

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

Snohomish Health District
Snohomish County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010589

Issue Date
September 27, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

September 27, 2013

Board of Health
Snohomish Health District
Everett, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

**TROY KELLEY
STATE AUDITOR**

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Snohomish County
January 1, 2012 through December 31, 2012**

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Federal Summary

Snohomish Health District Snohomish County January 1, 2012 through December 31, 2012

The results of our audit of the Snohomish Health District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

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 each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
93.069	Public Health Emergency Preparedness

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing
Standards*

**Snohomish Health District
Snohomish County
January 1, 2012 through December 31, 2012**

Board of Health
Snohomish Health District
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Snohomish Health District, Snohomish County, Washington, as of and for the year ended December 31, 2012, 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 16, 2013. During the year ended December 31, 2012, the District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

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 opinion 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.



TROY KELLEY
STATE AUDITOR

September 16, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Snohomish Health District Snohomish County January 1, 2012 through December 31, 2012

Board of Health
Snohomish Health District
Everett, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Snohomish Health District, Snohomish County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2012.

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 OMB Circular A-133, 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 OMB Circular A-133. 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 "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" between the first and last names.

TROY KELLEY
STATE AUDITOR

September 16, 2013

Independent Auditor's Report on Financial Statements

Snohomish Health District Snohomish County January 1, 2012 through December 31, 2012

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 the Snohomish Health District, Snohomish County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Snohomish Health District, as of December 31, 2012, and the changes in financial position thereof, and the respective budgetary comparison for the General Fund and Public Health Emergency Preparedness and Response funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2012, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 16 and information on postemployment benefits other than pensions on page 42 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 an opinion 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 16, 2013 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.



TROY KELLEY
STATE AUDITOR

September 16, 2013

Financial Section

Snohomish Health District Snohomish County January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012

Statement of Activities – 2012

Balance Sheet – Governmental Funds – 2012

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2012

Budgetary Comparison Statement – Governmental Funds – 2012

Notes to Financial Statements – 2012

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits (OPEB) – 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2012

Notes to the Schedule of Expenditures of Federal Awards – 2012

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, 2012. We encourage readers to consider the information presented here in combination with the additional information that we have furnished in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The total assets of the district exceeded its liabilities at December 31, 2012 by \$7,020,141 (net position). Net assets invested in capital assets (net of depreciation and related debt) account for 63 percent of this amount, with a value of \$4,426,658.
- During 2012 the financial condition of the District has improved. As of December 31, 2012 the District's governmental activities reported combined ending fund balances of \$5,523,085. This represents a \$266,285 increase from the \$5,256,799 ending 2011 fund balances.

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 a six county region.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Snohomish Health District's basic financial statements. The District's basic financial statements are comprised of 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 E (6). The District's total investment in capital assets is \$4,426,658, net of accumulated depreciation. The investment in capital assets includes land, buildings, improvements, equipment, furniture and vehicles. Capital assets decreased by \$268,269 primarily due to an increase in accumulated depreciation.

Statement of Net Position

The statement of net position presents information on all of Snohomish Health District's assets and liabilities, with the difference between the two 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. Snohomish Health District's assets exceeded liabilities by \$7,020,141 at December 31, 2012. The following table reflects the condensed Government-Wide Statement of Net Position of the Health District.

Comparative Statement of Net Position

Governmental Activities

	2012	2011
Current assets	\$7,895,745	\$7,542,522
Capital assets (net of depreciation)	<u>4,426,658</u>	<u>4,694,927</u>
Total assets	12,322,403	12,237,449
Current liabilities	2,372,661	2,285,723
Long-term liabilities	<u>2,929,601</u>	<u>2,511,753</u>
Total liabilities	5,302,262	4,797,476
Net Position:		
Invested in capital assets	4,426,658	4,694,927
Unrestricted	<u>2,593,483</u>	<u>2,745,046</u>
Total net position	<u>\$7,020,141</u>	<u>\$7,439,973</u>

Statement of Activities

The statement of activities presents information showing how the District's net position changed during 2012. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies.

