



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
King County Fire Protection District
No. 16
(Northshore Fire Department)

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

Published January 24, 2019

Report No. 1022987





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

January 24, 2019

Board of Commissioners
Northshore Fire Department
Kenmore, Washington

Report on Financial Statements

Please find attached our report on Northshore Fire Department's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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

**Northshore Fire Department
January 1, 2016 through December 31, 2017**

Board of Commissioners
Northshore Fire Department
Kenmore, 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 Northshore Fire Department, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 16, 2019.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy
State Auditor
Olympia, WA

January 16, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Northshore Fire Department January 1, 2016 through December 31, 2017

Board of Commissioners
Northshore Fire Department
Kenmore, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Northshore Fire Department, for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

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

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

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

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

January 16, 2019

FINANCIAL SECTION

Northshore Fire Department January 1, 2016 through December 31, 2017

FINANCIAL STATEMENTS

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King County Fire Protection District No. 16
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 General	100 Donation	200 G O Bond
Beginning Cash and Investments					
30810	Reserved	7,048,174	6,815,261	74,668	158,245
30880	Unreserved	5,227,194	5,227,194	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	6,322,432	5,122,586	-	1,199,846
320	Licenses and Permits	44,571	44,571	-	-
330	Intergovernmental Revenues	443,238	443,237	-	1
340	Charges for Goods and Services	2,803,754	2,803,754	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	172,488	165,840	1,219	5,429
Total Revenues:		<u>9,786,483</u>	<u>8,579,988</u>	<u>1,219</u>	<u>1,205,276</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	8,007,009	8,001,669	4,906	434
Total Expenditures:		<u>8,007,009</u>	<u>8,001,669</u>	<u>4,906</u>	<u>434</u>
Excess (Deficiency) Revenues over Expenditures:		1,779,474	578,319	(3,687)	1,204,842
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	469,945	469,945	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	81,232	81,232	-	-
381, 395, 398	Other Resources	17,900	17,900	-	-
Total Other Increases in Fund Resources:		<u>569,077</u>	<u>569,077</u>	<u>-</u>	<u>-</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	76,640	76,640	-	-
591-593, 599	Debt Service	1,247,339	-	-	1,247,339
597	Transfers-Out	469,945	469,945	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	112,817	112,329	-	488
Total Other Decreases in Fund Resources:		<u>1,906,741</u>	<u>658,914</u>	<u>-</u>	<u>1,247,827</u>
Increase (Decrease) in Cash and Investments:		441,810	488,482	(3,687)	(42,985)
Ending Cash and Investments					
5081000	Reserved	7,357,821	7,171,579	70,981	115,261
5088000	Unreserved	5,359,359	5,359,359	-	-
Total Ending Cash and Investments		12,717,180	12,530,938	70,981	115,261

The accompanying notes are an integral part of this statement.

King County Fire Protection District No. 16
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General	100 Donation	200 GOBOND
Beginning Cash and Investments					
30810	Reserved	7,214,905	6,948,463	74,165	192,277
30880	Unreserved	4,679,862	4,679,862	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	6,113,572	4,953,179	-	1,160,393
320	Licenses and Permits	67,555	67,555	-	-
330	Intergovernmental Revenues	479,489	479,488	-	1
340	Charges for Goods and Services	2,811,083	2,811,083	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	121,942	117,166	720	4,056
Total Revenues:		<u>9,593,641</u>	<u>8,428,471</u>	<u>720</u>	<u>1,164,450</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	7,614,457	7,612,394	1,209	854
Total Expenditures:		<u>7,614,457</u>	<u>7,612,394</u>	<u>1,209</u>	<u>854</u>
Excess (Deficiency) Revenues over Expenditures:		1,979,184	816,077	(489)	1,163,596
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	171,268	170,276	992	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	1,085	1,085	-	-
Total Other Increases in Fund Resources:		<u>172,353</u>	<u>171,361</u>	<u>992</u>	<u>-</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	318,671	318,671	-	-
591-593, 599	Debt Service	1,196,689	-	-	1,196,689
597	Transfers-Out	171,268	171,268	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	84,308	83,369	-	939
Total Other Decreases in Fund Resources:		<u>1,770,936</u>	<u>573,308</u>	<u>-</u>	<u>1,197,628</u>
Increase (Decrease) in Cash and Investments:		380,601	414,130	503	(34,032)
Ending Cash and Investments					
5081000	Reserved	7,048,174	6,815,261	74,668	158,245
5088000	Unreserved	5,227,194	5,227,194	-	-
Total Ending Cash and Investments		12,275,368	12,042,455	74,668	158,245

The accompanying notes are an integral part of this statement.

