



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Eastside Fire & Rescue

King County

For the period January 1, 2014 through December 31, 2015

Published September 13, 2018

Report No. 1022046





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

September 13, 2018

Board of Directors
Eastside Fire & Rescue
Issaquah, Washington

Report on Financial Statements

Please find attached our report on Eastside Fire & Rescue's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Eastside Fire & Rescue

King County

January 1, 2014 through December 31, 2015

2015-001 The Agency's internal controls over financial statement preparation were inadequate to ensure accurate and complete financial reporting.

Background

Eastside Fire & Rescue (Agency) is a joint venture of five governments. The same finance staff performs the accounting functions for both the Agency and King County Fire Protection District No. 10, and the Agency has no employees.

Agency management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. The Agency prepares financial statements under generally accepted accounting principles (GAAP).

Our audit identified deficiencies in internal controls over financial reporting that, when combined, represent a material weakness over financial reporting. We reported a similar material weakness in the prior audit.

Government Auditing Standards, prescribed by the Comptroller General of the United States, requires the auditor to communicate significant deficiencies and material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over financial reporting that, when combined, represent a material weakness over financial reporting:

- Agency staff responsible for compiling the financial statements did not sufficiently understand GAAP and did not effectively use the *Budgeting, Accounting and Reporting System (BARS) Manual* when preparing the financial statements.
- The Agency lacked an effective review process to ensure amounts reported on the financial statements agree to supporting records and are prepared following GAAP and the BARS Manual.
- The Agency did not adequately understand new accounting standards and, as a result, implemented Government Accounting Standards Board

(GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions*, when it did not apply to the Agency because the Agency has no employees.

Cause of Condition

Agency staff did not have the technical knowledge or sufficient understanding of the financial statement preparation requirements prescribed by GAAP and the BARS Manual. Further, the review process lacked sufficient detail to ensure the financial statement balances were reasonable and accurate.

The Agency did not dedicate the necessary time, resources and training for finance staff members understand the new pension accounting requirements and determine whether it was reasonable to implement the standard for the Agency. The same staff perform accounting functions for both the Agency and King County Fire Protection District No. 10, and the two entities are subject to different reporting requirements.

Effect of Condition

Inaccurate financial reports limit access to financial information used by Agency officials, the public, state and federal agencies and other interested parties. They also hinder the audit process and increase audit costs.

The following errors were identified for fiscal year 2015 related to the implementation of GASB Statement No. 68:

- The following amounts were reported in the original set of financial statements presented for audit:
 - Net Pension Asset – \$6,044,748
 - Change in Accounting Principle – \$2,599,610
 - Net Pension Liability – \$1,162,455
 - Deferred Inflows Related to Pensions – \$1,645,497
 - Deferred Outflows Related to Pensions – \$2,487,481
- Required Supplementary Information and Note disclosures for pension-related information, which is required for the implementation of GASB Statement No. 68, were incorrectly disclosed.
- The Agency reported payroll and pension related balances despite having no employees. As a result of our audit, the Agency subsequently corrected the identified errors and removed references to payroll related note disclosures and required supplementary information, and other post-employment benefits.

The Agency subsequently corrected the identified errors.

Recommendations

We recommend the Agency dedicate the necessary time and resources to ensure accurate financial reporting. Specifically, we recommend the Agency:

- Allocate adequate staff time to prepare and review the annual financial report to ensure it is fairly presented, complete and accurate in compliance with GASB standards and pronouncements
- Pursue technical guidance when implementing new accounting requirements
- Provide adequate training for staff responsible for financial accounting and reporting to ensure compliance with reporting requirements
- Use current BARS Manual accounting and reporting guidance when preparing the financial statements and supplemental schedules
- Ensure a person who understands BARS and reporting requirements performs a detailed, technical review of the financial statements
- Ensure accounting standards are fully researched and properly implemented in accordance with GASB Statements.

Agency's Response

Eastside Fire & Rescue (Agency) was created by an interlocal agreement between three cities and two fire districts. Due to some concerns for eligibility relating to the Washington State Department of Retirement LEOFF pension plan, King County Fire Protection District 10 became the employer of record. However, the Agency is responsible for the operations which includes paying employee wages and benefits. We have been reporting wages and benefits on the Agency's financial statements since our inception in 1999, which have been audited by the State Auditor's Office with no issue in how we report employees cost being brought up. As a result, we implemented GASB 68 for 2015.

We will continue to review this issue as well as our financial reporting process to ensure that we are reporting correctly.

Auditor's Remarks

We appreciate the Agency's cooperation and willingness to take corrective action to address the financial reporting errors identified as a result of our audit.

It is the Agency's responsibility to ensure accurate financial reporting of its accounting transactions. Our responsibility is to express an opinion on the financial statements based on our audit.

GASB Statement No. 68 was implemented for fiscal year 2015 and as a result, we performed an in-depth analysis of the employee wages and benefits as well as pension liabilities reported by the Agency. We concluded the Agency did not properly implement the new pension accounting requirements. This conclusion is further supported by information reported by the Washington State Department of Retirement Systems.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The *Budgeting, Accounting and Reporting System (BARS)* Manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.



Eastside Fire & Rescue

Proudly Serving Issaquah, North Bend, Sammamish and Fire Districts 38 & 10, which includes Carnation

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Eastside Fire & Rescue

King County

January 1, 2014 through December 31, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Eastside Fire & Rescue. The State Auditor's Office has reviewed the status as presented by the Agency.

Audit Period:	Report Ref. No.:	Finding Ref. No.:
January 1, 2012 through December 31, 2013	1013542	2013-001
Finding Caption: The Agency's internal controls over financial statement preparation are inadequate to ensure accurate and complete financial reporting.		
Background: It is the responsibility of Agency management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. We identified the following deficiencies in internal controls over financial reporting that, when combined, represent a significant deficiency over financial reporting: <ul style="list-style-type: none">• Agency staff misinterpreted the accounting standards as to how to report the purchase and transfer of capital assets for its partners. As a result, the Agency created the account called Capital Distribution and capitalized in progress assets.• Bank statement and County Treasurer reports are not reconciled in a timely manner to ensure the cash reported is accurate. Further, we were unable to determine whether reconciliations were reviewed in timely manner as there was no evidence of when the independent review occurred.• The Agency lacks an effective review process to ensure amounts reported on the financial statements agree to supporting records and are prepared in accordance with the <i>Budgeting, Accounting and Reporting Systems (BARS) Manual</i> and generally accepted accounting principles (GAAP).		

Status of Corrective Action: (check one)☐ Fully
Corrected☐ Partially
Corrected☒ Not Corrected☐ Finding is considered no
longer valid**Corrective Action Taken:**

We have corrected the process of how we handled capital assets that are purchased by the Agency but are titled to one of the five governmental entities that make up the Agency. We have also changed our process to ensure that reconciliations are done timely as well as our review of the financial statements.