Comparative Statement of Activities

	2012	2011
Program Revenues		
Charges for Services	\$5,519,613	\$5,300,859
Operating Grants & Contributions	6,029,373	6,964,574
General Revenues		
Grants & Contributions not restricted to specific programs	5,682,919	5,995,689
Interest and investment earnings	8,304	8,120
Miscellaneous	<u>286,037</u>	<u>279,272</u>
Total Revenues	\$17,526,246	\$18,548,514
Program Expenses		
Public Health	<u>17,946,078</u>	<u>\$17,704,350</u>
Total Expenses	\$17,946,078	\$17,704.350
Change in Net Position	(419,832)	844,164
Net Position Beginning	\$7,439,973	\$6,595,808
Net Position Ending	<u>\$7,020,141</u>	<u>\$7,439,973</u>

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

Fund Financial Statements

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

Governmental Funds

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present columns of financial data for the General Fund and Public Health Emergency Preparedness & Response fund. 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 who's 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 Budgetary Comparison Statement for the general fund indicates an over-expenditure of \$180,275 or 1.1%. The Health District receives vaccine from the State of Washington Department of Health. The amount of vaccine is not predictable and the actual amount received cannot be determined prior to year end. To account for the vaccine, an equal amount of revenue and expense are recorded in the appropriate accounts at year end. Due to the uncertainty of the value of the vaccine that will be made available, it is not reflected in the budget approved by the Board of Health. The value of the vaccine expensed during 2012 was \$354,650. Without the effect of the donated vaccine, the actual general fund under-expenditure was \$174,375 or 1.1%.

The Public Health Emergency Preparedness and Response Fund is funded through federal grants. The over-expenditure of \$3,205 shown on the Budgetary Comparison Statement is due to a slight increase in the grant between fiscal years.

Notes to the Financial Statements

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

Requests for Financial Information

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

SNOHOMISH HEALTH DISTRICT
Statement of Net Position
December 31, 2012

	Governmental Activities
ASSETS	
Cash & Equivalents	\$534,599
Investments	4,789,686
Receivables	2,207,222
Prepayments	24,065
Inventory	340,173
Capital assets	
Land	600,000
Building, net of Accumulated Depreciation	3,114,903
Other Capital Assets, net of Accumulated Depreciation	711,755
Total Assets	12,322,403
LIABILITIES	
Accounts payable	266,007
Other accrued liabilities	940,670
Revenue collected in advance	901,105
Compensated absences:	
Payable within one year	264,879
Payable after one year	1,632,759
Net OPEB Obligation-LT	1,296,842
Total Liabilities	5,302,262
NET POSITION	
Invested in capital assets, net of related debt	4,426,658
Net Position Unrestricted	2,593,483
Total Net Position	\$7,020,141

The accompanying notes are an integral part of this statement.

SNOHOMISH HEALTH DISTRICT
Statement of Activities
For The Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues		Net(Expense) Revenue and Changes in Net Position Total Governmental Activities
		Charges for Service	Operating Grants & Contributions	
Primary Government:				
Public Health				
Total Governmental Activities	17,946,078	\$5,519,613	\$6,029,373	(\$6,397,092)
General revenues:				
Grants & Contributions not restricted to specific programs				5,682,919
Interest and investment earnings				8,304
Miscellaneous				286,037
Total General Revenues				5,977,260
Change in Net Position				(419,832)
Net Position Beginning				\$7,439,973
Net Position Ending				\$7,020,141

The accompanying notes are an integral part of this statement.

