



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Snohomish County Emergency Radio System

For the period January 1, 2017 through December 31, 2018

Published November 21, 2019

Report No. 1024742





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

November 21, 2019

Board of Directors
Snohomish County Emergency Radio System
Marysville, Washington

Report on Financial Statements

Please find attached our report on the Snohomish County Emergency Radio System's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

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 Emergency Radio System
January 1, 2017 through December 31, 2018**

Board of Directors
Snohomish County Emergency Radio System
Marysville, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Snohomish County Emergency Radio System, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the System’s basic financial statements, and have issued our report thereon dated November 6, 2019. As discussed in Note 8 of the financial statements, the System merged with, and transferred the remainder of the System’s assets and liabilities to, Snohomish County 911, effective January 1, 2019. These financial statements do not include any adjustments that might result therefrom, as described in our report on the System’s financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the System’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 System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’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 System'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 System's financial statements are free from material misstatement, we performed tests of the System'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 System'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 System'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

November 6, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Snohomish County Emergency Radio System January 1, 2017 through December 31, 2018

Board of Directors
Snohomish County Emergency Radio System
Marysville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Snohomish County Emergency Radio System, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 System'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 System'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 the Snohomish County Emergency Radio System, as of December 31, 2018 and 2017, 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.

Matters of Emphasis Regarding Merger of System Operations

The accompanying financial statements have been prepared assuming that the System will continue as a going concern. However, as discussed in Note 8 of the financial statements, the System merged with, and transferred the remainder of the System's assets and liabilities to, Snohomish County 911, effective January 1, 2019. These financial statements do not include any adjustments that might result therefrom. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 November 6, 2019 on our consideration of the System'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 System's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

November 6, 2019

FINANCIAL SECTION

Snohomish County Emergency Radio System January 1, 2017 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018
Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018
Statement of Net Position – 2017
Statement of Revenues, Expenses and Changes in Net Position – 2018
Statement of Revenues, Expenses and Changes in Net Positions – 2017
Statement of Cash Flows – 2018
Statement of Cash Flows – 2017
Notes to Financial Statements – 2018
Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2018
Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2018
Notes to the Required Supplemental Information – 2018

INTRODUCTION

As management of SERS, we offer readers this narrative overview and analysis of the financial activities of SERS for the year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with the SERS financial statements and the notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS

- As of December 31, 2018, SERS assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10.3 million (net position). \$8.5 million or 82% of this amount is net investment in capital assets. The remaining net position of \$1.9 million is unrestricted.
- In 2018, SERS total net position increased by \$2.3 million or 29% primarily due to an interlocal agreement with Snohomish County to procure funding for the Emergency Public Radio System Replacement project.
- In October 2018, the SERS Board approved a merger with Snohomish County 911 effective January 1, 2019. See Note 8, Subsequent Events, in the notes to the financial statements for more information.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

Included are the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the Notes to the Financial Statements.

- The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position are prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. SERS' net position represents the excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources. Over time, increases or decreases in the net position are one indicator of whether the financial condition is improving or deteriorating.
- The Statements of Cash Flows reflects the sources and uses of cash. This statement includes a reconciliation of Operating Income from the accrual basis statements to the Net Cash Provided by Operating Activities. Other non-financial factors, such as changes in funding structures and the condition of operating assets, should be considered when assessing the overall health of SERS.

Financial Analysis

The Statement of Net Position can serve as a useful indicator of SERS financial position. SERS net position as of December 31, 2018 is \$10.3 million. Following is a condensed version of the statement of the net position:

Condensed Statement of Net Position

	2018	Increase (Decrease)	2017
Assets			
Current Assets	\$ 2,429,227	\$ (16,534)	\$ 2,445,761
Capital Assets, Net	8,450,763	2,017,625	6,433,138
Total Assets	10,879,990	2,001,091	8,878,899
 Deferred Outflows of Resources	 66,484	 (4,395)	 70,879
 Liabilities			
Current Liabilities	124,854	(220,007)	344,861
Non-Current Liabilities	341,711	(156,035)	497,746
Total Liabilities	466,565	(376,042)	842,607
 Deferred Inflows of Resources	 162,403	 42,648	 119,755
 Net Position			
Net Invested in Capital Assets	8,450,763	2,017,625	6,433,138
Unrestricted	1,866,743	312,465	1,554,278
Total Net Position	\$ 10,317,506	\$ 2,330,090	\$ 7,987,416

The change in net position table illustrates the increases or decreases in net position resulting from current year operating activities. SERS' net position increased by \$2.3 million in 2018. The increase was primarily due to revenue received from Snohomish County per an interlocal agreement to fund SERS' Emergency Public Radio System Replacement project.

Total assets plus deferred outflows of resources of SERS exceeded total liabilities plus deferred inflows of resources by \$10.3 million (net position). Of this, \$1.9 million is unrestricted.

SERS' total assets were \$10.9 million as of December 31, 2018. Capital assets represent \$8.4 million of this amount. SERS' current assets consist of \$2.4 million in cash and investments and \$67 thousand of receivables.

The largest portion of SERS' net position, \$8.4 million, or 82%, reflects its investment in capital assets (e.g. buildings/structures and building improvements, machinery and equipment, and infrastructure). SERS uses these assets for operations and to provide emergency communication services to Snohomish County. These assets are not available for future spending.

At December 31, 2018, SERS had total outstanding liabilities of \$467 thousand. SERS' current liabilities consist of accounts payable of \$45 thousand, employee benefits payable of \$70 thousand, unearned revenue of \$6 thousand, and \$4 thousand in accrued liabilities and custodial accounts. Non-current liabilities consist of \$44 thousand in employee benefits payable and \$298 thousand in net pension liability.

