

Washington State Auditor's Office
Financial Statements Audit Report

Mason County Fire Protection District
No. 2

Audit Period
January 1, 2009 through December 31, 2010

Report No. 1006899

Issue Date
December 19, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

December 19, 2011

Board of Commissioners
Mason County Fire Protection District No. 2
Belfair, Washington

Report on Financial Statements

Please find attached our report on Mason County Fire Protection District No. 2'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*

**Mason County Fire Protection District No. 2
January 1, 2009 through December 31, 2010**

Board of Commissioners
Mason County Fire Protection District No. 2
Belfair, Washington

We have audited the financial statements of Mason County Fire Protection District No. 2, Mason County, Washington, as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated November 16, 2011.

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.

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". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 16, 2011

Independent Auditor's Report on Financial Statements

Mason County Fire Protection District No. 2 January 1, 2009 through December 31, 2010

Board of Commissioners
Mason County Fire Protection District No. 2
Belfair, Washington

We have audited the accompanying financial statements of Mason County Fire Protection District No. 2, Mason County, Washington, for the years ended December 31, 2010 and 2009. 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 1b to the financial statements, the District prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Mason County Fire Protection District No. 2, for the years ended December 31, 2010 and 2009, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Liabilities and Schedule of Long

Term Debt 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 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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 16, 2011

Financial Section

Mason County Fire Protection District No. 2 January 1, 2009 through December 31, 2010

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2010
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**MASON COUNTY FIRE PROTECTION DISTRICT NO. 2
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

For the Year Ended December 31, 2010

BARS CODE	Description	Total for All Funds	Current Expense - 001	Debt Service Fund -	Capital Project -
		Actual Amount	Actual Amount	Actual Amount	Actual Amount
308.10	Reserved Beginning Cash and Investments	\$0			
308.80	Unreserved Beginning Cash and Investments	\$1,004,930	\$1,000,571	\$4,359	
388.80/588.80	Prior Period Adjustments	\$0			
Revenues and Other Sources					
310	Taxes	\$2,263,381	2,262,623	759	
320	Licenses and Permits	\$0			
330	Intergovernmental	\$161,581	161,581		
340	Charges for Goods and Services	\$498,164	498,164		
350	Fines and Forfeits	\$0			
360	Miscellaneous	\$11,522	11,577	(55)	
390	Other Financing Sources	\$180,280	139,071	41,209	
Total Revenues and Other Sources		\$3,114,928	3,073,016	41,913	0
Total Resources		\$4,119,858	4,073,586	46,272	0
Expenditures and Other Uses					
510	General Government	\$0			
520	Public Safety	\$2,635,349	2,635,349		
Total Operating Expenditures		\$2,635,349	2,635,349	0	0
591-593	Debt Service	\$41,226		41,226	
594	Capital Expenditures	\$97,555	97,555		
598	Other Expenditures	\$0			
Total Expenditures		\$2,774,129	2,732,903	41,226	0
596, 597, 599	Other Financing Uses	\$41,226	41,226		
Total Expenditures and Other Uses		\$2,815,355	2,774,129	41,226	0
Excess (Deficit) of Resources Over Uses		\$1,304,503	1,299,457	5,046	0
380	Nonrevenues (Except 384 and 388.80)	\$24,970	24,970		
580	Nonexpenditures (Except 584 and 588.80)	\$3,207	3,207		
Ending Cash and Investments					
508.10	Reserved Ending Cash and Investments	\$0			
508.80	Unreserved Ending Cash and Investments	\$1,326,266	1,321,221	5,046	

The Accompanying Notes Are An Integral Part Of This Statement.

