



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements Audit Report**  
**Spokane County Fire Protection**  
**District No. 1**  
**(Spokane Valley Fire Department)**

**For the period January 1, 2015 through December 31, 2016**

**Published December 7, 2017**

**Report No. 1020015**





**Office of the Washington State Auditor**  
**Pat McCarthy**

December 7, 2017

Board of Commissioners  
Spokane Valley Fire Department  
Spokane Valley, Washington

**Report on Financial Statements**

Please find attached our report on the Spokane Valley Fire Department'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**

**Spokane Valley Fire Department  
Spokane County  
January 1, 2015 through December 31, 2016**

Board of Commissioners  
Spokane Valley Fire Department  
Spokane Valley, 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 the Spokane Valley Fire Department, Spokane County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 27, 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 audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

November 27, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Spokane Valley Fire Department Spokane County January 1, 2015 through December 31, 2016**

Board of Commissioners  
Spokane Valley Fire Department  
Spokane Valley, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Spokane Valley Fire Department, Spokane County, Washington, for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the Spokane Valley Fire Department 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 the Spokane Valley Fire Department, for the years ended December 31, 2016 and 2015, 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 the Spokane Valley Fire Department, as of December 31, 2016 and 2015, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.



## Other Matters

### *Supplementary and Other Information*

Our audits were performed for the purpose of forming 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 November 27, 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.



Pat McCarthy

State Auditor

Olympia, WA

November 27, 2017

## **FINANCIAL SECTION**

**Spokane Valley Fire Department  
Spokane County  
January 1, 2015 through December 31, 2016**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2016  
Fund Resources and Uses Arising from Cash Transactions – 2015  
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### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2016  
Schedule of Liabilities – 2015

**Spokane County Fire Protection District No. 1**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>010 General</b>	<b>501 Self-Funded Medical</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	3,885,237	3,885,237	-
30880	Unreserved	10,838,512	10,223,950	614,562
388 / 588	Prior Period Adjustments, Net	-	-	-
<b>Revenues</b>				
310	Taxes	33,348,318	33,348,318	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	278,160	278,160	-
340	Charges for Goods and Services	4,177,334	446,919	3,730,415
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	114,568	109,506	5,062
Total Revenues:		37,918,380	34,182,902	3,735,477
<b>Expenditures</b>				
510	General Government	3,303,063	-	3,303,063
520	Public Safety	30,775,452	30,775,452	-
Total Expenditures:		34,078,515	30,775,452	3,303,063
Excess (Deficiency) Revenues over Expenditures:		3,839,865	3,407,451	432,414
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	58,167	58,167	-
Total Other Increases in Fund Resources:		58,167	58,167	-
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	1,949,860	1,949,860	-
591-593, 599	Debt Service	75,070	75,070	-
597	Transfers-Out	1,525,000	1,525,000	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		3,549,930	3,549,930	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>348,102</b>	<b>(84,312)</b>	<b>432,414</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	1,986,466	1,986,466	-
5088000	Unreserved	13,085,386	12,038,409	1,046,977
<b>Total Ending Cash and Investments</b>		<b>15,071,852</b>	<b>14,024,875</b>	<b>1,046,977</b>

*The accompanying notes are an integral part of this statement.*

**Spokane County Fire Protection District No. 1**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>010 General</b>	<b>501 Self-Funded Medical</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	3,228,655	3,228,655	-
30880	Unreserved	10,796,369	10,282,142	514,227
388 & 588	Prior Period Adjustments, Net	-	-	-
<b>Operating Revenues</b>				
310	Taxes	31,645,142	31,645,142	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	170,069	170,069	-
340	Charges for Goods and Services	3,993,484	452,149	3,541,335
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	103,276	100,901	2,375
Total Operating Revenues:		35,911,972	32,368,261	3,543,710
<b>Operating Expenditures</b>				
510	General Government	3,443,376	-	3,443,376
520	Public Safety	29,338,079	29,338,079	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		32,781,455	29,338,079	3,443,376
Net Operating Increase (Decrease):		3,130,517	3,030,182	100,334
<b>Nonoperating Revenues</b>				
370-380, 395 & 398	Other Financing Sources	15,638	15,638	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
Total Nonoperating Revenues:		15,638	15,638	-
<b>Nonoperating Expenditures</b>				
580, 596 & 599	Other Financing Uses	1,070	1,070	-
591-593	Debt Service	72,980	72,980	-
594-595	Capital Expenditures	877,680	877,680	-
597	Transfers-Out	1,495,700	1,495,700	-
Total Nonoperating Expenditures:		2,447,430	2,447,430	-
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>698,725</b>	<b>598,390</b>	<b>100,334</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	3,885,237	3,885,237	-
5088000	Unreserved	10,838,512	10,223,950	614,562
<b>Total Ending Cash and Investments</b>		<b>14,723,749</b>	<b>14,109,187</b>	<b>614,562</b>

