



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
South Whatcom Fire Authority
Whatcom County

For the period January 1, 2014 through December 31, 2015

Published January 30, 2017

Report No. 1018473





Office of the Washington State Auditor
Pat McCarthy

January 30, 2017

Board of Commissioners
South Whatcom Fire Authority
Bellingham, Washington

Report on Financial Statements

Please find attached our report on South Whatcom Fire Authority'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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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**South Whatcom Fire Authority
Whatcom County
January 1, 2014 through December 31, 2015**

Board of Commissioners
South Whatcom Fire Authority
Bellingham, 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 South Whatcom Fire Authority, Whatcom County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 20, 2017.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's

internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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Pat McCarthy

State Auditor

Olympia, WA

January 20, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Whatcom Fire Authority Whatcom County January 1, 2014 through December 31, 2015

Board of Commissioners
South Whatcom Fire Authority
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of South Whatcom Fire Authority, Whatcom County, Washington, for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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, South Whatcom Fire Authority has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of South Whatcom Fire Authority, for the year ended December 31, 2015 and 2014, 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 South Whatcom Fire Authority, as of December 31, 2015 and 2014, or the changes in financial position or cash flows 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.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming opinions on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2017 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

January 20, 2017

FINANCIAL SECTION

**South Whatcom Fire Authority
Whatcom County
January 1, 2014 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Liabilities – 2014

South Whatcom Fire Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 General Report On Fund	200 Debt Service Report On Fund	300 Capital Report On Fund
Beginning Cash and Investments					
30810	Reserved	232,472	232,472	-	-
30880	Unreserved	2,331,161	2,198,286	267	132,608
388 & 588	Prior Period Adjustments, Net	902	(440)	-	1,342
Operating Revenues					
310	Taxes	2,467,143	2,224,597	-	242,546
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	89,381	55,366	-	34,015
340	Charges for Goods and Services	93,867	93,867	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	25,516	24,381	-	1,134
Total Operating Revenues:		2,675,906	2,398,211	-	277,695
Operating Expenditures					
510	General Government	-	-	-	-
520	Public Safety	2,031,732	2,031,732	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		2,031,732	2,031,732	-	-
Net Operating Increase (Decrease):		644,174	366,479	-	277,695
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	20,980	20,980	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
Total Nonoperating Revenues:		20,980	20,980	-	-
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	4,611	4,611	-	-
591-593	Debt Service	137,760	-	-	137,760
594-595	Capital Expenditures	104,310	-	-	104,310
597	Transfers-Out	-	-	-	-
Total Nonoperating Expenditures:		246,680	4,611	-	242,069
Net Increase (Decrease) in Cash and Investments:		418,473	382,848	-	35,625
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	2,983,010	2,813,167	267	169,577
Total Ending Cash and Investments		2,983,010	2,813,167	267	169,577

The accompanying notes are an integral part of this statement.

South Whatcom Fire Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 General	200 Debt Service	211 Local Debt
Beginning Cash and Investments					
30810	Reserved	173,410	173,410	-	-
30880	Unreserved	2,189,721	1,934,389	245	-
388 & 588	Prior Period Adjustments, Net	-	-	-	-
Operating Revenues					
310	Taxes	2,427,261	2,185,611	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	102,611	72,601	-	-
340	Charges for Goods and Services	94,024	94,024	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	14,114	12,933	22	-
Total Operating Revenues:		2,638,010	2,365,169	22	-
Operating Expenditures					
510	General Government	-	-	-	-
520	Public Safety	2,060,448	2,060,448	-	-
Total Operating Expenditures:		2,060,448	2,060,448	-	-
Net Operating Increase (Decrease):		577,562	304,721	22	-
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	18,239	18,239	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	166,324	-	-	166,324
Total Nonoperating Revenues:		184,563	18,239	-	166,324
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	-	-	-	-
591-593	Debt Service	166,324	-	-	166,324
594-595	Capital Expenditures	228,974	-	-	-
597	Transfers-Out	166,324	-	-	-
Total Nonoperating Expenditures:		561,622	-	-	166,324
Net Increase (Decrease) in Cash and Investments:		200,503	322,960	22	-
Ending Cash and Investments					
5081000	Reserved	232,472	232,472	-	-
5088000	Unreserved	2,331,162	2,198,287	267	-
Total Ending Cash and Investments		2,563,634	2,430,759	267	-

The accompanying notes are an integral part of this statement.

