



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Snohomish County Fire Protection
District No. 1
(Snohomish County Fire One)

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

Published January 24, 2019

Report No. 1023080





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

January 24, 2019

Board of Commissioners
Snohomish County Fire One
Everett, Washington

Report on Financial Statements

Please find attached our report on Snohomish County Fire One's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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

**Snohomish County Fire One
January 1, 2016 through December 31, 2017**

Board of Commissioners
Snohomish County Fire One
Everett, 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 Snohomish County Fire One, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 4, 2019.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

January 4, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Snohomish County Fire One January 1, 2016 through December 31, 2017

Board of Commissioners
Snohomish County Fire One
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Snohomish County Fire One, for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Snohomish County Fire One has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Snohomish County Fire One, for the years ended December 31, 2017 and 2016, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Snohomish County Fire One, as of December 31, 2017 and 2016, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters


Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2019 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

January 4, 2019

FINANCIAL SECTION

Snohomish County Fire One January 1, 2016 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
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Schedule of Liabilities – 2017
Schedule of Liabilities – 2016

Snohomish County Fire Protection District No. 1
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 General	202 Bond Redemption Fund	301 Capital Projects Fund
Beginning Cash and Investments					
30810	Reserved	7,686,032	803,913	62,818	5,753,688
30880	Unreserved	12,759,908	11,480,587	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	33,322,738	30,690,980	380	2,631,378
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	345,007	345,007	-	-
340	Charges for Goods and Services	13,984,356	13,984,356	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	3,364,060	202,358	402	55,500
Total Revenues:		51,016,161	45,222,701	782	2,686,878
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	39,099,948	36,647,579	-	-
Total Expenditures:		39,099,948	36,647,579	-	-
Excess (Deficiency) Revenues over Expenditures:		11,916,212	8,575,121	782	2,686,878
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	282,825	282,825	-	-
Total Other Increases in Fund Resources:		282,825	282,825	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	916,175	-	-	916,175
591-593, 599	Debt Service	7	7	0	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	31,518,693	20,937,688	63,337	7,524,391
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		32,434,876	20,937,695	63,337	8,440,566
Increase (Decrease) in Cash and Investments:		(20,235,838)	(12,079,749)	(62,555)	(5,753,688)
Ending Cash and Investments					
5081000	Reserved	8,215	2,864	262	-
5088000	Unreserved	201,887	201,887	-	-
Total Ending Cash and Investments		210,102	204,751	262	-

The accompanying notes are an integral part of this statement.

**Snohomish County Fire Protection District No. 1
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017**

		<u>501 Healthcare Self Insurance</u>
Beginning Cash and Investments		
30810	Reserved	1,065,614
30880	Unreserved	1,279,321
388 / 588	Prior Period Adjustments, Net	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	3,105,800
Total Revenues:		<u>3,105,800</u>
Expenditures		
510	General Government	-
520	Public Safety	2,452,369
Total Expenditures:		<u>2,452,369</u>
Excess (Deficiency) Revenues over Expenditures:		653,431
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<u>-</u>
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	2,993,278
586 / 589	Custodial Activities	-
Total Other Decreases in Fund Resources:		<u>2,993,278</u>
Increase (Decrease) in Cash and Investments:		<u>(2,339,847)</u>
Ending Cash and Investments		
5081000	Reserved	5,088
5088000	Unreserved	-
Total Ending Cash and Investments		<u>5,088</u>

Snohomish County Fire Protection District No. 1
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General	202 Bond Redemption Fund	301 Capital Projects Fund
Beginning Cash and Investments					
30810	Reserved	7,742,082	652,540	62,705	6,150,911
30880	Unreserved	10,112,759	9,180,023	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	30,391,532	28,859,427	(95)	1,532,200
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	377,695	377,695	-	-
340	Charges for Goods and Services	15,943,347	15,943,347	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	4,149,192	112,830	269	37,002
Total Revenues:		50,861,766	45,293,300	174	1,569,202
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	46,621,190	43,157,941	-	-
Total Expenditures:		46,621,190	43,157,941	-	-
Excess (Deficiency) Revenues over Expenditures:		4,240,576	2,135,358	174	1,569,202
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	322,439	317,299	-	4,709
Total Other Increases in Fund Resources:		322,439	317,299	-	4,709
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,971,134	-	-	1,971,134
591-593, 599	Debt Service	782	721	61	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
Total Other Decreases in Fund Resources:		1,971,915	721	61	1,971,134
Increase (Decrease) in Cash and Investments:		2,591,099	2,451,936	113	(397,223)
Ending Cash and Investments					
5081000	Reserved	7,686,033	803,913	62,818	5,753,688
5088000	Unreserved	12,759,908	11,480,587	-	-
Total Ending Cash and Investments		20,445,941	12,284,500	62,818	5,753,688

The accompanying notes are an integral part of this statement.

**Snohomish County Fire Protection District No. 1
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016**

		501 Healthcare Self Insurance Fund
		<hr/>
Beginning Cash and Investments		
30810	Reserved	875,926
30880	Unreserved	932,736
388 / 588	Prior Period Adjustments, Net	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	3,999,090
Total Revenues:		<hr/> 3,999,090
Expenditures		
510	General Government	-
520	Public Safety	3,463,248
Total Expenditures:		<hr/> 3,463,248
Excess (Deficiency) Revenues over Expenditures:		535,842
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	431
Total Other Increases in Fund Resources:		<hr/> 431
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
Total Other Decreases in Fund Resources:		<hr/> -
Increase (Decrease) in Cash and Investments:		<hr/> 536,273
Ending Cash and Investments		
5081000	Reserved	1,065,614
5088000	Unreserved	1,279,321
Total Ending Cash and Investments		<hr/> 2,344,935

Snohomish County Fire Protection District No. 1
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

	Total for All Funds (Memo Only)	Pension Trust	Agency	
308	Beginning Cash and Investments	4,976,259	4,643,431	332,828
388 & 588	Prior Period Adjustment, Net	-	-	-
310-390	Additions	1,309,139	943,889	365,250
510-590	Deductions	6,279,806	5,581,728	698,078
	Net Increase (Decrease) in Cash and Investments:	(4,970,667)	(4,637,839)	(332,828)
508	Ending Cash and Investments	5,592	5,592	-

The accompanying notes are an integral part of this statement.

