



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

City of Lake Forest Park

King County

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

Published June 23, 2016

Report No. 1016879





Washington State Auditor's Office

June 23, 2016

Mayor and City Council
City of Lake Forest Park
Lake Forest Park, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Lake Forest Park's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Lake Forest Park
King County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Lake Forest Park 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 City’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than 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 City.

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 City's compliance with requirements applicable to each of its major federal programs.

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 programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction
97.047	Pre-Disaster Mitigation

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

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**City of Lake Forest Park
King County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Lake Forest Park
Seattle, 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 City of Lake Forest Park, King County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated May 27, 2016.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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

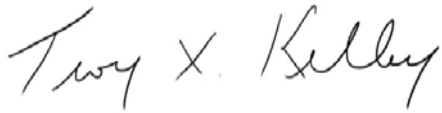
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 27, 2016

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

**City of Lake Forest Park
King County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Lake Forest Park
Seattle, Washington

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

We have audited the compliance of the City of Lake Forest Park, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City'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 City'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 City'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 City's compliance.

Opinion on Each Major Federal Program

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City 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 City'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 City's internal control over compliance.

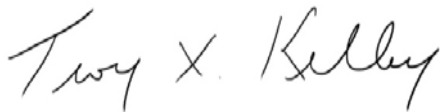
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

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TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 27, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Lake Forest Park King County January 1, 2015 through December 31, 2015

Mayor and City Council
City of Lake Forest Park
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Lake Forest Park, King County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Lake Forest Park, for the year ended December 31, 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Lake Forest Park, as of December 31, 2015, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

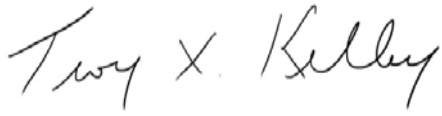
Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2016 on our consideration of the City’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 City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 27, 2016

FINANCIAL SECTION

**City of Lake Forest Park
King County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015
Notes to Financial Statements – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Expenditures of Federal Awards – 2015
Notes to the Schedule of Expenditures of Federal Awards – 2015

City of Lake Forest Park
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund	201 City Hall Bond Fund	202 PW Facility Bond Fund
Beginning Cash and Investments						
30810	Reserved	6,764,670	-	620,726	406,525	3,773
30880	Unreserved	2,906,580	2,617,765	-	-	-
388 & 588	Prior Period Adjustments, Net	-	-	-	-	-
Operating Revenues						
310	Taxes	6,166,504	5,362,147	-	-	-
320	Licenses and Permits	1,240,225	935,624	285,101	-	-
330	Intergovernmental Revenues	6,520,760	193,539	268,668	-	-
340	Charges for Goods and Services	6,013,139	456,347	151,575	-	-
350	Fines and Penalties	897,069	897,069	-	-	-
360	Miscellaneous Revenues	31,080	21,953	745	393	40
Total Operating Revenues:		20,868,778	7,866,679	706,088	393	40
Operating Expenditures						
510	General Government	3,842,302	2,742,866	91,602	-	-
520	Public Safety	3,677,226	3,677,226	-	-	-
530	Utilities	2,961,619	43,873	-	-	-
540	Transportation	531,845	-	459,412	-	-
550	Natural and Economic Environment	1,527,826	841,089	-	-	-
560	Social Services	2,933	2,933	-	-	-
570	Culture and Recreation	269,790	269,790	-	-	-
598	Miscellaneous Expenses	-	-	-	-	-
Total Operating Expenditures:		12,813,542	7,577,778	551,014	-	-
Net Operating Increase (Decrease):		8,055,237	288,902	155,074	393	40
Nonoperating Revenues						
370-380, 395 & 398	Other Financing Sources	677,688	13,920	-	-	-
391-393	Debt Proceeds	-	-	-	-	-
397	Transfers-In	259,025	-	-	95,000	84,025
Total Nonoperating Revenues:		936,713	13,920	-	95,000	84,025
Nonoperating Expenditures						
580, 596 & 599	Other Financing Uses	661,421	661,421	-	-	-
591-593	Debt Service	728,239	-	-	300,200	85,779
594-595	Capital Expenditures	7,830,501	15,905	-	-	-
597	Transfers-Out	259,025	15,990	12,651	-	-
Total Nonoperating Expenditures:		9,479,186	693,316	12,651	300,200	85,779
Net Increase (Decrease) in Cash and Investments:		(487,236)	(390,494)	142,423	(204,807)	(1,714)
Ending Cash and Investments						
5081000	Reserved	6,525,975	-	763,149	201,718	2,060
5088000	Unreserved	2,658,037	2,227,270	-	-	-
Total Ending Cash and Investments		9,184,012	2,227,270	763,149	201,718	2,060

The accompanying notes are an integral part of this statement.