**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**

**Eastside Fire & Rescue
King County
January 1, 2014 through December 31, 2015**

Board of Directors
Eastside Fire & Rescue
Issaquah, 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 Eastside Fire & Rescue, King County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 4, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Agency'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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

AGENCY'S RESPONSE TO FINDINGS

The Agency's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Agency'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 Agency'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 style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

September 4, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Eastside Fire & Rescue King County January 1, 2014 through December 31, 2015

Board of Directors
Eastside Fire & Rescue
Issaquah, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Eastside Fire & Rescue, King County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Agency'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 Agency'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastside Fire & Rescue, as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2018 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 4, 2018

FINANCIAL SECTION

**Eastside Fire & Rescue
King County
January 1, 2014 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015
Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015
Statement of Net Position – 2014
Statement of Revenues, Expenses and Changes in Net Position – 2015
Statement of Revenues, Expenses and Changes in Net Position – 2014
Statement of Cash Flows – 2015
Statement of Cash Flows – 2014
Statement of Fiduciary Net Position – 2015
Statement of Fiduciary Net Position – 2014
Notes to Financial Statements – 2015
Notes to Financial Statements – 2014

EASTSIDE FIRE & RESCUE

Management's Discussion & Analysis

Eastside Fire & Rescue's discussion and analysis provides a narrative overview of the Agency's financial position and results of operations for the fiscal year ended December 31, 2015. The intent of the discussion and analysis is to review the Agency's financial performance as a whole. This Management's Discussion and Analysis (MD&A) combined with the Financial Statements and the Notes to the Financial Statements represent the complete 2015 financial activities for Eastside Fire & Rescue. These are all intended to help the reader understand the Agency's significant financial issues. This MD&A provides an overview of the Agency's financial records. The data in this financial report also identifies any material deviations from the financial plan and the adopted annual budget. Finally, the intent of the MD&A and other financial information is to isolate and identify individual fund issues or concerns.

Financial Highlights

- The Agency's total assets, as of December 31, 2015, exceeded liabilities by \$3.3 million.
- Investment in Capital Assets (net of depreciation and related debt) comprise almost \$1.0 Million of the \$3.3 million in net position in 2015.
- Of the remaining net position, \$2.3 million or 69% may be used to meet the Agency's ongoing obligation to its partners and creditors without legal restrictions. These monies are intended to provide a cushion to maintain sufficient working capital and cash flow to meet daily financial needs.
- The Agency's total net position increased \$22.7 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of two components:

1. Basic Financial Statements
2. Notes to the Financial Statements

The Basic Financial Statements are designed to provide the readers with a broad overview of Eastside Fire & Rescue's finances, similar to a private-sector business. They provide both short-term and long-term information about the Agency's overall financial status.

The Statement of Net Position presents information of the Agency's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Revenue, Expenses, and Changes in Net Position present information showing how the Agency's net position changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

EASTSIDE FIRE & RESCUE

Fiduciary Funds

Fiduciary funds account for assets held by the Agency in a trustee capacity or as an agent for individuals or other governments. Fiduciary funds are not reflected in the financial statements because the assets are not available to support the Agency's activities. The Agency's fiduciary activities are reported in a separate Statement of Fiduciary Net Position.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

FINANCIAL STATEMENT ANALYSIS

Statement of Net Position

The statement of net assets can serve as a useful indicator of the Agency's financial position. The overall financial position has improved for Eastside Fire & Rescue over the prior year. The Agency's assets exceeded liabilities by \$3.2 million as of December 31, 2015. The following is a condensed version of the government-wide Statement of Net Position.

	2015	2014
ASSETS		
Current and other assets	7,164,813	6,352,240
Capital Assets	999,097	1,115,137
TOTAL ASSETS	8,163,910	7,467,377
LIABILITIES		
Current Liabilities	4,905,115	4,231,273
TOTAL LIABILITIES	4,905,115	4,231,273
NET POSITION		
Investment in Capital Assets	999,097	1,115,137
Unrestricted	2,259,697	2,120,967
TOTAL NET POSITION	3,258,795	3,236,104

In 2015, the unrestricted net position was 69% of the total net position. The change in net position from 2014 to 2015 amounts to \$22,690.

As of December 31, 2015, the Agency reports positive balances in all categories of net position.

EASTSIDE FIRE & RESCUE

Statement of Revenue, Expenses and Changes in Net Position

The Statement of Revenue, Expenses, and Changes in Net Position table illustrate the increase or decrease in net position of the Agency resulting from its operating activities. The Agency's net position increased approximately \$22.7 thousand.

The following table is a condensed version of the Agency's changes in net position. The table shows revenues, expenses, and related changes in net position in tabular form for the governmental activities.

	2015	2014
REVENUE		
Charges for Services	25,472,775	24,711,289
Operating Grants & Contributions	4,222	5,417
Other	117,961	120,320
Total Revenues	25,594,958	24,837,026
EXPENSE		
Operating Expense	25,128,186	23,703,138
Partner Asset Expense	322,106	156,033
Depreciation Expense	121,976	195,836
Total Expenses	25,572,268	24,055,007
Change in net position	22,690	782,019
Net Position, Beginning of Year	3,236,104	2,461,020
Prior Period Adjustment	0	(6,935)
Net Position, End of Year	3,258,794	3,236,104

BUDGETARY HIGHLIGHTS

Eastside Fire & Rescue budgets on an annual basis. Appropriations for operating funds are authorized each year. The Agency adjusted the budget by \$200,000 in 2015. See Note 1D in the notes to the financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Eastside Fire & Rescue's investment in capital assets as of December 31, 2015 amount to \$1.0 million (net of accumulated depreciation). This investment in capital assets includes buildings improvements, apparatus, and equipment. Capital assets decreased by \$116 thousand, which was due to the effects of depreciation. See Note 3 in the Notes to the Financial Statements.

EASTSIDE FIRE & RESCUE

CAPITAL ASSETS AT YEAR-END, NET OF DEPRECIATION

	2015	2014
Building Improvements	\$ 777	\$ 8,839
Apparatus	77,954	87,110
Equipment	920,366	1,019,189
Total Capital Assets	\$ 999,097	\$ 1,115,138

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency's funding is determined by a formula identified in the interlocal agreement that created Eastside Fire & Rescue. The formula is based on assessed values and call volumes that occur in the jurisdiction of the cities and districts that are a party to the interlocal agreement. After the downturn in the economy and the housing markets over the past few years, the area is seeing an increase in the property values.

- Overall, the area is expecting to see assessed values increase approximately 6.7 percent.
- Total operating expenses for the Agency is estimated to be \$ 24,255,988, a 2.78 percent increase over the previous year adopted budget. This is most attributed to wages and benefit increase. We also saw our labor and industries rates increase.
- For 2016, the Agency continues to maintain its staffing level. The Agency expects to experience more of its firefighters retiring in the next five years as they reach retirement age.

