Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Thurston County Fire Protection District No. 3

(Lacey Fire District 3)

For the period January 1, 2020 through December 31, 2020

Published October 18, 2021

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Office of the Washington State Auditor
Pat McCarthy

October 18, 2021

Board of Commissioners
Lacey Fire District 3
Lacey, Washington

Report on Financial Statements

Please find attached our report on Lacey Fire District 3'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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Lacey Fire District 3
January 1, 2020 through December 31, 2020

Board of Commissioners
Lacey Fire District 3
Lacey, 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 Lacey Fire District 3, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 6, 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 4 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 4.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy, State Auditor

Olympia, WA

October 6, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Lacey Fire District 3
January 1, 2020 through December 31, 2020

Board of Commissioners
Lacey Fire District 3
Lacey, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Lacey Fire District 3, for the year ended December 31, 2020, 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 state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Lacey Fire District 3 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 Lacey Fire District 3, and its changes in cash and investments, for the year ended December 31, 2020, 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 Lacey Fire District 3, as of December 31, 2020, or the changes in financial position or cash flows thereof for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Matters of Emphasis

As discussed in Note 4 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plan in response to this matter are also described in Note 4. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is 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 October 6, 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.

Pat McCarthy, State Auditor

Olympia, WA

October 6, 2021

FINANCIAL SECTION

Lacey Fire District 3
January 1, 2020 through December 31, 2020

FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

Thurston County Fire Protection District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		Total for All Funds (Memo Only)	001 General	201 Bond	202 Bond
Beginning Cash and Investments					
308	Beginning Cash and Investments	23,319,178	6,277,298	46,000	124,015
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	18,930,545	17,877,656	473,886	579,003
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	120,276	120,211	42	23
340	Charges for Goods and Services	4,485,303	4,485,303	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	801,265	651,976	2,462	1,723
Total Revenues:		24,337,389	23,135,146	476,390	580,749
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	22,378,089	22,378,089	-	-
Total Expenditures:		22,378,089	22,378,089	-	-
Excess (Deficiency) Revenues over Expenditures:		1,959,300	757,057	476,390	580,749
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	190,000	-	90,000	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	24,505	24,505	-	-
Total Other Increases in Fund Resources:		214,505	24,505	90,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	10,648,144	129,738	-	-
591-593, 599	Debt Service	1,226,769	-	555,016	671,753
597	Transfers-Out	190,000	190,000	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		12,064,913	319,738	555,016	671,753
Increase (Decrease) in Cash and Investments:		**(9,891,108)**	**461,824**	**11,374**	**(91,004)**
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	6,347,066	-	57,374	33,011
50841	Committed	-	-	-	-
50851	Assigned	985,410	643,528	-	-
50891	Unassigned	6,095,594	6,095,594	-	-
Total Ending Cash and Investments		**13,428,070**	**6,739,122**	**57,374**	**33,011**

The accompanying notes are an integral part of this statement.

Thurston County Fire Protection District No. 3
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		301 Capital	306 Capital	307 Capital	308 Capital
Beginning Cash and Investments					
308	Beginning Cash and Investments	238,740	6,538,194	9,826,744	268,187
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	3,142	39,180	101,064	1,718
Total Revenues:		3,142	39,180	101,064	1,718
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		3,142	39,180	101,064	1,718
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	100,000	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		100,000	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	6,577,374	3,671,127	269,905
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	6,577,374	3,671,127	269,905
Increase (Decrease) in Cash and Investments:		**103,142**	**(6,538,194)**	**(3,570,063)**	**(268,187)**
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	6,256,681	-
50841	Committed	-	-	-	-
50851	Assigned	341,882	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		**341,882**	**-**	**6,256,681**	**-**

The accompanying notes are an integral part of this statement.

THURSTON COUNTY FIRE PROTECTION DISTRICT THREE – MCAG #1346
Notes to the Financial Statements
For the year ended December 31, 2020

Note 1 - Summary of Significant Accounting Policies

Thurston County Fire Protection District Number Three (hereinafter referred to as "The District") was incorporated in 1948 and operates under the laws of the state of Washington applicable to a fire district. The District is a special purpose local government and provides fire and emergency medical response services to the general public and is supported primarily through property taxes.

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 presented using classifications that are similar to the ending balance classification in GAAP.

A. Fund Accounting

Financial transactions of the District 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 District'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, except for fiduciary funds, which are presented by fund types. The District has no fiduciary funds. The total column is presented as "memo only" because any interfund activities are not eliminated. 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.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

B. Basis of Accounting and Measurement Focus

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

C. Cash and Investments

See Note 3, *Deposits and Investments*.

D. Capital Assets

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

E. Compensated Absences

Vacation leave may be accumulated up to 240 hours. Balances in excess of the maximum 240 hours at year-end are reduced to the maximum amount unless an exception is granted by the Fire Chief. Vacation accrual is payable up to a maximum of 240 hours upon separation or retirement.