Snohomish County Fire Protection District No. 1
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

	Total for All Funds (Memo Only)	610 HRA Trust	631 Special Operations Policy Board	632 Sno Co EMS and Trauma Care Council	
308	Beginning Cash and Investments	4,435,127	4,152,071	171,531	111,525
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	998,201	979,471	18,347	384
380-390	Other Increases and Financing Sources	342,817	-	109,946	232,872
510-570	Expenditures	488,112	488,112	-	-
580-590	Other Decreases and Financing Uses	311,777	-	77,201	234,576
	Net Increase (Decrease) in Cash and Investments:	541,130	491,359	51,092	(1,320)
508	Ending Cash and Investments	4,976,257	4,643,430	222,623	110,204

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Snohomish County Fire Protection District No. 1 (SCFD#1) was incorporated on January 1, 1945 and operates under the laws of the state of Washington applicable to fire districts. The District is a special purpose government that provides fire suppression, emergency medical services, public education and fire prevention services. On the August 1, 2017 ballot, voters in City of Lynnwood and Fire District 1 approved a plan creating and funding the South Snohomish County Fire and Rescue Regional Fire Authority (RFA). Refer to Note 7 – *Other Disclosures, Government Combinations*.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund. For reporting purposes, the District has consolidated its Emergency Reserve, Law Enforcement Officers and Fire Fighters (LEOFF) I Medical Reserve and its Compensated Absences Reserve into the General Fund.

Debt Service Funds

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

Capital Project Funds

These funds account for the financial resources that are restricted, committed or assigned to expenditures for the acquisition or construction of capital facilities or other capital assets. For reporting purposes the District includes its Apparatus Reserve, Building Reserve and Equipment Reserve in this Fund.

PROPRIETARY FUND TYPE:

Internal Service Funds

These funds are used to account for operations that provide goods or services to other department or funds of the government on a cost-reimbursement basis. The District uses an internal service fund to account for the activities of its Healthcare Self-Insurance program.

FIDUCIARY FUND TYPE:

Health Reimbursement Trust Fund

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. The District has one Trust Fund that accounts for the accumulation of cash which accrues to the benefit of each employee to be used for qualifying medical expenses.

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity. The District entered into Interlocal Agreements with the Snohomish County Special Operations Joint Policy Board and the Snohomish County EMS and Trauma Care Council to provide Treasury functions for these organizations.

B. Basis of Accounting and Measurement Focus

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

C. Budgets

The District adopts annual appropriated budgets for all governmental 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:

	<u>Original 2017 Budget</u>	<u>Amended 2017 Budget</u>	<u>2017 Actuals</u>	<u>Positive (Negative)</u>
General Fund				
General Fund	\$45,450,012	\$47,616,939	\$35,917,678	\$11,699,261
Emergency Reserve	0	0	0	0
LEOFF I Medical Reserve	609,951	609,951	365,893	244,058
Compensated Absences Reserve	352,872	352,872	364,015	(11,143)
Total General Fund	<u>46,412,835</u>	<u>48,579,762</u>	<u>36,647,586</u>	<u>11,932,176</u>
Bond Fund	0	0	0	0
Capital Projects Fund				
Apparatus Reserve	2,698,292	2,698,292	248,146	2,450,146
Building Reserve	300,000	525,000	228,647	296,353
Equipment Reserve	1,447,534	1,497,534	439,382	1,058,152
Total Capital Projects Fund	<u>4,445,826</u>	<u>4,720,826</u>	<u>916,175</u>	<u>3,804,651</u>
Healthcare Self-Insurance Fund	<u>4,092,542</u>	<u>4,092,542</u>	<u>2,452,369</u>	<u>1,640,173</u>
Total District	<u>\$54,951,203</u>	<u>\$57,393,130</u>	<u>\$40,016,131</u>	<u>\$17,376,999</u>

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

The District amended its budget one time during 2017. Significant amendments in the General Fund were to the Wage and Benefit line item for suppression staff retro pay and an amendment to provide authorization to incur costs associated with the formation of the RFA.

D. Cash and Investments - Refer to Note 2 - *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

Vacation pay may be accumulated up to 768 hours for employees covered under the International Association of Firefighters (IAFF) Local 1828 contract, and is payable upon separation or retirement. Non-represented employees may carry forward up to 1.5 times their annual accrual amount which is payable upon separation or retirement. Effective October 1, 2017 the estimated liability of \$1,910,681 was assigned to the RFA. At December 31, 2017 the District’s estimated liability for vacation pay was \$0.

Upon separation or retirement administrative employees and employees covered under the IAFF agreement with less than 20 years of service receive compensation for sick leave hours at 25% of their accrued bank balance up to a maximum payout of 360 hours. Employees covered under the IAFF agreement with 20 or more years of service receive compensation for sick leave at 35% of their accrued bank balance up to a maximum payout of 504 hours. Effective October 1, 2017 the estimated liability of \$2,033,005 was assigned to the RFA. At December 31, 2017 the District’s estimated liability for sick leave pay was \$0.