SNOHOMISH HEALTH DISTRICT
Balance Sheet
Governmental Funds
December 31, 2012

	General Fund	Public Health Emergency Prep & Response	Total All Governmental Funds
ASSETS			
Cash & Equivalents	\$534,599	-	\$534,599
Investments	4,789,686		\$4,789,686
Receivables	2,040,781	166,441	\$2,207,222
Internal Receivables	151,143		\$151,143
Prepayments	24,065		\$24,065
Inventory	340,173		\$340,173
Total Assets	\$7,880,448	166,441	\$8,046,888
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	252,014	13,993	\$266,007
Internal payables		151,143	\$151,143
Other accrued liabilities	940,291	380	\$940,670
Revenue collected in advance	901,105		\$901,105
Accrued Employee Benefits	264,879		\$264,879
Total Liabilities	2,358,288	165,516	\$2,523,804
Fund Balance:			
Non-spendable	364,238		\$364,238
Committed	2,000,000		\$2,000,000
Assigned		925	\$925
Unassigned:	3,157,922		\$3,157,922
Total Fund Balance	5,522,160	925	\$5,523,085
Total Liabilities and Fund Balance	\$7,880,448	166,441	\$8,046,888
Reconciliation to the Statement of Net Position:			
Total Governmental Fund Balances			\$5,523,085
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets net of depreciation are not reported in the funds			4,426,658
Liabilities for compensated absences not due and payable in the current period are not reported in the funds			(1,632,759)
Net OPEB Obligation not due and payable in the current period is not reported in the funds			(1,296,842)
Net position of governmental activities			\$7,020,141

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, 2012

	General Fund	Public Health Emergency Prep & Response	Total Governmental Funds
Revenues:			
Licenses and Permits	\$2,863,806		\$2,863,806
Intergovernmental	10,967,663	\$744,629	11,712,292
Charges for Services	2,803,701		2,803,701
Miscellaneous	293,803	\$538	294,341
Total Revenues	16,928,974	\$745,167	17,674,140
Expenditures:			
Current			
Personnel Services	13,923,941	\$513,052	14,436,993
Supplies	946,548	\$1,498	948,046
Other Services and Charges	1,781,443	\$229,693	2,011,136
Capital Outlay	11,681		11,681
Total Expenditures	16,663,613	\$744,242	17,407,855
Excess (deficiency) of revenues over expenditures	265,361	\$925	266,285
Fund Balance as of January 1, 2012	5,256,799	\$0	5,256,799
Fund Balance as of December 31, 2012	\$5,522,160	\$925	\$5,523,084

Reconciliation to the Statement of Activities:

Net changes in fund balances - total governmental funds \$266,285

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are depreciated over their estimated useful lives.

Expenditures for capital assets	\$11,681	
less current year depreciation	(\$279,949)	(268,269)

Expenses for employee leave accruals incurred during the period related to liabilities that are still outstanding and not yet due at year-end are not reported in the funds		(149,971)
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Net OPEB Obligation is not due and payable in current period and is not reported in the funds		(267,878)
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Change in net position of governmental activities. (\$419,832)

The accompanying notes are an integral part of this statement.

SNOHOMISH HEALTH DISTRICT
Budgetary Comparison Statement
Governmental Funds

For the Year Ended December 31, 2012

	General Fund			Public Health Emergency Prep & Response			Total Governmental Funds
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Actual
Revenues:							
Licenses and Permits	\$2,761,500	\$2,761,500	\$2,863,806				\$2,863,806
Intergovernmental	10,604,141	10,874,823	10,967,663				11,712,292
Charges for Services	2,668,370	2,687,890	2,803,701	\$741,037	\$741,037	\$744,629	2,803,701
Miscellaneous	391,757	420,757	293,803			-	294,341
Total Revenues	16,425,768	16,744,970	16,928,974	741,037	741,037	745,167	17,674,140
Expenditures:							
Health							
Personnel Services	13,843,690	13,843,690	13,923,941				
Supplies	678,339	726,839	946,548	502,945	502,945	513,052	14,436,993
Other Services and Charges	1,644,954	1,839,809	1,781,443	1,569	1,569	1,498	948,046
Capital Outlay	73,000	73,000	11,681	236,523	236,523	229,693	2,011,136
Total Expenditures	16,239,983	16,483,338	16,663,613	741,037	741,037	744,242	17,407,855
Excess (deficiency) of revenues over expenditures	185,785	261,632	265,361			925	266,285
Fund Balance as of January 1, 2012	4,991,521	4,991,521	5,256,799				5,256,799
Fund Balance as of December 31, 2012	\$5,177,306	\$5,253,153	\$5,522,160	\$0	\$0	\$925	\$5,523,084