*The accompanying notes are an integral part of this statement.*

**Spokane County Fire Protection District No. 1**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>611 Pension</b>
308	Beginning Cash and Investments	530,379	530,379
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	65,601	65,601
380-390	Other Increases and Financing Sources	1,525,000	1,525,000
510-570	Expenditures	1,350,850	1,350,850
580-590	Other Decreases and Financing Uses	-	-
	Net Increase (Decrease) in Cash and Investments:	239,751	239,751
508	Ending Cash and Investments	770,130	770,130

*The accompanying notes are an integral part of this statement.*

**Spokane County Fire Protection District No. 1**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>611 Pension</b>
308	Beginning Cash and Investments	338,899	338,899
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	2,521	2,521
380-390	Other Increases and Financing Sources	1,495,700	1,495,700
510-570	Expenditures	1,306,741	1,306,741
580-590	Other Decreases and Financing Uses	-	-
	Net Increase (Decrease) in Cash and Investments:	191,480	191,480
508	Ending Cash and Investments	530,379	530,379

*The accompanying notes are an integral part of this statement.*

**SPOKANE VALLEY FIRE DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENT  
For the year ended December 31, 2016**

**Note 1 - Summary of Significant Accounting Policies**

The Spokane Valley Fire Department was incorporated in 1940 and operates under the laws of the state of Washington applicable to a Fire Protection District under Chapter 52 RCW. The Spokane Valley Fire Department is a special purpose government that provides fire protection services and emergency medical services including advanced life support (paramedic) care to the general public and is supported primarily through property taxes.

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

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

**A. Fund Accounting**

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

**GOVERNMENTAL FUND TYPES:**

**General Fund-Expense 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.

## **PROPRIETARY FUND TYPES:**

### Medical Self-Insurance (Internal Service) Fund

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis.

## **FIDUCIARY FUND TYPES:**

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

### Pension (Trust) Fund

These funds are used to account for assets that the government holds on behalf of others in a custodial capacity.

### Clearing (Agency Funds)

The District has one agency fund. A fund coded 631 accounts for the issuance and redemption of accounts payable and payroll warrants issued by the District. The fund was established by Resolution #99-152 on September 1, 1999. This fund is not included in the financial statements per the BARS Manual 3.8.6.100.

## **B. Basis of Accounting and Measurement Focus**

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

## **C. Budgets**

The Spokane Valley Fire Department adopts annual appropriated budgets for the Expense, Medical Self-Insurance and Pension 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 appropriated and actual expenditures for the legally adopted budgets were as follows:



<b>Fund</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenditures</b>	<b>Variance</b>
General Fund:	\$36,004,224	\$34,325,381.70	\$1,678,842.30
Medical Self-Ins Fund	\$4,240,500	\$3,303,062.98	\$937,437.02
Pension Fund	\$1,525,000	\$1,350,849.92	\$174,150.08

Budgeted amounts are authorized to be transferred between programs or departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, must be approved by the Spokane Valley Fire Department's Board of Commissioners.

**D. Cash and Investments**

See Note 3, *Deposits and Investments*.

**E. Capital Assets**

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded as capital expenditures when purchased.