REQUEST FOR INFORMATION

This financial report is designed to provide our partners, citizens, customers, and creditors with a general overview of Eastside Fire & Rescue's finances. If you have any questions about this report or need any additional financial information, contact the Finance Department, Attention: Budget Finance Analyst, at Eastside Fire & Rescue, 175 Newport Way NW, Issaquah, WA 98027.

EASTSIDE FIRE & RESCUE

Management's Discussion & Analysis

Eastside Fire & Rescue's discussion and analysis provides a narrative overview of the Agency's financial position and results of operations for the fiscal year ended December 31, 2014. The intent of the discussion and analysis is to review the Agency's financial performance as a whole. This Management's Discussion and Analysis (MD&A) combined with the Financial Statements and the Notes to the Financial Statements represent the complete 2014 financial activities for Eastside Fire & Rescue. These are all intended to help the reader understand the Agency's significant financial issues. This MD&A provides an overview of the Agency's financial records. The data in this financial report also identifies any material deviations from the financial plan and the adopted annual budget. Finally, the intent of the MD&A and other financial information is to isolate and identify individual fund issues or concerns.

Financial Highlights

- The Agency's total assets, as of December 31, 2014, exceeded liabilities by \$3.24 million respectively.
- Investment in Capital Assets (net of depreciation and related debt) comprise \$1.1 million of the \$3.24 million in net position.
- Of the remaining net position, \$2.1 million may be used to meet the Agency's ongoing obligations without legal restrictions. These monies are intended to provide a cushion to maintain sufficient working capital and cash flow to meet daily financial needs.
- The Agency's total net position increased, as of December 31, 2014 by \$782 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of two components:

1. Basic Financial Statements
2. Notes to the Financial Statements

The Basic Financial Statements are designed to provide the readers with a broad overview of Eastside Fire & Rescue's finances, similar to a private-sector business. They provide both short-term and long-term information about the Agency's overall financial status.

The Statement of Net Position presents information of the Agency's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Revenue, Expenses, and Changes in Net Position present information showing how the Agency's net position changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

EASTSIDE FIRE & RESCUE

Fiduciary Funds

Fiduciary funds account for assets held by the Agency in a trustee capacity or as an agent for individuals or other governments. Fiduciary funds are not reflected in the financial statements because the assets are not available to support the Agency's activities. The Agency's fiduciary activities are reported in a separate Statement of Fiduciary Net Position.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

FINANCIAL STATEMENT ANALYSIS

Statement of Net Position

The statement of net assets can serve as a useful indicator of the Agency's financial position. The overall financial position has improved for Eastside Fire & Rescue over the prior year. The Agency's assets exceeded liabilities by \$3.24 million. The following is a condensed version of the government-wide Statement of Net Position.

	2014	2013
ASSETS		
Current and other assets	6,352,240	5,091,026
Capital Assets	1,115,137	1,250,873
TOTAL ASSETS	7,467,377	6,341,899
LIABILITIES		
Current Liabilities	4,231,273	3,880,879
TOTAL LIABILITIES	4,231,273	3,880,879
NET POSITION		
Investment in Capital Assets	1,115,137	1,250,873
Unrestricted	2,120,967	1,210,147
TOTAL NET POSITION	3,236,104	2,461,020

In 2014, the unrestricted net position was 66% of the total net position. The change in net position from 2013 to 2014 amounts to \$782,018.

As of December 31, 2014, the Agency reports positive balances in all categories of net position.

EASTSIDE FIRE & RESCUE

Statement of Revenue, Expenses and Changes in Net Position

The Statement of Revenue, Expenses, and Changes in Net Position table illustrate the increase or decrease in net position of the Agency resulting from its operating activities. The Agency's net position increased approximately \$782 thousand in 2014.

The following table is a condensed version of the Agency's changes in net position. The table shows revenues, expenses, and related changes in net position in tabular form for the governmental activities.

	2014	2013
REVENUE		
Charges for Services	24,711,289	23,633,095
Operating Grants & Contributions	5,417	6,017
Other	120,320	116,880
Total Revenues	24,837,026	23,755,992
EXPENSE		
Operating Expense	23,703,138	22,588,626
Partner Asset Expense	156,033	480,195
Depreciation Expense	195,836	182,198
Total Expenses	24,055,007	23,251,019
Change in net position	782,019	504,973
Net Position, Beginning of Year	2,461,020	1,947,222
Prior Period Adjustment	(6,935)	8,825
Net Position, End of Year	3,236,104	2,461,020

BUDGETARY HIGHLIGHTS

Eastside Fire & Rescue budgets on an annual basis. Appropriations for operating funds are authorized each year. The Agency did not make adjustments to the original budget in 2014.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Eastside Fire & Rescue's investment in capital assets as of December 31, 2014 amount to \$1.1 million (net of accumulated depreciation) respectively. This investment in capital assets includes buildings improvements, apparatus, and equipment. See Note 3 in the Notes to the Financial Statements.

EASTSIDE FIRE & RESCUE

CAPITAL ASSETS AT YEAR-END, NET OF DEPRECIATION

	2014	2013
Building Improvements	\$ 8,839	\$ 16,900
Apparatus	87,110	101,608
Equipment	1,019,189	1,132,365
Total Capital Assets	\$ 1,115,138	\$ 1,250,873

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency's funding is determined by a formula identified in the interlocal agreement that created Eastside Fire & Rescue. The formula is based on assessed values. After the downturn in the economy and the housing markets over the past few years, the area is seeing an increase in the property values. As all of the Agency's partners are dependent on property taxes to various levels, it is projected that these revenues will rise over the next few years. This should help stabilize the revenues received by the Agency to continue to provide its current level of service.

- Overall, the area is expecting to see assessed values increase approximately 19.6 percent.
- Total operating expenses for the Agency is estimated to be \$ 23,599,980, a 2.8 percent increase over the previous year adopted budget. This is most attributed to wages and benefit increase.
- For 2015, the Agency continues to maintain its staffing level. The Agency is starting to experience more of its firefighters retiring as they reach retirement age. We expect to see this trend continue for the foreseeable future.

REQUEST FOR INFORMATION

This financial report is designed to provide our partners, citizens, customers, and creditors with a general overview of Eastside Fire & Rescue's finances. If you have any questions about this report or need any additional financial information, contact the Finance Department, Attention: Budget Finance Analyst, at Eastside Fire & Rescue, 175 Newport Way NW, Issaquah, WA 98027.

**EASTSIDE FIRE & RESCUE
STATEMENT OF NET POSITION
As of December 31, 2015**

	2015
ASSETS	
Current	
Cash and Cash Equivalents	\$ 5,921,319
Accounts Receivable	1,038,268
Due from Other Funds	1,502
Due from Other Governments	13,749
Prepaid Expenses	189,974
Non Current Assets	
Capital Assets, Net of Depreciation	999,097
Total Assets	<u>8,163,910</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	384,818
Revenue Billed in Advance	2,080
Retainage Payable	5,426
Due to Other Governments	4,512,791
Total Liabilities	<u>4,905,115</u>
Net Position	
Investment in Capital Assets	999,097
Unrestricted	2,259,697
Total Net Position	<u>\$ 3,258,795</u>

The notes to the financial statements are an integral part of this statement.