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the district have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The district implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, changing the presentation of the statement of net position. 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 the generally accepted accounting principals, the financial statements present Snohomish Health District – 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 of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed 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. Our policy is to allocate indirect costs to 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. Other items not properly included among program revenues are reported instead 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 as soon as 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 as soon as 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 interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The district reports the following governmental funds:

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 a six county region.

D. Budgetary Information

(1) Scope of Budget

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

The Health District's budget is adopted at the fund level so that expenditures may not legally 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 are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

(2) Amending the Budget

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

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

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

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

(3) Excess of Expenditures over Appropriations

The Health District receives vaccine from the State of Washington Department of Health. The amount of vaccine is not predictable and the actual amount received cannot be determined prior to year end. To account for the vaccine, an equal amount of revenue and expense are recorded in the appropriate accounts at year end. Due to the uncertainty of the value of the vaccine it is not reflected in the budget approved by the Board of Health. The value of the vaccine expensed during 2012 was \$354,650.

E. Assets, Liabilities and Equities

(1) Cash and Cash Equivalents

At December 31, 2012 the district held \$534,599 in cash and cash equivalents. Cash equivalents are defined as uninvested residual cash and imprest funds.

The funds of the District 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 District or its agent in the District's name.

All cash and investment amounts are recorded at market value.

(2) Investments

At December 31, 2012, the treasurer was holding \$4,789,686 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as Investments. These investments are valued at cost. The interest on all investments is prorated to the various funds.

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

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

3) Inventories

The cost of expendable supplies held for consumption by general and special revenue funds is recorded as an expenditure at the time the individual items are purchased. The supplies are not of significant cost or quantity and are not reflected as inventory. Vaccine received in lieu of cash from the state

consolidated contract, and on hand at year end, is reflected as inventory at year end. Inventories are valued at their cost. The reserve for inventory is equal to the ending amount of inventory 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 private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared.

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

These accounts include all interfund receivables and payables.

(6) Capital Assets

Capital assets, which include property plant and equipment, and infrastructure assets, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the district as assets with an initial, individual cost of more than \$5,000. Such 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 capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight line method over their estimated useful lives.

<u>Category</u>	<u>Estimated useful life</u>
Building	5 - 50 years
Equipment	7 - 20 years
Furniture and fixtures	7 - 20 years
Leasehold improvements	10 years
Vehicles	6 years

A summary of changes in capital assets follows:

	Balance 1/1/2012	Increases	Decreases	Balance 12/31/2012
Land	\$600,000			\$600,000
Buildings	7,491,343			7,491,343
Equipment	864,098	11,681		875,779
Furniture	558,110			558,110
Im provem ents	656,245			656,245
Vehicles	688,951			688,951
Total	<u>\$10,858,747</u>	<u>\$11,681</u>	<u>\$0</u>	<u>\$10,870,428</u>
Less Accum ulated Depreciation				
Buildings	\$4,226,118	150,322		\$4,376,440
Equipm ent	571,426	33,466		604,892
Furniture	364,326	24,886		389,212
Im provem ents	364,236	32,812		397,048
Vehicles	637,713	38,464		676,177
Total Accum ulated Depreciation	<u>\$6,163,819</u>	<u>\$279,950</u>	<u>\$0</u>	<u>\$6,443,769</u>
Net of Depreciation	<u>\$4,694,928</u>			<u>\$4,426,659</u>

Depreciation Expense was charged to functions/programs of the primary government as Public Health.

(7) Compensated Absences

Eligible employees accumulate 12 to 30 days of vacation depending upon the employee's length of service, but 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, 2012 is \$909,884.

