

Washington State Auditor's Office
Financial Statements Audit Report

**Spokane County Fire Protection District
No. 1
(Spokane Valley Fire Department)**

Audit Period
January 1, 2011 through December 31, 2012

Report No. 1010938

Issue Date
December 23, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

December 23, 2013

Board of Commissioners
Spokane Valley Fire Department
Spokane Valley, Washington

Report on Financial Statements

Please find attached our report on the Spokane Valley Fire Department's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Spokane County
January 1, 2011 through December 31, 2012**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Spokane Valley Fire Department Spokane County January 1, 2011 through December 31, 2012

Board of Commissioners
Spokane Valley Fire Department
Spokane, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Spokane Valley Fire Department, Spokane County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 8, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

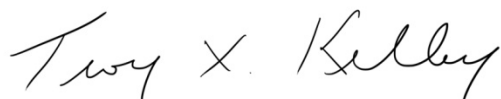
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

November 8, 2013

Independent Auditor's Report on Financial Statements

Spokane Valley Fire Department Spokane County January 1, 2011 through December 31, 2012

Board of Commissioners
Spokane Valley Fire Department
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Spokane Valley Fire Department, Spokane County, Washington, for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Spokane Valley Fire Department, for the years ended December 31, 2012 and 2011, on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Purpose of this Report

The report is intended for the information and use of the management and the Board of Commissioners of the District. 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

November 8, 2013

Financial Section

**Spokane Valley Fire Department
Spokane County
January 1, 2011 through December 31, 2012**

FINANCIAL STATEMENTS

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FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		010 Expense
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	9,027,582
30880	Beg Fund Bal-Unreserved	2,170,385
38880/58880	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	30,838,994
320	Licenses & Permits	0
330	Intergovernmental Revenues	460,884
340	Charges for Goods and Services	227,858
350	Fines & Penalties	0
360	Miscellaneous Revenues	140,796
Total Operating Revenues:		31,668,532
Operating Expenditures		
510	General Government	0
520	Public Safety	26,583,940
598	Intergovernmental Payments	0
Total Operating Expenditures:		26,583,940
Net Operating Increase (Decrease):		5,084,592
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	59,838
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		59,838
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	54,846
591-593	Debt Service	365,585
594-595	Capital Expenditures	2,448,874
597	Transfers-Out	1,435,680
Total Nonoperating Expenditures:		4,304,985
Increase (Decrease) in Cash and Investments		839,445
Ending Cash and Investments		
50810	End Fund Bal-Reserved	8,565,510
50880	End Fund Balance-Unreserved	3,471,902

The accompanying notes are an integral part of this Statement.

Spokane County Fire Protection District No. 1
FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For The Year Ending December 31, 2012

BARS Code		Total for All Funds	611 Pension	632 Medical Self-Insurance
308	Beginning Cash and Investments	1,664,031	282,998	1,381,033
388 and 588	Prior Period Adjustments, net	0		
310-360	Revenues	3,520	3,520	
370-390	Other Increases and Financing Sources	4,691,994	1,435,680	3,256,314
510-570	Expenditures	4,593,451	1,487,500	3,105,951
580-590	Other Decreases and Financing Uses	0	0	
Increase (Decrease) in Cash and Investments		102,063	-48,300	150,363
508	Ending Cash and Investments	1,766,094	234,698	1,531,396

The Accompanying Notes Are An Integral Part Of This Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2011

BARS Code		010 Expense
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	8,067,139
30880	Beg Fund Bal-Unreserved	4,776,978
38880/58880	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	30,553,726
320	Licenses & Permits	0
330	Intergovernmental Revenues	87,403
340	Charges for Goods and Services	136,535
350	Fines & Penalties	0
360	Miscellaneous Revenues	184,010
Total Operating Revenues:		30,961,674
Operating Expenditures		
510	General Government	0
520	Public Safety	26,167,118
598	Intergovernmental Payments	0
Total Operating Expenditures:		26,167,118
Net Operating Increase (Decrease):		4,794,556
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	70,245
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		70,245
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	31,455
591-593	Debt Service	372,317
594-595	Capital Expenditures	4,807,179
597	Transfers-Out	1,300,000
Total Nonoperating Expenditures:		6,510,951
Increase (Decrease) in Cash and Investments		-1,646,150
Ending Cash and Investments		
50810	End Fund Bal-Reserved	9,027,582
50880	End Fund Balance-Unreserved	2,170,386

The accompanying notes are an integral part of this Statement.