King County Fire Protection District No. 16
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		<u>Agency</u>
308	Beginning Cash and Investments	375,743
388 & 588	Prior Period Adjustment, Net	-
310-390	Additions	94,783
510-590	Deductions	470,526
	Net Increase (Decrease) in Cash and Investments:	<u>(375,743)</u>
508	Ending Cash and Investments	-

The accompanying notes are an integral part of this statement.

King County Fire Protection District No. 16
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		<u>632 HRA ACCOUNT</u>
308	Beginning Cash and Investments	375,360
388 & 588	Prior Period Adjustments, Net	-
310-360	Revenues	-
380-390	Other Increases and Financing Sources	79,521
510-570	Expenditures	-
580-590	Other Decreases and Financing Uses	79,138
	Net Increase (Decrease) in Cash and Investments:	<u>383</u>
508	Ending Cash and Investments	375,743

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

King County Fire Protection District No. 16 (The District) is a Special Purpose District that provides fire protection and emergency medical services to the general public and is supported through property taxes and a benefit charge as provided by RCW 52.18. The District was incorporated on October 15, 1942 and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

Debt Service Funds

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

FIDUCIARY FUND TYPES:

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

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

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

C. Budget

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

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

The appropriated and actual expenditures for the legally adopted 2017 budget were as follows:

Fund Name	Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$8,405,431	\$8,001,669	\$403,762
Reserve Fund	\$413,000	\$273,157	\$139,843
Totals	\$8,818,413	\$8,274,826	\$543,605

Any revisions that alter the total authorized expenditure of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body.

D. Cash and Investments

Cash

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

Investments

See note 2

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 3 years. Capital assets are recorded as capital expenditures when purchased.

F. Compensated Absences

Union Employees

Vacation pay may be accumulated up to 288 hours and is payable upon separation or retirement. Sick leave may accumulate indefinitely. Upon retirement or permanent disability employees receive payment for 50% of unused sick leave up to an equivalent of 400 hours. For line of duty death 100% of sick leave hours are paid to the designated beneficiary. The District's estimated liability for sick leave and vacation termination benefits on December 31, 2017 was \$549,468.87 and \$317,586.89 respectively. The total compensated leave liability for union employees increased by \$42,989.39 from the 2016 calculated liability.

Non-Union Employees

Vacation pay may be accumulated up to 480 hours and is payable upon separation or retirement. Sick leave may accumulate indefinitely. Upon retirement or permanent disability employees receive payment for 50% of unused sick leave up to an equivalent of 400 hours. The District's estimated liability for sick leave and vacation termination benefits on December 31, 2017 was \$77,888.93 and \$97,796.18 respectively. The total compensated leave liability for non-union employees increased by \$16,711.08 from the 2016 calculated liability.

The total liability for compensated absences was \$1,042,741 which represents an increase of \$59,700 over the prior year's liability.

G. Long-Term Debt

See note 3

H. Other Financing Sources or Uses

The District did not have any other financing sources or uses in 2017.

I. Risk Management

The District manages its risk by maintaining insurance coverage for damages and losses to property, apparatus, portable equipment or criminal acts. Coverage for general, management, automotive related liability is included. The insurance coverage is purchased through Volunteer Firemen's Insurance Services, Inc. (VFIS). The District's local broker for VFIS is MacIvennie Associates, Inc.

VFIS
183 Leader Heights Road
York, PA 17402

MacIvennie Associates, Inc.
P.O. Box 8629
Covington, WA 98042

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by Resolution or requiring Board approval.

Listed below are the funds, year-end balances and restrictions for the District funds that have a beginning and end cash balance that are designated as reserved.

Reserve Fund

\$7,171,579.25 of the year-end fund balance has been reserved by Board resolution for capital acquisition, employee benefits, loss of revenues, natural disaster, losses not reimbursed by insurance and facility upgrades and major repairs.

Donation Fund

The fund balance of \$70,981 represents funds donated by members of the community and can only be expended for purposes approved by the Board of Commissioners.

GO Bond Fund

The fund balance of \$115,261 represents funds collected from a general obligation bond levy that can only be used to pay principal and interest on the outstanding bond debt (see note 3).