**MASON COUNTY FIRE PROTECTION DISTRICT NO. 2
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

For the Year Ended December 31, 2009

BARS CODE	Description	Total for All Funds	Current Expense - 001	Debt Service Fund -	Capital Project -
		Actual Amount	Actual Amount	Actual Amount	Actual Amount
308	Beginning Net Cash and Investments	\$965,596	\$963,284	\$2,312	
Revenues and Other Sources					
310	Taxes	\$2,180,898	2,178,841	2,057	
320	Licenses and Permits	\$0			
330	Intergovernmental	\$159,923	159,923		
340	Charges for Goods and Services	\$480,719	480,719		
350	Fines and Forfeits	\$0			
360	Miscellaneous	\$13,227	13,237	(10)	
390	Other Financing Sources	\$158,469	108,978	49,492	
Total Revenues and Other Sources		\$2,993,236	2,941,697	51,539	0
Total Resources		\$3,958,832	3,904,982	53,851	0
Expenditures and Other Uses					
510	General Government	0			
520	Public Safety	2,406,603	2,406,603		
Total Operating Expenditures		2,406,603	2,406,603	0	0
591-593	Debt Service	49,492		49,492	
594	Capital Expenditures	451,869	451,869		
598	Other Expenditures	0			
Total Expenditures		2,907,964	2,858,472	49,492	0
596, 597, 599	Other Financing Uses	49,492	49,492		
Total Expenditures and Other Uses		2,957,455	2,907,964	49,492	0
Excess (Deficit) of Resources Over Uses		1,001,377	997,018	4,359	0
380	Nonrevenues (Except 384 and 388.80)	6,719	6,719		
580	Nonexpenditures (Except 584 and 588.80)	3,166	3,166		
508	Ending Net Cash and Investments	1,004,930	1,000,571	4,359	0

The Accompanying Notes Are An Integral Part Of This Statement.

Mason County Fire Protection District No. 2
NOTES TO FINANCIAL STATEMENTS – 2010

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mason County Fire District 2 is a special purpose government that provides fire protection to the general public and is supported primarily through property taxes. The District was incorporated in 1947 and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts.

a. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Debt Service Fund

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

b. Basis of Accounting

Mason County Fire District 2 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 an other comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor’s Office under the authority of Washington State law, Chapter 43.09 RCW.

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

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expenses. 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 cash and investments.

d. Deposits

The District’s deposits (and certificates of deposits) are covered by the Federal Deposit Insurance Corporation and or the Washington Public Deposit Protection Commission.

e. Capital Assets

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

f. Compensated Absences

Vacation pay may be accumulated up to 240 hours and is payable upon separation or retirement.

The District's estimated liability for vacation pay December 31, 2010 was \$87,728.

Sick leave may accrue to a maximum of one thousand three hundred hours (1300) for union employees. The full amount of sick leave accrued is paid to the estate of an employee whose service has been terminated by death. One quarter (1/4) of sick leave accrued is paid to a union employee upon retirement.

Sick leave may accrue to a maximum of one thousand seventy-two (1,072) for the Fire Chief and Assistant Fire Chief. Upon termination or resignation the District shall compensate the employee one-half (1/2) of all accrued sick leave based on the employee's salary as of the date of termination. In the event the employee is terminated because of misconduct, gross negligence or conviction of any felony, misdemeanor involving moral turpitude, or illegal acts involving personal gain to himself then in that event, the District shall have no obligation to pay the accrued vacation or sick leave.

Sick leave may accrue to a maximum of one thousand two hundred hours (1200) for the administrative assistant. One quarter (1/4) of sick leave accrued is paid to the employee upon retirement.

The District's estimated liability for sick leave termination on December 31, 2010 was \$47,328.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

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

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 after the end of the month.

Property tax revenues are recognized when cash is received by Mason County Fire District 2. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The District's regular levy for the year 2010 for collection in 2010 was \$1.50 per \$1,000 on an assessed valuation of \$1,149,828,693 for a total regular levy of \$1,724,743.04.

The District's EMS levy for the year 2010 for collection in 2010 was \$0.47 per \$1,000 on an assessed valuation of \$1,186,754,488 for a total EMS levy of \$557,774.61.

NOTE 4 – INVESTMENTS

Mason County Fire District 2's investments are held by Mason County as its agent in the District's name. Investments by type at December 31, 2010 were as follows:

Type of Investment	Balance
WA State Invest Pool	1,257,882.27

NOTE 5 – LONG TERM DEBT

The accompanying Schedule of Long-Term Debt provides a listing of the outstanding debt of the district and summarizes the District’s debt transactions for year 2010. The debt service requirements, including interest, are as follows:

	Local Program	Kitsap Bank Loan	Total Debt
2010	16,427	24,799	41,226
2011	16,427		16,427
2012	16,427		16,427
2013	8,214		8,214
TOTALS	\$57,495	\$24,799	\$82,294

NOTE 6 – PENSION PLANS

Substantially all Mason County Fire Protection District No. 2 full-time and qualifying part-time employees participate in the LEOFF II and PERS II and III Plans administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the District’s financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

Mason County Fire Protection District No. 2
NOTES TO FINANCIAL STATEMENTS – 2009

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mason County Fire District 2 is a special purpose government that provides fire protection to the general public and is supported primarily through property taxes. The District was incorporated in 1947 and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts.

a. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Debt Service Fund

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

b. Basis of Accounting

Mason County Fire District 2 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 an other comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor’s Office under the authority of Washington State law, Chapter 43.09 RCW.