South Whatcom Fire Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		<u>300 Capital</u>
Beginning Cash and Investments		
30810	Reserved	-
30880	Unreserved	255,087
388 & 588	Prior Period Adjustments, Net	-
Operating Revenues		
310	Taxes	241,650
320	Licenses and Permits	-
330	Intergovernmental Revenues	30,010
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	1,159
Total Operating Revenues:		<u>272,819</u>
Operating Expenditures		
510	General Government	-
520	Public Safety	-
Total Operating Expenditures:		<u>-</u>
Net Operating Increase (Decrease):		<u>272,819</u>
Nonoperating Revenues		
370-380, 395 & 398	Other Financing Sources	-
391-393	Debt Proceeds	-
397	Transfers-In	-
Total Nonoperating Revenues:		<u>-</u>
Nonoperating Expenditures		
580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	-
594-595	Capital Expenditures	228,974
597	Transfers-Out	166,324
Total Nonoperating Expenditures:		<u>395,298</u>
Net Increase (Decrease) in Cash and Investments:		<u>(122,479)</u>
Ending Cash and Investments		
5081000	Reserved	-
5088000	Unreserved	132,608
Total Ending Cash and Investments		<u>132,608</u>

The accompanying notes are an integral part of this statement.

South Whatcom Fire Authority
Notes to the Financial Statements
For the year ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

The South Whatcom Fire Authority was incorporated on January 1, 2009 and operates under the laws of the state of Washington applicable to a Municipal Subdivision. The South Whatcom Fire Authority is a general purpose government and provides Fire Protection Services, Emergency Medical Services, Basic Life Support Transports and Special Rescue (Water and Rope).

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

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

A. Fund Accounting

The Financial transactions of the South Whatcom Fire Authority are reported in individual funds, each of which is considered a separate accounting entity. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The South Whatcom Fire Authority's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following are the fund types used by the South Whatcom Fire Authority:

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.

On January 12, 2011 the Board of Commissioners adopted a Fiscal Policy by motion to set a reserved balance at a level equal to at least contractual liabilities and 8.3% (1 month) of the total General Fund budgeted revenue (excluding the beginning fund balance and any significant onetime revenue).

Reserve Funds

These funds are set aside for future capital expenditures according to the South Whatcom Fire Authority's long term plan. The Reserve Fund does not meet the Special Revenue Fund definition and is included with the Expense Fund balance. The Authority recognizes this fund as a managerial fund identified as a Reserve Fund.

General Obligation Bond Fund

WCFD 2—this fund was set up on December 15, 1999 from the issuance and sale of unlimited tax general obligation bonds in the amount of \$1,500,000 to pay for the construction of Geneva Fire Station and to refund the remainder of previous bonds. Final payment for this fund was made in 2011.

Per the "South Whatcom Fire Authority Plan" all assets and liabilities were transferred from the individual districts to the newly formed South Whatcom Fire Authority.

This fund still exists due to delinquent tax collection.

Debt Service Funds-LOCAL/LTGO

This fund account is used for a pass through for payment for expenditures for principal, interest and related costs on general long-term debt. This fund maintains a zero balance.

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

The accounting records of the South Whatcom Fire Authority are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Authority 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.

In accordance with state law South Whatcom Fire Authority also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

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. Budgets

The South Whatcom Fire Authority adopts annual appropriated budgets for General (Expense) and Capital 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. The LOCAL and LTGO debt is paid based on a payment schedule broken out with principal and interest payments due twice each year.

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

The appropriated and actual expenditures for the legally adopted budgets and payment schedules were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$2,226,892.56	\$2,031,732.00	\$147,007.78
*LOCAL Loan/LTGO Fund	\$ 137,759.62	\$ 137,759.62	\$ 0.00
Capital Fund	\$ 143,605.00	\$ 104,309.64	\$ 39,295.36

Budgeted amounts are authorized to be transferred between departments within any fund; 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 South Whatcom Fire Authority's legislative body.