Following is a condensed version of the statement of revenues, expenses and changes in fund net position:

**Condensed Statement of Revenues, Expenses
and Changes in Fund Net Position**

	<u>2018</u>	<u>Increase (Decrease)</u>	<u>2017</u>
Revenues			
Operating Revenue	\$ 2,866,403	\$ 63,410	\$ 2,802,993
Non-Operating Revenue	<u>3,430,175</u>	<u>3,402,275</u>	<u>27,900</u>
Total Revenues	<u>6,296,578</u>	<u>3,465,685</u>	<u>2,830,893</u>
Expenses			
Operating Expenses	3,961,454	250,817	3,710,637
Non-Operating Expenses	<u>5,034</u>	<u>5,034</u>	<u>-</u>
Total Expenses	<u>3,966,488</u>	<u>255,851</u>	<u>3,710,637</u>
Income (Loss) Before Contributions	<u>2,330,090</u>	<u>3,209,834</u>	<u>(879,744)</u>
Change in Net Position	<u>2,330,090</u>	<u>3,209,834</u>	<u>(879,744)</u>
Net Position - Beginning	<u>7,987,416</u>	<u>(879,744)</u>	<u>8,867,160</u>
Net Position - Ending	<u><u>\$ 10,317,506</u></u>	<u><u>\$ 2,330,090</u></u>	<u><u>\$ 7,987,416</u></u>

The total change in net position was an increase of 29%, or \$2.3 million, from the prior year. Overall revenues increased \$3.5 million, or 122%, primarily due to revenue received from Snohomish County per an interlocal agreement to fund SERS' Emergency Public Radio System Replacement project. Total operating expenses increased \$256 thousand, or 7%, due to more spending related to coordinating the proposed merger with Snohomish County 911 and public education project services and materials related to county-wide Proposition 1 on the November 2018 ballot.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets

At the end of 2018, SERS' total investment in capital assets, including construction in progress and intangibles, amounts to \$8.4 million. SERS spent \$3.4 million on capital assets in 2018. For additional information refer to Note 3 in the notes to the financial statements.

CAPITAL ASSETS

	<u>2018</u>	<u>2017</u>
Capital Assets		
Building and Structures, Net	\$ 822,783	\$ 871,364
Infrastructure, Net	1,951,242	2,928,507
Machinery and Equipment, Net	1,718,665	1,972,868
Construction in Progress	3,378,358	308,846
Intangibles, Net	<u>579,715</u>	<u>351,553</u>
Total Capital Assets	<u><u>\$8,450,763</u></u>	<u><u>\$6,433,138</u></u>

SERS reported an overall increase in capital assets of \$2 million, or 31%, primarily due to the commencement of the Emergency Public Radio System Replacement project.

Long-Term Debt Activity

Currently, SERS has no bonded or long term debt commitments.

ECONOMIC FACTORS

SERS operations are affected by inflationary pressures and increased system usage as population levels within Snohomish County increase. SERS primary operating revenue source are fees charged directly to the members per interlocal agreements.

CONTACTING SERS

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of SERS' finances and to demonstrate SERS' accountability for the money it receives. If you have questions about this report or need additional financial information, contact SERS at Snohomish County Emergency Radio System, 14900 40th Ave NE, Suite 102, Marysville, WA 98271 or by calling (360) 243-9649.

INTRODUCTION

As management of SERS, we offer readers this narrative overview and analysis of the financial activities of SERS for the year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the SERS financial statements and the notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS

- As of December 31, 2017, SERS assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8 million (net position). \$6.4 million or 80.5% of this amount is net investment in capital assets. The remaining net position of \$1.6 million is unrestricted.
- In 2017, SERS total net position decreased by \$880 thousand or 10%.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

Included are the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the Notes to the Financial Statements.

- The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position are prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. SERS' net position represents the excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources. Over time, increases or decreases in the net position are one indicator of whether the financial condition is improving or deteriorating.
- The Statements of Cash Flows reflects the sources and uses of cash. This statement includes a reconciliation of Operating Income from the accrual basis statements to the Net Cash Provided by Operating Activities. Other non-financial factors, such as changes in funding structures and the condition of operating assets, should be considered when assessing the overall health of SERS.

Financial Analysis

The Statement of Net Position can serve as a useful indicator of SERS financial position. SERS net position as of December 31, 2017 is \$8 million. Following is a condensed version of the statement of the net position:

Condensed Statement of Net Position

	2017	Increase (Decrease)	2016
Assets			
Current Assets	\$ 2,445,761	\$ 75,280	\$ 2,370,481
Capital Assets, Net	6,433,138	(941,543)	7,374,681
Total Assets	8,878,899	(866,263)	9,745,162
 Deferred Outflows of Resources	 70,879	 (57,960)	 128,839
 Liabilities			
Current Liabilities	344,861	65,454	279,407
Non-Current Liabilities	497,746	(196,891)	694,637
Total Liabilities	842,607	(131,437)	974,044
 Deferred Inflows of Resources	 119,755	 86,958	 32,797
 Net Position			
Net Invested in Capital Assets	6,433,138	(941,543)	7,374,681
Unrestricted	1,554,278	61,799	1,492,479
Total Net Position	\$ 7,987,416	\$ (879,744)	\$ 8,867,160

The change in net position table illustrates the increases or decreases in net position resulting from current year operating activities. SERS' net position decreased by \$880 thousand in 2017. The decrease was primarily due to current year depreciation of fixed assets. The decrease was partially offset by a software upgrade to the current radio system that will take effect in 2018.

Total assets plus deferred outflows of resources of SERS exceeded total liabilities plus deferred inflows of resources by \$8 million (net position). Of this, \$1.6 million is unrestricted.

