



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

South Snohomish County Fire & Rescue Regional Fire Authority

For the period January 1, 2019 through December 31, 2019

Published February 11, 2021

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

February 11, 2021

Board of Commissioners
South Snohomish County Fire & Rescue Regional Fire Authority
Everett, Washington

Report on Financial Statements

Please find attached our report on South Snohomish County Fire & Rescue Regional Fire Authority's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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*

South Snohomish County Fire & Rescue Regional Fire Authority January 1, 2019 through December 31, 2019

Board of Commissioners
South Snohomish County Fire & Rescue Regional Fire Authority
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of South Snohomish County Fire & Rescue Regional Fire Authority, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated January 28, 2021.

We issued an unmodified opinion on the fair presentation of the Authority'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 Authority using accounting practices prescribed by state law 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.

As discussed in Note 6 to the financial statements, during the year ended December 31, 2019, the Authority adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS Manual.

As discussed in Note 10 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Authority.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy

State Auditor

Olympia, WA

January 28, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

South Snohomish County Fire & Rescue Regional Fire Authority January 1, 2019 through December 31, 2019

Board of Commissioners
South Snohomish County Fire & Rescue Regional Fire Authority
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of South Snohomish County Fire & Rescue Regional Fire Authority, for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law 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 audit. We conducted our audit 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 Authority'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 Authority'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, South Snohomish County Fire & Rescue Regional Fire Authority has prepared these financial statements to meet the financial reporting requirements of state law 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 cash and investments of South Snohomish County Fire & Rescue Regional Fire Authority, and its changes in cash and investments, for the year ended December 31, 2019, 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 Authority 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 South Snohomish County Fire & Rescue Regional Fire Authority, as of December 31, 2019, or the changes in financial position or cash flows thereof for

the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Matters of Emphasis

As discussed in Note 6 of the financial statements, the Authority adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS Manual. Our opinion is not modified with respect to this matter.

As discussed in Note 10 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Authority. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is 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 28, 2021 on our consideration of the Authority’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 Authority's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

January 28, 2021

FINANCIAL SECTION

South Snohomish County Fire & Rescue Regional Fire Authority January 1, 2019 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019
Notes to Financial Statements – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019

South Snohomish County Fire & Rescue Regional Fire Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		<u>Total for All Funds (Memo Only)</u>	<u>001 General Fund</u>	<u>302 RFA Capital Projects</u>	<u>502 RFA Healthcare Self Ins Fund</u>
Beginning Cash and Investments					
30810	Reserved	12,834,414	2,134,690	9,531,128	1,168,596
30880	Unreserved	22,230,868	19,783,254	-	2,447,614
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	53,414,785	49,328,146	4,086,639	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	5,328,097	1,353,330	3,974,767	-
340	Charges for Goods and Services	18,307,773	18,307,773	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	4,898,607	572,048	220,505	4,106,054
Total Revenues:		<u>81,949,262</u>	<u>69,561,297</u>	<u>8,281,911</u>	<u>4,106,054</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	66,447,358	61,863,402	-	4,583,956
Total Expenditures:		<u>66,447,358</u>	<u>61,863,402</u>	<u>-</u>	<u>4,583,956</u>
Excess (Deficiency) Revenues over Expenditures:		15,501,904	7,697,895	8,281,911	(477,902)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	167,608	-	167,608	-
385	Special or Extraordinary Items	4,909,482	4,828,302	81,180	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	409,921	409,921	-	-
Total Other Increases in Fund Resources:		<u>5,487,011</u>	<u>5,238,223</u>	<u>248,788</u>	<u>-</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,973,088	-	2,973,088	-
591-593, 599	Debt Service	178,110	22	178,088	-
597	Transfers-Out	167,608	167,608	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>3,318,806</u>	<u>167,630</u>	<u>3,151,176</u>	<u>-</u>
Increase (Decrease) in Cash and Investments:		<u>17,670,109</u>	<u>12,768,488</u>	<u>5,379,523</u>	<u>(477,902)</u>
Ending Cash and Investments					
5081000	Reserved	19,159,770	2,838,670	14,910,652	1,410,448
5088000	Unreserved	33,575,614	31,847,755	-	1,727,859
Total Ending Cash and Investments		<u>52,735,384</u>	<u>34,686,425</u>	<u>14,910,652</u>	<u>3,138,307</u>

The accompanying notes are an integral part of this statement.