Spokane County Fire Protection District No. 1
FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For The Year Ending December 31, 2011

BARS Code		Total for All Funds	611 Pension	632 Medical Self-Insurance
308	Beginning Cash and Investments	1,333,584	318,000	1,015,584
388 and 588	Prior Period Adjustments, net	0		
310-360	Revenues	148,065	148,065	
370-390	Other Increases and Financing Sources	4,511,871	1,328,173	3,183,698
510-570	Expenditures	1,511,240	1,511,240	
580-590	Other Decreases and Financing Uses	2,818,249	0	2,818,249
Increase (Decrease) in Cash and Investments		330,447	-35,002	365,449
508	Ending Cash and Investments	1,664,031	282,998	1,381,033

The Accompanying Notes Are An Integral Part Of This Statement.

SPOKANE COUNTY FIRE PROTECTION DISTRICT NO. 1
2012 NOTES TO THE FINANCIAL STATEMENTS

The following notes are an integral part of the accompanying financial statements.

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprise its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPE:

Expense (Current Expense) Fund

This fund (coded 010) is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

FIDUCIARY FUND TYPES:

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

Pension (Trust Fund)

This fund (coded 611) accounts for the cash and other assets held by the District acting in the capacity of a trustee or custodian.

Clearing (Agency Funds)

The District has two agency funds. A fund coded 631 accounts for the issuance and redemption of accounts payable and payroll warrants issued by the District. The

fund was established by Resolution #99-152 on September 1, 1999. This fund is not included in the financial statements per the instruction of the State Auditor's Office (SAO).

A fund coded 632 accounts for the medical self-insurance program receipts and disbursements. The fund was established by Resolution #2008-296 on January 22, 2008. This fund is included in the financial statements per the instruction of the SAO. Per recent SAO guidance, the District will adopt a resolution to account for the medical self-insurance program in an internal service fund.

b. Basis of Accounting

The District reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the Cash Basis Budgeting Accounting and Reporting System (BARS) manual. This basis of accounting and Reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchase of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

c. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statement of fund resources and uses arising from cash transactions as net cash and investments.

d. Deposits

The District's deposits (and certificates of deposit) are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

e. Capital Assets

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

f. Compensated Absences

The District employees' compensated absences balances are based on either a union labor agreement or a non-union policy for administrative staff and support Personnel. Under the policy for non-union employees, vacation pay may accumulated up to 160 hours and is 100% payable upon separation or retirement. Sick leave accumulates monthly, however, hours in excess of 1040 are payable at 25% annually. Effective 01/01/2010, upon separation or retirement up to 1040 hours will be paid at 15% of their rate of pay.

Under the Chiefs Association Local 3701 union labor agreement, its members may Accrue up to 240 hours for day officers and up to 312 for shift officers per year. Officers may carry over up to 144 hours of earned vacation per year and are permitted to sell back up to 80 hours for day officers and 72 hours for shift officers. All accrued and carried over vacation hours are 100% payable upon separation or retirement. Sick leave may accumulate indefinitely, however, at the end of each calendar year all members shall be paid at the rate of 25% of their hourly wage rate for their permanent rank, for every hour of sick leave that they have accrued beyond 1440 hours for shift employees and 1040 hours for day employees and then those hours will be removed from their sick leave accruals. With a retirement through DRS or an officer's death, the value of any accrued sick leave hours, up to a maximum of 1040 hrs (days), 1440 (shift), will be paid to the officer-or their beneficiary at a rate of fifteen percent (15%) of the officers hourly wage rate of their permanent rank.

Under the International Association of Firefighters Local 876 union labor agreement, its members may accumulate vacation pay, depending on seniority, up to 312 hours if shift employees and 240 hours if day employees. It is 100% payable upon separation or retirement. Upon separation or retirement, members receive payment for unused sick leave balances to 1440 hours multiplied by 0.722 (day rate) at a rate of 15% of their rate of pay (i.e. $1440 \times .722 = 1040 \times 15\% = 156$ hrs).

g. Reserved Fund Balance

The District's Expense Fund has five reserve accounts, with internal restrictions, totaling \$8,565,509.94 as of December 31, 2012. These accounts are as follows:

- 1) Capital Expense Account – The account was established by Resolution #97-120 on December 17, 1997. It was established for the purpose of restricting property sales monies so designated by the Board of Fire Commissioners to be spent for future properties and construction. The account balance as of December 31, 2012 was \$30,179.46.