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

H. Reserved Portion of Ending Cash and Investments

The State Auditor’s Office BARS Manual requires the District report the amount of cash and investments not available for spending due to restrictions imposed by external parties (restricted) or internally by a formal Board action (committed) as Reserved Fund Balance. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts. At December 31, 2017 the District reported Reserved Fund Balance on the Fund Uses Resources and Uses arising from Cash Transactions as Reserved Cash and Investments as follows:

General Fund	\$ 2,865	Committed by Board Adopted Policy for Leoff 1 Medical Expenses & Compensated Absences.
Bond Redemption Fund	<u>263</u>	Restricted by Bond Covenant.
	<u>\$ 3,128</u>	

Refer to Note 7 – *Other Disclosures, Fund Consolidation for Reporting Purposes* for additional information regarding the reservation of fund balance.

Additionally the District reported Reserved Fund Balance in the amount of \$5,592 on the Fiduciary Fund Resources and Uses Arising from Cash Transactions.

I. Other Increases in Fund Resources

The Districts Other Increases in Fund Resources consists of the following:

Disposition of Capital Assets	\$14,530
Insurance Recoveries	268,295
Total Other Financing Sources	<u>\$282,825</u>

NOTE 2 – DEPOSITS AND INVESTMENTS

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

The District’s deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. All deposits not covered by FDIC insurance are covered by the Washington Public Deposit Protection Commission (PDPC). The PDPC is comprised of the State Treasurer, Governor, and Lieutenant Governor. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. All investments are insured, registered or held by the District or its agent in the government’s name.

The District’s Deposits and Investments are reported at cost and balances as of December 31, 2017 are as follows:

General Fund	Deposits
General Fund	\$201,887
Leoff I Medical Reserve	2,864
Total General Fund	<u>204,752</u>
Bond Fund	262
Healthcare Self-Insurance Fund	5,088
Health Reimbursement Trust Fund	5,592
Total District	<u>\$215,694</u>

NOTE 3 – PROPERTY TAXES

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

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

Washington State law requires Assessors appraise property at 100 percent of its “true and fair market value” according to the “highest and best use” of the property. Taxes levied in 2017 were based on market sales in 2015, except for new construction. New construction values are established as of July 31, 2016.

In 2017, the District levied the following property taxes:

	Assessed Value	Levy Rate/\$1,000	Levy Amount
Fire	16,915,832,248	\$1.50	\$25,373,748
EMS	16,915,832,248	0.48	8,045,457
Total		<u>\$1.98</u>	<u>\$33,419,206</u>

As of December 31, 2017 the outstanding property taxes receivable for the General Fund and the Bond Redemption Fund were \$596,462 and \$2,554 respectively.

NOTE 4 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (09) provides more details on the outstanding debt and liabilities of the District and summarizes the District’s debt transactions for the year ended December 31, 2017. All of the District’s liabilities were assigned to the RFA effective October 1, 2017.

NOTE 5 - PENSION PLANS

Substantially all District full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans Law Enforcement Officers and Fire Fighters (LEOFF) Plan 1 or Plan 2, or the Public Employees Retirement System (PERS) Plan 1, Plan 2, or Plan 3.

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

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

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

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

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

At June 30, 2017 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities as reported on Schedule 09 at December 31, 2017 is as follows. Effective October 1, 2017, the District's proportionate share of the collective net pension liabilities was assigned to the RFA.

Plan	Employer Contributions	Allocation Percentage	Liability (Asset)
PERS 1 UAAL	\$59,865	0.009952%	\$472,230
PERS 2 and 3	78,395	0.012835%	\$445,955
LEOFF 1	0	0.049452%	(\$750,296)
LEOFF 2	1,290,494	0.816907%	(\$11,336,022)
VFFRPF	60	0.03%	(\$10,401)

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

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

NOTE 6- RISK MANAGEMENT

The District purchases coverage through an A+ rated and Washington admitted commercial carrier for the following risk categories: Property, General Liability, Automobile, Portable Equipment, Crime, and Excess Liability and are summarized below. Premium costs are expended from the General Fund.

Property Coverage

- Buildings-Guaranteed Replacement Cost Valuation w/ 4% Inflation Guard
- Contents-Blanket Replacement Cost Valuation w/ 4% Inflation Guard
- All Risk coverage
- Deductibles- \$1,000 property/\$1,000 flood/5% EQ

General Liability

- \$1,000,000 per Occurrence and a \$3,000,000 Aggregate (no deductible)
- Includes-Professional Healthcare Liability, Watercraft/Maritime Liability, Contractual and Employers Liability

Management Liability

- \$1,000,000 per Occurrence and a \$3,000,000 Aggregate (no deductible)
- Includes EPLI, EBL, Cyber Liability, Outside Directorship Liability, and Injunctive Relief

Business Auto

- \$1,000,000 CSL
- Physical Damage deductibles \$1,000 Collision, \$1,000 Comprehensive
- Agreed Value basis
- Primary Non-owned Auto Liability

Excess Liability

- \$10,000,000 per Occurrence w/ \$20,000,000 Aggregate

Portable Equipment

- Blanket coverage- Guaranteed Replacement Cost basis
- Scheduled equipment (Boat 100hp+) Replacement Cost

Crime

- Employee Dishonesty- \$5,000,000
- Coverage includes Forgery/Alteration, Computer & Identity Fraud

Additionally, the District makes quarterly premium payments to the Washington State Department of Labor and Industries to insure its liability arising from risk of loss for job related injuries and illnesses to employees.