301 Capital Improvement Fund	302 Transportation Capital Fund	Facilities Maintenance Fund	401 Sewer Utility Fund	403 Surface Water Utility Fund	450 PW Contract Fund	501 Replacement Fund
550,699	807,292	140,148	2,841,046	1,077,752	-	316,709
-	-	-	-	-	288,815	-
-	-	-	-	-	-	-
389,494	389,494	-	25,368	-	-	-
-	-	-	19,500	-	-	-
87,564	1,602,727	-	-	4,368,263	-	-
-	145,824	-	3,079,582	1,025,940	873,223	280,648
-	-	-	-	-	-	-
846	841	187	4,405	886	401	384
477,905	2,138,886	187	3,128,855	5,395,089	873,624	281,032
8,948	19,863	-	94,357	86,195	693,180	105,291
-	-	-	-	-	-	-
-	-	-	2,411,238	506,508	-	-
-	6	-	-	-	-	72,427
-	-	-	-	686,737	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
8,948	19,869	-	2,505,595	1,279,440	693,180	177,718
468,957	2,119,017	187	623,260	4,115,649	180,444	103,314
-	-	-	-	661,421	-	2,347
-	-	-	-	-	-	-
-	-	50,000	30,000	-	-	-
-	-	50,000	30,000	661,421	-	2,347
-	-	-	-	-	-	-
-	-	-	331,323	10,937	-	-
23,687	2,531,111	-	-	5,165,035	-	94,763
175,000	-	-	4,241	12,651	38,492	-
198,687	2,531,111	-	335,564	5,188,623	38,492	94,763
270,270	(412,094)	50,187	317,696	(411,553)	141,952	10,898
820,969	395,198	190,334	3,158,743	666,199	-	327,606
-	-	-	-	-	430,768	-
820,969	395,198	190,334	3,158,743	666,199	430,768	327,606

The accompanying notes are an integral part of this statement.

City of Lake Forest Park
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	631 Treasurer's Clearing	634 Transportation Benefit District	638 FSA Account Fund
308	Beginning Cash and Investments	124,360	4,139	100,754	1,224
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	214,747	-	214,747	-
380-390	Other Increases and Financing Sources	222,368	179,583	-	18,203
510-570	Expenditures	207,289	-	207,289	-
580-590	Other Decreases and Financing Uses	220,358	179,548	-	17,591
Net Increase (Decrease) in Cash and Investments:		9,468	35	7,458	612
508	Ending Cash and Investments	133,827	4,174	108,212	1,836

		639 Court Trust Fund	640 HRA Teamsters
308	Beginning Cash and Investments	10,460	7,783
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	17,082	7,500
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	20,663	2,557
Net Increase (Decrease) in Cash and Investments:		(3,581)	4,943
508	Ending Cash and Investments	6,879	12,726

The accompanying notes are an integral part of this statement.

City of Lake Forest Park
Notes to Financial Statements
For the Year Ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

The City of Lake Forest Park was incorporated on June 21, 1961 and operates under the laws of the state of Washington applicable to an optional Municipal Code City with a Mayor-Council form of government. The City of Lake Forest Park (hereinafter referred to as the "City") is a general purpose local government and provides public safety, public works, planning and building, parks, and human services.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The City adopts biennial appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund	Final Adopted Expenditure Budget	Actual Expenditures	Variance
General Fund	7,949,958	7,609,673	340,285
Street Fund	789,316	563,665	225,651
Council Contingency Fund	-	-	-
Budget Stabilization Fund	-	-	-
City Hall Bond Fund	300,200	300,200	-
Public Works Facility Bond Fund	85,779	85,779	-
Capital Improvement Fund	282,752	207,635	75,117
Transportation Capital Fund	2,677,406	2,550,980	126,426
Facilities Maintenance Fund	-	-	-
Sewer Utility Fund	2,998,480	2,936,588	61,892
Sewer Capital Fund	79,462	-	79,462
Surface Water Utility Fund	928,179	803,456	124,723
Surface Water Capital Fund	7,066,173	5,664,607	1,401,566
Sewer Bond Reserve Fund	-	-	-
Public Works Trust Repayment Fund	254,785	254,571	214
Public Works Contract Fund	851,664	731,672	119,992
Replacement Fund	358,907	272,482	86,425
Transportation Benefit District Fund	213,039	207,289	5,750

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions and/or salary ranges must be approved by the City's legislative body.

D. Cash and Investments

See Note 3, *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. Sick leave may be accumulated indefinitely for non-union and Teamsters (Public Works Maintenance) employees and up to 960 hours for Police Guild employees. Non-union employees on an annual basis can convert sick leave in excess of 480 hours to vacation at a rate of 25%. Teamsters employees receive cash payments for their sick leave balance in excess of 480 hours at retirement, the payout rate is \$.25 on the dollar of the unused sick leave balance at retirement. Police Guild employees receive cash payments for their unused sick leave upon layoff (25%), retirement (50%), disability retirement (100%), and death (100%).

