



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
King County Fire Protection District
No. 40

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

Published March 22, 2018

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Office of the Washington State Auditor
Pat McCarthy

March 22, 2018

Board of Commissioners
King County Fire Protection District No. 40
Renton, Washington

Report on Financial Statements

Please find attached our report on King County Fire Protection District No. 40's financial statements.

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

Sincerely,

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

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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*

King County Fire Protection District No. 40 January 1, 2016 through December 31, 2016

Board of Commissioners
King County Fire Protection District No. 40
Renton, 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 King County Fire Protection District No. 40, 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 February 21, 2018.

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

February 21, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

King County Fire Protection District No. 40 January 1, 2016 through December 31, 2016

Board of Commissioners
King County Fire Protection District No. 40
Renton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of King County Fire Protection District No. 40, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, King County Fire Protection District No. 40 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 King County Fire Protection District No. 40, 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 King County Fire Protection District No. 40, 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 February 21, 2018 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 cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

February 21, 2018

FINANCIAL SECTION

King County Fire Protection District No. 40 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

King County Fire Protection District No. 40
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 10-040-3010: REPLACEMENT FUND	200 10-040-3020: CAPITAL PROJECTS
Beginning Cash and Investments				
30810	Reserved	1,602,184	513,375	-
30880	Unreserved	1,409,351	1,400,825	8,526
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	3,389,422	2,390,280	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	17	17	-
340	Charges for Goods and Services	2,537,909	2,537,909	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	98,594	92,800	115
Total Revenues:		6,025,942	5,021,007	115
Expenditures				
510	General Government	-	-	-
520	Public Safety	4,897,676	4,897,676	-
Total Expenditures:		4,897,676	4,897,676	-
Excess (Deficiency) Revenues over Expenditures:		1,128,266	123,330	115
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	773,380	859,341	-
385	Special or Extraordinary Items	6,448	6,448	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	171,922	171,922	-
Total Other Increases in Fund Resources:		951,751	1,037,712	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	-	-	-
591-593, 599	Debt Service	1,011,295	-	-
597	Transfers-Out	859,341	85,000	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	2,152	1,671	-
Total Other Decreases in Fund Resources:		1,872,788	86,671	-
Increase (Decrease) in Cash and Investments:		207,228	1,074,371	115
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	3,218,765	2,988,572	8,641
Total Ending Cash and Investments		3,218,765	2,988,572	8,641

The accompanying notes are an integral part of this statement.

201 10-040-8400: LTD BOND	202 10-040-8510: UNLTD BOND
211,201	877,608
-	-
-	-
19	999,123
-	-
-	-
-	-
-	-
1,575	4,104
<u>1,594</u>	<u>1,003,227</u>
-	-
-	-
<u>-</u>	<u>-</u>
<u>1,594</u>	<u>1,003,227</u>
-	-
-	(85,961)
-	-
-	-
-	-
<u>-</u>	<u>(85,961)</u>
-	-
96,755	914,540
-	774,341
-	-
-	481
<u>96,755</u>	<u>1,689,362</u>
(95,161)	(772,096)
-	-
116,040	105,511
<u>116,040</u>	<u>105,511</u>

NOTES TO FINANCIAL STATEMENT

For the Year Ended December 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

King County Fire Protection District 40 was incorporated in 1949 and operates under the laws of the State of Washington applicable to a fire district. The fire district is a special purpose local government and provides fire and emergency services.

The fire district 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 district'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

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.

Debt Service Fund

These funds account for financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

King County Fire Protection District No. 40

MCAG No 2530

NOTES TO FINANCIAL STATEMENT

For the Year Ended December 31, 2016

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 district adopts annual appropriated budgets for all 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/Department	Final Budget	Actual	Variance
001-10-040-0010: EXPENSE	5,056,627	4,984,346.51	72,280.49
200-10-040-3020: CAPITAL PROJECTS	0	0	0
201-10-040-8400: LTD BOND	96,030	96,330	(300)
202-10-040-3020: UNLTD BOND	913,090	913,173	(83)
TOTAL CASH	6,065,747	5,993,849.51	71,897.49

Budgeted amounts are authorized to be transferred between object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary, ranges, hours, or other conditions of employment must be approved by the district's legislative body.

D. Cash & Investments

See Note 3 (Deposits and Investments).

E. Capital Assets

King County Fire Protection District 40 does not have a capital asset policy. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Long-Term Debt

See Note 4 (Debt Service Requirements) and Schedule 21 (Schedule of Liabilities).

G. Other Financing Sources or Uses

The district's *Other Financing Sources or Uses* consist of sale of capital assets.

H. 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 a legislative body. When

King County Fire Protection District No. 40

MCAG No 2530

NOTES TO FINANCIAL STATEMENT

For the Year Ended December 31, 2016

expenditures that meet restrictions are incurred, the district intends to use reserved resources first before using unreserved amounts.