Self-Insurance

January 1, 2012 the District implemented a self-insurance plan for medical, vision, and prescription drug claims. The District contracted with a third party administrator (TPA) for medical and vision claims administration. In 2017 14,197 claims were received and 14,244 claims were paid totaling \$2,257,073. The District accounts for the revenues and expenses of the program in an internal service fund except for the LEOFF 1 claims which are included in the General Fund for reporting purposes (refer to Note 7 - *Fund Reclassification and Consolidation for Reporting Purposes*). The District had accumulated \$2,998,365 in the Self-Insurance Fund and \$62,705 in the Leoff 1 Reserve Fund exceeding the sixteen weeks of claims reserve required by the State Risk Manager. As of December 31, 2017, these claims reserves had been transferred to the RFA.

The District also self-insures for Unemployment claims. During 2017 the District received and paid three claims totaling \$8,194. Unemployment claims when paid are recorded as an expense in the General Fund.

NOTE 7 – OTHER DISCLOSURES

Government Combination

A RFA Planning Committee consisting of three elected officials from the District and three elected officials from the City of Lynnwood, supported by leadership and staff, was established in October 2016 to guide the process of forming a RFA. After 10 months of review, analysis, outreach and planning the Committee proposed a RFA Plan. Both the Lynnwood City Council and the Fire District Board of Commissioners passed resolutions to forward the RFA Plan to a public vote on the August 1, 2017 ballot. Voters in Lynnwood and Fire District 1 approved the plan creating and funding the South Snohomish County Fire and Rescue Regional Fire Authority (South County Fire-SCF).

The District and the RFA entered into an Interlocal Agreement that provided for the transfer of property, funds, assets, records, the Leoff 1 Liability and transfer of revenue to the RFA. Funds totaling \$31,518,693 were transferred to the RFA are reported as an Extraordinary Item on the Fund Uses Resources and Uses arising from Cash Transactions Statement.

Initially, the SCF will be governed by a transitional Board of Commissioners consisting of two Lynnwood elected officials and five Fire District 1 Commissioners.

At an election held on August 7, 2018, a proposition to impose a ten year Emergency Medical Services Levy ("EMS Levy") at a levy rate of fifty cents (\$.50) or less per thousand dollars of assessed valuation (in addition to its regular property tax levy) was approved by the voters.

Now that the RFA is levying an EMS levy, the District will submit a ballot measure to its voters on the February 12, 2019 ballot to dissolve in accordance with RCW 52.10.010.

Joint Ventures

The District participates in a single joint venture with other local governments in the "Southwest Snohomish County Public Safety Communications Agency," (SNOCOM) a public non-profit corporation formed in 1971 and incorporated in 2014. The purpose of SNOCOM is to provide public safety communications, records retention and usage and other board approved functions.

SNOCOM was established via an interlocal agreement between the District, and six cities all located within the county. Each member city and the Fire District provide voting members to the SNOCOM board of directors. The purpose of SNOCOM is to provide communications and dispatching for public health and safety services in Southwest Snohomish County.

The Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway and Fire District 1 are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population, assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the City of Mountlake Terrace and SNOCOM as recorded in the City of Mountlake Terrace's financial system. The City of Mountlake Terrace, who acts as the entity's fiscal agent under the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, 6100 - 219th St SW, Suite 200, Mountlake Terrace, WA 98043. Effective October 1, 2017 the District's equity interest at December 31, 2016 in the amount \$447,776 of was transferred to the RFA.

The District also entered into a joint venture with Snohomish County and other local governments in the establishment and operations of the Snohomish County Emergency Radio System (SERS). SERS was created by agreement under the Interlocal Cooperation Act (RCW 39.34) between the District, Snohomish County and nine Snohomish County cities. The purpose of the venture is to equip and operate a radio system primarily for the use of public safety agencies. SERS is considered a separate reporting entity. The District's and each participants share of authority is defined by the terms of the enabling charter. Separate financial statements for SERS can be obtained from Snohomish County.

At December 31, 2016 the District had a 3.3% interest totaling \$291,128 in the equity and operations of the venture. Effective October 1, 2017 the District's share of assets and fund equity was assigned to the RFA.

Interlocal Agreements

On December 1, 2015 the District entered into an agreement for services with the Snohomish County Emergency Medical Services and Trauma Care Council (SCEMS) whereby the District is to provide administrative services including Treasury Function. As part of the agreement the District hired one FTE to perform these services and is to be reimbursed for personnel costs plus 5% administrative fee. SCEMS is reported as an Agency Fund in the District's financial statements. Effective October 1, 2017 this agreement was assigned to the RFA.

On December 1, 2015 the District entered into an agreement for services with the Snohomish County Special Operations Joint Policy Board (SOPB) whereby the District is to provide administrative services including the Treasury Function. The District will receive an annual service of 5% of the fees assessed to other member agencies for performing the required services. SOPB is reported as an Agency Fund in the District's financial statements. Effective October 1, 2017 this agreement was assigned to the RFA.

The District entered into an Interlocal Agreement with the City of Lynnwood for Consolidation of Administrative Functions. The term of this agreement was from July 11, 2016 through December 31, 2018. The purpose of the Agreement was to combine administrative functions of both Parties in order for the Parties to operate as one fire service and thereby maximize efficiencies, improve service, and reduce redundancies. This agreement was terminated by the formation of the RFA.

Other Post-Employment Benefits

LEOFF 1 MEDICAL

The District provides post-employment health care benefits in accordance with RCW 41.26.150. Employees become eligible after age 50 or if disabled while employed, with at least five years of service in the LEOFF 1 System. On September 30, 2017 there were 22 retired, and 4 active firefighters who meet the eligibility requirements. Under authorization of the Disability Board, the District pays medical insurance premiums and medical expenses including long-term care on a pay as you go basis. The retiree does not contribute towards the cost of his medical care. Post-employment health care costs of \$365,893 were paid in 2017. Effective October 1, 2017 the LEOFF 1 Medical liability was assigned to the RFA.