SERS' total assets were \$8.9 million as of December 31, 2017. Capital assets represent \$6.4 million of this amount. SERS' current assets consist of \$2.4 million in cash and investments and \$61 thousand of receivables.

The largest portion of SERS' net position, \$6.4 million, or 80.5%, reflects its investment in capital assets (e.g. buildings/structures and building improvements, machinery and equipment, and infrastructure). SERS uses these assets for operations and to provide emergency communication services to Snohomish County. These assets are not available for future spending.

At December 31, 2017, SERS had total outstanding liabilities of \$843 thousand. SERS' current liabilities consist of accounts payable of \$262 thousand, employee benefits payable of \$68 thousand, unearned revenue of \$14 thousand, and \$1 thousand in accrued liabilities and custodial accounts. Non-current liabilities consist of \$60 thousand in employee benefits payable and \$438 thousand in net pension liability.

Following is a condensed version of the statement of revenues, expenses and changes in fund net position:

**Condensed Statement of Revenues, Expenses
and Changes in Fund Net Position**

	<u>2017</u>	<u>Increase (Decrease)</u>	<u>2016</u>
Revenues			
Operating Revenue	\$ 2,802,993	\$ 99,490	\$ 2,703,503
Non-Operating Revenue	36,826	9,310	27,516
Total Revenues	<u>2,839,819</u>	<u>108,800</u>	<u>2,731,019</u>
Expenses			
Operating Expenses	3,710,637	(49,000)	3,759,637
Non-Operating Expenses	8,926	8,926	-
Total Expenses	<u>3,719,563</u>	<u>(40,074)</u>	<u>3,759,637</u>
Income (Loss) Before Contributions	<u>(879,744)</u>	<u>148,874</u>	<u>(1,028,618)</u>
Change in Net Position	<u>(879,744)</u>	<u>148,874</u>	<u>(1,028,618)</u>
Net Position - Beginning	8,867,160	(1,028,618)	9,895,778
Net Position - Ending	<u>\$ 7,987,416</u>	<u>\$ (879,744)</u>	<u>\$ 8,867,160</u>

The total change in net position was a decrease of 10%, or \$880 thousand, from the prior year. Overall revenues increased \$100 thousand, or 3.7%, primarily due to an increase in member assessments and new license agreements at two of SERS' sites. Total operating expenses decreased due to the 2-year East Loop microwave replacement project finishing in 2016.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets

At the end of 2017, SERS total investment in capital assets, including construction in progress and intangibles, amounts to \$6.4 million. SERS spent \$487 thousand on capital assets in 2017. For additional information refer to Note 3 in the notes to the financial statements.

CAPITAL ASSETS

	<u>2017</u>	<u>2016</u>
Capital Assets		
Building and Structures, Net	\$ 871,364	\$ 930,196
Infrastructure, Net	2,928,507	3,894,616
Machinery and Equipment, Net	1,972,868	2,179,401
Construction in Progress	308,846	-
Intangibles, Net	351,553	370,468
Total Capital Assets	<u>\$6,433,138</u>	<u>\$7,374,681</u>

SERS reported an overall decrease in capital assets of \$942 thousand, or 12.8%, primarily due to current year depreciation of fixed assets. A significant increase to construction in progress offset the total. This project, which completes in January 2018, accounts for a software upgrade to aid in the preservation of the current radio system that is expected to be fully depreciated by the year 2020.

In 2014, SERS formed the Future Funding Committee to address the diminishing value of the existing radio system. In 2017, through the efforts of the committee and an independent consulting firm, SERS published a Request for Proposal (RFP) for the replacement of the system. The RFP has been answered and a vendor has been selected. SERS has worked with Snohomish County Council to create a funding source for the replacement system. The funding source is hoped to be secured by the end of 2018.

Long-Term Debt Activity

Currently, SERS has no bonded or long term debt commitments.

ECONOMIC FACTORS

SERS operations are affected by inflationary pressures and increased system usage as population levels within Snohomish County increase. SERS primary operating revenue source are fees charged directly to the members per interlocal agreements.

CONTACTING SERS

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of SERS' finances and to demonstrate SERS' accountability for the money it receives. If you have questions about this report or need additional financial information, contact SERS at Snohomish County Emergency Radio System, 14900 40th Ave NE, Suite 102, Marysville, WA 98271 or by calling (360) 243-9649.

**Snohomish County Emergency Radio System
Statement of Net Position
December 31, 2018**



	<u>2018</u>
ASSETS	
Current Assets	
Cash and Equivalents	\$ 2,361,754
Customer Receivables	25,878
Due from Other Governments	41,595
Prepayments	-
Total Current Assets	<u>2,429,227</u>
Non-Current Assets	
Buildings and Structures, Net	822,783
Infrastructure, Net	1,951,242
Machinery and Equipment, Net	1,718,665
Construction in Progress	3,378,358
Intangibles, Net	579,715
Total Non-Current Assets	<u>8,450,763</u>
Total Assets	<u>10,879,990</u>
Deferred Outflow of Resources	
Deferred Outflow Related to Pensions	66,484
Total Deferred Outflows of Resources	<u>66,484</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	45,006
Accrued Liabilities	3,855
Employee Benefits Payable	70,084
Custodial Accounts	82
Unearned Revenue	5,827
Total Current Liabilities	<u>124,854</u>
Non-Current Liabilities	
Employee Benefits Payable	43,760
Net Pension Liability	297,951
Total Non-Current Liabilities	<u>341,711</u>
Total Liabilities	<u>466,565</u>
Deferred Inflow of Resources	
Deferred Inflow Related to Pensions	162,403
Total Deferred Inflows of Resources	<u>162,403</u>
NET POSITION	
Net Investment in Capital Assets	8,450,763
Unrestricted	1,866,743
Total Net Position	<u>\$ 10,317,506</u>