Sick leave may be accumulated up to 1,440 hours and may be used for paid time off for any FMLA designated purpose. Upon resignation or layoff, members/employees with five (5) or more years of service shall be paid a total of fifteen percent (15%) of the member's/employee's sick leave balance at separation or the average end-of-calendar-year sick leave balance for the most recent three (3) full years, whichever is lower. Upon retirement or the award of a duty disability pension, members with five (5) or more years of service shall be paid a total of fifty percent (50%) of the member's sick leave balance at separation or the average end-of-calendar-year sick leave balance for the most recent three (3) full years, whichever total is lower. In the event of a line-of-duty death, the designated beneficiary will receive one hundred percent (100%) of the member's sick leave balance at the time of death.

Member's eligible for retirement or awarded a duty disability pension with twenty (20) or more years of service shall be paid a total of seventy-five (75%) of the member's sick leave balance or the cash value equivalent of six hundred dollars ($600.00) per month for every month up to the age of sixty-five (65) with a maximum 144 month cap.

Notification and payment shall be made as follows:

- Payment for retirees or duty disability pensions will be made in three (3) installments over a three (3) year period; one-third (1/3) at separation, one-third (1/3) mid-year of the second year, and one-third (1/3) mid-year of the third year.

On December 31st of each year, bargaining unit members with a balance in their sick leave bank exceeding 1440 hours will have their balance reduced to 1440 hours. Any hours above the 1440 hour "cap" shall be applied to the Employee's Medical Expense Reimbursement Program (MERP) plan at 25% of the employee's hourly rate. Non-Bargaining unit members of the district with sick leave balances in excess of 1440 have the balance reduced to the maximum allowable 1440 hours.

All sick leave cash outs will be allocated into the employee's Employer adopted, HRA VEBA plan. All payments are recognized as expenditures when paid.

As of December 31, 2020 the total compensated leave balance liability as adjusted by policy was $1,887,296.

Please refer to Schedule 9.

F. <u>Long-Term Debt</u>

See Note 6, *Long Term Debt*

G. <u>Reserved Portion of Ending Cash and Investments</u>

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Fire Commissioners. When expenditures that meet restrictions are incurred, the District intends to use restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of portions of the balance of the Bond Debt Fund (201), the entire balance of the 2017 Bond Debt Fund (202), the entire balance of the 2017 Capital Projects Fund 306 and the entire balances of Capital Projects Funds 307 and 308. Please refer to Schedule 1 for complete detail.

Intra fund transactions are not eliminated in this table to better match individual fund balances as maintained by the District. Intra fund transactions have been deleted in the Schedule 1 of this report per SAO guidance.

Funds	**Ending Unassigned Cash**	**Ending Assigned Cash**	**Ending Restricted Cash**
General Fund 001	$ 5,785,594.24	$ -	$ -
Donation Fund 101 - General	$ -	$ 21,342.00	$ -
Reserve Fund 102 - General	$ -	$ 519,028.03	$ -
Equipment Repair and Replacement Fund 103 - General	$ -	$ 413,158.54	$ -
Bond Fund 201	$ -	$ -	$ 57,375.22
Bond Fund 202 - 2017	$ -	$ -	$ 33,010.15
Capital Projects Fund - Non Bond Funded	$ -	$ 341,881.33	$ -
Capital Projects Fund 306 - Bond Funded	$ -	$ -	$ -
Capital Projects Fund 307 - Bond Funded	$ -	$ -	$ 6,256,679.91
Capital Projects Fund 308 - Bond Funded	$ -	$ -	$ -
Total	$ 5,785,594.24	$ 1,295,409.90	$ 6,347,065.28

Note 2 – Budget Compliance

The District adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that 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 2020 appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund	Budget	Actual	Variance
General Funds	$ 28,172,386.00	$ 23,007,826.25	$ 5,164,559.75
Bond Funds	$ 1,232,053.00	$ 1,226,769.01	$ 5,283.99
Capital Fund - Non Bond Funded	$ 332,991.00	$ -	$ 332,991.00
Capital Fund - Bond Funded	$ 12,760,706.00	$ 10,518,407.14	$ 2,242,298.86

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

Note 3 – Deposits and Investments

It is the District's policy to invest all temporary cash surpluses using the Thurston County Investment Pool. The interest on these investments is prorated to the various funds. As of December 31, 2020, the District had a total balance on deposit at Thurston County of $13,428,069.

