



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Valley Regional Fire Authority
King County

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

Published December 14, 2017

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Office of the Washington State Auditor
Pat McCarthy

December 14, 2017

Board of Governance
Valley Regional Fire Authority
Auburn, Washington

Report on Financial Statements

Please find attached our report on Valley Regional Fire Authority's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

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**

**Valley Regional Fire Authority
King County
January 1, 2016 through December 31, 2016**

Board of Governance
Valley Regional Fire Authority
Auburn, 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 Valley Regional Fire Authority, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 22, 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.

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

November 22, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Valley Regional Fire Authority King County January 1, 2016 through December 31, 2016

Board of Governance
Valley Regional Fire Authority
Auburn, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Valley Regional Fire Authority, King County, Washington, for the year ended December 31, 2016, 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 an opinion 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, Valley Regional 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 Valley Regional Fire Authority, for the year ended December 31, 2016, 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 Valley Regional Fire Authority, as of December 31, 2016, 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 an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 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

November 22, 2017

FINANCIAL SECTION

**Valley Regional Fire Authority
King County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
Notes to Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016

Valley Regional Fire Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 Current Expense	201 Debt Service	301 Capital Projects
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	8,870,123	7,904,717	103,849	861,557
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	11,080,692	9,517,033	1,563,659	-
320	Licenses and Permits	312,156	312,156	-	-
330	Intergovernmental Revenues	1,284,667	884,667	-	400,000
340	Charges for Goods and Services	11,541,714	11,541,714	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	99,891	95,810	352	3,729
Total Revenues:		24,319,120	22,351,380	1,564,011	403,729
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	21,493,954	21,493,954	-	-
Total Expenditures:		21,493,954	21,493,954	-	-
Excess (Deficiency) Revenues over Expenditures:		2,825,166	857,426	1,564,011	403,729
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	250,386	250,386	-	-
381, 395, 398	Other Resources	75,449	75,449	-	-
Total Other Increases in Fund Resources:		325,835	325,835	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	980,972	263,221	-	717,751
591-593, 599	Debt Service	1,549,275	-	1,549,275	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	250,386	250,386	-	-
Total Other Decreases in Fund Resources:		2,780,633	513,607	1,549,275	717,751
Increase (Decrease) in Cash and Investments:		370,368	669,654	14,736	(314,022)
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	9,240,491	8,574,371	118,585	547,535
Total Ending Cash and Investments		9,240,491	8,574,371	118,585	547,535

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Valley Regional Fire Authority (VRFA) was incorporated on January 1, 2007 and operates under the laws of the State of Washington applicable to a Regional Fire Authority. The Authority is a special purpose local government and provides first responder fire and emergency medical services to the residents of the Cities of Algona, Auburn, and Pacific.

The Authority reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System (BARS)* Manual prescribed by the Washington 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 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 fund types are used:

General (Current Expense) Fund (001)

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

Debt Service Fund (201)

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

Capital Project Fund (301)

This fund accounts for financial resources which are restricted, committed, or assigned for the acquisition, upgrade or construction of capital facilities and other capital assets.

B. Basis of Accounting and Measurement Focus

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

C. Budgets

The Authority adopts annual appropriated budgets for each of its three 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:

Fund	Final Appropriated Amount	Actual Expenditures	Variance
Current Expense	\$ 22,543,132	\$ 21,757,175	\$ (785,957)
Debt Service	1,549,275	1,549,275	-
Capital Projects	1,198,636	717,751	(480,885)

Budgeted amounts are authorized to be transferred between departments within any fund or object classes within departments. However, any revisions that alter the total expenditures of a fund, or that change the number of authorized employee positions or certain terms and conditions of employment must be approved by the Authority's legislative body.

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, are not an inventory or consumable item, and have an estimated useful life in excess of one year. Capital assets of the VRFA are recorded as expenditures when purchased.

F. Compensated Absences

VRFA employees accrue vacation leave at a variable rate based on years of service. In general, employees are allowed to accumulate vacation leave up to what would be earned in two years of employment.

Sick leave may accumulate up to 960 hours for day-shift employees and 1,300 hours for twenty-four hour shift employees. Sick leave accumulations over these hours are paid annually at a rate of 25% of the hours over 960 and 1,300 hours respectively. Upon termination, VRFA employees have varied sick leave payout options.

The accrued value of vacation and sick leave balances on December 31, 2016 is \$1,762,947.

