



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Whatcom County Fire Protection
District No. 7

For the period January 1, 2016 through December 31, 2017

Published October 15, 2018

Report No. 1022374





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

October 15, 2018

Board of Commissioners
Whatcom County Fire Protection District No. 7
Ferndale, Washington

Report on Financial Statements

Please find attached our report on Whatcom County Fire Protection District No. 7's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Whatcom County Fire Protection District No. 7
January 1, 2016 through December 31, 2017**

Board of Commissioners
Whatcom County Fire Protection District No. 7
Ferndale, 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 Whatcom County Fire Protection District No. 7, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 5, 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 audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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

October 5, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Whatcom County Fire Protection District No. 7 January 1, 2016 through December 31, 2017

Board of Commissioners
Whatcom County Fire Protection District No. 7
Ferndale, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Whatcom County Fire Protection District No. 7, for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Whatcom County Fire Protection District No. 7 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 Whatcom County Fire Protection District No. 7, for the years ended December 31, 2017 and 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 Whatcom County Fire Protection District No. 7, as of December 31, 2017 and 2016, 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 conducted 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 October 5, 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.



Pat McCarthy

State Auditor

Olympia, WA

October 5, 2018

FINANCIAL SECTION

Whatcom County Fire Protection District No. 7 January 1, 2016 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017

Fund Resources and Uses Arising from Cash Transactions – 2016

Notes to the Financial Statements – 2017

Notes to the Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

Schedule of Liabilities – 2016

Whatcom County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 General	201 Debt Service	301 Capital
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	3,537,526	3,532,753	-	4,772
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	4,878,048	4,878,048	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	248,671	248,671	-	-
340	Charges for Goods and Services	2,458,989	2,458,989	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	137,418	137,385	-	33
Total Revenues:		7,723,126	7,723,093	-	33
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	7,399,410	7,399,410	-	-
Total Expenditures:		7,399,410	7,399,410	-	-
Excess (Deficiency) Revenues over Expenditures:		323,716	323,683	-	33
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	905,123	-	194,036	711,087
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	1,481	1,481	-	-
381, 395, 398	Other Resources	2,339	2,339	-	-
Total Other Increases in Fund Resources:		908,942	3,820	194,036	711,087
Other Decreases in Fund Resources					
594-595	Capital Expenditures	715,058	-	-	715,058
591-593, 599	Debt Service	194,036	-	194,036	-
597	Transfers-Out	905,123	905,123	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	506,229	506,229	-	-
Total Other Decreases in Fund Resources:		2,320,446	1,411,352	194,036	715,058
Increase (Decrease) in Cash and Investments:		(1,087,787)	(1,083,849)	(0)	(3,938)
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	2,449,739	2,448,905	-	834
Total Ending Cash and Investments		2,449,739	2,448,905	-	834

The accompanying notes are an integral part of this statement.

Whatcom County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General	201 Debt Service	301 Capital
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	2,926,391	2,915,015	-	11,376
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	5,381,081	5,381,081	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	238,022	238,022	-	-
340	Charges for Goods and Services	2,464,581	2,464,581	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	234,243	234,183	-	60
Total Revenues:		8,317,927	8,317,867	-	60
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	6,502,648	6,502,648	-	-
Total Expenditures:		6,502,648	6,502,648	-	-
Excess (Deficiency) Revenues over Expenditures:		1,815,279	1,815,219	-	60
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	605,624	-	115,953	489,671
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	1,438	1,438	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		607,061	1,438	115,953	489,671
Other Decreases in Fund Resources					
594-595	Capital Expenditures	496,335	-	-	496,335
591-593, 599	Debt Service	115,953	-	115,953	-
597	Transfers-Out	605,624	605,624	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	593,295	593,295	-	-
Total Other Decreases in Fund Resources:		1,811,206	1,198,919	115,953	496,335
Increase (Decrease) in Cash and Investments:		611,134	617,738	1	(6,604)
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	3,537,525	3,532,753	-	4,772
Total Ending Cash and Investments		3,537,525	3,532,753	-	4,772

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the year ended December 31, 2017

Note 1 - Summary of Significant Accounting Policies

Whatcom County Fire Protection District 7 was incorporated on September 26, 1956 and operates under the laws of the state of Washington applicable to a fire district. Whatcom County Fire Protection District 7 is a general purpose local government and provides fire protection and emergency medical services to the general public.

Whatcom County Fire Protection District 7 reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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 Funds

These funds 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

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

B. Basis of Accounting and Measurement Focus

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.

In accordance with state law, the District also recognizes expenditures paid up to twenty (20) days after the close of the fiscal year for claims incurred during the previous period.