**South Snohomish County Fire & Rescue Regional Fire Authority
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019**

	Total for All Funds (Memo Only)	Pension/OPEB Trust Fund	Custodial
308 Beginning Cash and Investments	6,078,050	5,588,275	489,775
388 & 588 Net Adjustments	-	-	-
310-390 Additions	1,604,591	1,103,989	500,602
510-590 Deductions	6,791,276	6,472,736	318,540
Net Increase (Decrease) in Cash and Investments:	(5,186,685)	(5,368,747)	182,062
508 Ending Cash and Investments	891,366	219,529	671,837

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

South Snohomish County Fire & Rescue Regional Fire Authority (SCF) was incorporated on October 1, 2017 and operates under the laws of the state of Washington applicable to fire authorities. The Authority is a special purpose government that provides fire suppression, emergency medical services, public education and fire prevention services.

The Authority 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 (refer to Note 9).
- 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, except for fiduciary funds, which are presented by fund types. The total column is presented as a "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the Authority. It accounts for all financial resources except those required or elected to be accounted for in another fund. For reporting purposes, the Authority has consolidated its Emergency Reserve, Law Enforcement Officers and Fire Fighters (LEOFF) 1 Medical Reserve and its Compensated Absences Reserve into the General Fund.

Capital Project Funds

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

PROPRIETARY FUND TYPE:

Internal Service Funds

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

FIDUCIARY FUND TYPE:

Health Reimbursement Trust Fund

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

Custodial Funds

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

B. Basis of Accounting and Measurement Focus

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

C. Cash and Investments - Refer to Note 3 *Deposits and Investments*.

D. Capital Assets

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

E. Compensated Absences

Vacation pay may be accumulated up to 768 hours for employees covered under the International Association of Firefighters (IAFF) Local 1828 contract, and up to 576 hours for employees covered under IAFF Local 1984 contract and is payable upon separation or retirement. Non-represented employees may carry forward up to 1.5 times their annual accrual amount which is payable upon separation or retirement.

Upon separation or retirement administrative employees and employees covered under the IAFF Local 1828 agreement with less than 20 years of service receive compensation for sick leave hours at 25% of their accrued bank balance up to a maximum payout of 360 hours. Employees covered under the IAFF Local 1828 agreement with 20 or more years of service receive compensation for sick leave at 35% of their accrued bank balance up to a maximum payout of 504 hours.

Upon termination of employment employees covered under the IAFF Local 1984 agreement a maximum of 720 hours of their unused accumulated sick leave may be converted to pay on the following basis:

- Termination – Voluntary or involuntary, 5 hours accrued\ unused – 1 hour pay
- Termination – Layoff, 4 hours accrued\unused – 1 hour pay
- Retirement or Death, 2 hours accrued\unused – 1 hour pay

Payments are recognized as expenditures when paid.

F. Long-Term Debt – Refer to Note 5 *Debt Service Requirements*.

G. 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 board adopted Resolution or Policy. When expenditures that meet restrictions are incurred, the Authority intends to use reserved resources first before using unreserved amounts. At December 31, 2019 the Authority reported Reserved Fund Balance on the Fund Uses Resources and Uses arising from Cash Transactions as Reserved Cash and Investments as follows:

General Fund	\$2,838,670	Committed by Board Adopted Policy for LEOFF 1 Medical Expenses & Compensated Absences.
Capital Projects Fund	14,910,652	Committed by Board Adopted Policy for Apparatus, Capital & Equipment Purchases.
Healthcare Self-Insurance Fund	1,410,448	Restricted by WAC 200.110.040 for eight weeks program expenses plus eight weeks contingency reserve.
	\$19,159,770	

NOTE 2 – BUDGETS AND COMPLIANCE

The Authority adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budgets were as follows:

	Original <u>2019 Budget</u>	Amended <u>2019 Budget</u>	<u>2019 Actuals</u>	Positive <u>(Negative)</u>
General Fund				
General Fund	\$64,782,424	\$69,002,854	\$60,479,230	\$8,523,624
Emergency Reserve	0	284,230	284,230	0
LEOFF 1 Medical Reserve	1,002,311	1,002,311	637,306	365,005
Compensated Absences Reserve	612,340	612,340	630,273	(17,933)
Total General Fund	66,397,075	70,901,735	62,031,039	8,870,696
Capital Projects Fund				
Apparatus Reserve	1,863,692	3,515,492	2,403,525	1,111,967
Building Reserve	100,000	631,425	136,595	494,830
Equipment Reserve	2,129,251	4,255,851	611,055	3,644,796
Total Capital Projects Fund	4,092,943	8,402,768	3,151,175	5,251,593
Healthcare Self-Insurance Fund	3,904,783	4,644,783	4,583,956	60,827
Total Authority	\$74,394,801	\$83,949,286	\$69,766,170	\$14,183,116

Any revisions that alter the total expenditures of a fund, or that affect the number of authorized

employee positions, salary ranges, hours, or other conditions of employment must be approved by the Authority's legislative Body. The budget was amended three times in 2019. The Compensated Absences Reserve Fund expenditures exceed budget due to an unanticipated retirement late in the year. There were sufficient funds in this reserve to cover this expense.