**F. Compensated Absences**

The District employees' compensated absences balances are based on either a union labor agreement or a non-union policy for administrative staff and support personnel. Under the policy for non-union employees, vacation pay may accumulate up to 160 hours and is 100% payable upon separation or retirement. Sick leave accumulates monthly, however, hours in excess of 1,040 are payable at 25% annually. Effective 01/01/2015, upon separation or retirement, up to 1,040 hours will be paid at 20% of their rate of pay.

Under the Chiefs Association Local 3701 union labor agreement, its members may accrue up to 264 hours for day officers and up to 312 hours for shift officers per year. Officers may carryover up to 144 hours of earned vacation per year and are permitted to sell back up to 80 hours for day officers and 72 hours for shift officers. All accrued and carried over vacation hours are 100% payable upon separation or retirement. Sick leave may accumulate indefinitely, however, at the end of each calendar year all members shall be paid at the rate of 25% of their hourly wage rate for their permanent rank, for every hour of sick leave that they have accrued beyond 1,440 hours for shift employees and 1,040 hours for day employees and then those hours will be removed from their sick leave accruals. With a retirement through DRS or an officer's death, the value of any accrued sick leave hours, up to a maximum of 1,040 hours (days), 1,440 (shift), will be paid to the officer-or their beneficiary at a rate of twenty percent (20%) of the officer's hourly wage rate of their permanent rank.

Under the International Association of Firefighters Local 876 union labor agreement, its members may accumulate vacation pay, depending on seniority, up to 312 hours if shift employees and 240 hours if day employees. It is 100% payable upon separation or retirement. Upon separation or retirement, hours in excess of 1,440 for shift members and 1,040 for day members are payable at 25% annually. Effective 01/01/2015, upon separation or retirement, up to 1,440 hours for shift members and 1,080 hours for day members will be paid at 20% of their rate of pay.

Under the International Association of Firefighters Local 876 union labor agreement, its members may accrue one and one half hours of comp time off for each hour worked. Any hours above ninety-six hours will be paid at straight time. Any accrued hours will be paid at straight time upon separation.

Under the Chiefs Association Local 3701 union labor agreement, its members may accrue up to forty-eight hours of comp time. Any accrued hours will be paid at straight time upon separation. Payments are recognized as expenditures when paid.

#### G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

#### H. Risk Management

The District maintains insurance against most normal hazards except for unemployment insurance, where it has elected to become self-insured. As self-insured, actual employee claims are paid by the Washington State Department of Employment Security and then reimbursed by the District. This self-insurance program costs the district less than full participation in the state unemployment compensation program.

Resolution #2005-248, approved on October 17, 2005, established, effective January 1, 2006, a self-insured medical program which is administered by a third party administrator or administrators and re-insured through purchase of individual and aggregate stop loss insurance. Up until December 31, 2013, this medical self-insurance program was accounted for within the District's Clearing Fund #632 with the use of various custodial accounts. Per recent SAO guidance, the District adopted Resolution #2013-382 to account for the medical self-insurance program, in an internal service fund, effective January 1, 2014.

#### I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Fire Commissioners.

The District's General Fund has four reserve accounts, with internal and/or external restrictions, totaling \$1,986,465.50 as of December 31, 2016. The Operational Cash Flow

Account has internal restrictions, but does not meet SAO guidelines in order to be included as restricted. These accounts are as follows:

- 1) Capital Expense Account – The account was established by Resolution #97-120 on December 17, 1997. It was established for the purpose of restricting property sales monies so designated by the Board of Fire Commissioners to be spent for future properties and construction. The account balance as of December 31, 2016 was \$1,278,953.24.
- 2) Public Education and Fire Investigations Account – The account was established by Resolution #2006-275 on December 5, 2006. Its purpose is to restrict any court awarded restitution monies received by the department to be used only for public education and fire investigations. The account balance as of December 31, 2016 was \$16,137.34.
- 3) IBNR/Contingency Reserve Account – This account was established by Resolution #2008-304 on June 16, 2008. This Contingency account supplements the annual budget for the Department's self-insurance medical program to bring its commitment to the program to a level required by the State Office of Financial Management. The account was initially funded at \$650,000.00 and was still at that level as of 12/31/2016.
- 4) Communication Trailer Mobilization Reimbursements Account - This account was established by Resolution #2008-310 on October 20, 2008. Its purpose is to restrict the reimbursed monies for the use of the communications trailer at mobilizations for trailer maintenance cost and replacement of supplies used during the mobilization. The account balance as of 12/31/2016 was \$41,374.92.
- 5) Operational Cash Flow Account – The account was established by Resolution #2008-307 on August 25, 2008. It is to be maintained in the Expense Fund at a level of 25% of the fund's expenditure budget adopted prior to the beginning of each calendar year to ensure that sufficient fund equity is carried over from the prior year to satisfy the Department's obligation each month based on the adopted budget. The account balance as of 12/31/2016 was \$8,468,873.25. This account is included in the Unreserved Cash Account based upon recent guidance issued by the SAO.