Notes to the Financial Statements
For the year ended December 31, 2017

C. Budgets

Whatcom County Fire Protection District 7 adopts annual appropriated budgets for General, Debt Service and Capital funds. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department 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 Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$ 7,394,175	\$ 7,399,410	(\$ 5,235)
Total General Fund	\$ 7,394,175	\$ 7,399,410	(\$ 5,235)
Debt Service Fund	\$ 203,440	\$ 194,036	\$ 9,404
Total Debt Service Fund	\$ 203,440	\$ 194,036	\$ 9,404
Capital Fund	\$ 769,500	\$ 715,058	\$ 54,442
Total Capital Fund	\$ 769,500	\$ 715,058	\$ 54,442
<i>Total Adopted Budget</i>	\$ 8,367,115	\$ 8,308,504	\$ 58,611

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 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 and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

Vacation leave may be accumulated up to 1.5 times and is payable upon separation or retirement. Sick leave may be accumulated up to 1680 hours. Upon separation or retirement eligible employees do receive limited payment for unused sick leave. Payments are recognized as expenditures when paid.

Vacation Liability	\$ 177,081
Sick Leave Liability	\$ 206,942
Total:	\$ 384,023

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

Notes to the Financial Statements
For the year ended December 31, 2017

Note 2 – Deposits and Investments

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

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

Investments are reported at amortized cost. Investments by type at December 31, 2016 are as follows:

<u>Type of Investment</u>	General Investment Pool	\$ 2,287,345
	Capital Investment Pool	\$ 834
	Total:	\$ 2,288,179

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after 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 tax is levied.

The District's regular levy for the year 2017 was \$1.1993059740 per \$1,000 on an assessed valuation of \$4,074,813,964 for a total regular levy of \$4,886,948.73.

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District debt transactions for year ended December 31, 2017.

The debt service requirements for general obligation bonds, revenue bonds, Office of the State Treasurer Local Loan and PNC Equipment Finance are as follows:

	<u>PNC Finance</u>	<u>WA OST Loan</u>	<u>Total Debt</u>
2017	\$ 80,603.36	\$ 113,432.50	\$ 194,035.86
2018	\$ 76,423.12	\$ 115,731.25	\$ 192,154.37
2019	\$ 76,423.12	\$ 112,825.00	\$ 189,248.12
2020	\$ 76,423.12	\$ 114,725.00	\$ 191,148.12
2021	\$ 76,423.12	\$ 111,525.00	\$ 187,948.12
2022-2026	\$ 382,115.60	\$ 566,225.00	\$ 948,340.60
2027-2028	\$ 38,211.56	\$ 224,787.50	\$ 262,999.06
TOTALS	\$ 806,623.00	\$1,359,251.25	\$2,165,874.25

Notes to the Financial Statements
For the year ended December 31, 2017

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the District's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans LEOFF II and PERS 2.

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 District 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, 2017 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 9, was as follows:

	Allocation %	Liability (Asset)
PERS 1	.001105%	\$ 52,433
PERS 2/3	.001422%	\$ 49,408
LEOFF 1	.001243%	\$ (18,859)
LEOFF 2	.131562%	\$ (1,825,654)
VFFRPF	.78%	\$ (291,225)

LEOFF Plan 1

The District also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

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

Notes to the Financial Statements
For the year ended December 31, 2017

Note 6 – Risk Management

Whatcom County Fire Protection District 7 is self-insured, referred to as “Reimbursable” for any Unemployment compensation to the Department of Employment Security.

Whatcom County Fire Protection District 7 is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2017, there are 201 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision; Equipment Breakdown; and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members various needs.

The program acquires liability insurance through their administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention (SIR) of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members toward the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,784,067.00.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Privacy and Network Liability coverage is offered with a \$10,000 member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000 member deductible and \$50,000 self-insured retention for those without encryption.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors, which is \$15,000 and is covered by CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending December 1, 2017, were \$1,501,903.83.

Whatcom County Fire Protection District 7
Notes to the Financial Statements
For the year ended 12/31/2016

Note 1 - Summary of Significant Accounting Policies

Whatcom County Fire Protection District 7 was incorporated on September 26, 1956 and operates under the laws of the state of Washington applicable to a fire district. Whatcom County Fire Protection District 7 is a general purpose local government and provides fire protection and emergency medical services to the general public.

Whatcom County Fire Protection District 7 reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

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

A. **Fund Accounting**

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

GOVERNMENTAL FUND TYPES:

General Fund

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 Funds

These funds 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

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

B. Basis of Accounting and Measurement Focus

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.