G. Long-Term Debt

See Note 4, Debt Service Requirements

H. Risk Management

The VRFA is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 168 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

In accordance with Title 50 RCW, the VRFA is self-insured for purposes of Unemployment Compensation. During 2016, VRFA incurred one claim for unemployment compensation with no associated cost.

Title 51 RCW requires the VRFA to ensure payment of benefits for job-related injuries and diseases through the Workers' Compensation fund or through self-insurance. The VRFA participates in the State of Washington's Workers' Compensation program. Premiums are based on individual employer's reported payroll hours and insurance rates based on each employer's risk classification and past experience. The premium is paid by employer and employee contributions.

NOTE 2 – DEPOSITS and INVESTMENTS

While it is the Authority's policy to invest temporary cash surpluses with the State of Washington Local Government Investment Pool, the ongoing low interest rate environment rendered this unfeasible because the cost of electronically transmitting and receiving funds would have exceeded investment interest earned. As such, some short-term temporary cash surpluses were remained in the Authority's bank deposit account.

The VRFA's deposits are held in its checking accounts with Heritage Bank. The Federal Deposit Insurance Corporation (FDIC) insures the VRFA's deposits up to \$250,000 per account. The Washington Public Deposit Protection Commission (WPDPC) insures amounts over the FDIC limit. All deposits and investments are held by the VRFA in its own name.

Investments are presented at fair market value. Investments by fund at December 31, 2016 are as follows:

<u>Type of Investment</u>	<u>Total</u>
LGIP – General Fund	\$1,681,013
LGIP – Debt Service Fund	118,585
LGIP – Capital Projects Fund	<u>547,535</u>
TOTAL	<u>\$2,347,133</u>

NOTE 3 – PROPERTY TAXES AND FIRE BENEFIT SERVICE CHARGE

The King and Pierce County Treasurers act as agents to collect property tax levies and fire benefit service charges for all taxing authorities including the VRFA. Both counties distribute collections on the 10th of each month for the prior month's receipts.

Property tax and fire benefit service charge (FBSC) revenues are recognized when received by the VRFA. Delinquent taxes and FBSC are considered to be fully collectible because a lien affixes to the property after taxes are levied.

The VRFA's assessed valuation for its regular property tax levy and excess property tax levy for its 2008 UTGO bonds and its 2015 Refunding Bonds (see note 4) is:

Levy Certification Date	Tax Collection Year	Assessed Valuation
02/11/2016	2016	\$9,832,824,298
12/02/2014	2015	9,172,421,036

The VRFA's levy rates are:

Tax Collection Year	Levy Rate (Dollars per \$1,000 of Assessed Value)		Total
	Regular	Excess (see note 4)	
2016	\$0.97397	\$0.16098	\$1.13495
2015	1.00000	0.18043	1.18043

The property tax amounts levied and collected are:

Tax Collection Year	Regular Tax Levy	Excess Tax Levy (see note 4)	Total Tax Levy	Amount Collected in Levy Year	Percent Collected in Levy Year
2016	\$9,550,000	\$1,575,000	\$11,125,000	\$11,080,692	99.60%
2015	9,210,000	1,650,000	10,860,000	10,981,839	101.12%

The FBSC applied and collected is:

FBSC Collection Year	Amount Charged	Amount Collected during the year	Percent Collected during the Year
2016	\$10,900,000	\$10,865,389	99.68%
2015	10,440,000	10,417,309	99.78%

NOTE 4 – DEBT SERVICE REQUIREMENTS

A special election was held on February 19, 2008 where the qualified electors of the Authority ratified the proposition to issue bonds in the manner described in VRFA Board of Governance Resolution No. 33 with the proceeds to be used to pay the cost of the VRFA's Capital Facilities Plan. In addition, the voters authorized the levy of excess property taxes to pay and retire the bonds. As a result, on July 24, 2008, the VRFA issued \$19.8 million of Unlimited Tax General Obligation (UTGO) Bonds. The call date of this issue is December 1, 2018.

On June 10, 2015, the Authority completed an in-substance defeasance to retire \$9,845,000 of the 2008 UTGO bonds. This refunding was undertaken to reduce total debt service payments over the next twelve years by \$941,139.

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the VRFA and summarizes the VRFA's debt transactions for the year ended December 31, 2016.