**EASTSIDE FIRE & RESCUE
STATEMENT OF NET POSITION
As of December 31, 2014**

	2014
ASSETS	
Current	
Cash and Cash Equivalents	\$ 4,982,248
Accounts Receivable	1,147,233
Due from Other Governments	5,198
Prepaid Expenses	217,560
Non Current Assets	
Capital Assets, Net of Depreciation	1,115,137
Total Assets	<u>7,467,377</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	224,591
Revenue Billed in Advance	6,615
Retainage Payable	4,630
Due to Other Governments	3,995,436
Total Liabilities	<u>4,231,273</u>
Net Position	
Investment in Capital Assets	1,115,137
Unrestricted	2,120,967
Total Net Position	<u>\$ 3,236,104</u>

The accompanying notes are an integral part of this financial statement.

EASTSIDE FIRE & RESCUE
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the period ended December 31, 2015

Revenue	2015
Fee for Services	\$ 24,161,016
Equipment Replacement Fees	1,135,014
Capital Facilities & Maintenance Fees	174,533
Rental Fees	2,212
Total Operating Revenues	<u>25,472,775</u>
 Expenses	
Operating Expense	25,128,186
Depreciation Expense	121,976
Total Operating Expenses	<u>25,250,162</u>
 Operating Income	<u>222,613</u>
 Non-Operating Revenue (Expenses)	
Intergovernmental Grant Revenue	4,222
Investment Interest (Net)	34,042
Disposal of Capital Assets	26,500
Partner Asset Expense	(322,106)
Miscellaneous	57,419
Total Non-Operating Revenue (Expenses)	<u>(199,923)</u>
 Change in Net Assets	<u>22,690</u>
 Net Position, Beginning of Year	3,236,104
Net Position, End of Year	<u><u>\$ 3,258,795</u></u>

The notes to the financial statements are an integral part of this statement.

EASTSIDE FIRE & RESCUE
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the period ended December 31, 2014

Revenue	2014
Fee for Services	\$ 23,250,046
Equipment Replacement Fees	1,284,406
Capital Facilities & Maintenance Fees	174,533
Rental Fees	2,304
Total Operating Revenues	<u>24,711,289</u>
Expenses	
Operating Expense	23,703,138
Depreciation Expense	195,836
Total Operating Expenses	<u>23,898,974</u>
Operating Income	<u>812,315</u>
Intergovernmental Grant Revenue	5,417
Investment Interest (Net)	25,272
Disposal of Capital Assets	26,840
Partner Asset Expense	(156,033)
Miscellaneous	68,209
Total Non-Operating Revenue (Expenses)	<u>(30,297)</u>
Change in Net Assets	<u>782,018</u>
Net Position, Beginning of Year	2,461,020
Prior Period Adjustment	(6,935)
Net Position, End of Year	<u>\$ 3,236,104</u>

The accompanying notes are an integral part of this financial statement.

EASTSIDE FIRE & RESCUE
STATEMENT OF CASH FLOW
For the period ended December 31, 2015

	2015
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 25,932,208
Cash Paid to Suppliers and Employees	24,661,185
Net Cash Flows From Operating Activities	<u>1,271,022</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of capital assets	26,500
Purchase of Capital Assets for partners	(322,106)
Purchase of Capital Assets	(74,610)
Net Cash Flows From Capital and Related Financing Activities	<u>(370,216)</u>
Cash Flows from Noncapital Financing Activities	
Cash Received from Grants	4,222
Net Cash Flows From Noncapital Financing Activities	<u>4,222</u>
Cash Flows from Investing Activities	
Interest Income	35,932
Investment Fee	(1,890)
Net Cash Flows From Investing Activities	<u>34,042</u>
Net Change in Cash and Cash Equivalents	939,071
Cash and Cash Equivalents, Beginning of Year	4,982,248
Cash and Cash Equivalents, Ending of Year	<u>\$ 5,921,319</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities	
Operating Income	\$ 222,613
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities	
Change in Operating Assets and Liabilities	
Depreciation	121,976
Accounts Receivable	108,965
Due from Other Fund	(1,502)
Due from Other Governments	(8,550)
Prepaid Expense	27,586
Accounts Payable	(855,519)
Revenue Billed in advance	(4,535)
Due to Other Governments	4,492,047
Non Current Assets & Liabilities	(2,461,016)
Net Cash Flows From Operating Activities	<u>\$ 1,419,452</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

EASTSIDE FIRE & RESCUE
STATEMENT OF CASH FLOW
For the period ended December 31, 2014

	2014
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 24,322,829
Cash Paid to Suppliers and Employees	23,550,723
Net Cash Flows From Operating Activities	<u>772,106</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of capital assets	47,355
Purchase of Capital Assets for partners	(136,969)
Purchase of Capital Assets	(79,049)
Net Cash Flows From Capital and Related Financing Activities	<u>(168,664)</u>
Cash Flows from Noncapital Financing Activities	
Cash Received from Grants	5,417
Net Cash Flows From Noncapital Financing Activities	<u>5,417</u>
Cash Flows from Investing Activities	
Interest Income	26,195
Investment Fee	(924)
Net Cash Flows From Investing Activities	<u>25,272</u>
Net Change in Cash and Cash Equivalents	634,131
Cash and Cash Equivalents, Beginning of Year	4,355,052
Prior Period Adjustment	(6,935)
Cash and Cash Equivalents, Ending of Year	<u>\$ 4,982,248</u>
 Reconciliation of Operating Income to Net Cash Flows from Operating Activities	
Operating Income	\$ 812,315
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities	
Change in Operating Assets and Liabilities	
Depreciation	195,836
Accounts Receivable	(785,673)
Due from Other Governments	(5,198)
Prepaid Expense	44,760
Accounts Payable	(1,024,946)
Revenue Billed in advance	5,945
Due to Other Governments	3,963,093
Non Current Assets & Liabilities	(2,434,027)
Net Cash Flows From Operating Activities	<u>\$ 772,106</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

EASTSIDE FIRE & RESCUE
STATEMENT OF FIDUCIARY NET POSITION
As of December 31, 2015

	Employee Health Reimbursement Account
ASSETS	
Cash and Cash Equivilant	\$ 1,810,750
Total Assets	<u>1,810,750</u>
NET POSITION	
Held in Trust for employee Health Reimbursement Account (HRA)	1,810,750
Total Net Position	<u>\$ 1,810,750</u>

The notes to the financial statements are an integral part of this statement.