D. Cash and Investments

It is the South Whatcom Fire Authority's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions.

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. The capital assets of the South Whatcom Fire Authority are recorded as expenditures when purchased.

These funds are used for facility improvements, new facility construction and the purchase of machinery and equipment which has a value of \$5,000 or more and has a life expectancy of two years or greater. The fire chief, with board approval, may place single item purchases of less than \$5,000 in the capital budget.

F. Compensated Absences

Any non-exempt employee who leaves the Fire Authority in good standing after a minimum of ten (10) consecutive years of service may be eligible for a cash-out of a portion of their sick leave bank. The cash-out may be calculated as the employee's final hourly rate multiplied by a portion of the employee's final sick leave hour balance. The portion is the sum of the following: 20% of any banked hours from 180 hours to 360 hours, 30% of any banked hours from 360 hours to 720 hours and 40% of hours

banked over 720. Total accumulation shall not exceed 960 hours. For employees of the collective bargaining unit the following applies—20% of any banked hours from 464 hours to 644 hours, 30% of any banked hours from 644 hours to 1004 hours and 40% of hours banked over 1004. Total accumulation shall not exceed 1144 hours. The final sick leave balance for the purpose of calculating sick leave cash-out pay is the employee's sick leave balance twelve (12) months prior to the termination date less any sick time used in the final year of service. Vacation/Holiday is to be used in full each year. The Fire Chief and Assistant Chief are contracted employees and follow the terms of their contract. The Authority's estimated liability for sick leave termination benefits on December 31, 2014 was \$52,753.01.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The South Whatcom Fire Authority's Other Financing Sources consist of transfers-in and out between funds, the sale of assets, BLS transports fees, fire service fees, and direct federal grants.

I. Risk Management Statement

VFIS is responsible for payment of all covered causes of loss against the District above the stated deductible, if any. Portable equipment and real and personal property are covered at either actual cash value, replacement cost or guaranteed replacement cost. VFIS provides general, automobile and management liability on an "occurrence" and/or "claims-made" basis, subject to a "follow form" umbrella, if elected. The most common sub-limit of liability starts at \$1M, while aggregate limits may reach as high as \$20M.

Note 2 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed throughout the month with the Authority receiving accounting reports of monthly tax collections within fifteen days of the end of the monthly accounting period.

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

The South Whatcom Fire Authority's regular levy for the year 2015 was \$1.4955473315 per \$1,000 on an assessed valuation of \$1,646,249,101 for a total regular levy of \$2,462,043.45.

Note 3 – Deposits and Investments

It is the South Whatcom Fire Authority policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

The South Whatcom Fire Authority deposits to the Whatcom County Treasurer are covered by the Washington Public Deposit Protection Commission. Deposits to Chase for our Advanced Travel account are covered by the Federal Deposit Insurance Corporation. All investments are insured, registered or held by the South Whatcom Fire Authority or its agent in the government's name.

The South Whatcom Fire Authority's investments are held by the Whatcom County Treasurer in the South Whatcom Fire Authority's name.

Investments are reported at amortized cost. Investments by type at December 31, 2015 are as follows:

<u>Type of Investments</u>	SWFA's Own Investments
<u>Expense Whatcom County Investment Pool</u>	<u>\$ 2,328,019</u>
<u>Reserve Whatcom County Investment Pool</u>	<u>\$ 515,670</u>
<u>Capital Improvement Whatcom County Investment Pool</u>	<u>\$ 170,234</u>
<u>Whatcom County Investment Pool TOTAL</u>	<u>\$ 3,013,923</u>

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the South Whatcom Fire Authority and summarizes the South Whatcom Fire Authority's debt transactions for year ended December 31, 2015.