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

**Snohomish County Emergency Radio System
Statement of Net Position
December 31, 2017**



	<u>2017</u>
ASSETS	
Current Assets	
Cash and Equivalents	\$ 2,384,951
Customer Receivables	17,374
Due from Other Governments	43,436
Prepayments	-
Total Current Assets	<u>2,445,761</u>
Non-Current Assets	
Buildings and Structures, Net	871,364
Infrastructure, Net	2,928,507
Machinery and Equipment, Net	1,972,868
Construction in Progress	308,846
Intangibles, Net	351,553
Total Non-Current Assets	<u>6,433,138</u>
Total Assets	<u>8,878,899</u>
Deferred Outflow of Resources	
Deferred Outflow Related to Pensions	70,879
Total Deferred Outflows of Resources	<u>70,879</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	261,976
Accrued Liabilities	980
Employee Benefits Payable	67,708
Custodial Accounts	120
Unearned Revenue	14,077
Total Current Liabilities	<u>344,861</u>
Non-Current Liabilities	
Employee Benefits Payable	60,061
Net Pension Liability	437,685
Total Non-Current Liabilities	<u>497,746</u>
Total Liabilities	<u>842,607</u>
Deferred Inflow of Resources	
Deferred Inflow Related to Pensions	119,755
Total Deferred Inflows of Resources	<u>119,755</u>
NET POSITION	
Net Investment in Capital Assets	6,433,138
Unrestricted	1,554,278
Total Net Position	<u><u>7,987,416</u></u>

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

**Snohomish County Emergency Radio System
Statement of Revenues, Expenses
and Changes in Net Position
For the Year Ended December 31, 2018**



	2018
Operating Revenues	
Rents and Leases	\$ 169,516
Operating Assessments	2,696,887
Total Operating Revenues	2,866,403
Operating Expenses	
Personnel Services	1,098,669
Supplies	158,866
Depreciation	1,408,860
Contractual Services	1,295,059
Total Operating Expenses	3,961,454
Operating Income (Loss)	(1,095,051)
Non-Operating Revenues (Expenses)	
Intergovernmental Revenues	3,368,646
Interest and Investment Earnings	51,947
Miscellaneous Revenues	9,582
Disposition of Fixed Assets	(5,034)
Total Non-Operating Revenues (Expenses)	3,425,141
Change in Net Position	2,330,090
Net Position, Beginning	7,987,416
Net Position, Ending	\$ 10,317,506

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

**Snohomish County Emergency Radio System
Statement of Revenues, Expenses
and Changes in Net Position
For the Year Ended December 31, 2017**



	<u>2017</u>
Operating Revenues	
Rents and Leases	\$ 169,475
Operating Assessments	<u>2,633,518</u>
Total Operating Revenues	2,802,993
 Operating Expenses	
Personnel Services	1,099,510
Supplies	82,425
Depreciation	1,411,545
Contractual Services	<u>1,117,157</u>
Total Operating Expenses	3,710,637
 Operating Income (Loss)	 <u>(907,644)</u>
 Non-Operating Revenues (Expenses)	
Disposition of Fixed Assets	(8,926)
Interest and Investment Earnings	29,745
Miscellaneous Revenues	<u>7,081</u>
Total Non-Operating Revenues (Expenses)	27,900
 Change in Net Position	 (879,744)
 Net Position, Beginning	 <u>8,867,160</u>
Net Position, Ending	<u><u>7,987,416</u></u>

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

**Snohomish County Emergency Radio System
Statement of Cash Flows
For the Year Ended December 31, 2018**



Cash Flows from Operating Activities

Receipts from Operations	\$ 2,851,451
Payments to Employees	(1,205,285)
Payments of Claims	(1,668,020)

Total Cash Flows from Operating Activities	(21,854)
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Cash Flows from Capital and Related Financing Activities

Capital Acquisition and Construction	(3,437,069)
Capital Contributions	3,368,646
Sale of Capital Assets	5,550

Total Cash Flows from Capital and Related Financing Activities	(62,873)
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Cash Flows from Non-Capital Financing Activities

Miscellaneous Revenue	9,582
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Total Cash Flows from Non-Capital Financing Activities	9,582
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Cash Flows from Investing Activities

Interest on Investments	51,948
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Total Cash Flows from Investing Activities	51,948
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Net Increase (Decrease) in Cash and Cash Equivalents	(23,197)
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Cash and Cash Equivalents, January 1, 2018	2,384,951
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Cash and Cash Equivalents, December 31, 2018	\$ 2,361,754
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**Reconciliation of Operating Income (Loss) to Net Cash Provided
(Used) by Operating Activities**

Net Operating Income (loss)	\$ (1,095,051)
Depreciation Expense	1,408,860
Changes in Receivables, Net	(6,663)
Changes in Accounts Payable & Other Liabilities	(329,000)

Net Cash Provided (Used) by Operating Activities	\$ (21,854)
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The notes to the financial statements are an integral part of this statement.