NOTE 3 – DEPOSITS AND INVESTMENTS

DEPOSITS

The carrying amount of the Authority's deposits was \$434,565, and the bank balance was \$1,270,606.

CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Authority would not be able to recover deposits or would not be able to recover collateral securities that are in a possession of an outside party. The Authority's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and/or the Washington Public Deposit Protection Commission (PDPC). All investments are insured, registered or held by the Authority or its agent in the government's name.

INVESTMENTS

It is the Authority's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds. Investments are reported at cost and balances as of December 31, 2019 are as follows:

	LGIP
South County Fire Investments	\$52,300,934
Investments held as an agent for other local governments or individuals	<u>891,252</u>
Total Investments	<u><u>\$53,192,186</u></u>

NOTE 4 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed monthly. Property tax revenues are recognized when cash is recorded as received by the Authority. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied. The Authority's regular and EMS levies for 2019 are as follows:

	Assessed Value	Levy Rate/\$1,000	Levy Amount
Fire	28,831,230,728	\$1.37	\$39,507,306
EMS	28,831,230,728	0.50	14,415,615
Total		<u><u>\$1.87</u></u>	<u><u>\$53,922,921</u></u>

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (09) provides more details on the outstanding debt and liabilities of the Authority and summarizes the Authority's debt transactions for the year ended December 31, 2019.

NOTE 6 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

LEOFF 1 MEDICAL

The LEOFF 1 Retiree Medical Plan is a closed, single employer, defined benefit OPEB plan administered by the Authority in accordance with RCW 41.26.150. LEOFF 1 members do not contribute towards the cost of medical care.

On December 31, 2019 there were 24 retired firefighters transferred from Snohomish County Fire District #1 to the Authority who met the eligibility requirements. Under authorization of the County Disability Board, the Authority pays 100% of medical insurance premiums and medical expenses including long-term care on a pay as you go basis.

On December 31, 2019 there were 25 retired firefighters transferred from the City of Lynnwood to the Authority who met the eligibility requirements. Under authorization of the City of Lynnwood Disability Board, the Authority pays 100% of medical insurance premiums and medical expenses including long-term care on a pay as you go basis.

The Authority contributed \$1,252,888 to the LEOFF 1 Medical Reserve (125% of estimated claims); and paid post-employment health care costs of \$637,306 in 2019.

As determined by an actuarial valuation performed in accordance with GASB 75, the total OPEB liability for year ending December 31, 2019 was \$16,533,674 and the actuarial value of the fiduciary position was \$2,352,522, resulting in a net OPEB liability of \$14,181,152. As of December 31, 2019, the plan was 14.2% funded.

SELF INSURANCE FUND

The Authority allows retirees to self-pay into its Self-Insurance Fund at the same premium rate as it contributes for active employees creating an implicit rate subsidy. With an implicit rate subsidy, the active employee premiums are subsidizing the retiree premiums, and that subsidization creates a liability that needs to be recognized. During the year ended December 31, 2019, the Authority adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities." As determined by an actuarial valuation performed in accordance with GASB 75, the total OPEB liability for year ending December 31, 2019 was \$4,252,727. As of December 31, 2019, the plan was 0% funded. The total census used for the calculation was 367. Out of the 40 employees who retired in the last three years, there are currently 30 retirees participating in plan which equates to a 75% participation rate

RETIREMENT HEALTHCARE INCENTIVE

The Authority assumed the responsibility for an early retirement incentive first offered in 2011 to employees of Fire District 1. The incentive provides for medical, dental, vision and a Health Retirement Account contribution. In 2019 the Authority paid \$19,808 for this incentive for two individuals.

NOTE 7 - PENSION PLANS

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

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

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

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

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

At June 30, 2019 (the measurements date of the plans), the Authority's proportionate share of the collective new pension liabilities as reported on Schedule 09 was as follows:

Plan	Employer Contributions	Allocation Percentage	Liability
PERS 1 UAAL	\$106,080	0.014794%	\$568,882
PERS 2 and 3	155,945	0.019094%	185,468
LEOFF 1	0	0.072797%	(1,438,914)
LEOFF 2	1,910,455	1.036197%	(24,005,503)

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

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

NOTE 8 - RISK MANAGEMENT

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

Property Coverage

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

General Liability

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

Management Liability

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

Business Auto

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

Excess Liability

- \$20,000,000 per Occurrence w/ \$30,000,000 Aggregate

Portable Equipment

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

Crime

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

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

SELF INSURANCE

The Authority implemented a self-insurance plan for medical, vision, and prescription drug claims. The Authority contracted with a third-party administrator (TPA) for medical and vision claims administration. In 2019 14,361 claims were paid totaling \$4,219,861. The Authority accounts for the revenues and expenses of the program in an internal service fund except for the LEOFF 1 claims which are included in the General Fund for reporting purposes. At December 31, 2019 the Authority had accumulated \$ 3,138,307 in the Self-Insurance Fund and \$80,892 in the LEOFF 1 Reserve Fund exceeding the sixteen weeks of claims reserve required by the State Risk Manager.