NOTE 2 – INVESTMENTS

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

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

Investments are reported at the fair value. Investments by type at December 31, 2017, are as follows:

<u>Type of Investment</u>	<u>District's own investments</u>	<u>Investments Held by District as an agent for other local governments, individuals, or private organizations</u>	<u>Total</u>
Federal Agencies	\$3,495,953	\$0	\$3,495,953
U.S. Treasury	\$4,582,000	\$0	\$4,582,000
LGIP	\$765,574	\$0	\$765,574
Cash & Equivalents	\$31,793	\$0	\$31,793
Agency Mortgages	\$8,902	\$0	\$8,902

<u>Repurchase Agreements</u>	\$545,567	\$0	\$545,567
<u>Commercial Paper</u>	\$713,434	\$0	\$713,434
<u>Corporate Bank Notes</u>	\$1,878,328	\$0	\$1,878,328
<u>Supranational Agencies</u>	\$695,630	\$0	\$695,630
<u>Total</u>	\$12,717,180	\$0	\$12,717,180

NOTE 3 – DEBT SERVICE REQUIREMENTS

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

The debt service requirements for general obligation bonds, including both principle and interest, are as follows:

General Obligation Debt Schedule

Year	Principal	Interest	Total
2018	\$790,000	\$510,888	\$1,300,888
2019	\$875,000	\$479,288	\$1,354,288
2020	\$970,000	\$442,102	\$1,412,102
2021	\$1,070,000	\$403,302	\$1,473,302
2022	\$1,175,000	\$360,502	\$1,535,502
2023- 2027	\$7,695,000	\$1,002,228	\$8,697,228
Totals	\$12,575,000	\$3,198,310	\$15,773,310

NOTE 4 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed as they are received.

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

The District’s regular levy for the year 2017 was \$.78559 per \$1,000 on an assessed valuation of \$6,515,548,648 for a total regular levy of \$5,118,579.

In 2017, the District also levied \$.18417 per \$1,000 for general obligation bond debt service requirements for a total additional levy of \$1,200,000.

In 2017, the District also assessed a benefit charge of \$2,800,000 which is identified in this report as a charge for goods and services in BARS revenue account number 340.

NOTE 5 - PENSION PLANS

Substantially all of the District's full-time and qualifying part-time employees participate in the PERS and LEOFF II plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

At June 30, 2017, the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	EMPLOYER CONTRIBUTIONS	ALLOCATION %	NET PENSION LIABILITY
PERS 1 UAAL	\$ 13,923	.002315%	\$ 109,849
PERS 2 AND 3	\$ 18,185	.002977%	\$ 103,437
TOTAL LIABILITIES			\$ 213,285

	EMPLOYER CONTRIBUTIONS	ALLOCATION %	NET PENSION ASSETS
LEOFF 1		.016699%	(\$ 253,361)
LEOFF 2	\$ 246,942.17	.156319%	(\$ 2,169,201)
TOTAL ASSETS			(\$ 2,422,562)

NOTE 6 - OTHER DISCLOSURES

LEOFF 1 LIABILITY

The District is obligated to pay for post-employment benefits for former employees that belong to the LEOFF1 retirement system. These benefits include medical, dental, vision, and long term care. Six retirees received benefits during the year. The total paid out was \$59,640.32 for those benefits during the year.

RESERVE FUND

The Reserve Fund expenses were \$139,843 less than was expected. A remodel project at one of the fire stations was not initiated as planned.

FIDUCIARY FUND

The fiduciary fund reported on schedule C5 of this report represents Healthcare Reimbursement Account (HRA) funds that the District held for its employees. In 2017, as part of a negotiated agreement those employee funds were transferred to the employees' HRA VEBA plan. Once the transfer was complete, the fiduciary fund was zeroed out and no longer needed.

NORCOM

In November of 2007, Northshore Fire Department, with the cities of Bellevue, Bothell, Clyde Hill, Kirkland, Medina, Mercer Island, and Snoqualmie, along with Eastside Fire and Rescue, King County Fire Protection Districts 27 and 45, King and Kittitas County Fire Protection District 51, Woodinville Fire & Rescue and Shoreline Fire Department entered into an interlocal agreement to establish and maintain a consolidated emergency service communications center. In 2008, the City of Redmond joined as a subscriber. Prior to the interlocal agreement, the formation efforts were carried out under a Joint Powers Agreement originally approved in 2005 and amended in 2006 and 2007. On July 1, 2009, the separate dispatch operations of the cities of Bellevue and Kirkland were combined and began operating as the North East King County Regional Public Safety Communications Agency (or NORCOM). NORCOM includes 911 telephone answering, computer aided dispatch of fire, police and EMS resources, public safety field technology and a records management system. Operating revenues are provided by user fees charged to each member based on average call volume. For 2017, Northshore Fire Department's share of these fees was \$181,651. Additional financial information may be obtained from NORCOM, c/o J.R. Lieuallen, Finance Manager, P.O. Box 50911, Bellevue, WA 98015-0911.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