EASTSIDE FIRE & RESCUE
STATEMENT OF FIDUCIARY NET POSITION
As of December 31, 2014

	Employee Health Reimbursement Account
ASSETS	
Cash and Cash Equivilant	\$ 1,446,065
Accounts Receivable	-
Total Assets	<u>1,446,065</u>
NET POSITION	
Held in Trust for employee Health Reimbursement Account (HRA)	1,446,065
Total Net Position	<u>\$ 1,446,065</u>

The accompanying notes are an integral part of this financial statement.

EASTSIDE FIRE & RESCUE
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Eastside Fire & Rescue (EF&R) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Eastside Fire & Rescue was established in 1999 through the creation of an interlocal agreement as provided by RCW Title 39.34. There are currently five legislative entities: King County Fire Protection District 10, Fire District 38, City of Issaquah, City of North Bend, and City of Sammamish, (the principals). The Agency operates under the laws of the State of Washington applicable to fire districts. The Agency provides fire and emergency medical aid services to the five participating principals.

At inception, the principals provided real property and equipment for use by EF&R. However, title and ownership of these capital assets remains with the principals.

Eastside Fire & Rescue is a joint venture partnership. The above entities retain an equity interest in EF&R based on their support of EF&R operations. As of December 31, 2015 the equity percentage was as follows:

Principals	Cumulative Fees Received as of 12/31/15	Equity Percentages
Fire District 10	\$112,224,120	40.33%
Fire District 38	17,911,643	6.44%
City of Issaquah	61,628,758	22.15%
City of North Bend	12,146,608	4.36%
City of Sammamish	74,363,799	26.72%
TOTAL	\$278,274,928	100.00%

The Agency is governed by a Joint Board of Directors, which meets on the second Thursday of each month. The Board consists of eight Directors appointed from each of the principal's elected officials in the following ratio:

• King County Fire Protection District 10	2
• Fire District 38	1
• City of Issaquah	2
• City of North Bend	1
• City of Sammamish	2

In 2004, the EF&R Board established a funding model for all principals' contributions. The model utilizes calls for service to establish a first due area of response for each fire station, and then applies the surrounding assessed value by jurisdiction to derive the percent of each jurisdiction's portion of cost for that station. The total of all stations establishes each partner's share of the total cost of operations. The EF&R Board establishes a monthly billing schedule which the partners are obligated to pay in a timely fashion.

Effective in 2015, the EF&R Board modified the funding model for all principal's contributions. The model still utilizes calls for service to establish a first due area of response for each fire station, and then applies the surrounding assessed value by jurisdiction to derive the percent of each jurisdiction's portion of cost for that station. In addition to AV, the number of incidents responded by each station is allocated

EASTSIDE FIRE & RESCUE
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

to which principal the call resided in. Fire incident calls are multiplied by 3, while the EMS calls are multiplied by 1. This establishes the total weighted incident values within each Principal/Station area. The formula allocates 85% based on AV and 15% based on calls. The total of all stations establishes each partner's share of the total cost of operations. For 2015, the Funding Model Formula produced the following cost percentages by partner: King County Fire Protection District 10, 33.40%; City of Sammamish, 27.33%; City of Issaquah, 27.68%; Fire District 38, 7.14% and the City of North Bend, 4.44%. The Equipment Replacement Fund and the Capital Facilities and Maintenance Fund used the same contribution percentages against the total need established by the EF&R Board in concert with the operating budget. The Equipment Replacement Fund and the Capital Facilities and Maintenance Fund used the same contribution percentages against the total need established by the EF&R Board in concert with the operating budget.

Employees of King County Fire Protection District 10 conduct the daily operations of EF&R. The Agency has no employees of record; however, EF&R directly pays the cost of King County Fire Protection District 10's employees' wages and benefits pursuant to the Interlocal Agreement.

B. Proprietary Fund Financial Statements

The Proprietary Financial Statements account for activities utilizing statements of revenues and expenses for the cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with activity are included on the balance sheet. Proprietary Fund Operating Statements present increases (revenues and gains) and decreases (expenses and losses) in total net position.

Fiduciary Fund Financial Statements

Fiduciary Funds are used to account for assets held by the Agency in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The Fiduciary Fund is classified for accounting measurement purposes either as a governmental fund or as a proprietary fund. The Fiduciary Funds are custodial in nature and do not involve the measurement of the results of operations. Eastside Fire & Rescue has one Fiduciary Fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency are contributions from the partners (cities and fire districts) that make up the Agency, EMS levy funds, and other revenues received for services rendered. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Basis of Accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues are recognized when earned, regardless of when received, and expenses are recognized when an obligation is incurred, regardless of when paid.

Purchases of capital assets are accounted for as capital work in progress until placed in service, at which point they are classified in the appropriate capital asset account and depreciated pursuant to their useful lives less an expected salvage value. The Agency has limited capital assets, as major items such as rolling stock, land, and buildings are owned by the principals based either on the original owner of the asset replaced (rolling stock) or the legislative boundaries in which the asset resides (land and buildings). Inventory turnover is at least once every twelve months, and purchases as such are considered expenses when purchased.

EASTSIDE FIRE & RESCUE
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

D. Budgets

1. Scope of Budget

Pursuant to the Interlocal Agreement, the Board, comprised of elected officials from the principals' legislative councils and commissions, has total discretion in directing the business of EF&R throughout the year. Each year the Fire Chief prepares a proposed budget for each succeeding calendar year as directed by the Board. Operations are budgeted separately from equipment replacement and capital facility maintenance. In June of each year, the Board is presented with a preliminary budget, which is referred to the Finance Committee for further review. The preliminary budget is brought back to the Board in October for approval. The Board adopts the budgets before the end of the year for the succeeding calendar year, which identifies line item expenses for operations and capital assets. The Fire Chief has line item discretion for operating expenses, not to exceed the total operational budget approved by the principals. Monthly interim financial statements and reports are presented to the Board for review at the regular scheduled open public meeting. Budget to Actual status is presented. Expenses for Capital Assets are specifically identified and approved by the Board. All expenses are made in conformance with applicable Federal, State and Local laws for Fire Districts. Excess of Appropriations over revenues and expenses remains in the general operating expense fund reserve at year end, and do not roll forward.

2. Amending the Budgets

The Agency's budgets may be amended during the current fiscal year by a majority approval of the Board of Directors. Revenues may be utilized from the operating reserve, a reallocation within the line item budget for equipment replacement, or by direct partner contribution over and above the original annual budgets. All amendments are managed utilizing the agenda bill format at scheduled and published open public meetings.

E. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

The Agency maintains a Revolving Fund not to exceed \$15,000. All other cash is invested in the King County Investment Pool managed by the King County Treasurer. All cash is classified on the balance sheet as cash and cash equivalents. The interest on the investments is prorated to the various funds. All cash investments are disclosed at Fair Market Value.

For purposes of the statement of cash flows, EF&R considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Accounts Receivable

This amount represents service fees due from the principals, together with miscellaneous fees outstanding at year end.

3. Due from Other Governments

Amounts represent outstanding billings to other governments for services provided in the current year.