The debt service requirements for LOCAL and LTGO Loans including both principle and interest are as follows:

	LOCAL	LTGO	Total
	Bonds	Debt	Debt
2015	\$69,940	\$67,340	\$137,280
2016	\$36,800	\$66,690	\$103,490
2017	\$40,600	\$65,910	\$106,510
2018	\$39,200	\$0	\$39,200
2019- 2020	\$74,200	\$0	\$74,200
TOTALS	<u>\$260,740</u>	<u>\$199,940</u>	<u>\$460,680</u>

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all of the South Whatcom Fire Authority full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans LEOFF II 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 (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

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

At June 30, 2015 (the measurement date of the plans), the South Whatcom Fire Authority proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1UALL	0.000714%	\$37,349
PERS 2/3	0.000973%	\$34,766
SERS 2/3		
PSERS 2		
LEOFF 1		
LEOFF 2	0.022207%	\$(228,244)
VFFRPF	0.70%	\$(134,241.45)

LEOFF Plan 2

The South Whatcom Fire Authority also 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 6 – Prior Period Adjustments

South Whatcom Fire Authority made a prior period adjustment to net position for \$902.00 to reflect voided warrants.

Note 7 – Other Notes

1. The Fire Authority has entered into the following Interlocal agreements:

Port of Bellingham – Use of Property and Indemnification; effective March 2009 to 30 day written notice.

Whatcom County Water District No. 12 – **(originally Whatcom Co. FPD No. 9 agreement)** Fire Protection Services; effective August 2000 to written notice.

Whatcom County Parks & Recreation - **(originally Whatcom Co. FPD No. 9 agreement)** Fire Protection Services; effective January 2006 to written notice.

Washington State Parks & Recreation - **(originally Whatcom Co. FPD No. 6 agreement)** Fire Protection Services; effective January 2007 to written notice.

WHAT-COMM Communications Center - **(originally Whatcom Co. FPD No. 2 agreement)** Communication Services; effective December 2007 to written notice.

Specialized Emergency Response Program (SERP) - Hazardous Material Incidents; effective January 2007 and renews each year unless written notice received 180 days prior to expiration of term.

Washington State Department of Natural Resources – Forest Land Response Agreement and Federal Grant Agreement ; effective August 2011 to August 2016.

Washington Fire Commissioners Association - Joint Self Insurance Program; effective December 2011 and has a perpetual duration unless written notice 31 days in advance of end of calendar year 2031.

Whatcom County Fire District 4 - Use of Training Facility; effective January 2011 and is indefinite or 30 day prior notice to the effective termination date.

Whatcom County - **(originally Whatcom Co. FPD No. 2 agreement)** Emergency Medical Services; effective June 1996 to 60 day written notice.

Whatcom County Fire Agencies Radio System (FARS) - Emergency Radio System; effective October 2006 to written notice by July 31 of year that wishes to terminate.

Washington State Patrol – State Fire Mobilization Agreement (Reimbursement for Fire Agency Costs); effective July 2009 to December 31, 2013.

Whatcom County - Mutual Aid Services; effective July 1986 and is automatically renewable unless written notice.

2. The Fire Authority at the February 26, 2016, Special Election by the vote of the people approved General Obligation Bonds (GOB) in the amount of 1,960,000 for the purchase of three new fire engines and equipment. The bonds will be sold in late June or July, (2016) and the Fire Authority will use the financing for purchasing these new engines in 2016 and 2017. This will be capital expenditures planned for the 2016, 2017 budgeted years.
3. The Fire Authority is self-insured or classified as a reimbursable account with the State of Washington for unemployment compensation.
4. On September 4, 2012, Limited Tax General Obligation Bonds were issued by South Whatcom Fire Authority in the amount of \$315,000 and purchased by Martin Nelson & Company for the purchase of a Fire Service Water Tender. The variance amount of \$300.93 was an Admin Fee applied annually and is now being budgeted annually for the LOCAL Loan/LTGO Fund.

South Whatcom Fire Authority
2014
Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The South Whatcom Fire Authority 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 Washington State law, Chapter 43.09 RCW.

The South Whatcom Fire Authority was incorporated on January 1, 2009 and operates under the laws of the state of Washington applicable to a Municipal Subdivision. The South Whatcom Fire Authority is a general purpose government and provides Fire Protection Services, Emergency Medical Services, Basic Life Support Transports and Special Rescue (Water and Rope). The South Whatcom Fire Authority uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the South Whatcom Fire Authority are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The South Whatcom Fire Authority'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 South Whatcom Fire Authority:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

On January 12, 2011 the Board of Commissioners adopted a Fiscal Policy by motion to set a reserved balance at a level equal to at least contractual liabilities and 8.3% (1 month) of the total General Fund budgeted revenue (excluding the beginning fund balance and any significant onetime revenue).

