



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
North County Regional Fire Authority
(North County Fire & EMS)
Snohomish County

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

Published February 22, 2018

Report No. 1020811





Office of the Washington State Auditor
Pat McCarthy

February 22, 2018

Board of Commissioners
North County Fire & EMS
Stanwood, Washington

Report on Financial Statements

Please find attached our report on the North County Fire & EMS's financial statements.

We are issuing this report in order to provide information on the Fire Authority'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**

**North County Fire & EMS
Snohomish County
January 1, 2015 through December 31, 2016**

Board of Commissioners
North County Fire & EMS
Stanwood, 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 North County Fire & EMS, 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 Fire Authority's financial statements, and have issued our report thereon dated February 14, 2018.

We issued an unmodified opinion on the fair presentation of the Fire Authority'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 Fire Authority 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 Fire Authority'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 Fire Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fire Authority'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 Fire Authority'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.

In addition, we noted certain matters that we have reported to the management of the Fire Authority in a separate letter dated February 14, 2018.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Fire Authority's financial statements are free from material misstatement, we performed tests of the Fire Authority'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 Fire Authority'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 Fire Authority'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

February 14, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North County Fire & EMS Snohomish County January 1, 2015 through December 31, 2016

Board of Commissioners
North County Fire & EMS
Stanwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the North County Fire & EMS, Washington, for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Fire Authority's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 Fire Authority'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 Fire Authority'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 North County Fire & EMS 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 North County Fire & EMS, 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 Fire Authority 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 North County Fire & EMS, 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 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 February 14, 2018 on our consideration of the Fire Authority’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 Fire Authority'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 style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

February 14, 2018

FINANCIAL SECTION

North County Fire & EMS Snohomish County January 1, 2015 through December 31, 2016

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
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Schedule of Liabilities – 2016
Schedule of Liabilities – 2015

North County 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 NCRFA/STANW OOD	200 BOND FUND	301 RESERVE FUND (CASH)
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	3,680,000	2,347,764	2,192	1,330,045
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	3,904,410	3,764,118	140,292	-
320	Licenses and Permits	310	310	-	-
330	Intergovernmental Revenues	33,560	33,560	-	-
340	Charges for Goods and Services	2,513,815	2,513,815	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	266,367	249,852	-	16,514
Total Revenues:		6,718,462	6,561,655	140,292	16,514
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	5,918,710	5,918,710	-	-
Total Expenditures:		5,918,710	5,918,710	-	-
Excess (Deficiency) Revenues over Expenditures:		799,752	642,945	140,292	16,514
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	40,000	-	-	40,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	15,686	15,686	-	-
Total Other Increases in Fund Resources:		55,686	15,686	-	40,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	202,591	202,591	-	-
591-593, 599	Debt Service	140,746	-	140,746	-
597	Transfers-Out	40,000	40,000	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		383,337	242,591	140,746	-
Increase (Decrease) in Cash and Investments:		472,101	416,040	(454)	56,514
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	4,152,101	2,763,803	1,739	1,386,559
Total Ending Cash and Investments		4,152,101	2,763,803	1,739	1,386,559

The accompanying notes are an integral part of this statement.

North County Fire & EMS
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 NCRFA/STANW OOD	200 BOND FUND	301 RESERVE FUND (CASH)
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	3,721,496	2,403,479	712	1,317,304
388 & 588	Prior Period Adjustments, Net	(74,262)	(74,262)	-	-
Operating Revenues					
310	Taxes	3,716,043	3,568,628	147,415	-
320	Licenses and Permits	1,625	1,625	-	-
330	Intergovernmental Revenues	23,130	23,130	-	-
340	Charges for Goods and Services	2,593,607	2,593,607	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	66,671	53,931	-	12,740
Total Operating Revenues:		6,401,076	6,240,921	147,415	12,740
Operating Expenditures					
510	General Government	-	-	-	-
520	Public Safety	6,226,438	6,226,438	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		6,226,438	6,226,438	-	-
Net Operating Increase (Decrease):		174,638	14,483	147,415	12,740
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	288,208	288,208	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	31	31	-	-
Total Nonoperating Revenues:		288,239	288,239	-	-
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	-	-	-	-
591-593	Debt Service	145,935	-	145,935	-
594-595	Capital Expenditures	284,145	284,145	-	-
597	Transfers-Out	31	31	-	-
Total Nonoperating Expenditures:		430,112	284,177	145,935	-
Net Increase (Decrease) in Cash and Investments:		32,766	18,546	1,480	12,740
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	3,680,000	2,347,764	2,192	1,330,045
Total Ending Cash and Investments		3,680,000	2,347,764	2,192	1,330,045

The accompanying notes are an integral part of this statement.