4. Prepaid Expenses

This amount represents prepaid medical/dental premiums and annual fees relating to the following year.

EASTSIDE FIRE & RESCUE
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

5. Capital Assets (See Note 4)

Capital assets, which include vehicles and equipment, are reported on the balance sheet. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$20,000 and an estimated useful life in excess of five year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost for normal maintenance and repairs are not capitalized.

Vehicles and equipment of the Agency is depreciated using the straight line method over the following useful lives:

Asset Class	Estimated Service Life
Staff Vehicles, Trailers and Boat	10-15 years
Building improvements	10 years
Equipment	3-15 years

6. Accounts Payable

This amount represents expenses incurred but not paid at year end.

7. Net Position

Net Position represents principals' equity.

F. Revenue, Expenses

1. Fees for Services

These fees consist of charges to King County Fire Protection District 10, Fire District 38, City of Issaquah, City of North Bend, and City of Sammamish, plus some miscellaneous revenues from the King County EMS levy, transport fees, first aid classes, school fees, contract fees for maintenance, and contract fees for services.

2. Equipment Replacement Fees

These fees consist of the annual cost for maintaining an apparatus and equipment pool owned by individual principals, managed by EF&R.

3. Capital Facilities and Maintenance Fees

These fees consist of the annual cost for maintaining the facilities owned by individual partners, managed by EF&R.

4. Investment Interest/Expense

Investment interest is derived from the King County Treasurer's Investment Pool. The expense is the fee paid by EF&R for the County's services to manage its investments.

5. Operating Expenses

The most significant element of operating expenses representing approximately 85% is the payroll expenses for the staff of King County Fire Protection District No. 10. Other significant operating expenses include dispatch, fuel, protective clothing, fire suppression and emergency medical supplies, fleet and facility maintenance, training and administrative activities.

EASTSIDE FIRE & RESCUE
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

6. Depreciation

This expense is recorded annually over the useful lives of the capital assets.

NOTE 2 – Cash and Cash Equivalents

Deposits

The Agency's deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

Investments

In accordance with state law, the Agency's governing body has entered into a formal Interlocal Agreement with the Agency's ex officio treasurer, King County, to have all its funds not required for immediate expense to be invested in the King County Investment Pool (Pool).

As of December 31, 2015, the Agency had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 5,915,314	0.93 Years

Impaired Investments. *As of December 31, 2015, all impaired commercial paper investments have completed enforcement events.* The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The Agency's share of the impaired investment pool principle is \$14,029 while the Agency's fair value of these investments is \$8,802.

Interest Rate Risk. AS of December 31, 2015, the Pool's average duration was 0.93 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2015, the Agency's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 – CAPITAL ASSETS

At inception, the principals provided the real property and equipment for EF&R to use in its daily operations. Replacements to equipment retain the original ownership. As a result, replacement equipment is titled in the principal's name and the cost are expensed as the equipment belongs to the principal. The Agency has begun to acquire its own capital assets. The threshold is \$20,000 dollars (aggregate for some groups), with a life of five years or more. Depreciation is calculated using a straight-line method, less expected salvage. Useful lives range from five years for electronic data processing equipment to fifteen years for trailers and large equipment.

EASTSIDE FIRE & RESCUE
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

Capital asset activity for the year ended December 31, 2015 was as follows:

	<u>Beginning</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital Assets Not Being Depreciated:					
Capital Work In Progress	\$ 0	\$ -	\$ 380,724	\$ 380,724	\$ 0
Total Capital Assets Not Being Depreciated:	0	-	380,724	380,724	0
Capital Asset Being Depreciated:					
Apparatus	152,518	-	5,936	-	158,454
Building improvements	80,614	-	-	-	80,614
Equipment	1,847,001	-	-	-	1,847,001
Total Capital Assets Being Depreciated	2,080,133	-	5,936	-	2,086,069
Depreciation:					
Accum Dep Apparatus	65,408	-	15,092	-	80,500
Accum Dep Building Improvements	71,775	-	8,062	-	79,837
Accum Dep Equipment	827,812	-	98,823	-	926,635
Total Accumulated Depreciation:	964,995	-	121,977	-	1,086,972
Total Capital Assets Being Depreciated Net	1,115,138	-	(116,041)	-	999,097
Total Capital Assets Net	\$1,115,138	\$ -	\$ 264,683	\$ 380,724	\$ 999,097

NOTE 4 – RISK MANAGEMENT

Eastside Fire & Rescue purchases commercial insurance policies to cover property, errors and omissions, liability, crime, business auto, inland marine and umbrella. Deductibles vary by type of coverage and range from zero to \$1,000. The umbrella limits are \$10 million for general aggregate limit, \$10 million for products completed operations aggregate limit, \$5 million each occurrence limit and \$5 million personal and advertising limit. There have been no settlements that have exceeded the Agency's insurance coverage within the last three years.

NOTE 5 – CONTINGENCIES AND LITIGATIONS

The Agency has recorded in its financial statements all material liabilities. The Agency has no known contingent litigation liability. In the opinion of management, the Agency's insurance policies are adequate to pay any potential unknown claims.

The Agency participates in several Federal and State assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management knows of no such instances, however, should such reimbursement occur management believes that such disallowances, if any, will be immaterial.

EASTSIDE FIRE & RESCUE
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

NOTE 6 – JOINT VENTURES

Eastside Fire & Rescue is a partner in North East King County Regional Public Safety Communications Agency (NORCOM), formed as a not-for-profit corporation created under the provisions of an interlocal agreement as provided by RCW Title 39.34 and 24.06, Interlocal Cooperation Act. The partnership is to provide emergency service communications and all related incidental functions for communicating and dispatching services between the public and participating agencies. As of December 31, 2015, the partners include Eastside Fire & Rescue, the Cities of Bellevue, Bothell, Clyde Hill, Kirkland, Medina, Mercer Island, Snoqualmie, King County Fire Protection Districts 27, 45, and 50, Snoqualmie Pass Fire & Rescue, Northshore Fire Department, Shoreline Fire Department, and Woodinville Fire & Rescue. A funding model allocates NORCOM's budget into two separate cost pools, 50% for police and 50% for fire. The 50/50 split was determined by an average of two factors (1) the staffing allocated to each charged operations (police or fire) and (2) the volume of calls attributed to each charge operation. Complete audited financial statements for NORCOM can be obtained from NORCOM, PO Box 50911, Bellevue, WA 98015-0911.

Eastside Fire & Rescue participates in a number of cooperative purchasing and surplus equipment agreements that are only binding upon normal business activities such as commitments to purchase or sell. The Agency also participates in a number of mutual aid agreements that require assets and personnel deployments, on an availability basis, between and among various other state and local government service providers. Management does not deem these commitments to be in excess of the cost of providing routine services within the EF&R service area.