Reserve Fund

These funds are set aside for future capital expenditures according to the South Whatcom Fire Authority's long term plan. The Reserve Fund does not meet the Special Revenue Fund definition and is included with the Expense Fund balance. The Authority recognizes this fund as a managerial fund identified as a Reserve Fund.

General Obligation Bond Fund

WCFD 2—this fund was set up on December 15, 1999 from the issuance and sale of unlimited tax general obligation bonds in the amount of \$1,500,000 to pay for the construction of Geneva Fire Station and to refund the remainder of previous bonds. Final payment for this fund was made in 2011.

Per the “South Whatcom Fire Authority Plan” all assets and liabilities were transferred from the individual districts to the newly formed South Whatcom Fire Authority.

This fund still exists due to delinquent tax collection.

Debt Service Funds-LOCAL/LTGO

This fund account is used for a pass through for payment for expenditures for principal, interest and related costs on general long-term debt. This fund maintains a zero balance.

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.

These funds are used for facility improvements, new facility construction and the purchase of machinery and equipment which has a value of \$5,000 or more and has a life expectancy of two years or greater. The fire chief, with board approval, may place single item purchases of less than \$5,000 in the capital budget.

B. Basis of Accounting

The accounting records of the South Whatcom Fire Authority are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Authority 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.

In accordance with state law South Whatcom Fire Authority also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

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. Budgets

The South Whatcom Fire Authority adopts annual appropriated budgets for General

(Expense) and Capital 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. The LOCAL and LTGO debt is paid based on a payment schedule broken out with principal and interest payments due twice each year.

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

The appropriated and actual expenditures for the legally adopted budgets and payment schedules were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$2,172,886.87	\$2,060,438.43	\$112,448.44
*LOCAL Loan/LTGO Fund	\$ 166,323.72	\$ 166,323.72	\$ 0.00
Capital Fund	\$ 239,000.00	\$ 228,973.10	\$ 10,026.90

Budgeted amounts are authorized to be transferred between departments within any fund; 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 South Whatcom Fire Authority's legislative body.

On September 4, 2012, Limited Tax General Obligation Bonds were issued by South Whatcom Fire Authority in the amount of \$315,000 and purchased by Martin Nelson & Company for the purchase of a Fire Service Water Tender. The variance amount of \$300.93 was an Admin Fee applied annually and is now being budgeted annually for the LOCAL Loan/LTGO Fund.

D. Cash

It is the South Whatcom Fire Authority's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions.

E. Deposits

The South Whatcom Fire Authority deposits to the Whatcom County Treasurer are covered by the Washington Public Deposit Protection Commission). Deposits to Chase for our Advanced Travel account are covered by the Federal Deposit Insurance Corporation.

F. Investments See Note 2, Investments.

G. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. The capital assets of the South Whatcom Fire Authority are recorded as expenditures when purchased.

H. Compensated Absences

Any non-exempt employee who leaves the Fire Authority in good standing after a minimum of ten (10) consecutive years of service may be eligible for a cash-out of a portion of their sick leave bank. The cash-out may be calculated as the employee's final hourly rate multiplied by a portion of the employee's final sick leave hour balance. The portion is the sum of the following: 20% of any banked hours from 180 hours to 360 hours, 30% of any banked hours from 360 hours to 720 hours and 40% of hours banked over 720. Total accumulation shall not exceed 960 hours. For employees of the collective bargaining unit the following applies—20% of any banked hours from 464 hours to 644 hours, 30% of any banked hours from 644 hours to 1004 hours and 40% of hours banked over 1004. Total accumulation shall not exceed 1144 hours. The final sick leave balance for the purpose of calculating sick leave cash-out pay is the employee's sick leave balance twelve (12) months prior to the termination date less any sick time used in the final year of service. Vacation/Holiday is to be used in full each year. The Fire Chief and Assistant Chief are contracted employees and follow the terms of their contract. The Authority's estimated liability for sick leave termination benefits on December 31, 2014 was \$48,212.20.