In accordance with state law Whatcom County Fire Protection District 7 also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

Whatcom County Fire Protection District 7 adopts annual appropriated budgets for General, Debt Service and Capital funds. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$ 6,558,740	\$ 6,502,648	\$ 56,092
Total General Fund	\$ 6,558,740	\$ 6,502,648	\$ 56,092
Debt Service Fund	\$ 115,955	\$ 115,953	\$ 2
Total Debt Service Fund	\$ 115,955	\$ 115,953	\$ 2
Capital Fund	\$ 563,600	\$ 496,335	\$ 67,265
Total Capital Fund	\$ 563,600	\$ 496,335	\$ 67,265
<i>Total Adopted Budget</i>	\$ 7,238,295	\$ 7,114,936	\$ 123,359

Budgeted amounts are authorized to be transferred between (departments within any fund/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 Whatcom County Fire Protection District 7'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 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 1.5 times and is payable upon separation or retirement. Sick leave may be accumulated up to 1680 hours. Upon separation or retirement eligible employees do receive limited payment for unused sick leave. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of contract fees for services.

I. Risk Management

Whatcom County Fire Protection District 7 is self-insured, referred to as "Reimbursable" for any Unemployment compensation to the Department of Employment Security.

Whatcom County Fire Protection District 7 is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2016, there are 205 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,718,302.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2016, were \$1,484,482.16.

Note 2 – Deposits and Investments

Deposits and Investments

It is Whatcom County Fire Protection District 7's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the Whatcom County Treasurer in the government's name.

Investments are reported at amortized cost. Investments by type at December 31, 2016 are as follows:

<u>Type of Investment</u>	General Investment Pool	\$ 3,532,753
	Capital Investment Pool	\$ 4,772
	Total:	\$ 3,537,525

Note 3 - Property Tax

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

Property tax revenues are recognized when cash is received by Whatcom County Fire Protection District 7. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

Whatcom County Fire Protection District 7's regular levy for the year 2016 was \$1.2749296051 per \$1,000 on an assessed valuation of \$3,791,057,193 for a total regular levy of \$4,833,331.05.

Note 4 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of Whatcom County Fire Protection District 7 and summarizes Whatcom County Fire Protection District 7 debt transactions for year ended December 31, 2016.

The debt service requirements for general obligation bonds, revenue bonds and other Office of the State Treasurer Local Loan Series LP 2008B, Contract Number 1379-2-1 including both principle and interest, are as follows:

		General Obligation Bonds	Other Debt	Total Debt
2016	\$	0.00	\$ 115,952.50	\$ 115,952.50
2017	\$	0.00	\$ 113,432.50	\$ 113,432.50
2018	\$	0.00	\$ 115,731.25	\$ 115,731.25
2019	\$	0.00	\$ 112,825.00	\$ 112,825.00
2020	\$	0.00	\$ 114,725.00	\$ 114,725.00
2021-2025	\$	0.00	\$ 565,825.00	\$ 565,825.00
2026-2028	\$	0.00	\$ 336,712.50	\$ 336,712.50
TOTALS	\$	0.00	\$1,475,203.75	\$1,475,203.75

Note 5 - Pension Plans

A. State Sponsored Pension Plans

Substantially all of Whatcom County Fire Protection District 7's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans LEOFF II and PERS 2.

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.

Whatcom County Fire Protection District 7 also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFRPF) 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), Whatcom County Fire Protection District 7's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	.000918%	\$ 49,301
PERS 2/3	.001174%	\$ 59,110
LEOFF 1	.001226%	\$ (12,631)
LEOFF 2	.126626%	\$ (736,495)
VFRPF	1.27%	\$ (217,379)

LEOFF Plan 1

Whatcom County Fire Protection District 7 also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

Whatcom County Fire Protection District 7 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.

Whatcom County Fire Protection District No. 7
Schedule of Liabilities
For the Year Ended December 31, 2017

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.96	WA OST Local Program	6/1/2028	1,060,000	-	70,000	990,000
263.51	PNC Equipment Finance	6/1/2027	686,463	-	61,150	625,313
Total General Obligation Debt/Liabilities:			1,746,463	-	131,150	1,615,313
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Pension Liabilities		108,411	-	6,570	101,841
259.12	Vac/Sick Liability		306,179	77,844	-	384,023
Total Revenue and Other (non G.O.) Debt/Liabilities:			414,590	77,844	6,570	485,864
Total Liabilities:			2,161,053	77,844	137,720	2,101,176

Whatcom County Fire Protection District No. 7
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						
263.96	OST Local Program	6/1/2028	1,130,000	-	70,000	1,060,000
Total General Obligation Debt/Liabilities:			1,130,000	-	70,000	1,060,000
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Pension Liabilities		227,388	-	118,977	108,411
259.12	Vac/Sick Liability		274,945	31,234	-	306,179
Total Revenue and Other (non G.O.) Debt/Liabilities:			502,333	31,234	118,977	414,590
Total Liabilities:			1,632,333	31,234	188,977	1,474,590

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