## **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 after the end of each month except December. December collections are distributed at the end of the 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 2016 was \$1.470316 per \$1,000 on an assessed valuation of \$10,697,682,885 for a total regular levy of \$15,728,974.99. Additionally, the District's special levy was \$1.701367 per \$1,000, primarily for M & O purposes and some capital, was \$18,002,583.11.

### **Note 3 – Deposits and Investments**

As required by state law, RCW 52.16.010, the County Treasurer is the financial agent of the District and custodian of the District's cash and investment.

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

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

Investments are reported at fair value. The LGIP portion is reported at amortized cost. Total investments on December 31, 2016 are as follows:

Investments held by Spokane County Treasurer as an agent for other local governments, individuals or private organizations:

	<u>Total</u>
Spokane County Investment Pool	\$15,770,981.58

### **Note 4 – Debt Service Requirements**

#### **Debt Service**

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

The debt service requirements for a capital lease are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Millwood Fire Station Lease			
2017	71,820	0	\$71,820
2018	73,570	0	\$73,570

## **Note 5 – Pension Plans**

### **A. State Sponsored Pension Plans**

Substantially all District 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.

Public Employees' Retirement System (PERS) Plans 1 and 2  
Law Enforcement Officers' and Firefighters' Retirement (LEOFF) Plan 2

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](http://www.drs.wa.gov).

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

	Allocation %	Liability
PERS 1 UAAL	.010578%	\$568,088
PERS 2/3	.013536%	\$681,527
LEOFF I	.157498%	(\$1,622,680)
LEOFF II	.605610%	(\$3,522,409)

### **LEOFF Plan 1**

The District also participates in LEOFF Plan 1. 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 on July 1, 2000, employers and employees contribute zero percent.

## **LEOFF Plan 2**

The District 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.

### **B. Other Retirement System – Firemen’s Pension Retirement Fund**

The District is the administrator of the Firemen’s Pension Retirement System. This system is a closed system in that the membership is limited to firemen employed prior to October 1, 1977. The system is shown as a trust fund in the financial reports of the Department. The Department’s liability under the system is composed of all benefits for firemen retired prior to March 1, 1970, partial benefits for certain firemen retired after March 1, 1970, who are mainly covered by LEOFF and certain medical benefits for all LEOFF 1 fire fighters.

The Pension Fund is funded on a pay-as-you-go basis with a yearly allocation from the District’s Expense Fund, investment earnings and fire premium tax monies received from the State of Washington.

The most recent actuarial review of the system was done by Sageview to determine the funding requirements as of December 31, 2014. As of that date, 41 retired firefighters/survivors were receiving pensions, 65 retired firefighters were receiving postretirement benefits other than pensions, the market value of assets was \$338,899 and the actuarial present value of future benefits was \$27,982,000 leaving an unfunded pension benefit obligation of \$27,643,000; \$6,532,000 for Pensions and \$21,111,000 for OPEB.

## **Note 6 – Contingencies and Litigations**

In February 2014, an ex-employee filed a lawsuit for wrongful termination relating to religious discrimination. This case was filed in Spokane County Superior Court. The case is now with the Court of Appeals and will likely remain there until 2017.