North County Regional Fire Authority

For the Year Ended December 31, 2016

Note 1 - Summary of Significant Accounting Policies

The North County Regional Fire Protection Authority (Fire Authority) is a special purpose government that provides fire suppression, emergency medical services, public education and fire prevention services. The Fire Authority is supported primarily through property taxes and contract revenues. The Fire Authority was created on January 1, 2008, through the combination of Snohomish County Fire District No. 14 and Snohomish County Fire District No. 18, and operates under Chapter 52 of the Revised Code of Washington (RCW) and other laws of the state of Washington applicable to fire districts and fire protection authorities.

The Fire Authority is governed by a Board of Fire Commissioners, consisting of five elected members that serve for a period of six years. The Board of Fire Commissioners has the statutory authority to adopt and modify the budget, levy taxes, control all assets, sign contracts, and authorize borrowing or debt issuances. The Board of Fire Commissioners appoints the Fire Chief to manage the day-to-day operations of the Fire Authority. The Fire Chief is accountable to the Board of Fire Commissioners for the activities being managed.

The Fire Authority is the primary, special purpose government responsible for all fire protection within its service areas. As a result, all significant activities have been included in the financial statements. The Fire Authority's financial statements represent those of a stand-alone government, as there are no component units.

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

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

a. Fund Accounting

Financial transactions of the Fire Authority 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 Fire Authority's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund (or current expense fund)

This fund is the primary operating fund of the Fire Authority. It accounts for all financial resources except those required or elected to be accounted for in another fund. For reporting purposes, the Fire Authority has consolidated its Working Capital Operating Reserve Fund, Petty Cash Fund, and Investment Fund into the General Fund.

Debt Service Fund

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

Capital Projects Funds

This fund is used to account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

b. Basis of Accounting and Measurement Focus

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

c. Budgets

The Fire Authority adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. Annual appropriations for these funds lapse at the fiscal year end.

The appropriated and actual expenditures for the General Fund operating budget are as follow:

	Original Budget	Amended Budget	Actual Expenditures	Variance
General Fund	\$ 6,191,176	\$ 6,443,176	\$ 6,160,571	\$ 282,605

RCW 52.16.070 provides that the Fire Authority shall not expend funds in any year that exceed its available resources. For the 2016 calendar year, total expenditures did not exceed available resources.

d. Cash and Investments

It is the Fire Authority's policy to invest all temporary cash surpluses. Interest earned on invested funds is credited either to the Working Capital Operating Reserve fund or the Capital Asset Fund, depending on the source of the funds. All cash and investments are stated at fair value.

e. Capital Assets

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

f. Compensated Absences

Vacation pay may be accumulated up to 240 hours for employees covered under the International Association of Firefighters (IAFF) Local 4118 contract, and is payable upon separation or retirement. At December 31, 2016 the Fire Authority's estimated liability for vacation pay was \$167,686.

Upon separation or retirement employees covered under the IAFF agreement receive compensation for up to 500 for unused sick leave. At December 31, 2016 the Fire Authority's estimated liability for sick leave pay was \$309,211.

g. Long-Term Debt – Refer to Note 4, *Debt Service Requirements*.

h. Risk Management – Refer to Note 6, *Other Disclosures*.

Note 2 – Deposits and Investments

The Fire Authority's investments are held by the Snohomish County Treasurer as its agent in the Fire Authority's name. At December 31, 2016 the Fire Authority had \$1,330,045 invested with the State of Washington Local Government Investment Pool (LGIP) and \$1,600,000 invested in the Snohomish County Investment Pool (SCIP). Both the LGIP's and SCIP's investment objectives are, in priority order: 1) safety of principal, 2) maintaining adequate liquidity to meet cash flows, and 3) providing a competitive interest rate relative to other comparable investment alternatives. Both investment pools are is comparable to a Securities and Exchange Commission regulated Rule 2a-7 money market fund.

The Fire Authority's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. All deposits not covered by FDIC insurance are covered by the Washington Public Deposit Protection Commission (PDPC). The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent.

Note 3 - Property Tax

The Snohomish County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed as they are received. Property tax revenues are recognized when cash is recorded as received by the County.

Property taxes levied by the County Assessor and collected by the County Treasurer become a lien on the first day of the levy year and may be paid in two equal installments. The first installment is due on

April 30 and the balance is due October 31. Delinquent taxes are considered fully collectible, bear interest at 12 percent, and are subject to additional penalties if not paid as scheduled.