I. Long-Term Debt See Note 4, Debt Service Requirements.

J. Other Financing Sources or Uses

The South Whatcom Fire Authority's Other Financing Sources or Uses consist of transfers-in and out between funds, the sale of assets; BLS transports fees, fire service fees, and direct federal grant.

K. Reserved Fund Balance

On January 12, 2011 the Board of Commissioners adopted a Fiscal Policy by motion to set a reserved fund balance at a level equal to at least contractual liabilities and 8.3% (1 month) of the total General Fund budgeted revenue (excluding the beginning fund balance and any significant onetime revenue).

Note 2 - Investments

The South Whatcom Fire Authority's investments are held by the Whatcom County Treasurer in the South Whatcom Fire Authority's name.

Investments by type at December 31, 2014 are as follows:

<u>Type of Investment</u>	SWFA's own Investments
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<u>Expense WCIP</u>	<u>\$ 1,932,903</u>
<u>Reserve WCIP</u>	<u>\$ 512,435</u>
<u>Capital Improvement WCIP</u>	<u>\$ 133,164</u>
 <u>WCIP Total</u>	 <u>\$ 2,578,502</u>

Please note the Reserve Fund is a separate fund held at the Whatcom County Treasurer, however it is reported on the annual report as part of the Expense Fund balances because it does not meet the Special Revenue Fund definition.

WCIP means Whatcom County Investment Pool.

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 throughout the month with the Authority receiving accounting reports of monthly tax collections within fifteen days of the end of the monthly accounting period.

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

The South Whatcom Fire Authority's regular levy for the year 2014 was \$ 1.5000000000 per \$1,000 on an assessed valuation of \$ 1,610,352,975 for a total regular levy of \$ 2,415,529.46.

Note 4 – Debt Service Requirements

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the South Whatcom Fire Authority and summarizes the South Whatcom Fire Authority's debt transactions for year ended December 31, 2014.

The debt service requirements for LOCAL and LTGO Loans including both principle and interest are as follows:

	<u>LTGO Bonds</u>	<u>LOCAL Debt</u>	<u>Total Debt</u>
2014	62,940	103,082	166,022
2015	67,340	69,941	137,281
2016	66,690	36,800	103,490
2017	65,910	40,600	106,510
2018	0.00	39,200	39,200
<u>2019-2020</u>	<u>0.00</u>	<u>74,200</u>	<u>74,200</u>
 TOTALS	 \$262,880	 \$363,823	 \$626,703

Note 5 - Pension Plans

Substantially all of the South Whatcom Fire Authority full-time and qualifying part-time employees participate in the LEOFF II or PERS 2 or 3 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 Authority'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 Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

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

**South Whatcom Fire Authority
Schedule of Liabilities
For the Year Ended December 31, 2015**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Purchase Tender	12/1/2017	195,000	-	65,000	130,000
263.96	Purchase Samish Way House	12/1/2020	200,000	-	30,000	170,000
263.96	Purchase 2 Ambulances	6/1/2015	31,570	-	31,570	-
Total General Obligation Debt/Liabilities:			426,570	-	126,570	300,000
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Pension Liabilities	12/31/2016	-	72,115	-	72,115
259.12	Compensated Absenses	12/31/2016	48,212	4,541	-	52,753
Total Revenue and Other (non G.O.) Debt/Liabilities:			48,212	76,656	-	124,868
Total Liabilities:			474,782	76,656	126,570	424,868

**South Whatcom Fire Authority
Schedule of Liabilities
For the Year Ended December 31, 2014**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Purchase Tender	12/1/2017	255,000	-	60,000	195,000
263.96	Purchase Samish Way House	12/1/2020	230,000	-	30,000	200,000
263.96	Purchase 2 Ambulances	6/1/2015	93,615	-	62,045	31,570
259.11	Compensated Absenses		39,108	9,104	-	48,212
Total General Obligation Debt/Liabilities:			617,723	9,104	152,045	474,782
Total Liabilities:			617,723	9,104	152,045	474,782

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
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