**Spokane County Fire Protection District No. 1**  
**DBA Spokane Valley Fire Department**  
**NOTES TO THE FINANCIAL STATEMENT**  
**For the year ended December 31, 2015**

**Note 1 - Summary of Significant Accounting Policies**

The Spokane Valley Fire Department was incorporated in 1940 and operates under the laws of the state of Washington applicable to a Fire Protection District under Chapter 52 RCW. The Spokane Valley Fire Department is a special purpose government that provides fire protection services and emergency medical services including advanced life support (paramedic) care to the general public and is supported primarily through property taxes.

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

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

A. Fund Accounting

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

**GOVERNMENTAL FUND TYPES:**

General Fund-Expense 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.

### **PROPRIETARY FUND TYPES:**

#### Medical Self-Insurance (Internal Service) Fund

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis.

### **FIDUCIARY FUND TYPES:**

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

#### Pension (Trust) Fund

These funds are used to account for assets that the government holds on behalf of others in a custodial capacity.

#### Clearing (Agency Funds)

The District has one agency fund. A fund coded 631 accounts for the issuance and redemption of accounts payable and payroll warrants issued by the District. The fund was established by Resolution #99-152 on September 1, 1999. This fund is not included in the financial statements per the BARS Manual 3.8.6.100.

### **B. Basis of Accounting and Measurement Focus**

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

### **C. Budgets**

The Spokane Valley Fire Department adopts annual appropriated budgets for the Expense, Medical Self-Insurance and Pension 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 appropriated and actual expenditures for the legally adopted budgets were as follow:



<b>Fund</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenditures</b>	<b>Variance</b>
Expense Fund	\$ 34,563,699.00	\$ 31,785,509	\$ 2,778,190
Medical Self-Ins Fund	\$ 4,061,600.00	\$ 3,443,376	\$ 618,224
Pension Fund	\$ 1,480,500.00	\$ 1,306,741	\$ 173,759

Budgeted amounts are authorized to be transferred between programs or departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, must be approved by the Spokane Valley Fire Department's Board of Commissioners.

D. Cash and Investments

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded as capital expenditures when purchased.

F. Compensated Absences

The District employees' compensated absences balances are based on either a union labor agreement or a non-union policy for administrative staff and support personnel. Under the policy for non-union employees, vacation pay may accumulate up to 160 hours and is 100% payable upon separation or retirement. Sick leave accumulates monthly, however, hours in excess of 1,040 are payable at 25% annually. Effective 01/01/2015, upon separation or retirement, up to 1,040 hours will be paid at 20% of their rate of pay.

Under the Chiefs Association Local 3701 union labor agreement, its members may accrue up to 264 hours for day officers and up to 312 hours for shift officers per year. Officers may carryover up to 144 hours of earned vacation per year and are permitted to sell back up to 80 hours for day officers and 72 hours for shift officers. All accrued and carried over vacation hours are 100% payable upon separation or retirement. Sick leave may accumulate indefinitely, however, at the end of each calendar year all members shall be paid at the rate of 25% of their hourly wage rate for their permanent rank, for every hour of sick leave that they have accrued beyond 1,440 hours for shift employees and 1,040 hours for day employees and then those hours will be removed from their sick leave accruals. With a retirement through DRS or an

officer's death, the value of any accrued sick leave hours, up to a maximum of 1,040 hours (days), 1,440 (shift), will be paid to the officer-or their beneficiary at a rate of fifteen percent (15%) of the officers hourly wage rate of their permanent rank.

Under the International Association of Firefighters Local 876 union labor agreement, its members may accumulate vacation pay, depending on seniority, up to 312 hours if shift employees and 240 hours if day employees. It is 100% payable upon separation or retirement. Upon separation or retirement, hours in excess of 1,440 for shift members and 1,040 for day members are payable at 25% annually. Effective 01/01/2015, upon separation or retirement, up to 1,440 hours for shift members and 1,080 hours for day members will be paid at 20% of their rate of pay.

Under the International Association of Firefighters Local 876 union labor agreement, its members may accrue one and one half hours of comp time off for each hour worked. Any hours above ninety-six hours will be paid at straight time. Any accrued hours will be paid at straight time upon separation.