Washington State law requires Assessors appraise property at 100 percent of its “true and fair market value” according to the “highest and best use” of the property. Taxes levied in 2016 were based on market sales in 2014, except for new construction. New construction values were established as of July 31, 2015.

In 2016, the Fire Authority levied the following property taxes:

	Assessed Value	Levy Rate/\$1000	Levy Amount
Fire Operations	\$1,959,238,040	\$1.428	\$2,798,274
Emergency Medical Services (EMS)	1,988,102,940	0.500	994,051
GO Bonds, non-voted	1,961,484,599	0.072	140,744
		<u>\$2.000</u>	<u>\$ 3,933,070</u>

As of December 31, 2016, the outstanding property taxes receivable for the General Fund and the Debt Service Fund were \$139,147 and \$5569 respectively.

Note 4 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides additional information regarding the outstanding debt and liabilities of the Fire Authority and summarizes the Fire Authority’s debt transactions for year ended December 31, 2016.

In July 2003, Snohomish County Fire District No. 14 issued a \$2,000,000 non-voted general obligation bond for the purpose of financing the acquisition, construction and equipping of a new fire station. The bond bears interest at the rate of 4.30% and is held by Bank of America, Seattle, Washington. Principal payments of \$125,000 are due annually on each December 1, and interest is paid each June 1 and December 1. The bond matures on December 1, 2018.

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

Year	Principal	Interest	Total
2016	125,000	15,746	140,746
2017	125,000	10,468	135,468
2018	125,000	5,234	130,234
	<u>\$375,000</u>	<u>\$31,448</u>	<u>\$406,448</u>

Note 5 - Pension Plans

Substantially all of the Fire Authority’s full-time and qualifying part-time employees participate in the Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF) Plan 2, or the Public

Employees Retirement System (PERS) Plan 2 or Plan 3 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the Fire Authority's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

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

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

System	Allocation %	Liability (Asset)
PERS 1	0.006408%	\$344,140
PERS 2/3	0.008205%	\$413,115
LEOFF 2	0.093974%	(\$546,581)
VFFRPF	0.0005%	\$212

The Fire Authority 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.

The Fire Authority also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 6 - Other Disclosures

Self Insurance

The Fire Authority self-insures for Unemployment claims. During 2016, the Fire Authority received no new claims and paid out no funds. Unemployment claims are recorded as an expense in the General Fund.

Joint Venture

The Fire Authority and other police and fire entities (currently 37) operate jointly the Snohomish County Police Staff and Auxiliary Services Center, (SNOPAC). SNOPAC, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, the cities, towns, fire districts, police districts and other service districts to enter into a contract and agreement to jointly establish maintain and operate a support communications center. Control of SNOPAC is with an 11 member Board of Directors which is specified in the Interlocal Agreement. SNOPAC takes 911 calls, and performs emergency dispatch services for local governmental agencies including police, fire and medical aid.

In the event of the dissolution of SNOPAC, any money in the possession of SNOPAC or the Board of Directors after payment of all costs, expenses and charges validly incurred under the Agreement shall be returned to the parties to the Agreement in proportion to their contribution during the fiscal year of dissolution. As of December 31, 2016, before deducting the payment of all costs, expenses and charges validly incurred, the Fire Authority's share was \$205,283.

Complete financial statements for SNOPAC can be obtained from SNOPAC's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

North County Regional Fire Authority

For the Year Ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

The North County Regional Fire Protection Authority (Fire Authority) is a special purpose government that provides fire suppression, emergency medical services, public education and fire prevention services. The Fire Authority is supported primarily through property taxes and contract revenues. The Fire Authority was created on January 1, 2008, through the combination of Snohomish County Fire District No. 14 and Snohomish County Fire District No. 18, and operates under Chapter 52 of the Revised Code of Washington (RCW) and other laws of the state of Washington applicable to fire districts and fire protection authorities.

The Fire Authority is governed by a Board of Fire Commissioners, consisting of five elected members that serve for a period of six years. The Board of Fire Commissioners has the statutory authority to adopt and modify the budget, levy taxes, control all assets, sign contracts, and authorize borrowing or debt issuances. The Board of Fire Commissioners appoints the Fire Chief to manage the day-to-day operations of the Fire Authority. The Fire Chief is accountable to the Board of Fire Commissioners for the activities being managed.

The Fire Authority is the primary, special purpose government responsible for all fire protection within its service areas. As a result, all significant activities have been included in the financial statements. The Fire Authority's financial statements represent those of a stand-alone government, as there are no component units.

