



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements and Federal Single Audit Report

# Snohomish Health District

Snohomish County

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

Published September 29, 2016

Report No. 1017646





## Washington State Auditor's Office

September 29, 2016

Board of Health  
Snohomish Health District  
Everett, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the Snohomish Health District's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Snohomish Health District  
Snohomish County  
January 1, 2015 through December 31, 2015**

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Snohomish Health District are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities and each major fund in accordance with accounting principles generally accepted in the United States of America (GAAP).

##### Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

#### Federal Awards

##### Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District qualified as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported

**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 Health District  
Snohomish County  
January 1, 2015 through December 31, 2015**

Board of Health  
Snohomish Health District  
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 the governmental activities and each major fund of the Snohomish Health District, Snohomish County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 28, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit 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.

In addition, we noted certain matters that we will report to the management of the District in a separate letter dated September 28, 2016.

## **COMPLIANCE AND OTHER MATTERS**

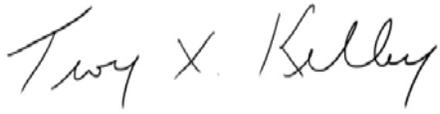
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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 "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 28, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**Snohomish Health District  
Snohomish County  
January 1, 2015 through December 31, 2015**

Board of Health  
Snohomish Health District  
Everett, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the Snohomish Health District, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2015. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance

requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 28, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Snohomish Health District Snohomish County January 1, 2015 through December 31, 2015**

Board of Health  
Snohomish Health District  
Everett, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Snohomish Health District, Snohomish County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 16.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our 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 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Snohomish Health District, as of December 31, 2015, and the respective changes in financial position thereof, and the respective budgetary comparisons for the General and Public Health Emergency Preparedness and Response (PHEPR) funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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 on pages 17 through 22, information on postemployment benefits other than pensions on pages 48 through 49 and pension plan information on pages 50 through 51 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.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 September 28, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 28, 2016

## FINANCIAL SECTION

**Snohomish Health District  
Snohomish County  
January 1, 2015 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2015

Budgetary Comparison Statement - Governmental Funds – 2015

Notes to Financial Statements – 2015

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress – Other Post-Employment Benefits (OPEB) – 2015

Schedule of Employer Contributions – Other Post-Employment Benefits – 2015

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 –  
2015

Schedule of Employer Contributions – PERS 1 and PERS 2/3 - 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Snohomish Health District's discussion and analysis offers readers of the District's financial statements a narrative overview and analysis of the District's financial activities for the fiscal year ended December 31, 2015. We encourage readers to consider the information presented here in combination with the additional information that we have furnished in the financial statements and notes to the financial statements.

### FINANCIAL HIGHLIGHTS

- The total liabilities and deferred inflows of the District exceeded its assets and deferred outflows at December 31, 2015 by \$2,062,898 (net position). As discussed below, the significant decrease in the District's net position during 2015 is due primarily to the implementation of Governmental Accounting Standards Board (GASB) Statements 68 and 71, regarding pension liabilities.
- The District's combined fund balances decreased during 2015. As of December 31, 2015 the District's governmental activities reported combined ending fund balance of \$6,832,518. This represents a decrease of \$497,211 from the combined ending fund balance of \$7,329,729 at the end of 2014.

The District's general fund is the main operating fund of the District. This fund accounts for all financial resources except those accounted for in the special revenue fund.

The Public Health Emergency Preparation and Response special revenue fund accounts for activity relating to the District's role as the lead agency for the emergency preparedness and response activities in Washington State's Public Health Emergency Planning Region 1-North. This region includes Snohomish, Skagit, Whatcom, San Juan and Island Counties.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. These financial statements have the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. The governmental activities of Snohomish Health District include a full range of public health services.

## Capital Asset Activity

A schedule summarizing capital asset activity and the District's capitalization policies are provided in Note 1 F(6). The District's total investment in capital assets is \$3,873,353, net of accumulated depreciation, at the end of 2015. The investment in capital assets includes land, buildings, improvements, equipment, furniture and vehicles. Capital assets decreased by \$179,620, primarily due to an increase in accumulated depreciation.

The Rucker Building – As detailed in Note 1 F(6), the District purchased the land and building at 3020 (Rucker Building), in Everett, Washington in 1990. This acquisition was facilitated by means of an interlocal agreement involving 15 municipalities, Snohomish County, and the District. The District is now studying whether or not any, or all, of the municipalities and the County might have an ownership interest in the Rucker Building. However, at the time of publishing its financial statements for the year ending December 31, 2015, the District continues to account for the Rucker Building as a capital asset with no outstanding debt or shared equity, as it has done since 1995.

## Statement of Net Position

The statement of net position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows, with the net difference among these items reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of changes in the District's financial position.

The District's liabilities and deferred inflows exceeded its assets and deferred outflows by the amount of \$2,062,898 at December 31, 2015. This represents a \$9,885,460 reduction from the District's net position of \$7,822,562 on December 31, 2014.

Impact of Implementing GASB 68 and 71 - The most significant contributing factor to this reduction in net position is the implementation of Governmental Accounting Standards Board (GASB) Statements 68 and 71. These new standards were implemented to measure and recognize liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures, pertaining to pension accounting for the District's participation in the Washington State Department of Retirement Systems Public Employee Retirement Systems (PERS) Plans 1, 2, and 3.

The statement of net position includes an adjustment to Net Position, Beginning, "Change in Accounting Principle – implementation of pension accounting standards", in the negative amount of \$9,797,736. This amount was the net effect of the implementation of the new standards as of January 1, 2015

With the implementation of these new pension accounting standards, pension expense will no longer be accounted for merely as current contributions to the PERS plans. Now, in addition to current funding, pension expense is heavily influenced by factors such as actuarial assumptions about, and actual outcomes of, such factors as interest rates, salary increases, inflation, investment performance, workforce demographics (e.g., withdrawals, terminations, mortalities, retirements, etc.). Further explanation of pension items is found in Note 4 – Pension Plans.

The following presents the District's condensed comparative statement of net position as of December 31, 2014 and 2015:

**Governmental Activities**

	<b>2015</b>	<b>2014</b>
Current assets	\$ 8,902,983	\$ 9,425,921
Capital assets (net of depreciation)	3,873,353	4,052,974
Total assets	<u>12,776,336</u>	<u>13,478,895</u>
Deferred Outflows	921,264	-
Current liabilities	2,351,241	2,395,429
Long-term liabilities	11,894,294	3,260,904
Total liabilities	<u>14,245,535</u>	<u>5,656,333</u>
Deferred Inflows	1,514,963	-
Net Position:		
Invested in capital assets	3,873,353	4,052,974
Unrestricted	<u>(5,936,251)</u>	<u>3,769,588</u>
<b>Total net position</b>	<b><u>\$ (2,062,898)</u></b>	<b><u>\$ 7,822,562</u></b>

## Statement of Activities

The statement of activities details how the District's net position changed during 2015. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The following presents the District's condensed comparative statement of activities for the years ending December 31, 2014 and 2015:

	<b>2015</b>	<b>2014</b>
<b>Program Revenues:</b>		
Charges for Services	\$ 6,412,045	\$ 5,700,564
Operating Grants & Contributions	4,520,018	5,467,426
<b>General Revenues:</b>		
Grants & Contributions not restricted to specific programs	4,086,491	5,686,491
Interest and investment earnings	11,624	6,756
Miscellaneous	204,738	264,722
Total Revenues	<u>15,234,916</u>	<u>17,125,959</u>
<b>Program Expenses</b>		
Public Health	15,322,640	16,812,583
<b>Total Expenses</b>	<u>15,322,640</u>	<u>16,812,583</u>
Change in Net Position	(87,724)	313,376
<b>Net Position Beginning</b>	7,822,562	7,509,186
Change in Accounting Principal - pensions	(9,797,736)	-
<b>Net Position Ending</b>	<u><u>\$ (2,062,898)</u></u>	<u><u>\$ 7,822,562</u></u>

The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, e.g., accounts receivable.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Snohomish Health District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal activities. All of the funds of the District are classified as governmental funds.

## **Governmental Funds**

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present columns of financial data for the General Fund and Public Health Emergency Preparedness and Response Fund (PHEPR). The General Fund is considered to be a major fund based on criteria established by GASB Statement No. 34. GASB Statement No. 34 defines a major fund as a fund whose assets, liabilities, revenues or expenditures comprise 1) at least 10 percent of the total dollar amount of the same category within either all government or all enterprise funds, as appropriate, and 2) at least 5 percent of the total dollar amount of all governmental and enterprise funds combined for the same category. The General Fund is always considered a major fund.

The District adopts an annual budget for its General Fund and Special Revenue Fund. A budgetary comparison of revenues, expenditures, and changes in fund balances is provided for the General Fund and the Special Revenue fund to demonstrate compliance with budget.

## **Budget Variances in the General Fund**

The District receives grants and other funding from various governmental agencies, each having its own schedule of multi-year grants, associated renewals and variations in funding levels. In 2015, the Department of Ecology made significant changes in their funding levels for the District and delayed the renewal of a multi-year grant in the amount of \$475,000. The District's 2015 budget had anticipated revenue from these grants that did not materialize before the end of the District's revenue recognition policy deadline for 2015. Negotiations were ongoing throughout the year and into 2016. The grant has since been renewed.

The District's 2015 budget projected charges for services to Snohomish County for solid waste site inspections in the amount of \$754,000, as had been collected in several previous years. The renewal of this agreement was not finalized during 2015 and no revenue was collected within the District's revenue recognition policy deadline. The agreement has now been finalized and Snohomish County will issue payment of \$488,856 in 2016 for the work done during 2015.

During 2015, the District continued to focus on bringing the structural deficit under control. Every staff position vacated by retirement or resignation was carefully scrutinized before any decision to rehire. By identifying opportunities for efficiencies, the District realized a salary savings of \$499,679 or approximately 3.7%.

The District's budget allowed for building remodel projects and major upgrades to information and business systems in 2015. While much progress was made during the year, the actual expenditure of funds will be made in 2016, resulting in a favorable variance in 2015 of \$1,002,793. The funding for these projects was re-appropriated in the 2016 budget.

### **Pending Insurance Reimbursement**

In February 2015, District offices on the First Floor of the Rucker Building incurred extensive damage, due to a ruptured water line. The clinic operations in the building were transferred to the District's South County offices. The District filed an insurance claim, and the claim is currently under negotiations with the insurance carrier.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

### **Requests for Financial Information**

This financial report is designed to provide a general overview of Snohomish Health District finances. Questions concerning any information provided in this report should be addressed to the Business Office 3020 Rucker Avenue, Everett, Washington, 98201.

**SNOHOMISH HEALTH DISTRICT**  
**Statement of Net Position**  
December 31, 2015

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 528,904
Investments	7,205,459
Receivables, net	932,053
Inventory	140,518
Prepayments	96,049
Capital assets:	
Land (non-depreciable)	600,000
Building, net of accumulated depreciation	2,725,151
Other, net of accumulated depreciation	548,202
<b>Total Assets</b>	<b>\$ 12,776,336</b>
<b>Deferred Outflows of Resources</b>	
Pension items (see Note 4)	\$ 921,264
<b>Total Deferred Outflows of Resources</b>	<b>\$ 921,264</b>
<b>Liabilities</b>	
Accounts payable	\$ 280,786
Other accrued liabilities	642,918
Revenue collected in advance	1,146,761
Compensated absences:	
Due within one year	280,776
Due after one year	1,612,878
Pension liability - due after one year	8,413,374
Net OPEB obligation - due after one year	1,868,042
<b>Total Liabilities</b>	<b>\$ 14,245,535</b>
<b>Deferred Inflows of Resources</b>	
Pension items (see Note 4)	\$ 1,514,963
<b>Total Deferred Inflows of Resources</b>	<b>\$ 1,514,963</b>
<b>Net Position</b>	
Net investment in capital assets	3,873,353
Unrestricted	(5,936,251)
<b>Total Net Position</b>	<b>\$ (2,062,898)</b>

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

**SNOHOMISH HEALTH DISTRICT**  
**Statement of Activities**  
For The Year Ended December 31, 2015

Function/Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Total Governmental Activities
		Charges for Service	Operating Grants & Contributions	
<b>Primary Government:</b>				
Public Health	\$ 15,322,640	\$ 6,412,045	\$ 4,520,018	\$ (4,390,577)
<b>Total Governmental Activities</b>	<b><u>\$ 15,322,640</u></b>	<b><u>\$ 6,412,045</u></b>	<b><u>\$ 4,520,018</u></b>	<b><u>\$ (4,390,577)</u></b>
<b>General revenues:</b>				
Grants & Contributions not restricted to specific programs				4,086,491
Interest and investment earnings				11,624
Miscellaneous				204,738
Total General Revenues				<u>4,302,853</u>
<b>Change in Net Position</b>				<b>(87,724)</b>
<b>Net Position Beginning</b>				<b>7,822,562</b>
Change in Accounting Principle - implementation of pension accounting standards				(9,797,736)
<b>Net Position Ending</b>				<b><u>\$ (2,062,898)</u></b>

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

**SNOHOMISH HEALTH DISTRICT**  
**Balance Sheet**  
**Governmental Funds**  
December 31, 2015

	General Fund	Public Health Emergency Preparedness and Response	Total All Governmental Funds
<b>Assets and Deferred Outflows of Resources</b>			
Cash and cash equivalents	\$ 528,904	\$ -	\$ 528,904
Investments	7,205,459	-	7,205,459
Receivables, net	792,741	139,312	932,053
Interfund receivable	123,158	-	123,158
Inventory	140,518	-	140,518
Prepayments	96,049	-	96,049
Total Assets	8,886,829	139,312	9,026,141
Deferred Outflows of Resources	-	-	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 8,886,829</b>	<b>\$ 139,312</b>	<b>\$ 9,026,141</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
Accounts payable	\$ 280,786	\$ -	\$ 280,786
Interfund payable	-	123,158	123,158
Other liabilities	626,764	16,154	642,918
Revenue collected in advance	1,146,761	-	1,146,761
Total Liabilities	2,054,311	139,312	2,193,623
Deferred Inflows of Resources	-	-	-
<b>Fund Balances</b>			
Non-spendable	236,567	-	236,567
Unassigned	6,595,951	-	6,595,951
Total Fund Balances	6,832,518	-	6,832,518
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 8,886,829</b>	<b>\$ 139,312</b>	<b>\$ 9,026,141</b>
<b><u>Reconciliation to the Statement of Net Position:</u></b>			
<b>Total Fund Balances, per above</b>			<b>\$ 6,832,518</b>
Amounts reported in the above Balance Sheet differ from amounts reported in the Statement of Net Position by the following items:			
Capital assets, not reported in the funds			3,873,353
Deferred outflows pertaining to pension activity, not reported in the funds			921,264
Deferred inflows pertaining to pension activity, not reported in the funds			(1,514,963)
Liabilities for net other post employee benefits (OPEB) due and payable later than the current period, not reported in the funds			(1,868,042)
Liabilities for compensated absences due and payable later than the end of the current period, not reported in the funds			(1,893,654)
Liabilities for pensions due and payable later than the end of the current period, not reported in the funds			(8,413,374)
<b>Total Net Position, per Statement of Net Position</b>			<b>\$ (2,062,898)</b>

The accompanying notes are an integral part of this statement.

**SNOHOMISH HEALTH DISTRICT**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**

For the Year Ended December 31, 2015

	General Fund	Public Health Emergency Preparedness and Response	Total Governmental Funds
<b>Revenues</b>			
Licenses and Permits	\$ 3,276,352	\$ -	\$ 3,276,352
Intergovernmental	10,062,246	662,265	10,724,511
Charges for Services	1,017,691	-	1,017,691
Miscellaneous	216,363	-	216,363
Total Revenues	14,572,652	662,265	15,234,917
<b>Expenditures</b>			
Current:			
Personnel Services	12,434,844	495,523	12,930,367
Supplies	540,349	15,087	555,436
Other Services and Charges	2,015,995	176,623	2,192,618
Capital Outlay	53,707	-	53,707
Total Expenditures	15,044,895	687,233	15,732,128
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(472,243)</b>	<b>(24,968)</b>	<b>(497,211)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers In	1,394	26,362	27,756
Transfers Out	(26,362)	(1,394)	(27,756)
Total other financing sources (uses)	(24,968)	24,968	-
<b>Net Change in Fund Balances</b>	<b>(497,211)</b>	<b>-</b>	<b>(497,211)</b>
<b>Fund Balance as of January 1, 2015</b>	<b>7,329,729</b>	<b>-</b>	<b>7,329,729</b>
<b>Fund Balance as of December 31, 2015</b>	<b>\$ 6,832,518</b>	<b>\$ -</b>	<b>\$ 6,832,518</b>
<b><u>Reconciliation to the Statement of Activities:</u></b>			
<b>Net Change in Fund Balances, per above</b>			<b>\$ (497,211)</b>
Amounts reported in the above Statement of Revenues, Expenditures, and Changes in Fund Balances - Government Funds differ from amounts reported in the Statement of Activities by the following items:			
Decrease (increase) to deferred inflows for pension activities			1,538,608
Increase (decrease) to deferred outflows for pension activities			557,379
Decrease (increase) to the liability for compensated absences			27,519
Governmental funds report capital outlays as expenditures. The Statement of Activities reports the cost of capital assets as capitalized and depreciated over their estimated useful lives.			
Expenditures for capital assets	\$ 53,707.00		
Less current year depreciation	(233,328.00)		(179,621)
Decrease (increase) to the liability for the net OPEB obligation			(229,074)
Decrease (increase) to the liability for pensions			(1,305,324)
<b>Change in Net Position, per Statement of Activities</b>			<b>\$ (87,724)</b>

The accompanying notes are an integral part of this statement.

**SNOHOMISH HEALTH DISTRICT**  
**Budgetary Comparison Statement**  
**Governmental Funds**

For the Year Ended December 31, 2015

	General Fund		Public Health Emergency Preparation and Response			Total Governmental Funds
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>Revenues:</b>						
Licenses and Permits	\$ 3,116,647	\$ 3,116,647	\$ 3,276,352	-	-	\$ 3,276,352
Intergovernmental	9,740,322	10,491,096	10,062,246	646,752	684,233	10,724,511
Charges for Services	2,367,772	1,725,456	1,017,691	-	-	1,017,691
Miscellaneous	208,380	208,380	216,363	-	-	216,363
Total Revenues	15,433,121	15,541,579	14,572,652	646,752	684,233	15,234,917
<b>Expenditures:</b>						
Health						
Personnel Services	12,927,759	12,928,761	12,434,844	454,869	501,285	12,930,367
Supplies	612,646	592,646	540,349	6,545	8,896	555,436
Other Services and Charges	1,880,332	1,901,347	2,015,995	185,338	174,052	2,192,618
Capital Outlay	1,056,500	1,056,500	53,707	-	-	53,707
Total Expenditures	16,477,237	16,479,254	15,044,895	646,752	684,233	15,732,128
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(1,044,116)</b>	<b>(937,675)</b>	<b>(472,243)</b>	<b>-</b>	<b>(24,968)</b>	<b>(497,211)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers In	-	-	1,394	-	-	27,756
Transfers Out	-	-	(26,362)	-	-	(27,756)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(24,968)</b>	<b>-</b>	<b>24,968</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(1,044,116)</b>	<b>(937,675)</b>	<b>(497,211)</b>	<b>-</b>	<b>-</b>	<b>(497,211)</b>
<b>Fund Balance as of January 1, 2015</b>	7,329,729	7,329,729	7,329,729	-	-	7,329,729
<b>Fund Balance as of December 31, 2015</b>	<b>\$ 6,285,613</b>	<b>\$ 6,392,054</b>	<b>\$ 6,832,518</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,832,518</b>

The accompanying notes are an integral part of this statement.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Snohomish Health District (the District) were prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. The significant accounting policies are described below.

### **A. Reporting Entity**

The District was incorporated in 1959, and operates under the laws of the State of Washington applicable to local governmental units. As required by GAAP, the financial statements present Snohomish Health District as the primary government.

### **B. Implementation of New Accounting Principles**

Effective January 1, 2015, the District implemented the provisions of GASB Statement 68, *Accounting and Financial Reporting for Pensions*. As explained by the GASB, Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual cost of pension benefits. Statement replaces the requirements of Statement 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement 50, *Pension Disclosures*.

Effective January 1, 2015, the District also implemented the provisions of GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As explained by the GASB, Statement 71 amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

### **C. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government. The effect of interfund activity has been substantially eliminated from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted

to meeting the operational or capital requirements of a particular function or segment. Revenues not included among program revenues are reported as general revenues.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Fees, licenses, and associated interest earned within the reporting period are recognized as revenues of the reporting period. All other revenues are considered to be measurable and available only when cash is received by the District.

The District reports the following governmental funds:

The General Fund is the main operating fund of the District. This fund accounts for all financial resources except those accounted for in the special revenue fund.

The Public Health Emergency Preparedness and Response Special Revenue Fund accounts for activity relating to the District's role as the lead agency for the emergency preparedness and response activities in Washington State's Public Health Emergency Planning Region 1 – North, including the counties of Snohomish, Skagit, Whatcom, San Juan, and Island.

E. Budgetary Information

(1) Scope of Budget

Annual budgets are adopted for all funds on the accrual basis of accounting.

The District's budget is adopted at the fund level and expenditures may not exceed appropriations at that level of detail.

Appropriations for general and special revenue funds lapse at year end.

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

(2) Amending the Budget

The District's director is authorized to transfer budgeted amounts among object classes within programs; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions by more than 20% or 1 FTE whichever is greater, salary ranges, hours, or other conditions of employment must be approved by the Board of Health.

When the Board of Health determines that it is in the best interest of the District to increase or decrease the appropriation for a particular fund, it may do so by resolution approved by one more than the majority after holding public hearings.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

F. Assets, Liabilities and Equities

(1) Cash and Cash Equivalents

At December 31, 2015 the district held \$528,904 in cash and cash equivalents, as reported on the Statement of Net Position and Balance Sheet. Cash equivalents are defined as residual cash and imprest funds that are not invested.

The District's cash and cash equivalents are invested in accordance with RCW 35.82.070 (6). The District invests in savings accounts, money market accounts and certificates of deposit at banks that are qualified depositories as designated by the Washington Public Deposit Protection Commission

(WPDPC) pursuant to RCW 39.58. The WPDPC is a risk sharing pool whereby member banks that are designated as "qualified public depositories" mutually insure public deposits against loss. All deposits and bank balances are insured against loss by the FDIC or WPDPC. All of the District investments are classified under risk Category 1, as either insured, registered or held by the District, or its agent, in the District's name.

All cash and cash equivalents are recorded at market value.

(2) Investments

At December 31, 2015, the Snohomish County Treasurer held \$7,205,459 in short-term investments. This amount is reported on Statement of Net Position, and Balance Sheet, as Investments. These investments are valued at cost, and the interest on investments is prorated between the funds.

As required by state law, investments of the District's funds are obligations of the U.S. Government, the State Treasurer's Investment Pool or deposits with Washington State Banks and savings and loan institutions.

All investments are held by Snohomish County in the District's name.

3) Inventories

The cost of expendable supplies held for consumption by the general and special revenue funds is recorded as an expenditure at the time the individual items are purchased. Vaccine received in lieu of cash from the State of Washington consolidated contract, and which remains unused at year end, is reported on the Statement of Position and Balance Sheet as inventory at year end. Inventories of vaccine are valued at cost. The value of the ending vaccine inventory is included in the "non-spendable" fund balance category to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

(4) Receivables

Accounts receivable consists of amounts owed from other governments, private individuals, or organizations for goods and services provided by the District.

(5) Amounts Due to and from Other Funds and Interfund Loans Receivable and Payable

These accounts include all interfund receivables and payables.

(6) Capital Assets

Capital assets include items such as land, buildings, infrastructure, vehicles, and equipment, and are reported in Statement of Net Position. The District reports an item as a capital asset when its initial, individual cost exceeds \$5,000, and it has an estimated useful life in excess of one year. Capital assets are recorded at historical cost, or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets are capitalized as projects are constructed. Costs for additions or improvements to existing capital assets are capitalized when they materially increase the value, capacity, or life of the asset.

The cost of each capital asset, less estimated salvage value, if applicable, is depreciated, or amortized, using the straight line method, over its estimated useful life.

<u>Capital Asset Category</u>	<u>Estimated useful life</u>
Buildings	5 - 50 years
Equipment	7 – 20 years
Furniture	7 – 20 years
Improvements	10 years
Vehicles	6 years

A summary of changes in capital assets appears as follows:

	<b>Beginning Balance 1/1/2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2015</b>
<b>Capital Assets</b>				
Land	\$ 600,000	\$	\$	\$ 600,000
Buildings	7,544,782			7,544,782
Equipment	898,721	16,662		915,383
Vehicles	673,398	37,045		710,443
Improvements	656,245			656,245
Furniture	558,110			558,110
Total capital assets	10,931,256	53,707	-	10,984,963
<b>Less Accumulated Depreciation</b>				
Buildings	(4,671,445)	(148,186)		(4,819,631)
Equipment	(657,228)	(33,993)		(691,221)
Vehicles	(673,398)	(6,174)		(679,572)
Improvements	(437,228)	(20,089)		(457,317)
Furniture	(438,984)	(24,885)		(463,869)
Total accumulated depreciation	(6,878,283)	(233,327)	-	(7,111,610)
<b>Capital Assets, net</b>	\$ <u>4,052,973</u>	\$ <u>(179,620)</u>	\$ <u>-</u>	\$ <u>3,873,353</u>

Depreciation is expensed to functions and programs of the primary government as Public Health.

The District purchased the land and building at 3020 Rucker Avenue (the Rucker Building), in Everett, Washington in 1990. The financing of the purchase was accomplished by an interlocal agreement that required contributions from the District, Snohomish County (the County), and 15 municipalities (the Municipalities) within the County; a loan from the County; and revenue from the rental of space within the Rucker Building. This interlocal agreement was for financing purposes. The documentation indicates that the District was the purchaser, and that the County was the lender, and that the County would convey by deed all of its interest in the Rucker Building to the District once the loan to the County was paid in full.

In August 1995, the Board of Health added Article VIII (the Article) to the District's Charter, pertaining to interests in real property. The Article requires that District member municipalities who desire to acquire real property interests and assets to conduct the affairs of the District are to enter into an interlocal agreement for that purpose, referred to in the Article as the "Purchase Agreement". The Purchase Agreement is to set forth not only the method of financing the acquisition including use of rental income but also a formula or other method to determine the proportionate ownership shares of the participating member municipalities. However, relative to the Rucker Building, the interlocal agreement or "Purchase Agreement" which was entered into by its participating member municipalities before the adoption of Article VIII did not specifically address a formula or other method to determine ownership interest within the body of that agreement.

The Article specifies provisions regarding repayment to the County and Municipalities in the event that 1) real property interest acquired pursuant to the Article is sold or otherwise ceases to be used for the delivery of any public health services, or 2) if the County assumes the sole responsibility for public health governance as provided by law. The Article provided that should either event occur, the parties to the purchase of the real estate pursuant to the Article are to each receive their proportionate share of the proceeds (if the real estate acquired to the Article is sold), or payments equal to the appraised value of the property acquired pursuant to the Article (if the County assumes responsibility).

In September 1995, the loan to Snohomish County was paid, and the deed to the Rucker Building was conveyed to the District. To date, the District has consistently reported the purchase price of the Rucker Building, together with additions, and improvements, net of depreciation, on its financial statements, and has not reported that any other party has an ownership interest in the Rucker Building.

On September 24, 2015, the Board of Health resolved to study the feasibility of transferring the District's operations to the County, and the question of the County's and Municipalities' ownership interest in the Rucker Building was subsequently raised.

At the time of publishing its financial statements for the year ending December 31, 2015, the District continues to account for the Rucker Building as a capital asset. In addition, the District continues to review the issue of ownership interests in the Rucker Building and, if any other party has an ownership interest in the Rucker Building, then the District will determine how the value of such ownership interest would be determined.

(7) Compensated Absences

Eligible employees may accumulate 12 to 30 days of vacation leave, depending upon the employee's length of service; however, they may not accumulate more than 320 hours of vacation without approval of the Health Officer. All outstanding vacation leave is payable upon resignation, retirement, or death of the employee. The liability for vacation leave at December 31, 2015 is \$858,766.

Sick leave accumulates at the rate of 1 day per month. A percentage of sick leave is payable upon resignation, retirement or death of the employee. The amount of accrued sick leave and percentage payable are dependent on the employee's collective bargaining agreement, hire date and length of service, as follows:

- All employees hired before January 1, 2015, and those hired on or after January 1, 2015 who are not covered by a collective bargaining agreement, with greater than six years of service are eligible to receive payment of 25% of their accrued sick leave without limit of hours accrued. Those employees with greater than fourteen years may receive 50% of their accrued sick leave without limit of hours accrued. The liability for vested sick leave at December 31, 2015 is \$1,025,453.
- Employees hired on or after January 1, 2015 who are covered by a collective bargaining agreement with more than six years of service are eligible to receive payment of 25% of their accrued sick leave, up to 1,000 hours.

Eligible employees may accrue compensatory time in lieu of overtime pay. The liability for compensatory time at December 31, 2015 is \$9,435.

Lump-sum payments are made to employees when they separate from employment with the District. Department of Retirement's statistical analysis

of expected separations are applied to the District's employee demographics to estimate the portion of the liability that is payable within one year.

(8) Other Accrued Liabilities

These amounts consist of items such as use taxes payable to the State of Washington, and wages and benefits payable as of yearend.

(9) Fund Balance Classifications

The government-wide financial statements present fund balance as net position, which is reported in the three components, as applicable:

- a) Invested in capital assets, net of related debt. This amount consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted. This amount consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, and contributors; or (2) legal restrictions resulting from constitutional provisions or enabling legislation.
- c) Unrestricted. This amount consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The governmental funds' financial statements present fund balance displayed in the following four components, as applicable:

- a) Non-spendable fund balance. This amount consists of assets that are not in spendable form, such as inventory and prepayments.
- b) Committed fund balance. This amount consists of that portion of fund balance that can be used only for the specific purposes determined by a formal action of the Snohomish Health District Board of Health.
- c) Assigned fund balance. This amount consists of that portion of fund balance that has been set aside for a special purpose. Balances in special revenue funds are considered assigned for the purposes of that fund.
- d) Unassigned fund balance. This amount is the remainder of fund balance that is not classified as non-spendable, committed or assigned. The Snohomish Health District Board of Health has, by resolution, set aside 30 days of the expenditure budget for working capital, plus a \$500,000 emergency fund. At December 31, 2015, these amounts totaled \$2,224,494, and are included in the unassigned fund balance of \$6,595,951.

G. 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, or 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 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds' Balance Sheet includes the reconciliation between Total Governmental Fund Balances, on the Balance Sheet, and Total Net Position, on the Statement of Net position.

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between Net changes in fund balance of total governmental funds, and Change in Net Position reported in the Statement of Activities.

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

There have been no material violations of finance-related legal or contractual provisions.

#### **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 2015:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$ 8,413,374
Pension assets	None
Deferred outflows of resources	\$ 921,264
Deferred inflows of resources	\$ 1,514,963
Pension expense/expenditures	\$ 156,862

#### **State Sponsored Pension Plans**

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems 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. In addition, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://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.

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 2015 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

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

The District's actual contributions to the plan were \$24,818 for the year ended December 31, 2015.

**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
- 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.

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 2015 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

\* For employees participating in JBM, the contribution rate was 15.30%

The District's actual contributions to the plan were \$939,904 for the year ended December 31, 2015.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. 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*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% 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 minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

### **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. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). 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, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 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. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

## 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, 2015, 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%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

## Sensitivity of NPL

The table below presents the District's proportionate share\* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's 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.

Plan Name	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
PERS 1	\$ 5,589,018	\$4,590,560	\$ 3,731,977
PERS 2/3	\$11,178,105	\$3,822,814	\$(1,808,857)

## 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, 2015, the District reported a total pension liability of \$8,413,374 for its proportionate share of the net pension liabilities as follows:

Plan Name	Liability (Asset)
PERS 1	\$ 4,590,560
PERS 2/3	\$ 3,822,814

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

Plan Name	Proportionate Share		Change in Proportion
	at 6/30/2014	at 6/30/2015	
PERS 1	0.095140%	0.087758%	-0.007382%
PERS 2/3	0.114543%	0.106990%	-0.007553%

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 PERS Plans 1, 2 and 3.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

## Pension Expense

For the year ended December 31, 2015, the District recognized pension expense as follows:

Plan Name	Pension Expense
PERS 1	\$ (181,370)
PERS 2/3	338,232
<b>Total</b>	<b>\$ 156,862</b>

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following plans and sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 251,154
Contributions subsequent to the measurement date	228,266	-
<b>Totals</b>	<b>\$ 228,266</b>	<b>\$ 251,154</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 406,366	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	1,020,510.00
Changes of assumptions	6,159.00	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	243,299.00
Contributions subsequent to the measurement date	280,473	-
<b>Totals</b>	<b>\$ 692,998</b>	<b>\$ 1,263,809</b>

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year</b>	<b>PERS 1 Amount</b>	<b>PERS 2/3 Amount</b>
2016	\$ (97,339)	\$ (348,283)
2017	\$ (97,339)	\$ (348,283)
2018	\$ (97,339)	\$ (348,284)
2019	\$ 40,863	\$ 193,567

## **NOTE 5 - OTHER POST- EMPLOYMENT BENEFITS (OPEB)**

Washington State (State), through the Health Care Authority (HCA), administers an agent multiple-employer other post-employment benefit (OPEB) plan. Per RCW 41.05.065, the Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased through PEBB include medical, dental, life and long-term disability.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a “substantive plan”. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

Employers participating in PEBB OPEB plan include the State (which includes general government agencies and higher education institutions), 66 of the state’s K-12 school and educational service districts (ESDs), and 227 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 245 K-12 school districts and ESDs. The District’s retirees are eligible to participate in the PEBB OPEB plan under this arrangement.

### **Plan Description**

#### **Eligibility**

District members are eligible for retiree medical benefits after becoming eligible for retirement pension benefits (either reduced or full pension benefits) under Plan 1, 2 or 3 of PERS. Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical and life insurance benefits after pension benefit commencement. Survivors of deceased covered members are eligible for medical benefits.

#### **Summary of Benefits**

The District participates as a local government employer in the program of benefits for state and local government employees provided through PEBB. The program is administered by the HCA. The District pays premiums only for its active employees, and does not directly make any payments on behalf of its retirees. However, under this program, HCA directs a portion of the active premiums received from all employers to a fund for retiree coverage.

The PEBB OPEB plan is available to District employees who elect to continue coverage and to pay the administratively established premiums at the time they retire under the provisions of the State retirement system and plan to which they belong (i.e., PERS Plans 1, 2 or 3). Retirees’ access to the PEBB OPEB plan depends on the retirement eligibility of their respective system and plan.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue to participate in the State's non-Medicare community-rated health insurance risk pool on a self-pay basis, and receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using at the difference between the age-based claims costs and the premium. The monthly average weighted implicit subsidy was valued at \$291 for 2014 and \$308 for 2015.

Funding Policy

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers, including the District. The subsidies provide monetary assistance for medical benefits. Contributions are set each biennium as part of the budget process. In calendar year 2015, the cost of the subsidies was approximately 6.0 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefits (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the District's portion of the annual OPEB cost and Net OPEB Obligation for 2015. All contributions required by the funding method were paid.

<b>Annual Required Contribution (ARC)</b>	
Annual Required Contribution	\$ 318,107
Interest on unfunded (overfunded) ARC	65,559
Adjustments to the ARC	<u>(56,560)</u>
Annual OPEB Cost	327,106
Contribution Made	<u>(98,032)</u>
Change in NPO	229,074
Net OPEB Obligation - Beginning of Year	1,638,968
<b>Net OPEB Obligation - End of Year</b>	<b><u><u>\$ 1,868,042</u></u></b>

Funded Status and Funding Progress

The District does not currently fund these benefits. Benefits have historically been paid on a pay-as-you-go basis. As of January 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The Unfunded Actuarial Accrued Liability as of January 1, 2015 was approximately \$4.8 million.

The Schedule of Funding Progress is presented as required supplementary information following the notes to the financial statements.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trends.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

#### Actuarial methods and Assumptions

In accordance with GASB 45, selection of all actuarial assumptions, including the health care cost trend rate in valuations of post-employment health care plans, should be guided by Actuarial Standard of Practice No. 6, Measuring Retiree Group Benefit Obligations, as revised from time to time by the Actuarial Standards Board. Accordingly, actuarial assumptions should be based on the actual experience of the covered group, to the extent that creditable experience data are available, but should emphasize expected long-term future trends rather than give undue weight to recent past experience. The reasonableness of each actuarial assumption should be considered independently based on its own merits, its consistency with each other assumption, and the combined impact of all assumptions. The actuarial assumptions used to value the post-retirement medical liabilities can be categorized into three groups: economic assumptions, health care assumptions, and demographic assumptions.

#### Economic Assumptions

The two economic assumptions used in the valuation are the discount rate and the health care cost trend rates. The economic assumptions are used to account for changes in the cost of benefits over time and to discount future benefit payments for the time value of money.

#### Discount Rate

The investment return assumption (discount rate) should be the estimated long-term investment yield on the investments that are expected to be used to finance the payments of benefits. The investments expected to be used to finance the payments of benefits would be plan assets for funded plans, assets of the employer for pay-as-you-go plans, or a proportionate combination of the two for plans that are being partially funded. The discount rate is assumed to be 4.0 percent.

#### Health Care Cost Trend Rates

The table below shows the health care cost trend rates that were used for the actuarial valuation of the Post-Retirement Medical Plan. The set of health care trend rates feature varying initial health care cost trend rates based on type of benefit, and trend rates for all benefits decline to an ultimate rate of 5 percent.

Health Care Cost Trend Rate Assumptions

<b>Year</b>	<b>Health Care Trend Rate</b>
2014	5.2
2015	5.7
2016	6.1
2020	6.0
2025	5.8
2030	6.0
2035	5.9
2040	5.3
2050	5.0
2060	4.9
2070	4.8
2084 & Ultimate	4.2

Medical Assumptions

The valuation projects the health care costs for employees who remain in the District with coverage after retirement. The data includes claim information for covered retirees. Based on the data provided, per capita costs for the retired group under 65 and the retired group age 65 and older were calculated. Retirees generally become eligible for Medicare at age 65.

Demographic Assumptions

The demographic assumptions include the rate of mortality, the rate of withdrawal, the rate of retirement, and the rate of disability. Ancillary demographic assumptions include the age of female spouses, and coverage rates, and participation rates.

For further information on the results the actuarial valuation of the employer provided subsidies associated with the state’s PEBB plan, refer to:  
[http://osa.leg.wa.gov/Actuarial\\_services/OPEB/OPEB.htm](http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm).

**NOTE 6 - LONG TERM DEBT**

The district's long term debt consists of the Pension Liability (see Note 4), the Net OPEB Obligation (see Note 5), and the long term portion of Compensated Absences (see Note 1F(7)), as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Compensated Absences	\$ 1,921,173	\$ -	\$ (27,519)	\$ 1,893,654	\$280,776
Pension Liability	7,108,050	1,305,324	-	8,413,374	-
Net OPEB Obligation	1,638,968	229,522	-	1,868,490	-
<b>Total Long Term Liabilities</b>	<b>\$10,668,191</b>	<b>\$1,534,846</b>	<b>\$ (27,519)</b>	<b>\$12,175,518</b>	<b>\$280,776</b>

**NOTE 7 - DEFERRED COMPENSATION PLAN**

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457 – one through Nationwide Investment Services Corporation and the other through the State of Washington Deferred Compensation Program. The plans are available to all eligible District employees, permitting them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust until paid or made available to the employee or other beneficiary. Except as otherwise permitted or required by law, no assets or income of the plans shall be used for, or diverted to, purposes other than for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the plan.

**NOTE 8 - RISK MANAGEMENT**

Snohomish Health District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$10,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$990,000 on a liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$10,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$240,000 on a property loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$10 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

**NOTE 9 – RELATED PARTY TRANSACTIONS**

Snohomish County Council members serve as members of the Board of Health and have significant influence in the management of the District. In 2015, Snohomish County provided the following funding:

Communicable Disease Control	\$ 1,600,000
Chemical Dependency and Mental Health Support for First Steps Program	681,793
Public Health Per Capita Allotment	<u>653,200</u>
Total Funding	<u><u>\$2,934,993</u></u>

## REQUIRED SUPPLEMENTARY INFORMATION

### Other Post-Employment Benefits (OPEB)

Schedule of Funding Progress of Other Post Employment Benefits:

Fiscal Year Ended 31-Dec	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
2008	1/1/2008	0	\$3,831,823	\$3,831,823	0.00%	\$13,543,194	28.29%
2009	1/1/2009	0	4,111,495	4,111,495	0.00%	14,084,921	29.19%
2010	1/1/2010	0	4,191,763	4,191,763	0.00%	11,925,562	35.15%
2011	1/1/2011	0	4,511,764	4,511,764	0.00%	11,073,200	40.74%
2012	1/1/2012	0	4,303,196	4,303,196	0.00%	13,151,121	32.72%
2013	1/1/2013	0	4,326,202	4,326,202	0.00%	11,191,589	38.66%
2014	1/1/2014	0	4,567,619	4,567,619	0.00%	11,611,274	39.34%
2015	1/1/2015	0	4,818,763	4,818,763	0.00%	12,046,696	40.00%

GASB 45 was implemented for the fiscal year ended December 31, 2008. No information Prior to December 31, 2008 is available.

The actuarial study is performed triennially. The actuarial method used in the Schedule of Funding Progress of Other Post Employment Benefits is disclosed in Notes to the Financial Statements Note 5.

Schedule of Employer Contributions Without Advanced Funding:

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Actual Contribution</b>	<b>Percentage Contributed</b>	<b>Net OPEB Obligation</b>
12/31/2008	\$ 317,798	\$ 84,890	26.71%	\$ 232,908
12/31/2009	328,279	84,890	25.90%	476,297
12/31/2010	336,178	57,686	17.16%	754,789
12/31/2011	359,297	74,536	20.70%	1,039,551
12/31/2012	288,226	97,389	33.80%	1,230,389
12/31/2013	295,775	116,398	39.50%	1,409,446
12/31/2014	310,998	81,476	26.20%	1,638,968
12/31/2015	327,106	98,032	29.97%	1,868,042

The District implemented GASB 45 the fiscal year ended December 31, 2008. No information Prior to December 31, 2008 is available.

The actuarial study is performed triennially. The actuarial method used in the Schedule of Funding Progress of Other Post Employment Benefits is disclosed in Notes to the Financial Statements Note 5.

**Pension Benefits**

Schedule of Proportionate Share of the Net Pension Liability, as of June 30

	Fiscal Year Ended June 30	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b>PERS Plan 1</b>	2015	0.087758%	\$ 4,590,560	\$ 250,695	1831.13%	59.10%
<b>PERS Plans 2 and 3</b>	2015	0.106990%	\$ 3,822,814	\$ 9,493,707	40.27%	89.20%

The District implemented GASB 68 and 71 during 2015. Information for this schedule prior to 2015 is not available.

Schedule of Employer Contributions, as of December 31

	Calendar Year Ended December 31	Statutorily or Contractually Required Contributions	Contributions in Relation to the Statutorily or Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee
<b>PERS Plan 1</b>	2015	\$ 24,818	\$ 24,818	\$ -	\$ 246,140	10.08% *
<b>PERS Plans 2 and 3</b>	2015	\$ 939,904	\$ 939,904	\$ -	\$ 9,308,551	10.10% *

The District implemented GASB 68 and 71 during 2015. Information for this schedule prior to 2015 is not available.

\* The employer contribution rate for Plans 1, 2, and 3 was 9.21% of covered employee payroll earned during the first half of 2015, and 11.18% of covered employee payroll earned during the second half of 2015. The 2015 average contribution rate of 10.20% of covered employee payroll is slightly higher than the percentages above because the percentages above are based on contributions remitted during 2015, and thus include one extra pay period at the 9.21% rate for amounts remitted to the Plans for covered employee compensation earned during the last pay period of 2014.

**Snohomish Health District  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	
					Total		
Food And Nutrition Service, Department Of Agriculture (via Washington State Department of Health)	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C-17126	1,307,066	-	1,307,066	4
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Public Health Emergency Preparedness	93.069	C-17126	596,231	-	596,231	4
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	C-17126	86,184	-	86,184	4
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Immunization Cooperative Agreements	93.268	C-17126	155,159	-	155,159	4
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Immunization Cooperative Agreements	93.268	N/A	158,073	-	158,073	2 & 3
			<b>Total CFDA 93.268:</b>	<b>313,232</b>	<b>-</b>	<b>313,232</b>	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Centers for Disease Control and Prevention_ Investigations and Technical Assistance	93.283	C-17126	7,546	-	7,546	4
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	National State Based Tobacco Control Programs	93.305	C-17126	5,545	-	5,545	4

The accompanying notes are an integral part of this schedule.

Administration For Children And Families, Department Of Health And Human Services (via Snohomish County Human Services)	Community Services Block Grant	93.569	HCS-14-15-02-244	95,574	-	95,574	-
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758	C17126	66,231	-	66,231	-
<b>Medicaid Cluster</b>							
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via Washington State Health Care Authority)	Medical Assistance Program	93.778	K774	44,124	-	44,124	-
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via Washington State Department of Social and Health Services)	Medical Assistance Program	93.778	1166-35269	25,843	-	25,843	-
				<b>69,967</b>	-	<b>69,967</b>	-
	<b>Total Medicaid Cluster:</b>						
Office Of The Secretary, Department Of Health And Human Services (via Washington State Department of Health)	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	C17126	2,610	-	2,610	-
Office Of The Secretary, Department Of Health And Human Services (via Washington State Department of Health)	National Bioterrorism Hospital Preparedness Program	93.889	C17126	62,029	-	62,029	-
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	HIV Prevention Activities_Health Department Based	93.940	C17126	227,526	-	227,526	-
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977	C17126	37,203	-	37,203	-

Health Resources And Services Administration, Department Of Health And Human Services (via Washington State Department of Health)	Maternal and Child Health Services Block Grant to the States	93.994	C17126	346,174	-	346,174	-
Department Of Homeland Security (via Washington State Military Department Public Assistance)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D14-225	1,394	-	1,394	-
<b>Total Federal Awards Expended:</b>				<b>3,224,512</b>	<b>-</b>	<b>3,224,512</b>	<b>-</b>

The accompanying notes are an integral part of this schedule.

# SNOHOMISH HEALTH DISTRICT

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2015

### NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Federal Financial Assistance is prepared on the same basis of accounting as the District's financial statements. The district uses the modified accrual basis of accounting.

### NOTE 2 –NONCASH AWARDS - VACCINATIONS

The amount of vaccine reported on the schedule is the value of vaccine provided to the District during the current year and priced as indicated by the Washington State Department of Health. In the 2015-2017 contract with the Washington Department of Health, no award was provided for vaccine in lieu of cash. Instead, vaccine was supplied to the district as needed.

### NOTE 3 – NOT AVAILABLE (N/A)

Vaccine donation agreements do not reference a contract number.

### NOTE 4 – INDIRECT COST RATES

The amount expended includes an approved indirect cost recovery rate of 30.6 percent for Public Health Emergency Preparedness and Response programs, 33.0 percent for Communicable Disease programs, 34.8 percent for Community Health programs, and 35.6 percent for Environmental Health programs. The District has not elected to use the 10 percent de minimis indirect cost rate under Uniform Guidance.

### NOTE 5 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the District's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>