Under the Chiefs Association Local 3701 union labor agreement, its members may accrue up to forty-eight hours of comp time. Any accrued hours will be paid at straight time upon separation. Payments are recognized as expenditures when paid.

#### G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

#### H. Risk Management

The District maintains insurance against most normal hazards except for unemployment insurance, where it has elected to become self-insured. As self-insured, actual employee claims are paid by the Washington State Department of Employment Security and then reimbursed by the District. This self-insurance program costs the district less than full participation in the state unemployment compensation program.

Resolution #2005-248, approved on October 17, 2005, established, effective January 1, 2006, a self-insured medical program which is administered by a third party administrator or administrators and re-insured through purchase of individual and aggregate stop loss insurance. Up until December 31, 2013, this medical self-insurance program was accounted for within the District's Clearing Fund #632 with the use of various custodial accounts. Per recent SAO guidance, the District adopted Resolution #2013-382 to account for the medical self-insurance program, in an internal service fund, effective January 1, 2014.

#### I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is

subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Fire Commissioners.

The District's Expense Fund has five reserve accounts, with internal and/or external restrictions, totaling \$3,885,237.25 as of December 31, 2015. These accounts are as follows:

- 1) Capital Expense Account – The account was established by Resolution #97-120 on December 17, 1997. It was established for the purpose of restricting property sales monies so designated by the Board of Fire Commissioners to be spent for future properties and construction. The account balance as of December 31, 2015 was \$3,191,303.24.
- 2) Public Education and Fire Investigations Account – The account was established by Resolution #2006-275 on December 5, 2006. Its purpose is to restrict any court awarded restitution monies received by the department to be used only for public education and fire investigations. The account balance as of December 31, 2015 was \$15,712.60.
- 3) IBNR/Contingency Reserve Account – This account was established by Resolution #2008-304 on June 16, 2008. This Contingency account supplements the annual budget for the Department's self-insurance medical program to bring its commitment to the program to a level required by the State Office of Financial Management. The account was initially funded at \$650,000.00 and was still at that level as of 12/31/2015.
- 4) Communication Trailer Mobilization Reimbursements Account - This account was established by Resolution #2008-310 on October 20, 2008. Its purpose is to restrict the reimbursed monies for the use of the communications trailer at mobilizations for trailer maintenance cost and replacement of supplies used during the mobilization. The account balance as of 12/31/2015 was \$28,221.41.
- 5) Operational Cash Flow Account – The account was established by Resolution #2008-307 on August 25, 2008. It is to be maintained in the Expense Fund at a level of 25% of the fund's expenditure budget adopted prior to the beginning of each calendar year to ensure that sufficient fund equity is carried over from the prior year to satisfy the Department's obligation each month based on the adopted budget. The account balance as of 12/31/2015 was \$7,973,573.50. This account is included in the Unreserved Cash Account based upon recent guidance issued by the SAO.

## **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 after the end of each month except December. December collections are distributed at the end of the 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 2015 was \$1.50 per \$1,000 on an assessed valuation of \$10,190,775,681 for a total regular levy of \$15,286,163.52. Additionally, the District's special levy (\$1.64 per \$1,000) primarily for M & O purposes (some capital) was \$16,461,762.18.

### **Note 3 – Deposits and Investments**

As required by state law, RCW 52.16.010, the County Treasurer is the financial agent of the District and custodian of the District's cash and investment.

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

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

Investments are reported at fair value. The LGIP portion is reported at amortized cost. Total investments on December 31, 2015 are as follows:

Investments held by Spokane County Treasurer as an agent for other local governments, individuals or private organizations.	
Spokane County Investment Pool	Total \$15,183,128.01

### **Note 4 – Debt Service Requirements**

#### **Debt Service**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Spokane Valley Fire Department and summarizes the district's debt transactions for year ended December 31, 2015.

The debt service requirements for a capital lease are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Millwood Fire Station Lease			
2016	75,070.00	0	\$75,070
2017	71,820.00	0	\$71,820
2018	73,570.00	0	\$73,570

## **Note 5 – Pension Plans**

### **A. State Sponsored Pension Plans**

Substantially all District 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.