RETIREMENT HEALTHCARE INCENTIVE

In November 2011 four individuals took advantage of an early retirement incentive offered to certain employees. The incentive provides for medical, dental, vision and a Health Retirement Account contribution. In 2017 the District paid \$10,352 for this incentive. Effective October 1, 2017 the responsibility for the Retirement Healthcare Incentive was assigned to the RFA.

Fund Reclassification and Consolidation for Reporting Purposes

As disclosed in Note 1 – *Summary of Accounting Policies*, the District reports on the Cash Basis as prescribed by the State Auditor's Office (SAO); however, SAO mandated a limited implementation of the guidance issued in GASB #54. The impact of this on the District's Financial Statements is that the District's reserves are now being reported in the General Fund or in a Capital Projects Fund as described in the table below.

	Total Reserves	Emergency Reserve	LEOFF1 Reserve	Comp. Abs. Reserve	General Fund 001	Apparatus Reserve	Building Reserve	Equipment Reserve	Capital Projects Fund 300
BEGINNING CASH AND INVESTMENTS									
Reserved	\$ 6,557,600	\$ 0	\$ 886,987	(\$ 83,074)	\$ 803,913	\$ 1,976,668	\$ 2,156,033	\$ 1,620,988	\$ 5,753,688
Unreserved	2,007,906	2,007,906	0		2,007,906	0	0	0	0
	8,565,506	2,007,906	886,987	(83,074)	2,811,818	1,976,668	2,156,033	1,620,988	5,753,688
REVENUE									
Taxes	3,707,406	0	637,113	438,915	1,076,028	1,597,000	238,703	795,675	2,631,378
Miscellaneous	79,802	12,700	10,832	769	24,302	16,062	13,207	26,231	55,500
Total Revenues	3,787,208	12,700	647,945	439,684	1,100,330	1,613,062	251,910	821,906	2,686,878
EXPENDITURES									
Public Safety	729,908	0	365,893	364,015	729,908	0	0	0	0
Total Expenditures	729,908	0	365,893	364,015	729,908	0	0	0	0
Excess (Deficiency) Revenues over Expenditures	3,057,300	12,700	282,052	75,669	370,422	1,613,062	251,910	821,906	2,686,878
OTHER INCREASES IN FUND RESOURCES									
Other Financing Sources	0	0	0	0	0	0	0	0	0
Total Other Increases in Fund Resources	0	0	0	0	0	0	0	0	0
OTHER DECREASES IN FUND RESOURCES									
Capital Outlay	916,175	0	0	0	0	248,146	228,647	439,382	916,175
Debt Service	0	0	0	0	0	0	0	0	0
Transfers-Out	0	0	0	0	0	0	0	0	0
Custodial Activities	0	0	0	0	0	0	0	0	0
Special or Extraordinary Items	10,903,766	2,020,606	1,166,175	192,595	3,379,376	3,341,583	2,179,295	2,003,512	7,524,391
Other Uses	0	0	0	0	0	0	0	0	0
Total Other Decreases in Fund Resources	11,819,942	2,020,606	1,166,175	192,595	3,379,376	3,589,729	2,407,943	2,442,894	8,440,566
Increase (Decrease) in Cash and Investments	(8,762,642)	(2,007,906)	(884,122)	(116,926)	(3,008,954)	(1,976,668)	(2,156,033)	(1,620,988)	(3,753,688)
Reserved Ending Cash and Investments	2,865	0	2,865	0	2,865	0	0	0	0
Unreserved Ending Cash and Investments	(200,000)	(0)	0	(200,000)	(200,000)	(0)	0	0	0

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Snohomish County Fire Protection District No. 1 (SCFD#1) was incorporated on January 1, 1945 and operates under Chapter 52 of the Revised Code of Washington (RCW) and other laws of the state of Washington applicable to fire districts. The District is a special purpose government that provides fire suppression, emergency medical services, public education and fire prevention services.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund. For reporting purposes, the District has consolidated its Emergency Reserve, Law Enforcement Officers and Fire Fighters (LEOFF) I Medical Reserve and its Compensated Absences Reserve into the General Fund.

Debt Service Funds

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

Capital Project Funds

These funds account for the financial resources that are restricted, committed or assigned to expenditures for the acquisition or construction of capital facilities or other capital assets. For reporting purposes the District includes its Apparatus Reserve, Building Reserve and Equipment Reserve in this Fund.

PROPRIETARY FUND TYPE:

Internal Service Funds

These funds are used to account for operations that provide goods or services to other department or funds of the government on a cost-reimbursement basis. The District uses an internal service fund to account for the activities of its Healthcare Self-Insurance program.

FIDUCIARY FUND TYPE:

Health Reimbursement Trust Fund

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. The District has one Trust Fund that accounts for the accumulation of cash which accrues to the benefit of each employee to be used for qualifying medical expenses.

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity. The District entered into Interlocal Agreements with the Snohomish County Special Operations Joint Policy Board and the Snohomish County EMS and Trauma Care Council to provide Treasury functions for these organizations.