**Snohomish County Emergency Radio System
Statement of Cash Flows
For the Year Ended December 31, 2017**



Cash Flows from Operating Activities

Receipts from Operations	\$ 2,785,614
Payments to Claims	\$ (1,056,905)
Payments of Employees	\$ (1,143,662)
Net Cash Provided by Operating Activities	\$ 585,047

Cash Flows from Capital and Related Financing Activities

Capital Acquisition and Construction	\$ (485,958)
Disposition of Fixed Assets	\$ 7,030
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (478,928)

Cash Flows from Non-Capital Financing Activities

Miscellaneous Revenue	\$ 7,081
Total Cash Flows from Non-Capital Financing Activities	\$ 7,081

Cash Flows from Investing Activities

Interest on Investments	\$ 29,745
Net Cash Provided (Used) by Investing Activities	\$ 29,745

Net increase (Decrease) in Cash and Cash Equivalents

	\$ 142,945
Cash and Cash Equivalents, January 1, 2017	\$ 2,242,006
Cash and Cash Equivalents, December 31, 2017	\$ 2,384,951

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	\$ (907,644)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	\$ 1,411,545
Pension Adjustment	\$ (64,959)
(Increase) Decrease in Accounts Receivables & Prepayments	\$ 67,664
Increase (Decrease) in Accounts Payable & Other Liabilities	\$ 78,441
Total Adjustments	\$ 1,492,691
Net Cash Provided (Used) by Operating Activities	\$ 585,047

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Snohomish County Emergency Radio System (SERS) was formed in 1999 to provide enhanced emergency communication services to Snohomish County. SERS is responsible for design, development, financing, acquisition, operation, maintenance, and repair of the 800-megahertz emergency radio system. SERS was created via an interlocal agreement among the cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County. Snohomish County Fire Protection District No. 1 ("Fire District 1") joined after the original formation and has since combined with Lynnwood Fire to form the South Snohomish County Fire and Rescue Regional Fire Authority ("Regional Fire Authority") in 2017. A Board of Directors comprised of eleven members representing each of the entities is appointed to govern SERS.

The financial statements of Snohomish County Emergency Radio System (SERS) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units.

A. Reporting Entity

The financial statements and the accompanying notes of SERS include all funds for which the Board of Directors has oversight responsibility. There is currently one fund created and operated for SERS.

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

For financial reporting purposes, SERS is considered a proprietary fund engaged only in business-type activities. Accordingly, SERS financial statements have been presented using the economic resources measurement focus and full-accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Capital asset purchases are capitalized and long-term liabilities are recorded.

SERS distinguishes between operating revenues and expenses from non-operating. Operating revenues and expenses result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenues of SERS are charges to other governments for operating assessments. Operating expenses 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.

C. Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of resources, the accounts of SERS are maintained in accordance with the principles of fund accounting. The accounts relating to specified activities or objectives have been classified as one fund, a proprietary fund.

D. Budgetary Information

Scope of Budget

In accordance with the Interlocal Cooperation Agreement, the SERS Board is required to adopt an annual budget no later than July 1 of the calendar year prior to that in which that budget will be in effect. An annual appropriated budget is adopted for SERS on the full-accrual basis of accounting.

Amending the Budget

Any revisions that alter the total expenditures of the adopted budget, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the SERS Board. When the Board determines that a budget amendment is necessary, it may do so by resolution approved by majority vote after holding a public hearing. A Supermajority Vote is required if the budget amendment meets or exceeds 10% of the prior years' budgeted expenditures.

E. Deposits and Investments

SERS deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC provides protection for public treasurer deposits that exceed the amount insured by FDIC.

SERS utilizes the Snohomish County Treasurer for investing activities. SERS reports investments in the Statement of Net Position at amortized cost.

All investments are held in the Washington State Local Government Investment Pool (LGIP). The LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

As of December 31, 2018, SERS held the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>
Local Government Investment Pool	\$1,735

F. Cash and Equivalents

Cash and Equivalents include funds held in the Washington State Local Government Investment Pool (LGIP). The LGIP is considered to be cash equivalents as funds held within the pool can be liquidated on demand to meet daily cash flow needs. Cash on hand at December 31, 2018 was \$2,360,018 and \$1,735 was held in cash equivalents.

G. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services rendered.

H. Due from Other Governments

Due from other governments consist of amounts owed from government agencies for goods and services rendered or grant reimbursements.

I. Capital Assets

Capital assets are recorded at actual cost and defined by SERS as assets with an initial cost of more than \$5,000 (except software and infrastructure). Software and infrastructure expenditures in excess of \$100,000 are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

J. Compensated Absences

SERS policies regarding vacation, sick leave, and compensatory time permit employees to be compensated for earned but unused vacation leave, compensatory time, and a portion of their sick leave.

K. Deferred Outflows and Deferred Inflows

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. Both deferred outflows and deferred inflows are related to pensions.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – JOINT VENTURE INFORMATION

In accordance with generally accepted accounting principles, SERS is a joint venture with each entity's equity interest reported on its member entities' financial statements. The equity interest as of December 31, 2018 is as follows:

Edmonds	\$	362,869
Regional Fire Authority		468,448
Lynnwood		321,638
Marysville		501,652
Mill Creek		140,628
Mountlake Terrace		203,304
Snohomish County		6,594,370
Woodway		12,061
Brier		59,976
Everett		1,463,344
Mukilteo		189,218
Total	\$	10,317,506

NOTE 3 – CAPITAL ASSETS

Capital assets are recorded at actual cost. The capitalization threshold is \$5,000, except for software and infrastructure, which is \$100,000. Individual assets with a total cost of less than \$5,000 are reported as expenses in the period in which they were incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets (see table below).