The debt service requirements for general obligation bonds, including both principle and interest, are as follows:

Year	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2017	1,551,963	-	-	1,551,963
2018	1,548,100	-	-	1,548,100
2019	1,551,600	-	-	1,551,600
2020	1,548,300	-	-	1,548,300
2011	1,546,600	-	-	1,546,600
2022 - 2026	7,738,600	-	-	7,738,600
2027	1,549,600	-	-	1,549,600
TOTALS	<u>\$ 17,034,763</u>	<u>-</u>	<u>-</u>	<u>\$17,034,763</u>

The balances of outstanding Voted and Non-Voted General Obligation Debt are:

As of Year Ended	2008 UTGO Bonds	2015 UTGO Refunding	Other Non- Voted Debt	Total Debt Outstanding
12/31/2016	\$ 3,765,000	\$9,820,000	-	\$13,585,000
12/31/2015	4,715,000	9,845,000	-	14,560,000

NOTE 5 - PENSION PLANS

State Sponsored Pension Plans

All VRFA full-time and qualifying part-time employees participate in the LEOFF 1, LEOFF 2 and PERS 2 plans following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), 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
PO Box 48380
Olympia, WA 998504-8380

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

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

	Allocation %	Liability (Asset)
PERS 1	0.009141%	\$ 490,915
PERS 2/3	0.011698%	588,985
LEOFF 2	0.399955%	(2,326,257)

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1

Upon formation of the VRFA, The City of Auburn retained liability for LEOFF 1 pension and other post-employment benefits for all members of the former Auburn Fire Department as of December 31, 2006 who continued employment with the VRFA. Contributions and liabilities for LEOFF 1 members are obligations of the City of Auburn. There were no LEOFF 1 members from the former Pacific Fire Department that were employed by the VRFA. The LEOFF 1 plan 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.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2

The 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 – OTHER POST EMPLOYMENT BENEFITS

Retiree Medical Benefit

On December 13, 2016, the VRFA Board of Governance adopted Resolution Number 134, which amended VRFA Board of Governance Resolution Number 86, and provides for a fixed monthly amount of \$550 (previously \$440) to be paid to non-LEOFF 1 retirees for purposes of post-retirement medical expenditures. The benefit is limited to five retirees per year and ends upon the earlier of twelve years, eligibility for Medicare or death of the retiree. During 2016, payments totaling \$73,920 were made under this benefit.

LEOFF 1 Retiree Medical Benefit

In addition to pension benefits described in Note 5, the City of Auburn provides post-retirement benefits, in accordance with state statutes, to all LEOFF 1 retirees of the VRFA. The City provides long-term care, medical insurance, and reimburses all validated claims for medical, dental and hospitalization costs incurred by retirees.

Note 7 – HEALTH and WELFARE

The VRFA is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or

join a pool or organization for the joint purchasing of insurance and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

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

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the State of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the State of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting an application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

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

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

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (GASB). Year-end financial reporting is done on an accrual basis and submitted to the

Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's Office.

NOTE 8 – RELATED PARTY TRANSACTIONS

In 2016, the VRFA contracted with the City of Auburn for certain geographic information service (GIS) support. Amounts paid to the City of Auburn for this service totaled \$24,288 in 2016.

In addition, during 2016, the City of Auburn collected Fire Impact and Mitigation Fees on behalf of the VRFA. Amounts totaling \$400,000 were transferred to the VRFA from the City of Auburn representing the VRFA's share of this revenue.

As outlined in Note 6, the City of Auburn is responsible for the liability for retired and active LEOFF 1 personnel of its former fire department to include medical and long-term care insurance payments and any other expenses incurred in accordance with the City of Auburn LEOFF 1 Policies and Procedures.

**Valley Regional Fire Authority
Schedule of Liabilities
For the Year Ended December 31, 2016**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2008 Voter Approved GO Bonds	12/1/2020	4,715,000	-	950,000	3,765,000
251.11	2015 Refunding Bonds	12/1/2027	9,845,000	-	25,000	9,820,000
Total General Obligation Debt/Liabilities:			14,560,000	-	975,000	13,585,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		1,711,982	50,965	-	1,762,947
264.30	Pension Liability		903,362	176,538	-	1,079,900
Total Revenue and Other (non G.O.) Debt/Liabilities:			2,615,344	227,503	-	2,842,847
Total Liabilities:			17,175,344	227,503	975,000	16,427,847

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.

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