Investments in Thurston County Investment Pool

The District is a participant in the Thurston County Investment Pool, an external investment pool. The District reports its investment in the pool as the fair value amount, which is the same as the value of the pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29, which authorizes the County Treasurer to invest the funds of participants. The County's investment policy is established by the County Finance Committee consisting of the County Treasurer, the County Auditor and the Chairman of the Board of County Commissioners. The object of the policy is to invest public funds in a manner, which will provide maximum security with the highest investment return while meeting daily cash flow demands, and conforming to all state and local statutes governing the investment of public funds.

The Thurston county Investment Pool does not have a credit rating and had a weighted average maturity of 1.91 years as of December 31, 2020

In accordance with State law, the district's governing body has entered into a formal agreement with the district's *ex officio* treasurer, Thurston County, to have all its funds not required for immediate expenditure to be invested in the Thurston County Investment Pool (TCIP).

As of December 31, 2020, to calculate the fair value of your investments, use the following multiplier:

Fair Value Multiplier (1)

1.008299

(1) A TCIP participant can calculate the fair value of its investments in the TCIP by taking the multiplier supplied by Thurston County for the end of the fiscal year and multiplying this number times the amount of cash that the participant had in the TCIP. For example, if a participant had $1,000,000 in cash invested in the TCIP, the fair value of its investments in the TCIP at December 31, 2020 would be calculated by taking $1,000,000 times 1.008299, or $1,008,299.

Note 4 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The District (an essential business) responded immediately by reaching out to suppliers to fill the real and projected shortfall of Personal Protective Equipment (PPE) inventory, cleaning and sanitization products and remote computing equipment. First responders are provided with continually updated information and education on identification and treatment/care and precaution protocols for patients exhibiting or thought to exhibit the symptoms of the virus. The District put into action quarantine protocols for members when needed. All non-responder staff of the district were directed to work remotely for a time. Technology resources and support were provided to these staff to work remotely. The District's stations were closed and remain closed to the general public. Any member, employee or other authorized person must sign in and have their temperature taken at least daily upon entrance to a Station. All public meetings are conducted using a virtual platform. Many staff and other meeting are also conducted using a virtual platform. Social distancing and masking protocols are in operation. Testing and quarantine occurs when a member or employee is thought to be or is potentially infected based on established public health directives and guidance. Appropriate contract tracing and other safeguards are put into place.

A coding method was initiated to track any labor or supply expenditure related to COVID 19. Finance and other staff participated in extensive virtual training offered by FEMA and other sources. The District entered into a Public Assistance reimbursement process with FEMA in an effort to defray all allowable disaster related expenditures. FEMA has been very responsive in providing financial support during 2020.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the District is unknown at this time. Requirements and actions to prevent the spread of this virus are dynamic. The District intends to respond to any more stringent or conversely more relaxed requirements based on regulation and current public health best practice.

Note 5 - 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 District. 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 2020 was $1.427672292668 per $1,000 on an assessed valuation of $12,611,214,466 for a total regular levy of $18,004,681.47.

The District's bond 20 year (2000) debt levy for the year 2020 was $.086624114319 per $1,000 on an assessed valuation of $5,500,608,546 for a total additional levy of $476,527.66.

The District's bond (voted 2017) debt levy for the year 2020 was $.047035500710 per $1,000 on an assessed valuation of $12,493,359,568 for a total additional levy of $587,654.40.

- As of December 31, 2020, approximately 99.3% of the District's *ad valorem* taxes levied in 2020 were collected.

Note 6 – 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, 2020.

The debt service requirements for general obligation bonds, revenue bonds and other debts, including both principal and interest, are as follows:

Note 7 – Other Post Employment Benefit Plans

The District provides another post-employment benefit plan (OPEB) namely health insurance and medical services benefits in accordance with Plan 1 of the Law Enforcement Officers and Firefighters Retirement System (LEOFF 1).

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. As of December 31, 2020, the plan had six (6) members, all retirees. The Thurston County Disability Board (TCDB) administers the medical services provisions of the LEOFF 1 plan. The District is required to pay for necessary medical services not covered by insurance and/or Medicare to include dental and vision. The TCDB decides whether medical services are necessary and determines “reasonable” cost. The plan pays for 100% of eligible retirees’ healthcare costs on a pay-as-you-go basis.

As of December 31, 2020, the District’s total OPEB liability was $3,236,162., as calculated using the alternative measurement method including excise tax, as provided by the Washington State Office of the State Actuary. For the year ended December 31, 2020, the District’s actual expense for covered plan members was $87,104 and included LEOFF 1 retiree health benefits, Medicare premiums and other eligible medical expenses.

Note 8 – Pension Plans

A. State Sponsored Pension Plans

Substantially all of the District’s full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans: LEOFF 2 and PERS 2/3.

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 that includes financial statements and required supplementary information for each plan. The DRS comprehensive annual financial report may be obtained by writing to:

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

Also, the DRS comprehensive annual financial report may be downloaded from the DRS website at http://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 https://vff.wa.gov . Detailed information about the plan is included in the State of Washington comprehensive annual financial report available from the Office of Financial Management website at https://www.ofm.wa.gov.