Asset Class	Useful Life (years)
Building & Structures	15 - 40
Infrastructure	5 - 15
Machinery & Equipment	5 - 7
Intangibles	30

The following is a summary of changes in capital assets for SERS:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2018



CAPITAL ASSETS
For the year ended December 31, 2018

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Non-depreciable				
Construction in Progress	\$ 308,846	\$ 3,378,358	\$ (308,846)	\$ 3,378,358
Total Capital Assets, Non-depreciable	308,846	3,378,358	(308,846)	3,378,358
Capital Assets, Depreciable				
Buildings & Structures	1,669,421	-	-	1,669,421
Infrastructure	16,823,307	-	-	16,823,307
Machinery & Equipment	15,878,181	58,712	(51,640)	15,885,253
Intangibles	508,143	308,846	-	816,989
Total Capital Assets, Depreciable	34,879,052	367,558	(51,640)	35,194,970
Less Accumulated Depreciation for:				
Buildings & Structures	(798,056)	(48,582)	-	(846,638)
Infrastructure	(13,894,800)	(977,265)	-	(14,872,065)
Machinery & Equipment	(13,905,314)	(302,699)	41,425	(14,166,588)
Intangibles	(156,590)	(80,684)	-	(237,274)
Total Accumulated Depreciation	(28,754,760)	(1,409,230)	41,425	(30,122,565)
Total Capital Assets, net	\$ 6,433,138	\$ 2,336,686	\$ (319,061)	\$ 8,450,763

NOTE 4 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (297,951)
Pension assets	\$ -
Deferred outflows of resources	\$ 66,484
Deferred inflows of resources	\$ (162,406)
Pension expense	\$ 705

State Sponsored Pension Plans

All Snohomish County Emergency Radio System (SERS) full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), 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

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January – August 2018		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%
September – December 2018		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

*For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2018



- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January – August 2018		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%
September – December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

*For employees participating in JBM, the contribution rate was 18.45% to 18.53%.

SERS' actual PERS plan contributions were \$37,641 to PERS Plan 1 and \$55,754 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 *Experience Study* and the 2017 *Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents SERS' proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what SERS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 245,994	\$ 200,168	\$ 160,473
PERS 2/3	\$ 447,264	\$ 97,783	(\$ 188,751)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, SERS reported a total pension liability of \$297,951 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$ 200,168
PERS 2/3	\$ 97,783

At June 30, SERS' proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.004750%	0.004482%	-0.000268%
PERS 2/3	0.006110%	0.005727%	-0.000383%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2018



amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all PERS plans.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, SERS recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 5,559
PERS 2/3	(\$ 4,854)
TOTAL	\$ 705

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, SERS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	(\$ 7,955)
Changes of assumptions	\$ 0	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	\$ 0
Contributions subsequent to the measurement date	\$ 20,043	\$ 0
TOTAL	\$ 20,043	(\$ 7,955)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,986	(\$ 17,120)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	(\$ 60,004)
Changes of assumptions	\$ 1,144	(\$ 27,828)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 3,763	(\$ 49,499)
Contributions subsequent to the measurement date	\$ 29,549	\$ 0
TOTAL	\$ 46,441	(\$ 154,452)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2018



Total PERS 1/2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,986	(\$ 17,120)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	(\$ 67,959)
Changes of assumptions	\$ 1,144	(\$ 27,828)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 3,763	(\$ 49,499)
Contributions subsequent to the measurement date	\$ 49,591	\$ 0
TOTAL	\$ 66,484	(\$ 162,406)

Deferred outflows of resources related to pensions resulting from the SERS' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2019	\$ 348
2020	(\$ 1,739)
2021	(\$ 5,218)
2022	(\$ 1,346)
2023	\$ 0
Thereafter	\$ 0
TOTAL	(\$ 7,955)

Year ended December 31:	PERS 2/3
2019	(\$ 19,910)
2020	(\$ 28,644)
2021	(\$ 44,046)
2022	(\$ 20,919)
2023	(\$ 12,352)
Thereafter	(\$ 11,688)
TOTAL	(\$ 137,559)

NOTE 5 - RISK MANAGEMENT

SERS is a member of the Washington Cities Insurance Authority (WCIA). Over the past three years, settlements have not exceeded SERS' coverage limits.

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 160 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2018



Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

NOTE 6 – OPERATING LEASES

SERS leases land under noncancellable operating leases. The total cost for such leases was \$420,572 for the year ended December 31, 2018. The future minimum lease payments for these leases are as follows:

Year Ending December 31st	Amount
2019	431,496
2020	438,047
2021	449,866
2022	462,173
2023	80,546
Total	\$ 1,862,128

NOTE 7 – RELATED PARTY AGREEMENT

SERS entered into an interlocal agreement with Snohomish County for accounting services, including preparation of SERS' financial statements. Pursuant to this agreement, SERS pays the County an annual fee of \$48,000. SERS also may reimburse the County for various minor miscellaneous expenses.

An interlocal agreement to fund SERS' Emergency Public Radio System Replacement was established between Snohomish County and SERS. Snohomish County shall distribute financing to SERS on an invoiced-monthly basis to pay for the procuring, constructing, and readying for use of the Emergency Public Radio System Replacement.

NOTE 8 – SUBSEQUENT EVENTS

Effective January 1, 2019, by means of a Supermajority Vote by the SERS' Governing Board, SERS merged into the Snohomish County Regional Public Safety Communications Agency ("Snohomish County 911"), a nonprofit corporation that provides emergency communication services on behalf of its member agencies throughout Snohomish County. Upon the merger effective date, Snohomish County 911 became the surviving entity, and SERS ceased to separately legally exist.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Snohomish County Emergency Radio System (SERS) was formed in 1999 to provide enhanced emergency communication services to Snohomish County. SERS is responsible for design, development, financing, acquisition, operation, maintenance, and repair of the 800-megahertz emergency radio system. SERS was created via an interlocal agreement among the cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County. Snohomish County Fire Protection District No. 1 joined after the original formation. A Board of Directors comprised of eleven members representing each of the entities is appointed to govern SERS.

The financial statements of Snohomish County Emergency Radio System (SERS) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units.

A. Reporting Entity

The financial statements and the accompanying notes of SERS include all funds for which the Board of Directors has oversight responsibility. There is currently one fund created and operated for SERS.