King County Fire Protection District No. 16 (The District) is a Special Purpose District that provides fire protection and emergency medical services to the general public and is supported through property taxes and a benefit charge as provided by RCW 52.18. The District was incorporated on October 15, 1942 and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

Debt Service Funds

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

FIDUCIARY FUND TYPES:

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

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

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

C. Budget

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

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

The appropriated and actual expenditures for the legally adopted 2016 budget were as follows:

Fund Name	Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$8,210,980	\$7,612,394	\$598,586
Reserve Fund	\$350,000	\$ 403,079	(\$53,079)
Totals	\$8,560,980	\$8,015,473	\$545,507

Any revisions that alter the total authorized expenditure of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body.

D. Cash and Investments

Cash

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

Investments

See note 2

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 3 years. Capital assets are recorded as capital expenditures when purchased.

F. Compensated Absences

Union Employees

Vacation pay may be accumulated up to 288 hours and is payable upon separation or retirement. Sick leave may accumulate indefinitely. Upon retirement or permanent disability employees receive payment for 50% of unused sick leave up to an equivalent of 400 hours. For line of duty death 100% of sick leave hours are paid to the designated beneficiary. The District's estimated liability for sick leave and vacation termination benefits on December 31, 2016 was \$509,557.98 and \$314,508.39 respectively. The total compensated leave liability for union employees increased by \$49,882 from the 2015 calculated liability.

Non-Union Employees

Vacation pay may be accumulated up to 480 hours and is payable upon separation or retirement. Sick leave may accumulate indefinitely. Upon retirement or permanent disability employees receive payment for 50% of unused sick leave up to an equivalent of 400 hours. The District's estimated liability for sick leave and vacation termination benefits on December 31, 2016 was \$72,008.75 and \$86,965.28 respectively. The total compensated leave liability for non-union employees decreased by \$52,893 from the 2015 calculated liability.

The total liability for compensated absences was \$983,040 which represents an increase of \$3,011 over the prior year's liability.

G. Long-Term Debt

See note 3

H. Other Financing Sources or Uses

The District did not have any other financing sources or uses in 2016.

I. Risk Management

The District manages its risk by maintaining insurance coverage for damages and losses to property, apparatus, portable equipment or criminal acts. Coverage for general, management, automotive related liability is included. The insurance coverage is purchased through Volunteer Firemen's Insurance Services, Inc. (VFIS). The District's local broker for VFIS is MacIvennie Associates, Inc.

VFIS
183 Leader Heights Road

MacIvennie Associates, Inc.
P.O. Box 8629

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by Resolution or requiring Board approval.

Listed below are the funds, year-end balances and restrictions for the District funds that have a beginning and end cash balance that are designated as reserved.

Reserve Fund

\$7,169,573 of the year-end fund balance has been reserved by Board resolution for capital acquisition, employee benefits, loss of revenues, natural disaster, losses not reimbursed by insurance and facility upgrades and major repairs.

Donation Fund

The fund balance of \$74,668 represents funds donated by members of the community and can only be expended for purposes approved by the Board of Commissioners.

GO Bond Fund

The fund balance of \$158,245 represents funds collected from a general obligation bond levy that can only be used to pay principal and interest on the outstanding bond debt (see note 3).

NOTE 2 – INVESTMENTS

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

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

Investments are reported at the fair value. Investments by type at December 31, 2016, are as follows:

<u>Type of Investment</u>	<u>District’s own investments</u>	<u>Investments held by District as an agent for other local governments, individuals, or private organizations</u>	<u>Total</u>
<u>Federal Agencies</u>	\$3,268,930	\$94,412	\$3,363,343

<u>U.S. Treasury</u>	\$4,883,141	\$141,034	\$5,024,175
<u>LGIP</u>	\$1,261,908	\$36,446	\$1,298,354
<u>Cash & Equivalents</u>	\$247,962	\$28,371	\$276,333
<u>Agency Mortgages</u>	\$12,275	\$355	\$12,630
<u>Repurchase Agreements</u>	\$198,861	\$5,743	\$204,604
<u>Commercial Paper</u>	\$495,925	\$14,323	\$510,248
<u>Corporate Bank Notes</u>	\$1,906,365	\$55,059	\$1,961,424
<u>Total</u>	\$12,275,368	\$375,743	\$12,651,111

NOTE 3 – DEBT SERVICE REQUIREMENTS

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

The debt service requirements for general obligation bonds, including both principle and interest, are as follows:

General Obligation Debt Schedule

Year	Principal	Interest	Total
2017	\$715,000	\$532,338	\$1,247,338
2018	\$790,000	\$510,888	\$1,300,888
2019	\$875,000	\$479,288	\$1,354,288
2020	\$970,000	\$442,102	\$1,412,102
2021	\$1,070,000	\$403,302	\$1,473,302
2022- 2027	\$8,870,000	\$1,362,730	\$10,232,730
Totals	\$13,290,000	\$3,730,648	\$17,020,648

NOTE 4 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed as they are received.