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. Sick leave may accumulate indefinitely. The percentage payable is dependent on the employee's length of service. Employees with greater than seven years of service are eligible to receive payment of 25% of their accrued sick leave. Those employees with greater than fourteen years may receive 50% of their accrued sick leave. The liability for vested sick leave at December 31, 2012 is \$977,011.

Eligible employees may accrue compensatory time in lieu of overtime pay. The liability for compensatory time at December 31, 2012 is \$10,743

(8) Other Accrued Liabilities

These amounts consist of: use taxes payable to the state of Washington; vaccine inventory received in lieu of cash; and wages and benefits payable as of year end.

(9) Fund Balance Classifications

The government-wide financial statements present fund balance as net position and are displayed in three components:

- a) Invested in capital assets, net of related debt 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 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 consists of all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The governmental funds’ financial statements present fund balance displayed in the following four components:

- a) Non-spendable fund balance consists of assets that are not in spendable form such as inventory and prepayments.
- b) Committed fund balance consists of that portion of fund balance that has been set aside by the Snohomish Health District Board of Health by resolution for a specific purpose. The district has committed two million dollars as a minimum general fund balance.
- c) Assigned fund balance indicates 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. The Public Health Emergency Preparation and Response Fund, a special revenue fund has a fund balance of \$925 at December 31, 2012.
- d) Unassigned fund balance is the remainder of fund balance that is not classified as non-spendable, committed or assigned.

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 reconciliation between fund balance – total of governmental funds and net position and governmental activities as reported in the government-wide 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 changes in net position of governmental activities as reported in the Government - wide 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

Substantially all Snohomish Health 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 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2

members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional

COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA

that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service the monthly benefit is two percent of the AFC per year of service. (The AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 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 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is one percent of the AFC per year of service. (The AFC is the monthly average of the 60 consecutive highest-paid service months.)

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65. If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used

only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to but not yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of

employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW. 34

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member

Both Snohomish Health District and the employees made the required contributions. The Snohomish Health District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	\$ 38,266	\$ 610,226	\$ 134,755
2011	\$ 44,428	\$ 514,361	\$ 124,417
2010	\$ 91,361	\$ 810,155	\$ 286,198

NOTE 5 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The state, through the Health Care Authority (HCA), administers an agent multiple-employer other post-employment benefit plan. The Public Employees Benefits Board (PEBB) created within the HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include medical, dental, life and long-term disability. Employers participating in the plan include the state (which includes general government agencies and higher education institutions), 52 of the state's K-12 school and educational service districts (ESDs), and 200 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 249 K-12 school districts and ESDs. The Snohomish Health District's retirees are eligible to participate in the plan under this arrangement.

Plan Description

Eligibility

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

Summary of Benefits

The District participates as a local government employer in the program of benefits for state and local government employees provided through the Public Employees Benefit Board (PEBB). The program is administered by the Washington State Health Care Administration (HCA). The District pays premiums only for its active employees, and does not directly make any payments on behalf of its retirees. Under this program, HCA directs a portion of the active premiums received from all employers to a fund for retiree coverage. These funds are then used to provide a subsidy of coverage for Medicare-eligible retirees (that is, most retirees at least age 65 and some disabled retirees under age 65). For 2010, this subsidy was 50% of the applicable premium, up to a maximum of \$182.89 monthly. Each participating employer is free to provide additional subsidies; however, any gap between the total premium and the subsidy must be paid by the retiree, or there is no coverage.

Funding Policy

The funding policy is based upon the pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The district's annual other post-employment benefits (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2012 (level cost method). The following table shows the components of the district's annual OPEB cost for 2012.

Annual Required Contribution (ARC)	<u>12/31/2012</u>
Annual Required Contribution	\$ 331,750
Interest on net OPEB obligation	46,303
Adjustments to annual required contribution	<u>(17,005)</u>
Annual OPEB Cost	361,048
Contribution Made	<u>(93,170)</u>
Change in NPO	267,878
Net OPEB Obligation - Beginning of Year	<u>1,028,964</u>
Net OPEB Obligation - End of Year	\$1,296,842

Funded Status and Funding Progress

The District does not currently fund these benefits. Benefits have historically been paid on a pay-as-you-go basis. As of December 31, 2010, the most recent actuarial valuation date, the plan was 0% funded. The Unfunded Actuarial Accrued Liability as of January 1, 2010 is \$4.2 million.