B. Basis of Accounting and Measurement Focus

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

C. Budgets

The District adopts annual appropriated budgets for all governmental 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:

	<u>Original 2016 Budget</u>	<u>Amended 2016 Budget</u>	<u>2016 Actuals</u>	<u>Positive (Negative)</u>
General Fund				
General Fund	\$43,603,702	\$45,721,459	\$42,423,179	\$3,298,280
Emergency Reserve	0	0	0	0
LEOFF 1 Medical Reserve	600,216	600,216	357,840	242,376
Compensated Absences Reserve	280,500	280,500	377,643	(97,143)
Total General Fund	<u>44,484,418</u>	<u>46,602,175</u>	<u>43,158,662</u>	<u>3,443,513</u>
Bond Fund	0	0	61	(61)
Capital Projects Fund				
Apparatus Reserve	1,489,969	1,489,969	1,386,614	103,355
Building Reserve	897,850	897,850	400,634	497,216
Equipment Reserve	983,425	983,425	183,886	799,539
Total Capital Projects Fund	<u>3,371,244</u>	<u>3,371,244</u>	<u>1,971,134</u>	<u>1,400,110</u>
Healthcare Self-Insurance Fund	<u>3,364,274</u>	<u>3,764,274</u>	<u>3,463,248</u>	<u>301,026</u>
Total District	<u>\$51,219,936</u>	<u>\$53,737,693</u>	<u>\$48,593,105</u>	<u>\$5,144,588</u>

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

The District amended its budget three times during 2016. Significant amendments in the General Fund were to the Wage and Benefit line item for suppression staff retro pay and new hire costs; and an increase in Professional Services for a Human Resources consultant and legal fees due to prolonged labor negotiations. Additionally both Revenue and Expenses were increased due to the receipt of Interlocal grants.

D. Cash and Investments - Refer to Note 2 *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

Vacation pay may be accumulated up to 768 hours for employees covered under the International Association of Firefighters (IAFF) Local 1828 contract, and is payable upon separation or retirement. Non-represented employees may carry forward up to 1.5 times their annual accrual amount which is payable upon separation or retirement. At December 31, 2016 the District's estimated liability for vacation pay was \$1,934,664.

Upon separation or retirement administrative employees and employees covered under the IAFF agreement with less than 20 years of service receive compensation for sick leave hours at 25% of their accrued bank balance up to a maximum payout of 360 hours. Employees covered under the IAFF agreement with 20 or more years of service receive compensation for sick leave at 35% of their accrued bank balance up to a maximum payout of 504 hours. At December 31, 2016 the District's estimated liability for sick leave pay was \$ 2,032,540.

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

H. Other Financing Sources or Uses

The Districts Other Financing Sources consists of the following:

Disposition of Capital Assets	\$4,709
Insurance Recoveries	<u>317,730</u>
Total Other Financing Sources	<u><u>\$322,439</u></u>

I. Risk Management

The District purchases coverage through an A+ rated and Washington admitted commercial carrier for the following risk categories: Property, General Liability, Automobile, Portable Equipment, Crime, and Excess Liability. Premium costs are expended from the General Fund.

Additionally, the District makes quarterly premium payments to the Washington State Department of Labor and Industries to insure its liability arising from risk of loss for job related injuries and illnesses to employees.

The District self-insures for Health, Vision and Unemployment – Refer to Note 6 *Other Disclosures, Self-Insurance*.

J. Reserved Portion of Ending Cash and Investments

The State Auditor’s Office BARS Manual requires the District report the amount of cash and investments not available for spending due to restrictions imposed by external parties (restricted) or internally by a formal Board action (committed) as Reserved Fund Balance. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts. At December 31, 2016 the District reported Reserved Fund Balance on the Fund Uses Resources and Uses arising from Cash Transactions as Reserved Cash and Investments as follows:

General Fund	\$803,913	Committed by Board Adopted Policy for Leoff I Medical Expenses & Compensated Absences.
Bond Redemption Fund	62,818	Restricted by Bond Covenant.
Capital Projects Fund	1,976,999	Committed by Board Adopted Policy for Apparatus Purchases.
Capital Projects Fund	2,156,033	Committed by Board Adopted Policy for Capital Facilities.
Capital Projects Fund	1,620,656	Committed by Board Adopted Policy for Capital Equipment Purchases.
Healthcare Self-Insurance Fund	1,065,614	Restricted by WAC 200.110.040 for eight weeks program expenses plus eight weeks contingency reserve.
	<u>\$7,686,032</u>	

Refer to Note 6 – Other Disclosures, Fund Consolidation for Reporting Purposes for additional information regarding the reservation of fund balance.

Additionally the District reported Reserved Fund Balance in the amount of \$4,976,258 on the Fiduciary Fund Resources and Uses Arising from Cash Transactions.

NOTE 2 – DEPOSITS AND INVESTMENTS

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

The District’s deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. All deposits not covered by FDIC insurance are covered by the Washington Public Deposit Protection Commission (PDPC). The PDPC is comprised of the State Treasurer, Governor, and Lieutenant Governor. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. All investments are insured, registered or held by the District or its agent in the government’s name.

The District’s Deposits and Investments are reported at cost and balances as of December 31, 2016 are as follows:

General Fund	Deposits	LGIP	Total
General Fund	\$335,616	\$8,937,066	\$9,272,682
Emergency Reserve	0	2,007,906	2,007,906
Leoff 1 Medical Reserve	(15,918)	902,904	886,987
Compensated Absences Reserve	0	116,926	116,926
Total General Fund	319,698	11,964,801	12,284,500
Bond Fund	1,470	61,348	62,818
Capital Projects Fund			
Apparatus Reserve	0	1,976,668	1,976,668
Building Reserve	0	2,156,033	2,156,033
Equipment Reserve	0	1,620,988	1,620,988
Total Capital Projects Fund	0	5,753,688	5,753,688
Healthcare Self-Insurance Fund	438,012	1,906,923	2,344,935
Health Reimbursement Trust Fund	43,961	4,599,470	4,643,431
Special Operations Policy Board	58,916	163,707	222,623
Snohomish County EMS & Trauma Care Council	134	110,072	110,205
Total District	\$862,191	\$24,560,009	\$25,422,199

NOTE 3 – PROPERTY TAXES

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

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

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

In 2016, the District levied the following property taxes:

	Assessed Value	Levy Rate/\$1,000	Levy Amount
Fire	15,234,547,466	\$1.50	\$22,851,821
EMS	15,234,547,466	0.50	7,617,274
Total		\$2.00	\$30,469,095

As of December 31, 2016 the outstanding property taxes receivable for the General Fund and the Bond Redemption Fund were \$564,495 and \$3,116 respectively.