- 2) Public Education and Fire Investigations Account – The account was established by Resolution #2006-275 on December 5, 2006. Its purpose is to restrict any court awarded restitution monies received by the department to be used only for public education and fire investigations. The account balance as of December 31, 2012 was \$9,577.86.
- 3) IBNR/Contingency Reserve Account – This account was established by Resolution #2008-304 on June 16, 2008. This Contingency account supplements the annual budget for the Department's self-insurance medical program to bring its commitment to the program to a level required by the State Office of Financial Management. The account was initially funded at \$650,000.00 and was still at that level as of 12/31/2012.
- 4) Operational Cash Flow Account – The account was established by Resolution #2008-307 on August 25, 2008. It is to be maintained in the Expense Fund at a level of 25% of the fund's expenditure budget adopted prior to the beginning of each calendar year to ensure that sufficient fund equity is carried over from the prior year to satisfy the Department's obligation each month based on the adopted budget. The account balance as of 12/31/2012 was \$7,861,865.00.
- 5) Communication Trailer Mobilization Reimbursements Account - This account was established by Resolution #2008-2010 on October 20, 2008. Its purpose is to restrict the reimbursed monies for the use of the communications trailer at mobilizations for trailer maintenance cost and replacement of supplies used during the mobilization. The account balance as of 12/31/2012 was \$13,887.62.

NOTE 2 – BUDGETS

The District adopts annual appropriated budgets for the Expense and Pension funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
Expense Fund	\$ 31,930,493.00	\$ 30,834,079.23	\$ 1,096,413.77
Pension Fund	\$ 1,567,424.00	\$ 1,487,500.53	\$ 79,923.47

NOTE 3 – PROPERTY TAXES

The Spokane County Treasurer acts as agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month, except for the month of December when taxes are distributed at the end of the month.

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

The District's regular levy for the year 2011 for collection in 2012 was \$1.50 per \$1,000 on an assessed valuation of \$9,728,512,372 for a regular tax levy of \$14,592,768.56. Additionally, the District's special levy (\$1.71 per \$1,000) primarily for M&O purposes (some capital) was \$16,400,000.00.

NOTE 4 – INVESTMENTS

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

As a member of the Spokane County Investment Pool (SCIP), the District's investments are either insured, registered or held by the County or its agent in the County's name.

	Carrying <u>Amount</u>
Investments in County Treasurer's Investment Pool as of 12/31/12	\$14,463,232.22*

* This investment figure represents the districts four funds' (Expense, Pension and two Clearing) cash balances.

NOTE 5 – DEBT SERVICE REQUIREMENTS

The District's long-term debt is governmental fund type debt. Its governmental fund type long-term debt as of 12/31/2012 consists of a value for compensated absences and one capital lease purchase agreement.

The accompanying Schedule 9 – "Liabilities" provides a listing of the outstanding debt of the district and summarizes the District's debt transactions for the year end December 31, 2012.

The debt service requirements for the capital lease purchase agreement, including interest, are as follows:

Calendar Year Ending
December 31

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	349,741.85	15,843.31	365,585.16
Total	<u>\$ 349,741.85</u>	<u>\$ 15,843.31</u>	<u>\$ 365,585.16</u>

It should be noted that two leases for Ricoh Copiers reflected on Schedule 9 for 2011 were removed for 2012 since they were later determined to be operating leases not capital leases and therefore did not qualify to be included on the schedule.

NOTE 6 – PENSION PLANS

Substantially all District full-time and qualifying part-time employees participate in either the Public Employees' Retirement System (PERS) Plans 2 or Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 administered by the Department of Retirement Systems, under cost sharing multiple-employer public employee defined benefit retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

Other Retirement System – Firemen's Pension Retirement Fund

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

As of December 31, 2012, there were a total of 85 individuals covered by this plan, of which 1 was currently still employed and 70 plus 14 widows were drawing benefits. In total, 72 individuals were eligible for certain medical benefits.

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

The most recent actuarial review of the system was done by Milliman to determine the funding requirements as of January 1, 2011. As of this date, the market value of assets was \$318,000 and the actuarial present value of future benefits was \$26,476,000 leaving an unfunded pension benefit obligation of \$26,158,000.