The Authority also self-insures for Unemployment claims. During 2019 the Authority paid five claims totaling \$25,685. Unemployment claims when paid are recorded as an expense in the General Fund.

NOTE 9 – COMPONENT UNITS, JOINT VENTURES AND RELATED PARTIES

JOINT VENTURES

The Authority and other Police and Fire entities jointly operate SNOHOMISH COUNTY 911. SNOHOMISH COUNTY 911, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, the cities, towns, fire districts, police districts and other service districts to enter

into a contract and agreement to jointly establish, maintain, and operate a support communications center. Control of SNOHOMISH COUNTY 911 is with a 16-member Board of Directors which is specified in the Interlocal Agreement. SNOHOMISH COUNTY 911 takes 911 calls and performs emergency dispatch services for local governmental agencies including police, fire and medical aid.

In the event of the dissolution of SNOHOMISH COUNTY 911, any money in the possession of SNOHOMISH COUNTY 911 or the Board of Directors after payment of all costs, expenses and charges validly incurred under this Agreement shall be returned to the parties to this Agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses and charges validly incurred, the Authority's share was \$1,689,945 or 6.38% on December 31, 2019.

Snohomish County 911's 2019 operating budget was \$23,457,603, operating revenues received were \$24,057,771 and total operating expenditures were \$23,152,188. Complete financial statements for SNOHOMISH COUNTY 911 can be obtained from SNOHOMISH COUNTY 911's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

INTERLOCAL AGREEMENTS

On December 1, 2015 the Snohomish County Fire District #1 entered into an agreement for services with the Snohomish County Emergency Medical Services and Trauma Care Council (SCEMS) whereby the District was to provide administrative services including Treasury Function. Effective October 1, 2017 this agreement was assigned to SCF. As part of the agreement the Authority hired one FTE to perform these services and is to be reimbursed for personnel costs plus 5% administrative fee. SCEMS is reported as an Agency Fund in the Authority's financial statements. On December 2, 2019 SCF gave SCEMS official 120-day written notice of intent to terminate this contract.

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

NOTE 10 – OTHER DISCLOSURES

SPECIAL OR EXTRAORDINARY ITEM

Voters in Lynnwood and Fire District 1 approved the formation of South Snohomish County Fire and Rescue Regional Fire Authority by a public vote on the August 1, 2017 ballot.

The District and SCF entered into an Interlocal Agreement that provided for the transfer of property, funds, assets, records, the Leoff 1 Liability and transfer of revenue to the SCF. Funds totaling \$4,909,481 were transferred to SCF during 2019 and are reported as a Special or Extraordinary Item on the Fund Uses Resources and Uses arising from Cash Transactions Statement.

SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus (COVID-19). In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

On April 7th, 2020 the Board of Commissioners passed Resolution 04072020-07 *Declaration of a Public Health Emergency*.

The actual financial and operational impact on SCF at this time is undetermined as the Public Health Emergency is still evolving. Current estimated expenses are approximately \$1.5M for fiscal year 2020 with the expectation that some or all of these costs may be reimbursed with grant revenue. SCF's largest source of revenue is Property Taxes which at this time we are anticipating fully collecting, however collections may not occur until early 2021. Management is actively monitoring the situation and prepared to reduce other expenses if necessary.

The length of time these measures will be in place, and the full extent of the financial impact on the Authority is unknown at this time.

**South Snohomish County Fire & Rescue Regional Fire Authority
Schedule of Liabilities
For the Year Ended December 31, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.51	Capital Lease-Stryker		178,088	-	178,088	-
	Total General Obligation Debt/Liabilities:		178,088	-	178,088	-
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		5,568,765	4,999,694	5,016,830	5,551,629
264.30	Pension Liability		777,800	-	23,451	754,349
264.40	OPEB Liability-Leoff 1 Medical		-	4,252,727	-	4,252,727
264.40	OPEB Liability-Implicit Rate Subsidy		-	16,533,674	-	16,533,674
	Total Revenue and Other (non G.O.) Debt/Liabilities:		6,346,565	25,786,095	5,040,281	27,092,379
	Total Liabilities:		6,524,653	25,786,095	5,218,369	27,092,379

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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