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial methods and Assumptions

In accordance with GASB 45, selection of all actuarial assumptions, including the health care cost trend rate in valuations of post-employment health care plans, should be guided

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

Economic Assumptions

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

Discount Rate

The investment return assumption (discount rate) should be the estimated long-term investment yield on the investments that are expected to be used to finance the payments of benefits. The investments expected to be used to finance the payments of benefits would be plan assets for funded plans, assets of the employer for pay-as-you-go plans, or a proportionate combination of the two for plans that are being partially funded. The discount rate is assumed to be 4.5 percent.

Health Care Cost Trend Rates

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

Health Care Cost Trend Rate Assumptions

Year	Medical	Prescription Drug
2011	7.0%	7.0%
2012	6.5%	6.5%
2013	6.0%	6.0%
2014	5.5%	5.5%
2015 and beyond	5.0%	5.0%

Medical Assumptions

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

Demographic Assumptions

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

For further information on the results the actuarial valuation of the employer provided subsidies associated with the state's PEBB plan, refer to:
http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

NOTE 6 - LONG TERM DEBT

The district's long term debt consists of the Net OPEB Obligation (see note 5) and the long term portion of compensated absences (see note 1E(7)).

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net OPEB Obligation	1,028,964	361,048	93,170	\$1,296,842	
Compensated Absences	1,621,817	1,719,464	1,443,643	1,897,638	264,879
Total Long Term Liabilities	2,650,781	2,080,512	1,536,813	3,194,480	264,879

NOTE 7 - DEFERRED COMPENSATION PLAN

The District offers its employees 2 deferred compensation plans created in accordance with Internal Revenue Code Section 457. One through Nationwide Investment Services Corporation and the other through the State of Washington Deferred Compensation Program. The plans are available to all eligible District employees, permitting them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust until

paid or made available to the employee or other beneficiary. Except as otherwise permitted or required by law, no assets or income of the plans shall be used for, or diverted to, purposes other than for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the plan.

NOTE 8 - RISK MANAGEMENT

Snohomish Health District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2012, there are 477 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies 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, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

\$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 liability loss; \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for \$4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

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

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

NOTE 9 – RELATED PARTY TRANSACTIONS

Snohomish County Council members serve as members of the Board of Health and have significant influence in the management of the District. In 2012, Snohomish County provided the following funding:

	Amount
Communicable Disease Control	1,600,000
Public Health Per Capital Allotment	653,200
Chemical Dependency / Mental Health	900,000
Support for First Steps program	
Solid Waste contract for services	<u>754,000</u>
Total Funding	3,907,200

NOTE 10 – REGIONAL AIDS FUND CLOSURE

The Regional Aids Fund was closed pursuant to Board of Health Resolution 11-38 and the residual fund balance of \$158,712 was transferred to the general fund.

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits (OPEB)

Schedule of Funding Progress of Other Post Employment Benefits:

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
2008	1/1/2008	\$0	\$ 3,831,823	\$ 3,831,823	0.00%	\$ 13,543,194	28.30%
2009	1/1/2009	0	4,111,495	4,111,495	0.00%	14,084,921	29.30%
2010	1/1/2010	0	4,191,763	4,191,763	0.00%	11,925,562	35.10%
2011	1/1/2010	0	4,191,763	4,191,763	0.00%	11,073,200	37.85%
2012	1/1/2010	0	4,191,763	4,191,763	0.00%	13,151,121	31.87%

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

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

Schedule of Employer Contributions Without Advanced Funding:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
12/31/2008	\$317,798	\$84,890	26.71	\$232,908
12/31/2009	328,279	84,890	25.90	476,297
12/31/2010	336,178	57,686	17.16	754,789
12/31/2011	348,711	74,536	21.37	1,028,964
12/31/2012	361,048	93,170	25.81	1,296,842