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

For financial reporting purposes, SERS is considered a proprietary fund engaged only in business-type activities. Accordingly, SERS financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Capital asset purchases are capitalized and long-term liabilities are recorded.

SERS distinguishes between operating revenues and expenses from non-operating. Operating revenues and expenses result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenues of SERS are charges to other governments for operating assessments. Operating expenses 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.

C. Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of resources, the accounts of SERS are maintained in accordance with the principles of fund accounting. The accounts relating to specified activities or objectives have been classified as one fund, a proprietary fund.

D. Budgetary Information

Scope of Budget

In accordance with the Interlocal Cooperation Agreement, the SERS Board is required to adopt an annual budget no later than July 1 of the calendar year prior to that in which that budget will be in effect. An annual appropriated budget is adopted for SERS on the full-accrual basis of accounting.

Amending the Budget

Any revisions that alter the total expenditures of the adopted budget, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the SERS Board. When the Board determines that a budget amendment is necessary, it may do so by resolution approved by majority vote after holding a public hearing. A Supermajority Vote is required if the budget amendment meets or exceeds 10% of the prior years' budgeted expenditures.

E. Deposits and Investments

SERS deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission

(PDPC). The PDPC provides protection for public treasurer deposits that exceed the amount insured by FDIC.

SERS utilizes the Snohomish County Treasurer for investing activities. SERS reports investments in the Statement of Net Position at amortized cost.

All investments are held in the Washington State Local Government Investment Pool (LGIP). The LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

As of December 31, 2017, SERS held the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>
Local Government Investment Pool	\$2,196,177

F. Cash and Equivalents

Cash and Equivalents include funds held in the Washington State Local Government Investment Pool (LGIP). The LGIP is considered to be cash equivalents as funds held within the pool can be liquidated on demand to meet daily cash flow needs. Cash on hand at December 31, 2017 was \$188,774 and \$2,196,177 was held in cash equivalents.

G. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services rendered.

H. Due from Other Governments

Due from other governments consist of amounts owed from government agencies for goods and services rendered or grant reimbursements.

I. Capital Assets

Capital assets are recorded at actual cost and defined by SERS as assets with an initial cost of more than \$5,000 (except software and infrastructure). Software and infrastructure expenditures in excess of \$100,000 are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

J. Compensated Absences

SERS policies regarding vacation, sick leave, and compensatory time permit employees to be compensated for earned but unused vacation leave, compensatory time, and a portion of their sick leave.

K. Deferred Outflows and Deferred Inflows

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. Both deferred outflows and deferred inflows are related to pensions.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – JOINT VENTURE INFORMATION

In accordance with generally accepted accounting principles, SERS is a joint venture with each entity's equity interest reported on its member entities' financial statements. The equity interest as of December 31, 2017 is as follows:

Edmonds	\$	273,872
Fire District 1		244,731
Lynnwood		343,882
Marysville		297,557
Mill Creek		90,182
Mountlake Terrace		164,774
Snohomish County		5,274,424
Woodway		9,614
Brier		47,688
Everett		1,091,652
Mukilteo		149,039
Total	\$	7,987,416

NOTE 3 – CAPITAL ASSETS

Capital assets are recorded at actual cost. The capitalization threshold is \$5,000, except for software and infrastructure, which is \$100,000. Individual assets with a total cost of less than \$5,000 are reported as expenses in the period in which they were incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets (see table below).

Asset Class	Useful Life (years)
Building & Structures	15 - 40
Infrastructure	5 - 15
Machinery & Equipment	5 - 7
Intangibles	30

The following is a summary of changes in capital assets for SERS:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2017



CAPITAL ASSETS
For the year ended December 31, 2017

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Non-depreciable				
Construction in Progress	\$ -	\$ 308,846	\$ -	\$ 308,846
Total Capital Assets, Non-depreciable	-	308,846	-	308,846
Capital Assets, Depreciable				
Buildings & Structures	1,698,140	-	(28,719)	1,669,421
Infrastructure	16,812,362	10,945	-	16,823,307
Machinery & Equipment	15,754,494	167,653	(43,966)	15,878,181
Intangibles	508,143	-	-	508,143
Total Capital Assets, Depreciable	34,773,139	178,598	(72,685)	34,879,052
Less Accumulated Depreciation for:				
Buildings & Structures	(767,944)	(48,582)	18,470	(798,056)
Infrastructure	(12,917,746)	(977,054)	-	(13,894,800)
Machinery & Equipment	(13,575,093)	(366,994)	36,773	(13,905,314)
Intangibles	(137,675)	(18,915)	-	(156,590)
Total Accumulated Depreciation	(27,398,458)	(1,411,545)	55,243	(28,754,760)
Total Capital Assets, net	\$ 7,374,681	\$ (924,101)	\$ (17,442)	\$ 6,433,138

NOTE 4 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (437,684)
Pension assets	\$ -
Deferred outflows of resources	\$ 70,879
Deferred inflows of resources	\$ (119,755)
Pension expense	\$ 1,067

State Sponsored Pension Plans

All Snohomish County Emergency Radio System (SERS) full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), 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

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January – June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

*For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2017



- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

*For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July – December 2017.