At June 30, 2020 (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 (pursuant to SAO instructions, assets were not included on Schedule 09, but are listed in these Notes as “assets” in parenthesis):

	Allocation %	Liability (Asset)
PERS 1	.006356%	$224,401
PERS 2/3	.008250%	$105,513
LEOFF I	.015981%	($301,803)
LEOFF 2	.3548238%	($7,103,547)
VFFRPF	.26%	($92,522)

LEOFF Plan 1

The District participated in LEOFF Plan 1. All District LEOFF 1 employees are retired. As of December 31, 2020, the District had six (6) LEOFF Plan 1 retirees. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting July 1, 2000 employers and employees contribute zero percent.

LEOFF Plan 2

The District 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 9 – Risk Management

The District maintains insurance against most normal hazards except for unemployment insurance. All unemployment claims are processed and paid by the Washington State Employment Security Department, which then bills the District for reimbursement.

WFCA Health Care Program – The District is a member of the Washington Fire Commissioners Association Health Care Program ("The Trust"). The Trust is funded by member organization premiums deposited into the Insurance Rate Stabilization Reserve Account (IRSRA). The IRSRA was created by WFCA Board of Directors Resolution 12-80(b) in 1999 to improve and facilitate the provision of medical and dental insurance for member fire service organization employees and their families. The self-insurance risk pool complies with the requirements of Chapter 48.62 RCW (Local Government Insurance Transactions), Chapter 200-110 WAC (Local Government Self-Insurance Health and Welfare Program Requirements) and Chapter 30.34 RCW (Interlocal Cooperation Act).

The District is a signatory to the WFCA Health Care Program Interlocal Agreement specifying the responsibilities of participating member organizations and the WFCA Health Care Program. The WFCA Health Care Program provides access to self-insured and insured medical plans, dental plans and life insurance coverage. The fire service organizations' financial exposure is limited to monthly premium contributions made to the IRSRA for the purchase of medical, dental and life insurance coverage. The WFCA Health Care Program maintains stop loss insurance and has funding reserves that meet and exceed state solvency requirements.

The operations of the WFCA Health Care Program are overseen by a five-member Health Care Committee appointed by the Board of Directors. The Health Care Committee reviews and analyzes the operational needs, benefit and rate changes and makes recommendations to the Board of Directors. Final decisions are made by the WFCA Board of Directors.

<u>Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP)</u> –
The District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2020, 262 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members.

The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of $1.5 million through Commencement Bay Risk Management, and Kaiser ISL at $1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Note 10 - Other Disclosures

In November of 2020, the voters in the Fire District approved a measure authorizing the levy of regular property taxes in excess of the limitations of Chapter 84.55 RCW for specified purposes, including fire protection, prevention and emergency medical services in the District. In 2020, the regular property tax rate was $1.427. The "levy lid lift" measure authorized an increase in the levy rate up to the $1.50 per $1,000 of assessed value starting in 2021. The measure further authorized an exception from the one percent (1%) annual increase in levy rate up to a six percent (6%) annual increase in the levy rate for up to six years.

In November of 2017, the voters in the Fire District approved a measure authorizing a 20-year $19,115,000 bond for Capital Equipment and Facilities. The debt issuance was divided roughly in half and distributed in two periods 1) upon initial voter approval in 2017 and, 2) in December of 2019. Key bond funded purchases include new fire apparatus and other equipment, the construction of a new fire station (District Station #34) and much needed remodeling and upgrades to most facilities throughout the District.

Thurston County Fire Protection District No. 3
Schedule of Liabilities
For the Year Ended December 31, 2020

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	LTGO Bond 2012	12/1/2031	855,000	-	60,000	795,000
251.12	UTGO Bond 2019A	12/1/2037	8,970,000	-	-	8,970,000
251.12	UTGO Bond 2019B	12/1/2022	265,000	-	-	265,000
251.12	UTGO Bond 2017	12/1/2037	9,115,000	-	-	9,115,000
251.12	UTGO Bond 2005	12/1/2020	305,000	-	305,000	-
251.12	UTGO Bond 2012	12/1/2020	145,000	-	145,000	-
	Total General Obligation Debt/Liabilities:		**19,655,000**	**-**	**510,000**	**19,145,000**
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		1,524,637	362,659	-	1,887,296
264.30	Pension Liabilities		284,903	45,011	-	329,914
264.40	Other Post Employment Benefits		2,979,622	256,540	-	3,236,162
	Total Revenue and Other (non G.O.) Debt/Liabilities:		**4,789,162**	**664,210**	**-**	**5,453,372**
	Total Liabilities:		**24,444,162**	**664,210**	**510,000**	**24,598,372**

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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