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

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

SNOHOMISH HEALTH DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended 12/31/2012

Federal Assistance Received Directly From A Federal Agency or Indirectly Through A State Agency or Other Local Government

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Other I.D. Number	Current Year Expenditures	
U.S. Dept. of Agriculture				
Passed Through WA-Dept of Health:				
Women, Infants, Children (WIC)-(SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN)	10.557	C16901	1,590,710	
WIC Farmers' Market Nutrition Program-(WIC FARMERS' MARKET NUTRITION PROGRAM (FMNP))	10.572	C16901	795	
Total U.S. Dept. of Agriculture			1,591,505	
U.S. Environmental Protection Agency, Office of Water				
Passed through Washington State Dept. of Health				
Puget Sound Action Agenda (PUGET SOUND ACTION AGENDA: TECHNICAL INVESTIGATIONS AND IMPLEMENTATION ASSISTANCE PROGRAM)	66.123	C16901	70,974	
EHP/Drinking Water - (ASSESSMENT AND WATERSHED PROTECTION PROGRAM GRANTS)	66.480	C16901	5,250	
Total U.S. Environmental Protection Agency			76,224	
U.S. Dept of Health and Human Services				
Passed Through WA-Dept of Health:				
Public Health Emergency Preparedness-(PUBLIC HEALTH EMERGENCY PREPAREDNESS)	93.069	C16901	627,003	Note 3, Note 4
TB-LPN(DOPT) (PROJECT GRANTS AND COOPERATIVE AGREEMENTS FOR TUBERCULOSIS CONTROL PROGRAM)	93.116	C16901	133,427	
Immunization	93.268	C16901	173,120	
Immunization-Vaccines	93.268	N/A	248,255	
Total CFDA # (IMMUNIZATION GRANTS)	93.268		421,375	
Preg/Parent Teen Women-(PREGNANCY ASSISTANCE FUND PROGRAM)	93.500	C16901	97,260	
National Public Health Improvement Initiative	93.507	C16901	10,683	
Community Services Block Grant	93.569	C16901	60,796	
Passed Through WA-DSHS:				
Medicaid Administrative Match-(MEDICAL ASSISTANCE PROGRAM)	93.778	1166-35269	236,986	
Passed Through WA-Dept. of Health:				
BioT/Hosp Prep-(NATIONAL BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM)	93.889	C16901	37,626	
HIV/AIDS (HIV PREVENTION ACTIVITIES_HEALTH DEPARTMENT BASED)	93.940	C16901	242,632	
STD Prevention (PREVENTIVE HEALTH SERVICES - SEXUALLY TRANSMITTED DISEASES CONTROL)	93.977	C16901	26,880	
Maternal and Child Health/CSHCN-(MATERNAL AND CHILD HEALTH SERVICE BLOCK GRANT TO THE STATES)	93.994	C16901	429,968	
Total U.S. Dept of Health and Human Services			2,324,636	
U.S. Dept of Homeland Security				
Passed Through Snohomish County Dept of Emergency Mgmt:				
Homeland Security Grant Program	97.067	E11-149	80,000	
Total U.S. Dept of Homeland Security			80,000	
TOTAL FEDERAL ASSISTANCE			\$4,072,365	Note 2

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

SNOHOMISH HEALTH DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

January 1, 2012 through December 31, 2012

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal, portion of the program costs. Entire program costs, including the district's portion, may be more than shown.

NOTE 3 –NONCASH AWARDS

The amount of vaccine reported on the schedule is the value of vaccine used by the district during the current year and priced as indicated by the Washington State Department of Health on a first-in-first-out basis. In the 2012 contract with the Washington Department of Health, no award was provided for vaccine in lieu of cash. Instead, vaccine was supplied to the district as needed.

NOTE 4 – NOT AVAILABLE (N/A)

Snohomish Health District was unable to obtain other identification number.



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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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Director of State and Local Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Local Government Liaison
Public Records Officer
Main number
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