Non-union employees sick leave balances eligible for conversion to vacation were calculated on Schedule 9 at 25% of the sick leave balance in excess of 480 hours. Police Guild compensated sick leave absences were calculated at the 50% retirement rate. Teamsters employees did not have balances qualifying for payout at year end. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The “Other Financing Sources or Uses” for the City of Lake Forest Park vary from fund to fund but are generally General Fund and other operating fund transfers to the capital funds for a portion of debt payments.

Specifically, the main “other financing sources or uses” include:

General Fund – Fund 001:

Major General Fund financing uses include a transfer to the City Hall Bond Fund and the Public Works Facility Bond Fund for its portion of the debt payments for construction of the facilities.

Street Fund – Fund 101:

Major financing sources include a transfer from the Lake Forest Park Transportation Benefit District for preservation and maintenance of the City transportation infrastructure. Major Street Fund financing uses include a transfer to the Public Works Facility Construction Fund for its portion of the debt payment for construction of the Public Works Facility.

Long Term General Obligation (City Hall) Bond Fund (LTGO) - Fund 201:

LTGO Bond Fund financing sources include a transfer from the Capital Improvement Fund for annual bond payments.

Public Works Facility Bond Fund – Fund 202:

Other financing sources come from transfers from the General, Street, Surface Water, Sewer, and Public Works Contract Funds for each fund’s portion of the debt payment for construction of the Public Works Facility.

Capital Improvement Fund – Fund 301:

Capital Improvement Fund financing uses include a transfer to the LTGO (City Hall) Bond Fund for a portion of the annual City Hall debt payment, a transfer to the Sewer Capital Fund for utility projects, and a transfer to the Capital Facilities Maintenance Fund.

Transportation Capital Improvement Fund – Fund 302:

Transportation Capital Improvement Fund financing sources include transfers from the General Fund, Transportation Benefit District, Capital Improvement, Surface Water, and Sewer Funds for their portion of engineering capital work.

Sewer Utility Fund – Fund 401:

Major Sewer Utility Fund financing uses include a transfer to the Transportation Capital Fund for sewer related capital work and a transfer to the Public Works Facility Fund for its portion of the debt payment related to construction of the Public Works Facility.

Surface Water Fund – Fund 403:

Major Surface Water Fund financing uses include a transfer to the Public Works Facility Construction Fund for portion of the debt payment for construction of the Public Works Facility and to the Transportation Capital Fund for Surface Water-related capital work.

Public Works Contract Fund – Fund 450:

Public Works Contract Fund financing uses include a transfer to the Public Works Facility Bond Fund for its portion of the debt payment for construction of the Public Works Facility.

Transportation Benefit District (TBD) – Fund 634:

Major Transportation Benefit District uses include a transfer to the Streets Fund for preservation and maintenance of the City transportation infrastructure, and to the Transportation Capital Fund for its portion of engineering capital work.

I. Risk Management

General Government

The city of Lake Forest Park is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

Health and Welfare

The City of Lake Forest Park is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination

will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council. When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of amounts reserved for street funding, debt repayment, capital and transportation improvement projects, capital facilities maintenance, utility operation and utility capital projects, and vehicle and equipment replacement. Past reports had classified ending cash balances in the Council Contingency Fund and Budget Stabilization Fund as reserved; in the current year these amounts are classified as unreserved. This change is the result of a change in interpretation regarding the nature of the restrictions placed on those balances.

Note 2 - Property Tax

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

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

The City's regular levy for the year 2015 was \$12.9802 per \$1,000 on an assessed valuation of \$2,278,770,034 for a total regular levy of \$2,957,911.

Note 3 – Deposits and Investments

Deposits and Investments

It is the City's policy to invest all temporary cash surpluses in the Local Government Investment Pool ("LGIP"). The interest on these investments is allocated to the various funds based on the average daily balance of the fund's cash account.

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

Investments are reported at fair value. Investments by type at December 31, 2015 are as follows:

Type of Investment	City's Own Investment	Investments Held by City as Agent	Total
Bank of America Deposits	3,755,724	21,741	3,777,465
Local Government Investment Pool	6,184,154	-	6,184,154

Note 4 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City debt transactions for year ended December 31, 2015.