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

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

a. Fund Accounting

Financial transactions of the Fire Authority 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 Fire Authority's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund (or current expense fund)

This fund is the primary operating fund of the Fire Authority. It accounts for all financial resources except those required or elected to be accounted for in another fund. For reporting purposes, the Fire Authority has consolidated its Working Capital Operating Reserve Fund and Investment Fund into the General Fund.

Debt Service Fund

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

Capital Projects Funds

This fund is used to account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

b. Basis of Accounting and Measurement Focus

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

c. Budgets

The Fire Authority adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. Annual appropriations for these funds lapse at the fiscal year end.

The appropriated and actual expenditures for the General Fund operating budget are as follow:

	Original Budget	Amended Budget	Actual Expenditures	Variance
General Fund	\$ 5,858,719	\$ 6,696,102	\$ 6,616,378	\$ 79,724

RCW 52.16.070 provides that the Fire Authority shall not expend funds in any year that exceed its available resources. For the 2015 calendar year, total expenditures did not exceed available resources.

d. Cash and Investments

It is the Fire Authority's policy to invest all temporary cash surpluses. Interest earned on invested funds is credited either to the Working Capital Operating Reserve fund or the Capital Asset Fund, depending on the source of the funds. All cash and investments are stated at fair value.

e. Capital Assets

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

f. Compensated Absences

Vacation pay may be accumulated up to 240 hours for employees covered under the International Association of Firefighters (IAFF) Local 4118 contract, and is payable upon separation or retirement. At December 31, 2015 the Fire Authority's estimated liability for vacation pay was \$152,595.

Upon separation or retirement employees covered under the IAFF agreement receive compensation for up to 500 for unused sick leave. At December 31, 2015 the Fire Authority's estimated liability for sick leave pay was \$270,573.

g. Risk Management – Refer to Note 6, Other Disclosures

Note 2 - Property Tax

The Snohomish County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed as they are received. Property tax revenues are recognized when cash is recorded as received by the County.

Property taxes levied by the County Assessor and collected by the County Treasurer become a lien on the first day of the levy year and may be paid in two equal installments. The first installment is due on April 30 and the balance is due October 31. Delinquent taxes are considered fully collectible, bear interest at 12 percent, and are subject to additional penalties if not paid as scheduled.

Washington State law requires Assessors appraise property at 100 percent of its "true and fair market value" according to the "highest and best use" of the property. Taxes levied in 2015 were based on market sales in 2013, except for new construction. New construction values were established as of July 31, 2014.

In 2015, the Fire Authority levied the following property taxes:

	Assessed Value	Levy Rate/\$1000	Levy Amount
Fire Operations	\$1,842,162,166	\$1.420	\$2,617,479
Emergency Medical Services (EMS)	1,871,798,366	0.500	935,899
GO Bonds, non-voted	1,844,316,578	0.079	145,935
		\$1.999	\$ 3,699,313

As of December 31, 2015, the outstanding property taxes receivable for the General Fund and the Debt Service Fund were \$124,126 and \$5660 respectively.

Note 3 – Deposits and Investments

The Fire Authority's investments are held by the Snohomish County Treasurer as its agent in the Fire Authority's name. At December 31, 2015 the Fire Authority had \$1,328,937 invested with the State of Washington Local Government Investment Pool (LGIP) and \$1,600,000 invested in the Snohomish County Investment Pool (SCIP). Both the LGIP's and SCIP's investment objectives are, in priority order: 1) safety of principal, 2) maintaining adequate liquidity to meet cash flows, and 3) providing a competitive interest rate relative to other comparable investment alternatives. Both investment pools are is comparable to a Securities and Exchange Commission regulated Rule 2a-7 money market fund.

The Fire Authority's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. All deposits not covered by FDIC insurance are covered by the Washington Public Deposit Protection Commission (PDPC). The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent.

Note 4 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides additional information regarding the outstanding debt and liabilities of the Fire Authority and summarizes the Fire Authority's debt transactions for year ended December 31, 2015.

In July 2003, Snohomish County Fire District No. 14 issued a \$2,000,000 non-voted general obligation bond for the purpose of financing the acquisition, construction and equipping of a new fire station. The bond bears interest at the rate of 4.30% and is held by Bank of America, Seattle, Washington. Principal payments of \$125,000 are due annually on each December 1, and interest is paid each June 1 and December 1. The bond matures on December 1, 2018.

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

Year	Principal	Interest	Total
2015	\$125,000	\$20,936	\$145,936
2016	125,000	15,746	140,746
2017	125,000	10,468	135,468
2018	125,000	5,234	130,234
	<u>\$500,000</u>	<u>\$52,384</u>	<u>\$552,384</u>

Note 5 - Pension Plans

Substantially all of the Fire Authority's full-time and qualifying part-time employees participate in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2, or the Public Employees Retirement System (PERS) Plan 2 or Plan 3 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the Fire Authority's financial statements. Contributions to the systems by

both employee and employer are based upon gross wages covered by plan benefits.