Eastside Fire & Rescue participates in various interlocal agreements to provide services routinely utilized by various state and local governments in the normal delivery of services, designed to limit cost and increase overall service delivery utility. Notably:

- Northeast King County Emergency Medical Services Consortium for Advanced Life Support
- Public Safety Wireless Services Interlocal Agreement
- Department of Public Health Basic Life Support Services Agreement
- Department of Natural Resources Coop Engine Agreement
- Hazardous Materials Response Unit & Teams Interlocal Agreement

Management believes these agreements create no liability outside of that routinely experienced by the Agency in the normal course of business within its legislated service area in excess of that covered by the Agency's insurance policies.

EASTSIDE FIRE & RESCUE
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Eastside Fire & Rescue (EF&R) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Eastside Fire & Rescue was established in 1999 through the creation of an interlocal agreement as provided by RCW Title 39.34. There are currently five legislative entities: King County Fire Protection District 10, Fire District 38, City of Issaquah, City of North Bend, and City of Sammamish, (the principals). The Agency operates under the laws of the State of Washington applicable to fire districts. The Agency provides fire and emergency medical aid services to the five participating principals.

At inception, the principals provided real property and equipment for use by EF&R. However, title and ownership of these capital assets remains with the principals.

Eastside Fire & Rescue is a joint venture partnership. The above entities retain an equity interest in EF&R based on their support of EF&R operations. As of December 31, 2014 the equity percentage was as follows:

Principals	Cumulative Fees Received as of 12/31/14	Equity Percentages
Fire District 10	\$107,970,846	40.89%
Fire District 38	16,443,104	6.23%
City of Issaquah	57,872,992	21.92%
City of North Bend	11,375,810	4.31%
City of Sammamish	70,366,815	26.65%
TOTAL	\$264,029,567	100.00%

The Agency is governed by a Joint Board of Directors, which meets on the second Thursday of each month. The Board consists of eight Directors appointed from each of the principal's elected officials in the following ratio:

• King County Fire Protection District 10	2
• Fire District 38	1
• City of Issaquah	2
• City of North Bend	1
• City of Sammamish	2

In 2004, the EF&R Board established a funding model for all principals' contributions. The model utilizes calls for service to establish a first due area of response for each fire station, and then applies the surrounding assessed value by jurisdiction to derive the percent of each jurisdiction's portion of cost for that station. The total of all stations establishes each partner's share of the total cost of operations. The EF&R Board establishes a monthly billing schedule which the partners are obligated to pay in a timely fashion.

The 2014 Funding Model Formula produced the following cost percentages by partner: King County Fire Protection District 10, 34.11%; City of Sammamish, 29.07%; City of Issaquah, 26.00%; Fire District 38, 6.80% and the City of North Bend, 4.02%. The Equipment Replacement Fund and the Capital Facilities

EASTSIDE FIRE & RESCUE
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

and Maintenance Fund used the same contribution percentages against the total need established by the EF&R Board in concert with the operating budget.

Employees of King County Fire Protection District 10 conduct the daily operations of EF&R. The Agency has no employees of record; however, EF&R directly pays the cost of King County Fire Protection District 10's employees' wages and benefits pursuant to the Interlocal Agreement.

B. Proprietary Fund Financial Statements

The Proprietary Financial Statements account for activities utilizing statements of revenues and expenses for the cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with activity are included on the balance sheet. Proprietary Fund Operating Statements present increases (revenues and gains) and decreases (expenses and losses) in total net position.

Fiduciary Fund Financial Statements

Fiduciary Funds are used to account for assets held by the Agency in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The Fiduciary Fund is classified for accounting measurement purposes either as a governmental fund or as a proprietary fund. The Fiduciary Funds are custodial in nature and do not involve the measurement of the results of operations. Eastside Fire & Rescue has one Fiduciary Fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency are contributions from the partners (cities and fire districts) that make up the Agency, EMS levy funds, and other revenues received for services rendered. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Basis of Accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues are recognized when earned, regardless of when received, and expenses are recognized when an obligation is incurred, regardless of when paid.

Purchases of capital assets are accounted for as capital work in progress until placed in service, at which point they are classified in the appropriate capital asset account and depreciated pursuant to their useful lives less an expected salvage value. The Agency has limited capital assets, as major items such as rolling stock, land, and buildings are owned by the principals based either on the original owner of the asset replaced (rolling stock) or the legislative boundaries in which the asset resides (land and buildings). Inventory turnover is at least once every twelve months, and purchases as such are considered expenses when purchased.

D. Budgets

1. Scope of Budget

Pursuant to the Interlocal Agreement, the Board, comprised of elected officials from the principals' legislative councils and commissions, has total discretion in directing the business of EF&R throughout the year. Each year the Fire Chief prepares a proposed budget for each succeeding calendar year as directed by the Board. Operations are budgeted separately from equipment replacement and capital facility maintenance. In June of each year, the Board is presented with a preliminary budget, which is

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referred to the Finance Committee for further review. The preliminary budget is brought back to the Board in October for approval. The Board adopts the budgets before the end of the year for the succeeding calendar year, which identifies line item expenses for operations and capital assets. The Fire Chief has line item discretion for operating expenses, not to exceed the total operational budget approved by the principals. Monthly interim financial statements and reports are presented to the Board for review at the regular scheduled open public meeting. Budget to Actual status is presented. Expenses for Capital Assets are specifically identified and approved by the Board. All expenses are made in conformance with applicable Federal, State and Local laws for Fire Districts. Excess of Appropriations over revenues and expenses remains in the general operating expense fund reserve at year end, and do not roll forward.

2. Amending the Budgets

The Agency's budgets may be amended during the current fiscal year by a majority approval of the Board of Directors. Revenues may be utilized from the operating reserve, a reallocation within the line item budget for equipment replacement, or by direct partner contribution over and above the original annual budgets. All amendments are managed utilizing the agenda bill format at scheduled and published open public meetings.

E. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

The Agency maintains a Revolving Fund not to exceed \$15,000. All other cash is invested in the King County Investment Pool managed by the King County Treasurer. All cash is classified on the balance sheet as cash and cash equivalents. The interest on the investments is prorated to the various funds. All cash investments are disclosed at Fair Market Value.

For purposes of the statement of cash flows, EF&R considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Accounts Receivable

This amount represents service fees due from the principals, together with miscellaneous fees outstanding at year end.

3. Due from Other Governments

Amounts represent outstanding billings to other governments for services provided in the current year.

4. Prepaid Expenses

This amount represents prepaid medical/dental premiums and annual fees relating to the following year.

5. Capital Assets (See Note 4)

Capital assets, which include vehicles and equipment, are reported on the balance sheet. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$20,000 and an estimated useful life in excess of five year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost for normal maintenance and repairs are not capitalized.

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Vehicles and equipment of the Agency is depreciated using the straight line method over the following useful lives:

Asset Class	Estimated Service Life
Staff Vehicles, Trailers and Boat	10-15 years
Building improvements	10 years
Equipment	3-15 years

6. Accounts Payable

This amount represents expenses incurred but not paid at year end.