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

<u>Year</u>	<u>General Obligation Debt</u>	<u>Revenue Debt</u>	<u>Total Debt</u>
2016	644,315	76,758	721,073
2017	345,203	76,803	422,006
2018	258,138	7,718	265,856
2019	247,993	7,496	255,489
2020	246,795	-	246,795
2021-2026	1,216,006	-	1,216,006
Total	2,958,450	168,775	3,127,225

Note 5 Interfund Loans

During 2015 a line of credit agreement was executed to utilize the temporary cash surpluses in some funds to provide temporary construction funding for capital projects while grant funding reimbursements were pending with the granting agencies. The line of credit was fully repaid on March 15, 2016. The following table displays interfund loan activity (line of credit activity) during 2015:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance at</u> <u>1/1/2015</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance at</u> <u>12/31/2015</u>
Capital Fund (Reported as Surface Water Utility)	Council Contingency Fund (Reported as General Fund)	-	661,421	-	661,421

Note 6 - Pension Plans

Substantially all the City's full-time and qualifying part-time employees participate in Public Employee's Retirement System or Law Enforcement Officers and Fire Fighters Plan 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, 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
PO Box 48380
Olympia, WA 98504-8380

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

At June 30, 2015 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

<u>Plan</u>	<u>Allocation Percentage</u>	<u>Liability (Asset)</u>
PERS 1	0.001268%	66,328
PERS 1 UAAL	0.024396%	1,276,138
PERS 2/3	0.031731%	1,133,767
Net Pension Liability		2,476,233
LEOFF 1	0.003603%	(43,424)
LEOFF 2	0.054826%	(563,502)
Net LEOFF Assets		(606,926)

LEOFF Plan 1

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

LEOFF Plan 2

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

Note 7 – Other Disclosures

Post-Employment Benefits

The City of Lake Forest Park has a commitment to pay for post-employment benefits for retired employees that belong to LEOFF 1. These benefits include medical, dental, vision, nursing care, etc. Two retirees received benefits during the year. During 2015, \$3,467 was paid out for disability insurance and \$29,025 was paid out for LEOFF1 benefits, for a total of \$32,492.

Subsequent Events

The Transportation Benefit District (TBD) was dissolved as a separate entity on January 1, 2016, the activities of the TBD will continue as part of the general City government and will be reported as a special revenue fund. The cash assets of the district were transferred to the City at dissolution and will be reported prospectively as Transportation Benefit District Fund No. 104. No other changes to the TBD will result from the dissolution of the separate legal entity for the TBD.

**City of Lake Forest Park
Schedule of Liabilities
For the Year Ended December 31, 2015**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	GO Bond - City Hall Refunding Bond (5/18/05)	12/1/2016	560,000	-	275,000	285,000
263.81	GO Bond - Public Works Trust Fund Loan Repayment (7/13/99)	12/31/2018	35,432	-	8,858	26,574
251.11	GO Bond PW Facility (10/2/02) - General Fund 001	10/1/2017	42,377	-	14,905	27,473
251.11	GO Bond PW Facility (10/2/02) - Street Fund 101	10/1/2017	33,526	-	11,792	21,734
251.11	GO Bond PW Facility (10/2/02) - Public Works Contract Fund 450	10/1/2017	101,661	-	35,604	66,057
251.11	GO Bond PW Facility (10/2/02) - Sewer Utility Fund 401	10/1/2017	11,242	-	3,953	7,289
251.11	GO Bond PW Facility (10/2/02) - Surface Water Utility Fund 403	10/1/2017	33,526	-	11,792	21,734
263.81	GO Bond - Public Works Trust Fund Loan Repayment (5/23/05)	5/23/2025	2,635,677	-	239,607	2,396,070
Total General Obligations:			3,453,442	-	601,511	2,851,931
Revenue Obligations						
263.52	Revenue Bond - Ronald PWTF (12/16/02)	1/30/2019	38,824	-	9,341	29,484
252.11	Revenue Bond - Ronald Assumption (12/16/02)	12/1/2017	190,000	-	61,000	129,000
264.30	Net Pension Liability	12/31/2015	-	2,476,233	-	2,476,233
259.12	Compensated Absences	12/31/2015	442,450	338,649	334,862	446,237
Total Revenue Obligations:			671,274	2,814,882	405,203	3,080,954
Total Liabilities:			4,124,716	2,814,882	1,006,714	5,932,884

City of Lake Forest Park
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	15-0404-0-1-754	-	829	829	-
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA-8009	776,158	-	776,158	NA
Total Highway Planning and Construction Cluster:				776,158	-	776,158	-
Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	State and Community Highway Safety	20.600	0018019-00	4,965	-	4,965	NA
Total Highway Safety Cluster:				4,965	-	4,965	-
Department Of Homeland Security (via Washington State Military Dept.)	Pre-Disaster Mitigation	97.047	E13-092	2,478,628	-	2,478,628	NA
Total Federal Awards Expended:				3,259,751	829	3,260,581	-

The accompanying notes are an integral part of this schedule.

City of Lake Forest Park
Notes to the Schedule of Expenditure of Federal Awards
For the Year Ended December 31, 2015

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the City of Lake Forest Park financial statements. The City uses the Cash basis of accounting.

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 City's portion, are more than the amounts on the schedule.

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