NOTE 4 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (09) provides more details on the outstanding debt and liabilities of the District and summarizes the District's debt transactions for the year ended December 31, 2016.

NOTE 5 - PENSION PLANS

Substantially all District full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans Law Enforcement Officers and Fire Fighters (LEOFF) Plan 1 or Plan 2, or the Public Employees Retirement System (PERS) Plan 1, Plan 2, or Plan 3.

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

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

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

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

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

Plan	Allocation Percentage	Liability (Asset)
PERS 1 UAAL	0.008799%	\$472,548
PERS 2 and 3	0.011268%	567,335
LEOFF 1	0.037912%	(390,602)
LEOFF 2	0.803566%	(4,673,781)
VFFRPF	0.04%	(6,777)

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

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

NOTE 6- OTHER DISCLOSURES

Self-Insurance

January 1, 2012 the District implemented a self-insurance plan for medical, vision, and prescription drug claims. The District contracted with a third party administrator (TPA) for medical and vision claims administration. In 2016 10,707 claims were received and 11,070 claims were paid totaling \$3,158,846. The District accounts for the revenues and expenses of the program in an internal service fund except for the LEOFF 1 claims which are included in the General Fund for reporting purposes (refer to *Note 6 Fund Reclassification and Consolidation for Reporting Purposes*). At December 31, 2016 the District had accumulated \$2,344,935 in the Self-Insurance Fund and \$54,227 in the Leoff 1 Reserve Fund exceeding the sixteen weeks of claims reserve required by the State Risk Manager.

The District also self-insures for Unemployment claims. During 2016 the District received one claim for \$5,364 which was paid in 2017. Unemployment claims when paid are recorded as an expense in the General Fund.

Joint Ventures

The District participates in a single joint venture with other local governments in the “Southwest Snohomish County Public Safety Communications Agency,” (SNOCOM) a public non-profit corporation formed in 1971 and incorporated in 2014. The purpose of SNOCOM is to provide public safety communications, records retention and usage and other board approved functions.

SNOCOM was established via an interlocal agreement between the District, and seven cities all located within the county. Each member city and the Fire District provide voting members to the SNOCOM board of directors. The purpose of SNOCOM is to provide communications and dispatching for public health and safety services in Southwest Snohomish County.

The Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway and Fire District 1 are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population, assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

At December 31, 2016, the District owned an equity interest in the SNOCOM joint venture of \$447,776. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the City of Mountlake Terrace and SNOCOM as recorded in the City of Mountlake Terrace's financial system. The City of Mountlake Terrace, who acts as the entity's fiscal agent under the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, 6100 219th St SW, Suite 200, Mountlake Terrace, WA 98043.

The District also entered into a joint venture with Snohomish County and other local governments in the establishment and operations of the Snohomish County Emergency Radio System (SERS). SERS was created by agreement under the Interlocal Cooperation Act (RCW 39.34) between the District, Snohomish County and nine Snohomish County cities. The purpose of the venture is to equip and operate a radio system primarily for the use of public safety agencies. SERS is considered a separate reporting entity. The District's and each participants share of authority is defined by the terms of the enabling charter. Separate financial statements for SERS can be obtained from Snohomish County.

The District has a 3.3% interest in the equity and operations of the venture. The District's share of the assets and fund equity as of December 31, 2016 was \$291,128.

Interlocal Agreements

On December 1, 2015 the District entered into an agreement for services with the Snohomish County Emergency Medical Services and Trauma Care Council (SCEMS) whereby the District is to provide administrative services including Treasury Function. As part of the agreement the District hired one FTE to perform these services and is to be reimbursed for personnel costs plus 5% administrative fee. SCEMS is reported as an Agency Fund in the District's financial statements.

On December 1, 2015 the District entered into an agreement for services with the Snohomish County Special Operations Joint Policy Board (SOPB) whereby the District is to provide administrative services including the Treasury Function. The District will receive an annual service of 5% of the fees assessed to other member agencies for performing the required services. SOPB is reported as an Agency Fund in the District's financial statements.

The District entered into an Interlocal Agreement with the City of Lynnwood for Consolidation of Administrative Functions. The term of this agreement is July 11, 2016 through December 31, 2018. The purpose of the Agreement is to combine administrative functions of both Parties in order for the Parties to operate as one fire service and thereby maximize efficiencies, improve service, and reduce redundancies. The original agreement stipulated the City Fire Chief shall be the District Fire Chief for purposes of statutory provisions, each Parties employees shall remain the employees of the current employing party, all transactions of revenue and expense for the Parties shall be accurately accounted for as if the Parties had not entered into the Agreement, and that the mutual benefits derived by each Party are deemed to constitute the full and adequate compensation for the services that each Party is providing under the Agreement. After the resignation of the Lynnwood Fire Chief the agreement was amended designating one of the Districts Assistant Chief's as the Interim Fire Chief for the two entities.