7. Net Position

Net Position represents principals' equity.

F. Revenue, Expenses

1. Fees for Services

These fees consist of charges to King County Fire Protection District 10, Fire District 38, City of Issaquah, City of North Bend, and City of Sammamish, plus some miscellaneous revenues from the King County EMS levy, transport fees, first aid classes, school fees, contract fees for maintenance, and contract fees for services.

2. Equipment Replacement Fees

These fees consist of the annual cost for maintaining an apparatus and equipment pool owned by individual principals, managed by EF&R.

3. Capital Facilities and Maintenance Fees

These fees consist of the annual cost for maintaining the facilities owned by individual partners, managed by EF&R.

4. Investment Interest/Expense

Investment interest is derived from the King County Treasurer's Investment Pool. The expense is the fee paid by EF&R for the County's services to manage its investments.

5. Operating Expenses

The most significant element of operating expenses representing approximately 85% is the payroll expense for the staff of Eastside Fire & Rescue. Other significant operating expenses include dispatch, fuel, protective clothing, fire suppression and emergency medical supplies, fleet and facility maintenance, training and administrative activities.

6. Depreciation

This expense is recorded annually over the useful lives of the capital assets.

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NOTE 2 – CASH AND CASH EQUIVALANTS

Deposits

The Agency's deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

Investments

In accordance with state law, the Agency's governing body has entered into a formal Interlocal Agreement with the Agency's ex officio treasurer, King County, to have all its funds not required for immediate expense to be invested in the King County Investment Pool (Pool).

As of December 31, 2014, the Agency had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 4,967,296	1.23 Years

Impaired Investments. *As of December 31, 2014, all impaired commercial paper investments have completed enforcement events.* The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The Agency's share of the impaired investment pool principle is \$18,216.66 while the Agency's fair value of these investments is \$11,015.55.

Interest Rate Risk. AS of December 31, 2014, the Pool's average duration was 1.23 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2014, the Agency's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 – CAPITAL ASSETS

At inception, the principals provided the real property and equipment for EF&R to use in its daily operations. Replacements to equipment retain the original ownership. As a result, replacement equipment is titled in the principals name and the cost are expensed as the equipment belongs to the principal. The Agency has begun to acquire its own capital assets. The threshold is \$20,000 dollars (aggregate for some groups), with a life of five years or more. Depreciation is calculated using a straight-line method, less expected salvage. Useful lives range from five years for electronic data processing equipment to fifteen years for trailers and large equipment.

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Capital asset activity for the year ended December 31, 2014 was as follows:

	<u>Beginning</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital Assets Not Being Depreciated:					
Capital Work In Progress	\$ 0	\$ -	\$ 752,418	\$ 752,418	\$ 0
Total Capital Assets Not Being Depreciated:	0	-	752,418	752,418	0
Capital Asset Being Depreciated:					
Apparatus	152,518	-	-	-	152,518
Building improvements	80,614	-	-	-	80,614
Equipment	1,779,966	-	67,035	-	1,847,001
Total Capital Assets Being Depreciated	2,013,098	-	67,035	-	2,080,133
Depreciation:					
Accum Dep Apparatus	50,910	-	14,498	-	65,408
Accum Dep Building Improvements	63,714	-	8,061	-	71,775
Accum Dep Equipment	654,536	-	173,277	-	827,812
Total Accumulated Depreciation:	769,160	-	195,836	-	964,995
Total Capital Assets Being Depreciated Net	1,244,158	-	(128,801)	-	1,115,138
Total Capital Assets Net	\$1,244,158	\$ -	\$ 623,617	\$ 752,418	\$ 1,115,138

NOTE 4 – RISK MANAGEMENT

Eastside Fire & Rescue purchases commercial insurance policies to cover property, errors and omissions, liability, crime, business auto, inland marine and umbrella. Deductibles vary by type of coverage and range from zero to \$1,000. The umbrella limits are \$10 million for general aggregate limit, \$10 million for products completed operations aggregate limit, \$5 million each occurrence limit and \$5 million personal and advertising limit. There have been no settlements that have exceeded the Agency's insurance coverage within the last three years.

NOTE 5 – CONTINGENCIES AND LITIGATIONS

The Agency has recorded in its financial statements all material liabilities. The Agency has no known contingent litigation liability. In the opinion of management, the Agency's insurance policies are adequate to pay any potential unknown claims.

The Agency participates in several Federal and State assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management knows of no such instances, however, should such reimbursement occur management believes that such disallowances, if any, will be immaterial.

NOTE 6 – PRIOR PERIOD ADJUSTMENT

In 2014, it was determined that the accumulated depreciation did not include \$6,934.63 of depreciation attributed to prior years.

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NOTE 7 – JOINT VENTURES

Eastside Fire & Rescue is a partner in North East King County Regional Public Safety Communications Agency (NORCOM), formed as a not-for-profit corporation created under the provisions of an interlocal agreement as provided by RCW Title 39.34 and 24.06, Interlocal Cooperation Act. The partnership is to provide emergency service communications and all related incidental functions for communicating and dispatching services between the public and participating agencies. As of December 31, 2015, the partners include Eastside Fire & Rescue, the Cities of Bellevue, Bothell, Clyde Hill, Kirkland, Medina, Mercer Island, Snoqualmie, King County Fire Protection Districts 27, 45, and 50, Snoqualmie Pass Fire & Rescue, Northshore Fire Department, Shoreline Fire Department, and Woodinville Fire & Rescue. A funding model allocates NORCOM's budget into two separate cost pools, 50% for police and 50% for fire. The 50/50 split was determined by an average of two factors (1) the staffing allocated to each charged operations (police or fire) and (2) the volume of calls attributed to each charge operation. Complete audited financial statements for NORCOM can be obtained from NORCOM, PO Box 50911, Bellevue, WA 98015-0911.

Eastside Fire & Rescue participates in a number of cooperative purchasing and surplus equipment agreements that are only binding upon normal business activities such as commitments to purchase or sell. The Agency also participates in a number of mutual aid agreements that require assets and personnel deployments, on an availability basis, between and among various other state and local government service providers. Management does not deem these commitments to be in excess of the cost of providing routine services within the EF&R service area.

Eastside Fire & Rescue participates in various interlocal agreements to provide services routinely utilized by various state and local governments in the normal delivery of services, designed to limit cost and increase overall service delivery utility. Notably:

- Northeast King County Emergency Medical Services Consortium for Advanced Life Support
- Public Safety Wireless Services Interlocal Agreement
- Department of Public Health Basic Life Support Services Agreement
- Department of Natural Resources Coop Engine Agreement
- Hazardous Materials Response Unit & Teams Interlocal Agreement

Management believes these agreements create no liability outside of that routinely experienced by the Agency in the normal course of business within its legislated service area in excess of that covered by the Agency's insurance policies.

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