SERS' actual PERS plan contributions were \$27,553 to PERS Plan 1 and \$38,474 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the

valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 *Experience Study* and the 2015 *Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- How terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component

used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability

The table below presents SERS' proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what SERS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 274,570	\$ 225,391	\$ 182,792
PERS 2/3	\$ 571,940	\$ 212,293	(\$ 82,384)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, SERS reported a total pension liability of \$437,684 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$ 225,391
PERS 2/3	\$ 212,293

At June 30, SERS' proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.005483%	0.004750%	-0.000733%
PERS 2/3	0.007013%	0.006110%	-0.000903%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all PERS plans.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2017



The collective net pension liability was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, SERS recognized pension expense as follows:

	Pension Expense
PERS 1	(\$ 24,943)
PERS 2/3	\$ 26,011
TOTAL	\$ 1,067

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, SERS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	(\$ 8,411)
Changes of assumptions	\$ 0	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	\$ 0
Contributions subsequent to the measurement date	\$ 13,641	\$ 0
TOTAL	\$ 13,641	(\$ 8,411)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,510	(\$ 6,982)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	(\$ 56,592)
Changes of assumptions	\$ 2,255	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 13,170	(\$ 47,770)
Contributions subsequent to the measurement date	\$ 20,304	\$ 0
TOTAL	\$ 57,239	(\$ 111,344)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2017



Total PERS 1/2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,510	(\$ 6,982)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	(\$ 65,003)
Changes of assumptions	\$ 2,255	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 13,170	(\$ 47,770)
Contributions subsequent to the measurement date	\$ 33,945	\$ 0
TOTAL	\$ 70,880	(\$ 119,755)

Deferred outflows of resources related to pensions resulting from the SERS' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2018	(\$ 5,685)
2019	\$ 1,795
2020	(\$ 417)
2021	(\$ 4,104)
2022	\$ 0
Thereafter	\$ 0
TOTAL	(\$ 8,411)

Year ended December 31:	PERS 2/3
2018	(\$ 25,024)
2019	(\$ 2,096)
2020	(\$ 11,517)
2021	(\$ 28,037)
2022	(\$ 3,363)
Thereafter	(\$ 4,372)
TOTAL	(\$ 74,409)

NOTE 5 - RISK MANAGEMENT

SERS is a member of the Washington Cities Insurance Authority (WCIA). Over the past three years, settlements have not exceeded SERS' coverage limits.

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 161 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability.

Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

NOTE 6 – OPERATING LEASES

SERS leases land under noncancellable operating leases. The total cost for such leases was \$319,075 for the year ended December 31, 2017. The future minimum lease payments for these leases are as follows:

Year Ending December 31st	Amount
2018	357,772
2019	361,764
2020	370,904
2021	380,429
2022	204,730
2023	89,040
Total	\$ 1,764,639

NOTE 7 – RELATED PARTY AGREEMENT

SERS entered into an interlocal agreement with Snohomish County for accounting services, including preparation of SERS' financial statements. Pursuant to this agreement, SERS pays the County an annual fee of \$48,000. SERS also may reimburse the County for various minor miscellaneous expenses.

Required Supplementary Information

Snohomish County Emergency Radio System
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
As of June 30, 2018

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.004482%	0.004750%	0.005483%	0.005947%
Employer's proportionate share of the net pension liability	\$ 200,168	\$ 225,391	\$ 294,463	\$ 311,083
Covered payroll	\$ 621,100	\$ 593,359	\$ 655,189	\$ 691,055
Employer's proportionate share of the net pension liability as a percentage of covered payroll	32.23%	37.99%	44.94%	45.02%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%

GASB 68 was implemented for the fiscal year ended December 31, 2015. This schedule is to be built prospectively until it contains ten years of data

Required Supplementary Information

Snohomish County Emergency Radio System Schedule of Employer Contributions Public Employees' Retirement System (PERS) Plan 1 For the year ended December 31, 2018

	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 37,641	\$ 27,553	\$ 29,553	\$ 30,211
Contributions in relation to the statutorily or contractually required contributions	\$ (37,641)	\$ (27,553)	\$ (29,553)	\$ (30,211)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 743,377	\$ 562,889	\$ 619,568	\$ 691,055
Contributions as a percentage of covered payroll	5.06%	4.89%	4.77%	4.37%

GASB 68 was implemented for the fiscal year ended December 31, 2015. This schedule is to be built prospectively until it contains ten years of data

Required Supplementary Information

Snohomish County Emergency Radio System
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
As of June 30, 2018

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.005727%	0.006110%	0.007013%	0.007683%
Employer's proportionate share of the net pension liability	\$ 97,783	\$ 212,293	\$ 353,099	\$ 274,518
Covered payroll	\$ 621,100	\$ 593,359	\$ 655,189	\$ 691,055
Employer's proportionate share of the net pension liability as a percentage of covered payroll	15.74%	35.78%	53.89%	39.72%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%

GASB 68 was implemented for the fiscal year ended December 31, 2015. This schedule is to be built prospectively until it contains ten years of data

Required Supplementary Information

Snohomish County Emergency Radio System
Schedule of Employer Contributions
Public Employees' Retirement System (PERS) Plan 2/3
For the year ended December 31, 2018

	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 55,754	\$ 38,474	\$ 38,599	\$ 40,006
Contributions in relation to the statutorily or contractually required contributions	\$ (55,754)	\$ (38,474)	\$ (38,599)	\$ (40,006)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 743,378	\$ 562,889	\$ 619,568	\$ 691,055
Contributions as a percentage of covered payroll	7.50%	6.84%	6.23%	5.79%

GASB 68 was implemented for the fiscal year ended December 31, 2015. This schedule is to be built prospectively until it contains ten years of data

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION

NOTE 1 - METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIAL DETERMINED CONTRIBUTIONS (ADC) FOR PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

The Office of the State Actuary (OSA) calculates the ADC based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 RCW. Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

GASB 68 was implemented for the fiscal year ended December 31, 2015. The RSI schedules for pensions will be built prospectively until they contain ten years of data. In the first year of presentation, there are no significant trends to explain such as changes in benefit terms, changes in size or composition of the population covered by the benefit terms or use of different assumptions.

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.

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