Other Post-Employment Benefits

LEOFF 1 MEDICAL

The District provides post-employment health care benefits in accordance with RCW 41.26.150. Employees become eligible after age 50 or if disabled while employed, with at least five years of service in the LEOFF 1 System. On December 31, 2016 there were 22 retired, and 4 active firefighters who meet the eligibility requirements. Under authorization of the Disability Board, the District pays medical insurance premiums and medical expenses including long-term care on a pay as you go basis. The retiree does not contribute towards the cost of his medical care. Post-employment health care costs of \$357,840 were paid in 2016.

The District is not required to report under Governmental Accounting Standards Board (GASB) Statement #45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*.

However for management purposes the District contracted with Northwest Plan Services, Inc. to determine its total LEOFF 1 Benefit Obligation. At December 31, 2016 the District's Total Benefit Obligation was \$9,157,000. The District had \$886,987 in Reserve to fund this obligation.

RETIREMENT HEALTHCARE INCENTIVE

In November 2011 four individuals took advantage of an early retirement incentive offered to certain employees. The incentive provides for medical, dental, vision and a Health Retirement Account contribution. In 2016 the District paid \$28,914 for this incentive.

Contingencies and Litigation

On January 5, 2016, the District was notified that the International Association of Fire Fighters Local 1828 membership voted to reject a proposed labor contract. The next step in the legal process is interest arbitration, in which a third-party arbitrator imposes contract terms on the union and the District. The contract in question is for the period beginning January 1, 2015.

Fund Reclassification and Consolidation for Reporting Purposes

As disclosed in Note 1 – *Summary of Accounting Policies*, the District reports on the Cash Basis as prescribed by the State Auditor's Office (SAO): however, SAO mandated a limited implementation of the guidance issued in GASB #54. The impact of this on the District's Financial Statements is that the Districts reserves are now being reported in the General Fund or in a Capital Projects Fund as described in the table below.

	Total Reserves	Emergency Reserve	LEOFF1 Reserve	Comp. Abs. Reserve	General Fund 001	Apparatus Reserve	Building Reserve	Equipment Reserve	Capital Projects Fund 300
BE GINNING CASH AND INVESTMENTS									
Reserved	\$ 6,803,451	\$ 0	\$ 653,779	(\$ 3,239)	\$ 652,540	\$ 2,576,739	\$ 2,314,623	\$ 1,259,548	\$ 6,150,911
Unreserved	1,999,094	1,999,094	0		1,999,094	0	0	0	0
	8,802,545	1,999,094	653,779	(3,239)	2,651,634	2,576,739	2,314,623	1,259,548	6,150,911
REVENUE									
Taxes	2,391,893	0	579,193	280,500	859,693	770,000	231,750	530,450	1,532,200
Miscellaneous	72,976	8,811	9,855	17,307	35,974	12,166	10,293	14,544	37,002
Total Revenues	2,464,869	8,811	589,048	297,807	895,667	782,166	242,043	544,994	1,569,202
EXPENDITURES									
Public Safety	735,483	0	357,840	377,643	735,483	0	0	0	0
Total Expenditures	735,483	0	357,840	377,643	735,483	0	0	0	0
Excess (Deficiency) Revenues over Expenditures	1,729,386	8,811	231,208	(79,836)	160,184	782,166	242,043	544,994	1,569,202
OTHER INCREASES IN FUND RESOURCES									
Other Financing Sources	4,709	0	0	0	0	4,709	0	0	4,709
Total Other Increases in Fund Resources	4,709	0	0	0	0	4,709	0	0	4,709
OTHER DECREASES IN FUND RESOURCES									
Capital Outlay	1,971,134	0	0	0	0	1,386,614	400,634	183,886	1,971,134
Total Other Decreases in Fund Resources	1,971,134	0	0	0	0	1,386,614	400,634	183,886	1,971,134
Increase (Decrease) in Cash and Investments	(237,039)	8,811	231,208	(79,836)	160,184	(599,740)	(158,590)	361,108	(397,223)
Reserved Ending Cash and Investments	6,557,601	0	886,987	(83,074)	803,913	1,976,999	2,156,033	1,620,656	5,753,688
Unreserved Ending Cash and Investments	2,007,906	2,007,906	0	0	2,007,906	0	0	0	0

Subsequent Events

The Board of Commissioners and the Lynnwood City Council each authorized submitting a proposition to the voters at the August 1, 2017 special election requesting adoption of the plan creating the South Snohomish County Fire and Rescue Regional Fire Authority (SSCFR). If approved by a simple majority, the SSCFR will be effective October 1, 2017 if authorized by law, otherwise January 1, 2018, and will be funded by property tax not to exceed \$1.50 per \$1,000 of assessed value. More information on the proposed Regional Fire Authority (RFA) can be found at www.lynnwoodfdlra.com.

Snohomish County Fire Protection District No. 1
Schedule of Liabilities
For the Year Ended December 31, 2017

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		3,967,205	2,848,212	6,815,417	-
264.30	Pension Liability		1,039,883	-	121,698	918,185
	Total Revenue and Other (non G.O.) Debt/Liabilities:		5,007,088	2,848,212	6,937,115	918,185
	Total Liabilities:		5,007,088	2,848,212	6,937,115	918,185

**Snohomish County Fire Protection District No. 1
Schedule of Liabilities
For the Year Ended December 31, 2016**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		4,125,005	3,597,713	3,755,513	3,967,205
264.30	Pension Liability		774,878	265,005	-	1,039,883
	Total Revenue and Other (non G.O.) Debt/Liabilities:		4,899,883	3,862,718	3,755,513	5,007,088
	Total Liabilities:		4,899,883	3,862,718	3,755,513	5,007,088

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