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

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expenses. 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 cash and investments.

d. Deposits

The District’s deposits (and certificates of deposits) are covered by the Federal Deposit Insurance Corporation and or the Washington Public Deposit Protection Commission.

e. Capital Assets

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

f. Compensated Absences

Vacation pay may be accumulated up to 240 hours and is payable upon separation or retirement.

The District's estimated liability for vacation pay December 31, 2009 was \$71,657.00.

Sick leave may accrue to a maximum of one thousand three hundred hours (1300) for union employees. The full amount of sick leave accrued is paid to the estate of an employee whose service has been terminated by death. One quarter (1/4) of sick leave accrued is paid to a union employee upon retirement.

Sick leave may accrue to a maximum of one thousand seventy-two (1,072) for the Fire Chief. Upon termination or resignation the District shall compensate the employee one-half (1/2) of all accrued sick leave based on the employee's salary as of the date of termination. In the event the employee is terminated because of misconduct, gross negligence or conviction of any felony, misdemeanor involving moral turpitude, or illegal acts involving personal gain to himself then in that event, the District shall have no obligation to pay the accrued vacation or sick leave.

Sick leave may accrue to a maximum of one thousand two hundred hours (1200) for the administrative assistant. One quarter (1/4) of sick leave accrued is paid to the employee upon retirement.

The District's estimated liability for sick leave termination on December 31, 2009 was \$22,449.00.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

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

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 after the end of the month.

Property tax revenues are recognized when cash is received by Mason County Fire District 2. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The District's regular levy for the year 2009 for collection in 2009 was \$1.49 per \$1,000 on an assessed valuation of \$1,139,245,142 for a total regular levy of \$1,697,475.00.

The District's EMS levy for the year 2009 for collection in 2009 was \$0.46400 per \$1,000 on an assessed valuation of \$1,176,388,587 for a total EMS levy of \$545,848.31.

NOTE 4 – INVESTMENTS

Mason County Fire District 2's investments are held by Mason County as its agent in the District's name. Investments by type at December 31, 2009 were as follows:

Type of Investment	Balance
WA State Invest Pool	929,748.27

NOTE 5 – LONG TERM DEBT

The accompanying Schedule of Long-Term Debt (2009) provides a listing of the outstanding debt of the district and summarizes the District’s debt transactions for year 2009. The debt service requirements, including interest, are as follows:

	Local Program	Kitsap Bank Loan	Total Debt
2009	16,427	33,065	49,492
2010	16,427	24,798	41,225
2011	16,427		16,427
2012	16,427		16,427
2013	8,214		8,214
TOTALS	\$73,922.00	\$57,863.00	\$131,785.00

NOTE 6 – PENSION PLANS

Substantially all of Mason County Fire District 2’s full-time employees participate in the LEOFF II and PERS II Plans administered by the Department of Retirement Systems under cost –sharing multiple-employer public employee defined benefit retirement systems. Actuarial information is on a system wide basis and is not considered pertinent to the District’s financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

MASON COUNTY FIRE PROTECTION DISTRICT NO. 2
SCHEDULE OF LONG TERM DEBT
 For the Year Ended December 31, 2009

Date of Original Issuance	Date of Maturity	Beginning Outstanding Debt 01/01/09 (Ending Outstanding Debt Balance from Prior Year)	Amount Issued in Current Year	BARS Code for Receipt	Receiving Fund Number	Amount Redeemed in Current Year	BARS Code for Redemption	Redeeming Fund Number	Ending Outstanding Debt 12/31/09 (1)+(2)-(3)
6/12/2003	6/1/2013	68,395.00		391.90	201	14,374.00	591.26.70	201	54,021.00
9/1/2005	9/1/2010	55,641.00		391.90	201	31,281.00	591.22.70	201	24,360.00
				391.>--			591.--.70		
				393.--			599.--.70		
				391.--			591.--.70		
				393.--			599.--.70		
				391.--			591.--.70		
				393.--			599.--.70		
				391.--			591.--.70		
				393.--			599.--.70		



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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

State Auditor
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Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
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