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.

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

System	Allocation %	Liability (Asset)
PERS 1	0.005897%	\$308,468
PERS 2/3	0.007617%	\$272,160
LEOFF 2	0.115114%	(\$1,183,142)
VFFRPF	0.26%	\$131

The Fire Authority 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.

The Fire Authority also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

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

Note 6 - Other Disclosures

Self Insurance

The Fire Authority self-insures for Unemployment claims. During 2015, the Fire Authority received no new claims and paid on 4 previous claims totaling \$23,127. Unemployment claims are recorded as an expense in the General Fund.

Joint Venture

The Fire Authority and other police and fire entities (currently 37) operate jointly the Snohomish County Police Staff and Auxiliary Services Center, (SNOPAC). SNOPAC, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, the cities, towns, fire districts, police districts and other service districts to enter into a contract and agreement to jointly establish maintain and operate a support communications center. Control of SNOPAC is with an 11 member Board of Directors which is specified in the Interlocal Agreement. SNOPAC takes 911 calls, and performs emergency dispatch services for local governmental agencies including police, fire and medical aid.

In the event of the dissolution of SNOPAC, any money in the possession of SNOPAC or the Board of Directors after payment of all costs, expenses and charges validly incurred under the Agreement shall be returned to the parties to the Agreement in proportion to their contribution during the fiscal year of dissolution. As of December 31, 2015, before deducting the payment of all costs, expenses and charges validly incurred, the Fire Authority's share was \$333,635.

Complete financial statements for SNOPAC can be obtained from SNOPAC's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

Prior Period Adjustments

In 2015, there was a prior period adjustment to the financials to account for some undocumented transactions. There were several factors that caused the adjustment.

The Fire Authority went through a number of personnel changes to key positions in 2014 and 2015. The prior Fire Chief resigned in the summer of 2014 and a new Chief took over in December of 2014. The prior Chief performed the majority of the financial duties of the department so after his departure there was very little done in the financial area other than pay invoices and complete payroll. Around the beginning of 2015, all administrative employees were gone and the new Chief had to quickly add staff to keep the department running. Once again, just the bills and payroll were being processed monthly without any financial reporting or reconciliation.

At that time, the payroll was being handled by an outside payroll vendor in coordination with Snohomish County Treasurer's Office. There were some transfers between the two entities that did not get recorded properly or accounted correctly to the Authority's accounts which caused some discrepancies issues when attempting to reconcile at a later date.

An outside consult was hired to complete the 2014 annual report and attempted to organize and document all the transactions for the past year which was quite difficult with the condition of the financial records. The outside consultant was later hired by the Fire Chief to fill the position of Finance Manager.

Also a third party CPA offered his services late in 2015 to try and reconcile the records from late 2014 and 2015. He gave it his best attempt and the annual report was resubmitted and filed with the State Auditor's Office.

Another complicating factor was the conversion of accounting software from Fire Admin to BIAS software in January 2016.

So based upon all these extenuating circumstances, it was determined that a one-time prior period adjustment was sensible rather than spend any additional resources or time to go back and determine the actual cause of the accounting reconciliation issues.

**North County 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	Station 97	12/1/2018	375,000	-	125,000	250,000
Total General Obligation Debt/Liabilities:			375,000	-	125,000	250,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Balances-Sick	12/31/2016	270,573	145,823	107,184	309,211
259.12	Compensated Balances-Vacation	12/31/2016	152,595	174,901	159,810	167,686
264.30	Net Pension Liability		580,628	176,840	-	757,468
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,003,795	497,563	266,994	1,234,365
Total Liabilities:			1,378,795	497,563	391,994	1,484,365

**North County Regional Fire Authority
Schedule of Liabilities
For the Year Ended December 31, 2015**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Station 97	12/1/2018	500,000	-	125,000	375,000
	Total General Obligation Debt/Liabilities:		500,000	-	125,000	375,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Balances-Sick	12/31/2015	276,479	297,212	303,118	270,573
259.12	Compensated Balances-Vacation	12/31/2015	158,706	211,488	217,600	152,595
264.30	Net Pension Liability		-	580,628	-	580,628
	Total Revenue and Other (non G.O.) Debt/Liabilities:		435,185	1,089,328	520,718	1,003,795
	Total Liabilities:		935,185	1,089,328	645,718	1,378,795

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov