



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Snohomish Health District

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

Published September 20, 2018

Report No. 1022240





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

September 20, 2018

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,

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

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Snohomish Health District January 1, 2017 through December 31, 2017

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	WIC 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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Snohomish Health District
Snohomish County
January 1, 2017 through December 31, 2017**

This schedule presents the status of federal findings reported in prior audit periods.

Audit Period: January 1, 2016- December 31, 2016	Report Ref. No.: 1019811	Finding Ref. No.: 2016-001	CFDA Number(s): 93.778
Federal Program Name and Granting Agency: Medical Assistance Program Centers for Medicare and Medicaid Services/Department of Health and Human Services		Pass-Through Agency Name: Washington State Health Care Authority	
Finding Caption: The District did not have adequate internal controls in place to ensure compliance with federal allowable costs and cost principle requirements.			
Background: In 2016, the District received \$370,414 in federal funds for its Medical Assistance Program, of which approximately 98 percent of the expenditures were related to payroll costs. The fiscal year 2016 audit found there was no process in place to ensure that all employees whose payroll costs were allocated to the random moment time study (RMTS) cost pools, actually participated in the RMTS and should be included in the calculation for reimbursement through the Medicaid Administrative Claiming program. We estimated the likely questioned costs to be \$44,170.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>Historically, District programs with staff who performed Medicaid Administrative Claiming (MAC) work had codes assigned to them in the financial system that identified the MAC cost pools to which they were assigned. When MAC staff changed programs or started or stopped the Random Moments Time Study (RMTS), the Financial Analyst updated the assigned cost pool code in the financial system. Those cost pool assignments were used to run reports for labor and non-labor costs when preparing the MAC invoices. The costs assigned to cost pool 1 and 2 are the costs that determine the amount that the District billed for MAC activities.</i> <i>After the departure of key MAC administrative staff, the Administrative Assistant who assumed the duties of coordinating the RMTS and MAC staffing was unaware that the Financial Analyst needed to be informed to update the MAC code in the financial system when the staffing changed. This meant that costs may not have been reported in the correct cost pools and the invoice potentially over or understated.</i>			

Based on the 2016 audit finding, the District has changed the method for determining the staff cost pool allocations. The Fiscal Analyst accesses a report in the online system, URMTS, where the time study results are compiled to determine which staff are assigned to cost pools 1 and 2. Using these results, the financial system is queried for labor and non-labor costs for those programs with MAC activities. This method insures that costs assigned to cost pools 1 and 2 are based on actual time study results rather than hard coded financial system assignments.

Using the new procedures, the District revised Quarter 2, 2015 through Quarter 2, 2016 invoices (5 quarters) and repaid \$26,325 to the Washington Health Care Authority for quarters that were overstated. The District collected \$6,881 for quarters that were understated.

**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
January 1, 2017 through December 31, 2017**

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, as of and for the year ended December 31, 2017, 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 14, 2018. As discussed in Note 5 to the financial statements, during the year ended December 31, 2017, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 14, 2018

**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
January 1, 2017 through December 31, 2017**

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, 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, 2017. 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, 2017.

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.

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

Pat McCarthy

State Auditor

Olympia, WA

September 14, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Snohomish Health District January 1, 2017 through December 31, 2017

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, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 18.

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, 2017, 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 5 to the financial statements, in 2017, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 18 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 14, 2018 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.

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Pat McCarthy

State Auditor

Olympia, WA

September 14, 2018

FINANCIAL SECTION

Snohomish Health District January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2017

Budgetary Comparison Statement – General and Public Health Emergency Preparation
and Response (PHEPR) Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Net OPEB Liability and Related Ratios – Other
Post-Employment Benefits (OPEB) – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2017

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

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, 2017. Readers are encouraged to consider the information presented here in combination with the information furnished in the basic financial statements and required supplemental information.

FINANCIAL HIGHLIGHTS

- As reported on its Statement of Net Position, the District's total liabilities and deferred inflows exceeded its total assets and deferred outflows at December 31, 2017, resulting in a negative net position of \$4,703,598.
- The District's combined fund balances increased by \$136,451 in 2017. As of December 31, 2017 the District's governmental activities reported combined ending fund balance of \$8,220,841.

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 \$3,618,449, net of accumulated depreciation, at the end of 2017. The investment in capital assets includes land, buildings, improvements, equipment, furniture and vehicles. The decrease to capital assets in the amount of \$149,487 is the net of additions in the amount of \$103,152 less depreciation in the amount of \$252,639.

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 inter-local agreement involving 15 municipalities, Snohomish County, and the District; however, any County or other municipality ownership interest in the Rucker Building was not specified. During 2016 and 2017, District staff made presentations to the County and municipalities regarding the financing of the Rucker Building and requested that they formally relinquish, or not pursue, any claim of ownership interest that they might have in the Rucker Building. As of the publication date of these financial statements, Snohomish County and all cities, with the exception of the City of Gold Bar, have executed quit claims for their of interest in the Rucker Building. District Leadership continues to work with the City of Gold Bar to complete their quit claim.

The District continues to account for the Rucker Building as a capital asset with no outstanding debt, or shared equity.

In January 2017, the District listed the Rucker Building for sale and the City of Everett contracted to purchase the building for \$8,500,000 in September 2017. The District contracted to purchase another property located at 2802 Broadway and 2801 Lombard Avenue for \$4,200,000. After due diligence was completed on both buildings in March 2018, it was mutually agreed that was not feasible to continue with the purchase/sale of the properties and the offers were rescinded.

As of the report date, the Board of Health has established a Rucker Building Task Force to complete an exhaustive review of available options for the continued ownership, sale or lease of the Rucker Building.

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 \$4,703,598 at December 31, 2017. This represents a \$411,150 increase over the District's net position of negative \$5,114,748 as restated for GASB Statement No. 75 (see Financial Statement Note 5) at December 31, 2016.

In the current year the District adopted GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions. This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions administered as trusts or similar arrangements that meet certain criteria. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatements to net position, as applicable, resulting from the adoption of GASB Statement No. 75:

Net Position, December 31, 2016, as previously reported	(\$520,023)
Recognition of postemployment benefit related liabilities and in accordance with GASB No. 75	<u>(4,594,725)</u>
Net Position December 31, 2016, as restated	<u><u>(\$5,114,748)</u></u>

The following presents the District's condensed comparative statement of net position as of December 31, 2017 and 2016:

Governmental Activities

	2017	2016
Current assets	\$ 10,848,114	\$ 10,048,647
Capital assets (net of depreciation)	3,618,448	3,767,936
Total assets	<u>14,466,562</u>	<u>13,816,583</u>
Deferred Outflows	986,434	1,555,744
Current liabilities	2,949,733	2,217,450
Long-term liabilities	15,709,147	17,642,915
Total liabilities	<u>18,658,880</u>	<u>19,860,365</u>
Deferred Inflows	1,497,716	609,909
Net Position:		
Invested in capital assets	3,618,449	3,767,936
Unrestricted	(8,322,047)	(8,882,684)
Total Net Position*	<u>\$ (4,703,598)</u>	<u>\$ (5,114,748)</u>

* 2016 Total Net Position as restated - See Financial Statement Note 5

Statement of Activities

The statement of activities details how the District's net position changed during 2017. 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, 2017 and 2016:

	2017	2016
Program Revenues		
Charges for Services	\$ 7,601,411	\$ 7,744,722
Operating Grants & Contributions	4,080,493	4,799,855
General Revenues		
Grants & Contributions not restricted to specific programs	4,467,491	4,086,491
Interest and investment earnings	64,507	33,983
Miscellaneous	234,402	277,317
Total Revenues	<u>16,448,304</u>	<u>16,942,368</u>
Program Expenses		
Public Health	16,037,154	15,399,493
Total Expenses	<u>16,037,154</u>	<u>15,399,493</u>
Change in Net Position	411,150	1,542,875
Net Position Beginning	(5,114,748)	(2,062,898)
Change in Accounting Principal - OPEB		(4,594,725)
Change in Accounting Principal - Pensions	-	-
Net Position Ending*	<u>\$ (4,703,598)</u>	<u>\$ (5,114,748)</u>

* 2016 Total Net Position as restated - See Financial Statement Note 5

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.

The District's budgeted building remodel projects, major upgrades to information and business systems, and the replacement of vehicles in 2017 of approximately \$2.3 million. Building and leasehold improvements were acquired – totaling \$103,152. The favorable variance of approximately \$2.2 million that was not expended in 2017 and was not re-appropriated for these projects in the 2018 budget.

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.

SNOHOMISH HEALTH DISTRICT

Statement of Net Position

December 31, 2017

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 1,913,661
Investments	7,412,367
Receivables, net	1,319,552
Inventory	1,551
Prepayments	200,983
Capital assets:	
Land (non-depreciable)	600,000
Building, net of accumulated depreciation	2,447,545
Other, net of accumulated depreciation	570,903
Total Assets	<u>\$ 14,466,562</u>
Deferred Outflows of Resources	
Pension Items (see Note 4)	\$ 986,434
Total Deferred Outflows of Resources	<u>\$ 986,434</u>
Liabilities	
Accounts Payable	\$ 440,184
Other Accrued Liabilities	664,149
Revenue Collected in Advance	1,522,941
Compensated absences:	
Due within one year	322,459
Due after one year	1,514,851
Pension Liability - due after one year	7,066,765
Net OPEB obligation - due after one year	7,127,531
Total Liabilities	<u>\$ 18,658,880</u>
Deferred Inflows of Resources	
Pension Items (see Note 4)	\$ 1,497,716
Total Deferred Inflows of Resources	<u>\$ 1,497,716</u>
Net Position	
Net Investment in Capital Assets	\$ 3,618,449
Unrestricted	(8,322,047)
Total Net Position	<u>\$ (4,703,598)</u>

The accompanying notes are an integral part of this statement.

SNOHOMISH HEALTH DISTRICT

Statement of Activities

For the Year Ended December 31, 2017

Function/Program	Expenses	Program Revenues Charges for Service	Operating Revenues Grants & Contributions	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities
Primary Government:				
Public Health	\$ 16,037,154	\$ 7,601,411	\$ 4,080,493	\$ (4,355,250)
Total Governmental Activities	\$ 16,037,154	\$ 7,601,411	\$ 4,080,493	\$ (4,355,250)
General revenues:				
Grants & Contributions not restricted to specific programs				4,467,491
Interest and investment earnings				64,507
Miscellaneous				234,402
Total General Revenues				4,766,400
Change in Net Position				411,150
Net Position Beginning - as restated (see Note 5)				(\$5,114,748)
Net Position Ending				\$ (4,703,598)

The accompanying notes are an integral part of this statement.

SNOHOMISH HEALTH DISTRICT

Balance Sheet

Government Funds

December 31, 2017

	General Fund	Public Health Emergency Preparedness and Response	Total All Governmental Funds
Assets and Deferred Outflows of Resources			
Cash and Cash equivalents	\$ 1,913,661	\$ -	\$ 1,913,661
Investments	7,412,367	-	7,412,367
Receivables, net	1,172,863	146,689	1,319,552
Interfund Receivable	130,938	-	130,938
Inventory	1,551	-	1,551
Prepayments	200,822	161	200,983
Total Assets	<u>\$ 10,832,202</u>	<u>\$ 146,850</u>	<u>\$ 10,979,052</u>
Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 10,832,202	\$ 146,850	\$ 10,979,052
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Accounts Payable	\$ 438,316	\$ 1,868	\$ 440,184
Interfund Payable	-	130,938	130,938
Other Liabilities	650,104	14,044	664,149
Revenue Collected in Advance	1,522,941	-	1,522,941
Total Liabilities	2,611,361	146,850	2,758,211
Deferred Inflows of Resources	-	-	-
Fund Balances			
Non-Spendable	202,373	161	202,534
Unassigned	8,018,468	(161)	8,018,307
Total Fund Balances	8,220,841	(0)	8,220,841
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 10,832,202</u>	<u>\$ 146,850</u>	<u>\$ 10,979,052</u>

Reconciliation to the Statement of Net Position:

Total Fund Balances, per above	\$ 8,220,841
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	3,618,449
Deferred outflows pertaining to pension activity, not reported in the funds	986,434
Deferred inflows pertaining to pension activity, not reported in the funds	(1,497,716)
Liabilities for compensated absences due and payable later than the end of the current period, not reported in the funds	(1,837,310)
Liabilities for net other post employee benefits (OPEB) due and payable later than the current period, not reported in the funds	(7,127,531)
Liabilities for pensions due and payable later than the end of the current period, not reported in the funds	(7,066,765)
Total Net Position, per Statement of Net Position	<u>\$ (4,703,598)</u>

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, 2017

	General Fund	Public Health Emergency Preparedness and Response	Total Governmental Funds
Revenues			
Licenses and Permits	\$ 3,860,426	\$ -	\$ 3,860,426
Intergovernmental	9,685,136	853,162	10,538,298
Charges for Services	1,750,671	-	1,750,671
Miscellaneous	279,946	-	279,946
Total Revenues	\$ 15,576,179	\$ 853,162	\$ 16,429,341
Expenditures			
Personnel Services	\$ 12,874,587	\$ 631,273	\$ 13,505,860
Supplies	288,376	3,033	291,408
Other Services and Charges	2,177,847	233,585	2,411,432
Capital Outlay	82,328	20,824	103,152
Total Expenditures	\$ 15,423,138	\$ 888,715	\$ 16,311,853
Excess (deficiency) of revenues over (under) expenditures	153,041	(35,553)	117,488
Other Financing Sources (Uses)			
Transfers In	-	35,553	35,553
Transfers Out	(35,553)	-	(35,553)
Proceeds from Sale of Capital Assets	18,963	-	18,963
Total other financing sources (uses)	(16,591)	35,553	18,963
Net Change in Fund Balances	136,451	0	136,451
Fund Balance as of January 1, 2016	8,084,390	-	8,084,390
Fund Balance as of December 31, 2016	\$ 8,220,841	\$ 0	\$ 8,220,841

Reconciliation to the Statement of Activities:

Net Change in Fund Balances, per above		\$ 136,451
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		(887,807)
Increase (decrease) to deferred outflows for pension activities		(569,310)
Decrease (increase) to the liability for compensated absences		102,545
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	103,152	
Less current year depreciation	(252,640)	(149,488)
Decrease (increase) to the liability for the net OPEB obligation		(436,512)
Decrease (increase) to the liability for pensions		2,215,271
Change in Net Position, per Statement of Activities		\$ 411,150

The accompanying notes are an integral part of this statement.

SNOHOMISH HEALTH DISTRICT
Statement of Net Position
December 31, 2017

	General Fund			Public Health Emergency Preparation and Response			Total Governmental Funds
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Actual
Revenues:							
Licenses and Permits	\$ 3,537,213	\$ 3,537,213	\$ 3,860,426			\$ -	\$ 3,860,426
Intergovernmental	9,460,083	9,460,083	9,685,136	849,987	849,987	853,162	10,538,298
Charges for Services	2,226,047	2,226,047	1,750,671			-	1,750,671
Miscellaneous	216,510	216,510	279,946			-	279,946
Total Revenues	15,439,853	15,439,853	15,576,179	849,987	849,987	853,162	16,429,341
Expenditures:							
Public Health:							
Personnel Services	\$ 12,772,276	\$ 12,772,276	\$ 12,874,587	\$ 602,626	\$ 602,626	\$ 631,273	\$ 13,505,860
Supplies	357,872	357,872	288,376	25,000	25,000	3,033	291,409
Other Services and Charges	2,161,733	2,161,733	2,177,847	222,361	222,361	233,585	2,411,432
Capital Outlay	2,301,181	2,301,181	82,328	-	-	20,824	103,152
Total Expenditures	\$ 17,593,062	\$ 17,593,062	\$ 15,423,138	\$ 849,987	\$ 849,987	\$ 888,715	\$ 16,311,853
Excess (deficiency) of revenues over expenditures	(2,153,209)	(2,153,209)	153,041	0	0	(35,553)	117,488
Other Financing Sources (Uses)							
Proceeds from Sale of Capital Assets	\$ -	\$ -	\$ 18,963				\$ 18,963
Transfers In	-	-	-			35,553	35,553
Transfers Out	-	-	(35,553)			-	(35,553)
Total other financing sources (uses)	-	-	(16,590)	-	-	35,553	18,963
Net change in fund balances	(2,153,209)	(2,153,209)	136,451	-	-	0	136,451
Fund Balance as of January 1, 2017	6,832,518	6,832,518	8,084,390				8,084,390
Fund Balance as of December 31, 2017	\$ 4,679,309	\$ 4,679,309	\$ 8,220,841	\$ -	\$ -	\$ 0	\$ 8,220,841

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. 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 non-fiduciary activities of the primary government. The effect of inter-fund 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.

C. 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.

D. 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 Administrator 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. There were no budget amendments in 2017.

E. Assets, Liabilities and Equities

(1) Cash and Cash Equivalents

At December 31, 2017 the District held \$1,913,661 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, 2017, the Snohomish County Treasurer held \$7,412,367 in short-term investments. This amount is reported on Statement of Net Position, and Balance Sheet, as Investments. These investments are valued at amortized cost.

As required by state law, investments of the District's funds are obligations of the U.S. Government, the State Treasurer's Investment Pool, Snohomish County'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 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 Inter-fund Loans Receivable and Payable

These accounts include all inter-fund 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>
Building	5 - 50 years
Computer Software	3 years
Furniture & Equipment	7 – 20 years
Leasehold Improvements	7 - 20 years
Vehicles	6 years

A summary of changes in capital assets appears as follows:

	Beginning Balance			Ending Balance
	1/1/2017	Additions & Transfers	Deletions	12/31/2017
Capital Assets				
Land	\$ 600,000	\$ -	\$ -	\$ 600,000
Buildings	7,544,782	20,824		7,565,606
Improvements	656,245	82,328		738,573
Computer Software	-	32,301		32,301
Equipment	915,383			915,383
Furniture	558,110			558,110
Vehicles	824,544		(123,235)	701,309
Capitalized Work In Process	32,301	(32,301)		-
Total Capital Assets	\$11,131,365	\$ 103,152	\$ (123,235)	\$11,111,282
Less Accumulated Depreciation				
Buildings	\$ (4,967,817)	\$ (150,244)		\$ (5,118,061)
Improvements	(477,407)	(31,850)		(509,257)
Computer Software	-	(3,589)		(3,589)
Equipment	(724,687)	(32,200)		(756,887)
Furniture	(488,755)	(9,565)		(498,320)
Vehicles	(704,763)	(25,191)	123,235	(606,719)
Total Accumulated Depreciation	\$ (7,363,429)	\$ (252,639)	\$ 123,235	\$ (7,492,833)
Capital Assets, Net	\$ 3,767,936	\$ (149,487)	\$ -	\$ 3,618,449

Depreciation totaled \$252,639 for the year ended December 31, 2017 and 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 inter-local 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 inter-local agreement was for financing purposes only. The documentation indicates that the District was the purchaser, 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 inter-local 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 inter-local agreement or "Purchase Agreement" which was entered into by its participating member municipalities before the adoption of the Article 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, 2017, the County and other municipalities had confirmed to the District that they have no intent to pursue a claim of interest in the Rucker Building. With the exception of the City of Gold Bar, all quit claim deeds on the Rucker Building were finalized by June 30, 2018. Leadership continues to work with the City of Gold Bar to finalize their quit claim.

The District reports the Rucker Building as an asset on its Statement of Net Position.

(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, 2017 is \$842,518.

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, 2017 is \$974,714.
- 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, 2017 is \$20,078.

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 and vital statistics fees to the State of Washington, and benefits payable as of year-end.

(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 components, as applicable:

- a) Non-spendable fund balance. This amount consists of assets that are not in spendable form, such as inventory and prepayments. As of December 31, 2017, the District had non-spendable funds of \$202,534 which consists of prepayments of \$200,983 and vaccine inventory of \$1,551.
- b) Committed fund balance. Fund balance is reported as Committed when the Board of Health (the government’s highest level of decision-making authority) adopts an ordinance that places specific constraints on how the resources may be used. Once adopted, the commitment remains until it is modified or rescinded by the adoption of a new ordinance by the Board.
- 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 \$4,363,360 of the general fund balance comprised of:
 - \$1,961,360 for 45 days of the expenditure budget for working capital
 - \$1,902,000 for equipment, technology and building upgrades and or replacements
 - \$500,000 emergency fund

At December 31, 2017, these amounts totaled \$4,363,360 are included in the unassigned fund balance of \$8,220,841.

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, and 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 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$(7,066,765)
Pension assets	None
Deferred outflows of resources	\$986,434
Deferred inflows of resources	\$(1,497,716)
Pension expense/expenditures	\$385,637

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

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

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
<i>January - June 2017:</i>		
PERS Plan 1	11.00%	6.00%
PERS Plan 1 UAAL	0.00%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
<i>July - December 2017:</i>		
PERS Plan 1	12.52%	6.00%
PERS Plan 1 UAAL	0.00%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

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.

Contributions

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

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

The District’s actual PERS plan contributions were \$488,711 to PERS Plan 1 and \$655,080 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

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

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

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

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

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

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of the Net Pension Liability (Asset)

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.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$4,523,461	\$3,713,261	\$3,011,454
PERS 2/3	\$9,034,692	\$3,353,504	\$(1,301,386)

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, 2017, the District reported a total pension liability of \$7,066,765 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$3,713,261
PERS 2/3	\$3,353,504

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.080684%	0.078255%	-0.002429%
PERS 2/3	0.098292%	0.096517%	-0.001775%

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 Non-Employer Allocations* for PERS 1 and PERS 2/3.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June

30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

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

	Pension Expense
PERS 1	\$98,069
PERS 2/3	\$287,569
TOTAL	\$385,637

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$(138,568)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	\$252,143	-
TOTAL	\$252,143	\$(138,568)

PERS Plan 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$339,789	\$(110,291)
Net difference between projected and actual investment earnings on pension plan investments	-	\$(893,964)
Changes of assumptions	\$35,621	-
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$(354,893)
Contributions subsequent to the measurement date	\$358,880	-
TOTAL	\$734,290	\$(1,359,148)

Combined Total for All Plans (PERS 1, 2 & 3)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$339,789	\$(110,291)
Net difference between projected and actual investment earnings on pension plan investments	-	\$(1,032,532)
Changes of assumptions	\$35,621	-
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$(354,893)
Contributions subsequent to the measurement date	\$611,023	-
TOTAL	\$986,433	\$(1,497,716)

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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS - 1	Year ended December 31:	PERS - 2/3
2018	\$(93,663)	2018	\$(523,543)
2019	\$29,571	2019	\$(30,667)
2020	\$(6,866)	2020	\$(105,241)
2021	\$(67,610)	2021	\$(369,925)
2022	-	2022	\$19,843
Thereafter	-	Thereafter	\$25,795
TOTAL	\$(138,568)	TOTAL	\$(983,738)

NOTE 5 – ADOPTION OF NEW STANDARD AND PRIOR PERIOD RESTATEMENT

In the current year the District adopted GASB Statement No. 75, *Accounting and Financial Reporting For Post-Employment Benefits Other Than Pensions*. This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions administered as trusts or similar arrangements that meet certain criteria. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatements to net position, as applicable, resulting from the adoption of GASB Statement No. 75:

Net Position, December 31, 2016, as previously reported	(\$520,023)
Recognition of postemployment benefit related liabilities and in accordance with GASB No. 75	<u>(4,594,725)</u>
Net Position December 31, 2016, as restated	<u>(\$5,114,748)</u>

NOTE 6 - OTHER POST- EMPLOYMENT BENEFITS (OPEB)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of the Statement No. 75 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Postemployment Benefits Other Than Pension for the year 2017:

Aggregate OPEB Amounts - All Plans	
Pension liabilities	\$(7,127,531)
Pension assets	\$ -
Deferred outflows of resources	\$ -
Deferred inflows of resources	\$ -
Pension expense/expenditures	\$ 544,797

The State of Washington implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Postemployment Benefits Other Than Pension for fiscal year 2018 financial reporting. The state, consisting of state agencies and its component units as well as higher education institutions, is considered a single employer based on guidance provided in GASB Statement No.75. The State Health Care Authority (HCA) administers this single employer defined benefit other postemployment benefit (OPEB) plan.

Per RCW 41.05.065, the Public Employees’ Benefits Board (PEBB), created within 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 by 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 HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB OPEB plan is funded on a pay-as-you-go basis with contributions set by the Legislature each biennium as a part of the budget process. The PEBB OPEB plan has no assets and does not issue a publicly available financial report.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system.

As of June 2017, membership in the PEBB plan consisted of the following:

Employees covered by benefit terms.

At December 31, 2017 (the census date), the benefit terms covered the following employees:

<u>Category</u>	<u>Count</u>
Inactive employees or beneficiaries currently receiving benefit payments:	48
Inactive employees entitled to but not yet receiving benefit payment:	0
Active employees:	139

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on the claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar year 2018, the explicit subsidy was up to \$150 per member per month, and it will increase up to \$168 per member per month in calendar year in 2019.

Net OPEB Liability

The Snohomish Health District' net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017.

Actuarial Assumptions .

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation: 2.50%

Salary increases: Individual and aggregate salary increases 4.00%

Investment rate of return: 3.25%

Pre-Medicare healthcare cost trend rates: 6.70% in the first year, trending down to 4.80% over years

Medicare healthcare cost trend rates: 6.80% in the first year, trending down to 4.80% over years

Mortality rates were based on RP 2000 Mortality tables, with mortality improvement scales applied

Discount Rate.

The discount rate used to measure the total OPEB liability was 3.25%. Snohomish Health District's OPEB Plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date.

Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Balances as of December 31, 2016	\$ 6,691,019
Changes for the year:	
Service cost	318,739
Interest	226,058
Differences between expected and actual experience	-
Contributions	-
Explicit subsidy fulfilled	(98,074)
Implicit rate subsidy fulfilled	(10,211)
Net changes	436,512
Balances as of December 31, 2017	\$ 7,127,531

Sensitivity of the total OPEB liability to changes in the discount rate. The total OPEB liability of the Snohomish Health District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.25%) or one percentage point higher (4.25%) follows:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	2.25%	3.25%	4.25%
Total OPEB liability (asset)	\$ 8,615,197	\$ 7,127,531	\$ 5,963,889

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The total OPEB liability of the Snohomish Health District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.70%) or one percentage point higher (7.70%) than current healthcare cost trend rates follows:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
	5.70% Decreasing to 3.80%	6.70% Decreasing to 4.80%	7.70% Decreasing to 5.80%
Net OPEB liability (asset)	\$ 5,878,022	\$ 7,127,531	\$ 8,762,993

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the year ended December 31, 2017, the Snohomish Health District recognized an OPEB expense of \$544,797. At December 31, 2017, the Snohomish Health District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ -
Change of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	-
Total	\$ -	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2018	\$ -
2019	-
2020	-
2021	-
2022	-

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.

NOTE 7 - 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:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Pension Liability	\$ 9,282,036		\$(2,215,271)	\$ 7,066,765	\$ -
Net OPEB Obligation	6,691,019	436,512	-	7,127,531	-
Compensated Absences	1,939,854		(102,544)	1,837,310	322,459
Total Long Term Liabilities	\$17,912,909	\$ 436,512	\$(2,317,815)	\$16,031,606	\$322,459

NOTE 8 - 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 9 - 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, 2017, there are 540 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 \$239,000 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, cyber and automobile physical

damage to insured vehicles. Liability coverage limit is \$20 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 10 – RELATED PARTY TRANSACTIONS

Snohomish County Council members and one elected official each from the cities of Arlington, Bothell, Darrington, Edmonds, Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Monroe, Mukilteo, Snohomish and Stanwood serve as members of the Board of Health and have significant influence in the management of the District. In 2017, these jurisdictions provided the following funding:

Snohomish County for Communicable Disease Control	\$ 1,600,000
Snohomish County Public Health Per Capita Allotment	673,100
Cities Public Health Per Capita Allotment	381,000
Total Funding	<u><u>\$ 2,654,100</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits (OPEB), See also NOTE 5

SNOHOMISH HEALTH DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
December 31, 2017

	2017
Total OPEB Liability	
Service cost	\$ 318,739
Interest on total OPEB liability	226,058
Changes in benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	-
Explicit and implicit subsidies	(108,285)
Net change in total OPEB liability	436,512
Total OPEB liability - beginning	6,691,019
Total OPEB liability - ending	7,127,531
Plan Fiduciary Net Position	
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments, including refunds of employee contributions	-
Administrative expenses	-
Other	-
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	-
Net OPEB liability - ending	\$ 7,127,531
Plan fiduciary net position as a percentage of total OPEB liability	0%
Covered payroll	\$ 9,723,726
Net OPEB liability as a percentage of covered payroll	73%

This schedule is intended to show information for 10 years. Since fiscal year 2017 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

GASB 75 was implemented for the fiscal year ended December 31, 2017. No information Prior to December 31, 2017 is available. The actuarial study is performed biannually. The actuarial method used in the Schedule of Funding Progress of Other Post-Employment Benefits is disclosed in Notes to the Financial Statements Note 6.

Pension Benefits

PENSION BENEFITS						
Schedule of Proportionate Share of the Net Pension Liability, as of June 30, 2017:						
	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
PERS Plan 1	2015	0.087758%	\$ 4,590,560	\$ 9,744,402	47.11%	59.10%
	2016	0.080684%	\$ 4,333,111	\$ 9,388,630	46.15%	57.03%
	2017	0.078255%	\$ 3,713,261	\$ 9,638,572	38.53%	61.24%
PERS Plans 2 & 3	2015	0.106990%	\$ 3,822,814	\$ 9,493,707	40.27%	89.20%
	2016	0.098292%	\$ 4,948,925	\$ 9,181,910	53.90%	85.82%
	2017	0.096517%	\$ 3,353,504	\$ 9,462,585	35.44%	90.97%
Schedule of Employer Contributions, as of December 31, 2017:						
	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
PERS Plan 1	2015	\$ 431,398	\$ 431,398	\$ -	\$ 9,541,611	4.52%
	2016	\$ 463,314	\$ 463,314	\$ -	\$ 9,485,224	4.88%
	2017	\$ 488,711	\$ 488,711	\$ -	\$ 9,723,726	5.03%
PERS Plans 2 & 3	2015	\$ 522,623	\$ 522,623	\$ -	\$ 9,298,699	5.62%
	2016	\$ 580,061	\$ 580,061	\$ -	\$ 9,310,790	6.23%
	2017	\$ 655,080	\$ 655,080	\$ -	\$ 9,545,874	6.86%
<p>* 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.</p>						

**Snohomish Health District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via Washington State Department of Health)	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C17126	971,665	-	971,665	-	Note 3
SNAP Cluster								
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via Washington State University)	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	132429_G0038 12	12,555	-	12,555	-	Note 3
			Total SNAP Cluster:	12,555	-	12,555	-	
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	Public Health Emergency Preparedness	93.069	C17126	714,653	-	714,653	-	Note 3
FOOD AND DRUG ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Association of Food and Drug Officials)	Food and Drug Administration Research	93.103	G-MP-1611- 03558	4,827	-	4,827	4,827	
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	C17126	86,250	-	86,250	-	Note 3

**Snohomish Health District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	Injury Prevention and Control Research and State and Community Based Programs	93.136	C17126	45,404	-	45,404	-	Note 3
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	Immunization Cooperative Agreements	93.268	C17126	137,947	-	137,947	-	Note 3
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	PPHF 2018: Office of Smoking and Health- National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF)	93.305	C17126	44,503	-	44,503	4,694	Note 3
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance â€ financed in part by the Prevention and Public Health Fund (PPHF)	93.733	C17126	28,000	-	28,000	-	

**Snohomish Health District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (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	26,239	-	26,239	-	Note 3
Medicaid Cluster								
CENTERS FOR MEDICARE AND MEDICAID SERVICES, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington Healthcare Authority)	Medical Assistance Program	93.778	K1418-01	171,678	-	171,678	-	Note 3
Total Medicaid Cluster:				171,678	-	171,678	-	
IMMED OFFICE OF THE SECRETARY OF HEALTH AND HUMAN SERVICES, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	C17126	15,262	-	15,262	-	Note 3
IMMED OFFICE OF THE SECRETARY OF HEALTH AND HUMAN SERVICES, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	National Bioterrorism Hospital Preparedness Program	93.889	C17126	123,247	-	123,247	-	Note 3

**Snohomish Health District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	HIV Prevention Activities Health Department Based	93.940	C-17126	185,660	-	185,660	-	Note 3
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	Sexually Transmitted Diseases (STD) Prevention and Control Grants	93.977	C-17126	97,811	-	97,811	-	Note 3
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	Preventive Health and Health Services Block Grant	93.991	C-17126	448,446	-	448,446	-	Note 3
Total Federal Awards Expended:				3,114,147	-	3,114,147	9,521	

SNOHOMISH HEALTH DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2017

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the District's financial statements. The District's financial statements were prepared in conformity with Generally Accepted Accounting Principles (GAAP).

NOTE 2 – 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 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.

NOTE 3 – INDIRECT COST RATES

The amount expended includes an indirect cost recovery rate approved by the Washington State Department of Health.

The amount expended includes the following amounts claimed as indirect cost recovery:

- \$187,822 for Public Health Emergency Preparedness and Response programs
- \$94,757 for Communicable Disease programs
- \$507,715 for Community Health programs
- \$0 for Environmental Health programs

The applicable indirect cost recovery rates are as follows:

- 27.63% for Public Health Emergency Preparedness and Response programs
- 19.02% for Communicable Disease programs
- 35.10% for Community Health programs
- 61.96% for Environmental Health programs.

The District has not elected to use the 10% de minimis indirect cost rate under Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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