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

The District's regular levy for the year 2016 was \$.82089 per \$1,000 on an assessed valuation of \$6,054,273,196 for a total regular levy of \$4,969,884.

In 2016 the District also levied \$.1916 per \$1,000 for general obligation bond debt service requirements for a total additional levy of \$1,160,000.

In 2016, the District also assessed a benefit charge of \$2,800,000 which is identified in this report as a charge for goods and services in BARS revenue account number 340.

NOTE 5 - PENSION PLANS

Substantially all of the District's full-time and qualifying part-time employees participate in the PERS and LEOFF II plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

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

	ALLOCATION %	NET PENSION LIABILITY
PERS 1 UAAL	.002504%	\$ 134,477
PERS 2 AND 3	.003212%	\$ 161,722
TOTAL LIABILITIES		\$ 296,198

	ALLOCATION %	NET PENSION ASSETS
LEOFF 1	.016464%	(\$ 169,626)
LEOFF 2	.161766%	(\$ 940,880)
TOTAL ASSETS		(\$ 1,110,506)

NOTE 6 - OTHER DISCLOSURES

LEOFF 1 LIABILITY

The District is obligated to pay for post-employment benefits for former employees that belong to the LEOFF1 retirement system. These benefits include medical, dental, vision, and long term care. 6 retirees received benefits during the year and \$37,128.25 was paid out for those benefits during the year.

RESERVE FUND

The Reserve Fund expenses were \$53,079 more than was expected. The excess expenses were related to a Board approved purchase of a power lift stretcher system that was added to the new Aidcar that was purchased in 2016. Additional expenses were also incurred for compensated absence payments related to two retirements.

NORCOM

In November of 2007, Northshore Fire Department, with the cities of Bellevue, Bothell, Clyde Hill, Kirkland, Medina, Mercer Island, and Snoqualmie, along with Eastside Fire and Rescue, King County Fire Protection Districts 27 and 45, King and Kittitas County Fire Protection District 51, Woodinville Fire & Rescue and Shoreline Fire Department entered into an interlocal agreement to establish and maintain a consolidated emergency service communications center. In 2008, the City of Redmond joined as a subscriber. Prior to the interlocal agreement, the formation efforts were carried out under a Joint Powers Agreement originally approved in 2005 and amended in 2006 and 2007. On July 1, 2009, the separate dispatch operations of the cities of Bellevue and Kirkland were combined and began operating as the North East King County Regional Public Safety Communications Agency (or NORCOM). NORCOM includes 911 telephone answering, computer aided dispatch of fire, police and EMS resources, public safety field technology and a records management system. Operating revenues are provided by user fees charged to each member based on average call volume. For 2016, Northshore Fire Department's share of these fees was \$211,661. Additional financial information may be obtained from NORCOM, c/o J.R. Lieuallen, Finance Manager, P.O. Box 50911, Bellevue, WA 98015-0911.

King County Fire Protection District No. 16
Schedule of Liabilities
For the Year Ended December 31, 2017

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.12	GO Bonds	12/1/2027	13,290,000	-	715,000	12,575,000
	Total General Obligation Debt/Liabilities:		13,290,000	-	715,000	12,575,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		983,040	59,700	-	1,042,740
264.30	Net Pension Liability		296,198	-	82,913	213,285
	Total Revenue and Other (non G.O.) Debt/Liabilities:		1,279,238	59,700	82,913	1,256,025
	Total Liabilities:		14,569,238	59,700	797,913	13,831,025

King County Fire Protection District No. 16
Schedule of Liabilities
For the Year Ended December 31, 2016

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.12	GO Bonds	12/1/2027	13,935,000	-	645,000	13,290,000
	Total General Obligation Debt/Liabilities:		13,935,000	-	645,000	13,290,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		986,052	-	3,011	983,040
264.30	Net Pension Liability		266,551	29,647	-	296,198
	Total Revenue and Other (non G.O.) Debt/Liabilities:		1,252,603	29,647	3,011	1,279,238
	Total Liabilities:		15,187,603	29,647	648,011	14,569,238

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov