entity. The fund is accounted for with separate sets 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 this fund depending on their intended purpose. The following are the fund types used by the district:

GOVERNMENTAL FUND TYPES:

General 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. At this time there are no other funds.

B. Basis of Accounting

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

#### D. Deposits

The District's deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

#### E. Capital Assets

Capitals assets are long-lived assets to the District and are recorded as capital expenditures when purchased.

#### F. Compensated Absences

Vacation pay may be accumulated up to the maximum amount of two years of accrual based on the next year's accrual rate. Upon separation from District employment, any regular employee may be paid for any unused vacation up to the amount at the last posting at the rate the employee is being paid at the time of separation. Sick leave may accumulate nine hundred sixty (960) hours for forty (40) hour per week employees and one thousand four hundred forty (1440) hours for fifty six (56) hour shift employees. Upon separation or retirement employees do not receive payment for unused sick leave.

#### NOTE 2 – Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions.

#### NOTE 3

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 recorded as received by Island County Fire Protection District No. 3. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The district's regular property tax levy for the year 2006 for collection in 2007 was \$.57 per \$1,000 on an assessed valuation of \$3,567,145,341.



NOTE 4

The District's investments are held by Island County Treasurer as its agent in the District's name. Investment held by the Treasurer in the state pool for the year end 2007 was \$3,316,218.91.

State Pool	240,000.00
State Pool	250,000.00
State Pool	319,000.00
State Pool	2,406.41
CD-Whidbey Island Bank	794,812.50
State Pool	600,000.00
State Pool	610,000.00
CD-Whidbey Island Bank	500,000.00

NOTE 5

There is no Long Term Debt.

NOTE 6

All Island County Fire Protection District No. 3's full time and qualifying part-time employees participate in LEOFF II and PERS II administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee 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 the plan.

Historical trend information showing the system's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's Comprehensive Annual Financial Report. Please refer to said report for detailed trend information.

Department of Retirement Systems  
Communication Unit  
P.O. Box 48380  
Olympia, WA 94504

Island County Fire Protection District No. 3  
Notes to Financial Statements  
January 1, 2006 through December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Island County Fire Protection District No. 3 is a special purpose government that provides fire protection services, fire suppression services, emergency medical and protection of life and property to the southern third of Whidbey Island, Island County and is supported primarily through property taxes. The District was incorporated in 1950 and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts.

A. FUND ACCOUNTING

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GOVERNMENTAL FUND TYPES:

General 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.

B. Basis of Accounting

The accounting records for the district are maintained in accordance with methods prescribed by the State Auditor under the authority of the Washington State Law, 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 investment.

#### D. Deposits

The District's deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

#### E. Capital Assets

Capitals assets are long-lived assets to the District and are recorded as capital expenditures when purchased.

#### F. Compensated Absences

Vacation pay may be accumulated up to the maximum amount of two years of accrual based on the next year's accrual rate. Upon separation from District employment, any regular employee may be paid for any unused vacation up to the amount at the last posting at the rate the employee is being paid at the time of separation. Sick leave may accumulate nine hundred sixty (960) hours for forty (40) hour per week employees and one thousand four hundred forty (1440) hours for fifty six (56) hour shift employees. Upon separation or retirement employees do not receive payment for unused sick leave.

#### NOTE 2 – Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions.

#### NOTE 3

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 recorded as received by Island County Fire Protection District No. 3. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The district's regular property tax levy for the year 2005 for collection in 2006 was \$.74 per \$1,000 on an assessed valuation of \$2,599,414,511.22.

NOTE 4

The District's investments are held by Island County Treasurer as its agent in the District's name. Investment held by the Treasurer in the state pool for the year end 2006 was \$3,000,000.00.

CD	225,000.00
CD	150,000.00
CD	225,000.00
CD	400,000.00
CD	400,000.00
CD	100,000.00
CD	200,000.00
FNMA	797,593.59
CD	2,406.41
FHLB	500,000.00

NOTE 5

There is no Long Term Debt.

NOTE 6

All Island County Fire Protection District No. 3's full time and qualifying part-time employees participate in LEOFF II and PERS II administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee 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 the plan.

Historical trend information showing the system's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's Comprehensive Annual Financial Report. Please refer to said report for detailed trend information.

Department of Retirement Systems  
Communication Unit  
P.O. Box 48380  
Olympia, WA 94504

## NOTE 7

The Island County Treasurer's Office submitted revised reports to the District for fiscal year 2005 which changed the ending cash and investment balance. Because the 2005 financial statements had already been published, the beginning 2006 cash and investment balance is different than the ending cash and investment balance on the fiscal year ended 2005 financial statements.

The published 2005 financial statements show an ending cash & investment total of \$2,430,825, while the beginning balances on the 2006 financial statements are \$2,469,254 which is a difference of \$38,429 (1.6 percent.)