NOTE 7 – RISK MANAGEMENT

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

Resolution #2005-248, approved on October 17, 2005, established, effective January 1, 2006, a self-insured medical program which is administered by a third party administrator or administrators and re-insured through purchase of individual and aggregate stop loss insurance. This medical self insurance program is accounted for within Fund #632. Per recent SAO guidance, the District will adopt a resolution to account for the medical self-insurance program in an internal service fund.

SPOKANE COUNTY FIRE PROTECTION DISTRICT NO. 1
2011 NOTES TO THE FINANCIAL STATEMENTS

The following notes are an integral part of the accompanying financial statements.

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprise its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES

Expense (Current Expense) Fund

This fund (coded 010) is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Pension (Trust Fund)

This fund (coded 611) accounts for the cash and other assets held by the District acting in the capacity of a trustee or custodian.

Clearing (Agency Funds)

The District has two clearing funds. A fund coded 631 accounts for the issuance and redemption of accounts payable and payroll warrants issued by the District. The fund was established by Resolution #99-152 on September 1, 1999.

A fund coded 632 accounts for the self-insurance program receipts and disbursements. The fund was established by Resolution #2008-296 on January 22, 2008.

b. Basis of Accounting

The District reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the Cash Basis Budgeting Accounting and Reporting System (BARS) manual. This basis of accounting and Reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchase of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

c. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statement of fund resources and uses arising from cash transactions as net cash and investments.

d. Deposits

The District's deposits (and certificates of deposit) are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

e. Capital Assets

Capital assets are long-lived assets of the District and are recorded as capital expenditures when purchased.

f. Compensated Absences

The District employees' compensated absences balances are based on either a union labor agreement or a non-union policy for administrative staff and support personnel. Under the policy for non-union employees, vacation pay may accumulated up to 160 hours and is 100% payable upon separation or retirement. Sick leave accumulates monthly, however, hours in excess of 1040 are payable at 25% annually. Effective 01/01/2010, upon separation or retirement up to 1040 hours will be paid at 15% of their rate of pay.

Under the Chiefs Association Local 3701 union labor agreement, its members may accumulate vacation pay, depending on seniority, between 10 and 13 days if

shift employees and between 21 and 33 days if day employees. It is 100% payable upon separation or retirement. Sick leave may accumulate indefinitely, however, at the end of each calendar year all members shall be paid at the rate of 25% of their hourly wage rate for their permanent rank, for every hour of sick leave that they have accrued beyond 1440 hours for shift employees and 1040 hours for day employees and then those hours will be removed from their sick leave accruals. Upon separation or retirement, members receive payment for unused sick leave balances to 1440 hours multiplied by 0.722 (day rate) at a rate of 15% of their rate of pay (i.e. $1440 \times .722 = 1040 \times 15\% = 156$ hrs).

Under the International Association of Firefighters Local 876 union labor agreement, its members may accumulate vacation pay, depending on seniority, between 9 and 13 days if shift employees and between 18 and 30 days if day employees. It is 100% payable upon separation or retirement. Sick Leave is treated the same as the chief's union described above.

g. Reserved Fund Balance

The District's Expense Fund has five reserve accounts, with internal restrictions, totaling \$9,027,582.18 as of December 31, 2011. These accounts are as follows:

- 1) Capital Expense Account – The account was established by Resolution #97-120 on December 17, 1997. It was established for the purpose of restricting property sales monies so designated by the Board of Fire Commissioners to be spent for future properties and construction. The account balance as of December 31, 2011 was \$30,179.46.
- 2) Public Education and Fire Investigations Account – The account was established by Resolution #2006-275 on December 5, 2006. Its purpose is to restrict any court awarded restitution monies received by the department to be used only for public education and fire investigations. The account balance as of December 31, 2011 was \$11,369.60.
- 3) IBNR/Contingency Reserve Account – This account was established by Resolution #2008-304 on June 16, 2008. This Contingency account supplements the annual budget for the Department's self-insurance medical program to bring its commitment to the program to a level required by the State Office of Financial Management. The account was initially funded at \$650,000.00 and was still at that level as of 12/31/2011.
- 4) Operational Cash Flow Account – The account was established by Resolution #2008-307 on August 25, 2008. It is to be maintained in the Expense Fund at a level of 25% of the fund's expenditure budget adopted prior to the beginning of each calendar year to ensure that sufficient fund equity is carried over from the prior year to satisfy the Department's obligation each month based on the adopted budget. The account balance as of 12/31/2011 was \$8,329,645.50.