Cash balance designations as of 12/31/2016 were as follows:

Fund/Department	Reserved	Unreserved	Total
001-10-040-0010: EXPENSE	517,392.02	2,471,220.10	2,988,612.12
200-10-040-3020: CAPITAL PROJECTS	0	8641.45	8,641.45
201-10-040-8400: LTD BOND	116,039.83	0	116,039.83
202-10-040-8510: UNLTD BOND	105,511.30	0	105,511.30
Total General Fund	738,943.15	2,479,861.55	3,218,804.70

The purposes of cash balance reservations consist of \$517,392 for LEOFF 1 retiree benefits and \$221,551.13 for Debt Service.

NOTE 2 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each 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 taxes are levied.

The District's regular levy for the year 2015 for collection in 2016 was \$1.00 per \$1,000 on an assessed valuation of \$2,395,915,806 for a total regular levy of \$2,395,916. In addition to the regular levy, the district assesses an excess levy for the 2005 and 2006 bond issue. Total excess property tax levy totaled \$912,573.

In addition, the district levied a fire benefit charge of \$2,480,224. The fire benefit charge is collected and distributed by King County in the same manner Property Tax is collected and distributed.

NOTE 3 – DEPOSITS AND INVESTMENTS

The King County Treasurer is the district's fiscal agent. All cash and deposits are kept in the district's account and are held in the district's name. Cash balances are invested and earn interest in the King County Investment Pool. Cash balances held with the King County Treasurer as of 12/31/2016 totaled \$3,218,804.

NOTE 4 – DEBT SERVICE REQUIREMENTS

King County Fire Protection District No. 40

MCAG No 2530

NOTES TO FINANCIAL STATEMENT*For the Year Ended December 31, 2016*

The accompanying Schedule of Liabilities (09) provides a listing of the outstanding debt of the District and summarizes the District's debt transactions for year ended December 31, 2016.

In December 2007 the District issued \$1,320,000 in limited tax general obligation bonds pursuant to the provision of chapters 36.46 and 52.16 RCW. The bonds were issued to provide money to finance fire protection equipment and facilities to serve the District.

Year Ending	Principal	Interest	Total Debt Service
2017	855,000	189,603	1,044,643
2018	925,000	157,558	1,082,558
2019	1,005,000	121,701	1,126,701
2020	1,085,000	81,603	1,166,603
2021-2025	515,000	137,965	652,965
2026-2030	405,000	66,425	471,425
2031	90,000	3,600	93,600
Total	4,880,000	758,495	5,638,495

The bonds will mature on December 1, 2027 at 4.50% interest, relieving the District's long-term debt at that time.

NOTE 5 – PENSION PLANS**A. State Sponsored Pension Plans**

The district's eligible commissioner participates in the following statewide retirement system administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans (PERS 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
PO Box 48380
Olympia, WA 98504-8380

King County Fire Protection District No. 40

MCAG No 2530

NOTES TO FINANCIAL STATEMENT

For the Year Ended December 31, 2016

Also, the DRS CAFR may be downloaded from the DRS website at 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 (Asset)
PERS 1		\$ 0
PERS 1 UAAL	.000079%	\$ 4,243
PERS 2 and 3	.000101%	\$ 5,085
LEOFF 1	.005384%	\$ (55,471)

B. LEOFF 1 Plan

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.

NOTE 6 – JOINT VENTURES (OTHER DISCLOSURES)

As of March 1, 2008, the Benson Hill area (approximately 36%) of the district was annexed by the City of Renton. At that time, the district entered into a contract for services with the City of Renton to provide EMS and fire protection services to the entire remaining district area. Additionally, at that time, all district employees were terminated and rehired by the City of Renton.

As of July 1, 2016 the city of Renton Fire and Emergency Services became a Regional Fire Authority. The contract for services with the City of Renton is still in effect until such time as a revised contract is negotiated with the Renton Regional Fire Authority.

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The district has a commitment to pay for the post-employment benefits of its employees that belong to LEOFF 1. These benefits include the retiree health care coverage. The district has two (2) LEOFF 1 retirees that received benefits during the year and \$27,221 was paid out for those benefits during the year.

King County Fire Protection District No. 40
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	COUNCILMATIC	12/1/2031	1,140,000	-	60,000	1,080,000
251.12	VOTED BONDS 2005	12/1/2020	3,600,000	-	590,000	3,010,000
251.12	VOTED BONDS 2006	12/1/2021	930,000	-	140,000	790,000
Total General Obligation Debt/Liabilities:			5,670,000	-	790,000	4,880,000
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	NET PENSION LIABILITY		16,242	9,328	16,242	9,328
Total Revenue and Other (non G.O.) Debt/Liabilities:			16,242	9,328	16,242	9,328
Total Liabilities:			5,686,242	9,328	806,242	4,889,328

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