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P.O. Box 48380  
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2015 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability
PERS 1 UAAL	.010208%	\$533,973
PERS 2/3	.013188%	\$471,215
LEOFF I	.156913%	(\$1,891,148)
LEOFF II	.602782%	(\$6,195,393)

### **LEOFF Plan 1**

The District also participates in LEOFF Plan 1. 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 on July 1, 2000, employers and employees contribute zero percent.

### **LEOFF Plan 2**

The District 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.

#### **B. Other Retirement System – Firemen’s Pension Retirement Fund**

The District is the administrator of the Firemen’s Pension Retirement System. This system is a closed system in that the membership is limited to firemen employed prior to October 1, 1977. The system is shown as a trust fund in the financial reports of the Department. The Department’s liability under the system is composed of all benefits for firemen retired prior to March 1, 1970, partial benefits for certain firemen retired after March 1, 1970, who are mainly covered by LEOFF and certain medical benefits for all LEOFF 1 fire fighters.

The Pension Fund is funded on a pay-as-you-go basis with a yearly allocation from the District’s Expense Fund, investment earnings and fire premium tax monies received from the State of Washington.

The most recent actuarial review of the system was done by Sageview to determine the funding requirements as of December 31, 2014. As of this date, the market value of assets was \$338,899 and the actuarial present value of future benefits was \$27,982,000 leaving an unfunded pension benefit obligation of \$27,643,000; \$6,532,000 for Pensions and \$21,111,000 for OPEB.

#### **Note 6 – Contingencies and Litigations**

In 2013, an ex-employee filed a lawsuit in Spokane County Superior Court for wrongful termination. Our attorney moved the case to Federal Court due to the nature of the claims made. The District won the lawsuit by summary judgment during 2015.

In February 2014, another ex-employee filed a lawsuit for wrongful termination relating to religious discrimination. This case was filed in Spokane County Superior Court. The case is now with the Court of Appeals and will likely remain there until 2017.

In March 2014, the same ex-employee filed a lawsuit for violation of Public Records Request against the Department in Spokane County Superior Court. The legal fees for both legal actions are being covered by the Department’s insurance. A settlement was reached May 2015 and was paid by the Department’s insurance provider.

**Spokane County Fire Protection District No. 1**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2016**

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>General Obligation Debt/Liabilities</b>						
263.51	Capital Lease - Millwood Station	11/15/2018	220,460	-	75,070	145,390
<b>Total General Obligation Debt/Liabilities:</b>			<b>220,460</b>	<b>-</b>	<b>75,070</b>	<b>145,390</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		3,382,478	146,109	-	3,528,587
264.30	Net Pension Liability		1,005,188	244,427	-	1,249,615
264.30	Fireman's Pension Retirement 41.18/41.26		6,532,000	-	-	6,532,000
264.40	Fireman's Pension Retirement 41.18/41.26 OPEB		21,111,000	-	-	21,111,000
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>32,030,666</b>	<b>390,536</b>	<b>-</b>	<b>32,421,202</b>
<b>Total Liabilities:</b>			<b>32,251,126</b>	<b>390,536</b>	<b>75,070</b>	<b>32,566,592</b>

**Spokane County Fire Protection District No. 1**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2015**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
263.51	Capital Lease - Millwood Station	11/15/2018	293,440	-	72,980	220,460
<b>Total General Obligation Debt/Liabilities:</b>			<b>293,440</b>	<b>-</b>	<b>72,980</b>	<b>220,460</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		2,731,261	651,217	-	3,382,478
264.30	Net Pension Liability		-	1,005,188	-	1,005,188
264.30	Fireman's Pension Retirement 41.18/41.26		-	6,532,000	-	6,532,000
264.40	Fireman's Pension Retirement 41.18/41.26 OPEB		-	21,111,000	-	21,111,000
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>2,731,261</b>	<b>29,299,405</b>	<b>-</b>	<b>32,030,666</b>
<b>Total Liabilities:</b>			<b>3,024,701</b>	<b>29,299,405</b>	<b>72,980</b>	<b>32,251,126</b>



## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>