- 5) Communication Trailer Mobilization Reimbursements Account - This account was established by Resolution #2008-2010 on October 20, 2008. Its purpose is to restrict the reimbursed monies for the use of the communications trailer at mobilizations for trailer maintenance cost and replacement of supplies used during the mobilization. The account balance as of 12/31/2010 was \$6,387.62.

NOTE 2 – PROPERTY TAXES

The Spokane County Treasurer acts as agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month, except for the month of December when taxes are distributed at the end of the month.

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

The District's regular levy for the year 2010 for collection in 2011 was \$1.50 per \$1,000 on an assessed valuation of \$9,838,970,666 for a regular tax levy of \$14,758,456.00. Additionally, the District's special levy (\$1.66 per \$1,000) primarily for M&O purposes (some capital) was \$16,101,272.12.

NOTE 3 – INVESTMENTS

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

As a member of the Spokane County Investment Pool (SCIP), the District's investments are either insured, registered or held by the County or its agent in the County's name.

	Carrying <u>Amount</u>
Investments in County Treasurer's Investment Pool as of 12/31/11	\$14,532,675.46*

* This investment figure represents the four funds' (Expense, Pension and two Clearing) cash balances in the financial statements.

NOTE 4 – LONG-TERM DEBT

The District's long-term debt is governmental fund type debt. Its governmental fund type long-term debt as of 12/31/2011 consists of a value for compensated absences and four capital lease purchase agreements.

The accompanying Schedule of Long-Term Liabilities provides a listing of the outstanding debt of the district and summarizes the District's debt transactions for the year 2011. The debt service requirements for the capital lease purchase agreements, including interest, are as follows:

Calendar Year Ending December 31	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	325,543.25	46,773.91	372,317.16
2012	340,548.02	31,769.14	372,317.16
2013	355,130.15	16,065.01	371,195.16
Total	<u>\$1,021,221.42</u>	<u>\$ 94,608.06</u>	<u>\$1,115,829.48</u>

NOTE 5 – PENSION PLANS

Substantially all District full-time and qualifying part-time employees participate in either the Public Employees' Retirement System (PERS) Plans 2 or Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 administered by the Department of

Retirement Systems, under cost sharing multiple-employer public employee defined benefit retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

Other Retirement System – Firemen's Pension Retirement Fund

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

As of December 31, 2011, there were a total of 86 individuals covered by this plan, of which 2 were currently still employed and 72 plus 12 widows were drawing benefits. In total, 72 individuals were eligible for certain medical benefits.

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

The most recent actuarial review of the system was done by Milliman to determine the funding requirements as of January 1, 2011. As of this date, the market value of assets was \$318,000 and the actuarial present value of future benefits was \$26,476,000 leaving an unfunded pension benefit obligation of \$26,158,000.

NOTE 6 – RISK MANAGEMENT

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

Resolution #2005-248, approved on October 17, 2005, established, effective January 1, 2006, a self-insured medical program which is administered by a third party administrator or administrators and re-insured through purchase of individual and aggregate stop loss insurance. This medical self insurance program is accounted for within Fund #632 with the use of various custodial accounts.

Spokane County Fire Protection District No. 1

Schedule of Liabilities

For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2012
General Obligations								
	259.11	Compensated Absences		2,731,389	0	215,736		2,515,653
	263.51	Capital Lease (Lease Purchase Agreement)	1/31/2013	684,327	0	334,585	59122	349,742
		Total General Obligations:		3,415,716	0	550,321		2,865,395
		Total Liabilities:		3,415,716	0	550,321		2,865,395

MCAG NO. 1326

Spokane County Fire Protection District No. 1

Schedule 09

Schedule of Liabilities

For the year ended December 31, 2011

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2011	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2011
General Obligations								
	259.11	Compensated Absences		2,368,320	363,069	0		2,731,389
	263.51	Capital Lease	1/31/2013	1,004,412	0	320,085	59122	684,327
	263.51	Capital Lease	10/1/2013	9,738	0	3,162	59122	6,576
	263.51	Capital Lease	10/1/2013	7,071	0	2,296	59122	4,775
Total General Obligations:				3,389,541	363,069	325,543		3,427,067
Total Liabilities:				3,389,541	363,069	325,543		3,427,067



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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

State Auditor
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Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Quality Assurance
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