



Office of the Washington State Auditor

Pat McCarthy

Financial Statements Audit Report

City of Lake Forest Park

King County

For the period January 1, 2016 through December 31, 2016

Published September 28, 2017

Report No. 1019966





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

September 28, 2017

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

Report on Financial Statements

Please find attached our report on the City of Lake Forest Park's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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**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, 2016 through December 31, 2016**

Mayor and City Council
City of Lake Forest Park
Lake Forest Park, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 21, 2017.

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 "Pat McCarthy". The signature is fluid and cursive, with "Pat" on the first line and "McCarthy" on the second line.

Pat McCarthy

State Auditor

Olympia, WA

September 21, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Lake Forest Park King County January 1, 2016 through December 31, 2016

Mayor and City Council
City of Lake Forest Park
Lake Forest Park, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

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, 2016, 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, 2016, 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 Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

September 21, 2017

FINANCIAL SECTION

**City of Lake Forest Park
King County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016
Notes to Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016

City of Lake Forest Park
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund	104 Transportation Benefit District
Beginning Cash and Investments					
30810	Reserved	6,145,313	-	763,149	-
30880	Unreserved	3,038,698	2,227,270	-	-
388 / 588	Prior Period Adjustments, Net	-	14,999	(14,999)	-
Revenues					
310	Taxes	6,651,192	5,508,561	-	268,528
320	Licenses and Permits	1,257,064	927,745	300,485	-
330	Intergovernmental Revenues	2,661,866	216,842	276,537	-
340	Charges for Goods and Services	6,788,139	476,583	150,562	-
350	Fines and Penalties	1,073,994	1,073,994	-	-
360	Miscellaneous Revenues	174,536	62,927	3,327	797
Total Revenues:		18,606,792	8,266,652	730,910	269,325
Expenditures					
510	General Government	4,252,029	2,904,525	87,127	515
520	Public Safety	3,858,330	3,858,330	-	-
530	Utilities	2,467,727	-	-	-
540	Transportation	783,178	-	465,696	200,000
550	Natural and Economic Environment	1,584,363	868,215	-	-
560	Social Services	3,851	3,851	-	-
570	Culture and Recreation	234,696	234,696	-	-
Total Expenditures:		13,184,174	7,869,617	552,823	200,515
Excess (Deficiency) Revenues over Expenditures:		5,422,619	397,035	178,089	68,810
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	337,841	-	-	108,212
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	35,763	35,763	-	-
381, 395, 398	Other Resources	679,426	663,412	-	-
Total Other Increases in Fund Resources:		1,053,030	699,174	-	108,212
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,417,007	10,518	104,825	11,500
591-593, 599	Debt Service	721,073	-	-	-
597	Transfers-Out	229,629	15,990	12,651	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	661,421	-	-	-
Total Other Decreases in Fund Resources:		3,029,130	26,508	117,476	11,500
Increase (Decrease) in Cash and Investments:		3,446,519	1,069,702	60,612	165,522
Ending Cash and Investments					
5081000	Reserved	9,054,472	-	808,762	165,522
5088000	Unreserved	3,576,059	3,311,970	-	-
Total Ending Cash and Investments		12,630,531	3,311,970	808,762	165,522

The accompanying notes are an integral part of this statement.

City of Lake Forest Park
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		201 City Hall Bond Fund	202 PW Facility Bond Fund	301 Capital Improvement Fund	302 Transportation Capital Fund
Beginning Cash and Investments					
30810	Reserved	201,718	2,060	820,969	395,198
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	437,052	437,052
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	31,676	561,225
340	Charges for Goods and Services	-	-	-	431,200
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	503	131	3,086	2,087
Total Revenues:		503	131	471,813	1,431,564
Expenditures					
510	General Government	-	-	9,902	16,940
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	29,811
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	9,902	46,751
Excess (Deficiency) Revenues over Expenditures:		503	131	461,912	1,384,813
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	95,604	84,025	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		95,604	84,025	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	72,574	749,754
591-593, 599	Debt Service	297,825	85,779	-	-
597	Transfers-Out	-	-	145,604	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		297,825	85,779	218,178	749,754
Increase (Decrease) in Cash and Investments:		(201,718)	(1,623)	243,734	635,059
Ending Cash and Investments					
5081000	Reserved	-	437	1,064,702	1,030,257
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		-	437	1,064,702	1,030,257

City of Lake Forest Park
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		303 Capital Facilities Maintenance	401 Sewer Utility Fund	403 Surface Water Capital Fund	450 PW Contract Fund
Beginning Cash and Investments					
30810	Reserved	190,334	2,778,082	666,198	-
30880	Unreserved	-	380,661	-	430,768
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	28,834	-	-
330	Intergovernmental Revenues	-	25,905	1,549,682	-
340	Charges for Goods and Services	-	3,302,960	1,100,872	813,531
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	687	12,320	86,039	1,188
Total Revenues:		687	3,370,019	2,736,593	814,719
Expenditures					
510	General Government	-	95,375	97,401	942,906
520	Public Safety	-	-	-	-
530	Utilities	-	2,321,266	146,461	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	716,148	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	2,416,641	960,009	942,906
Excess (Deficiency) Revenues over Expenditures:		687	953,378	1,776,584	(128,187)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	50,000	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		50,000	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	261,368	-
591-593, 599	Debt Service	-	328,345	9,124	-
597	Transfers-Out	-	4,241	12,651	38,492
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	661,421	-
Total Other Decreases in Fund Resources:		-	332,586	944,563	38,492
Increase (Decrease) in Cash and Investments:		50,687	620,792	832,020	(166,679)
Ending Cash and Investments					
5081000	Reserved	241,022	3,779,534	1,498,219	-
5088000	Unreserved	-	-	-	264,089
Total Ending Cash and Investments		241,022	3,779,534	1,498,219	264,089

City of Lake Forest Park
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		501 Replacement Fund
Beginning Cash and Investments		
30810	Reserved	327,606
30880	Unreserved	-
388 / 588	Prior Period Adjustments, Net	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	512,432
350	Fines and Penalties	-
360	Miscellaneous Revenues	1,445
Total Revenues:		<u>513,877</u>
Expenditures		
510	General Government	97,338
520	Public Safety	-
530	Utilities	-
540	Transportation	87,672
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>185,010</u>
Excess (Deficiency) Revenues over Expenditures:		<u>328,867</u>
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	16,015
Total Other Increases in Fund Resources:		<u>16,015</u>
Other Decreases in Fund Resources		
594-595	Capital Expenditures	206,468
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581	Other Uses	-
Total Other Decreases in Fund Resources:		<u>206,468</u>
Increase (Decrease) in Cash and Investments:		<u>138,414</u>
Ending Cash and Investments		
5081000	Reserved	466,019
5088000	Unreserved	-
Total Ending Cash and Investments		<u>466,019</u>

City of Lake Forest Park
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	632 Police Coalition Program	634 Transportation Benefit District	635 Northshore Emergency Mgmt
308	Beginning Cash and Investments	127,406	-	108,212	-
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	200,750	200,680	-	69
380-390	Other Increases and Financing Sources	1,454,979	47,756	-	66,890
510-570	Expenditures	137,936	81,776	-	56,160
580-590	Other Decreases and Financing Uses	1,451,961	14,992	108,212	-
	Net Increase (Decrease) in Cash and Investments:	65,831	151,668	(108,212)	10,799
508	Ending Cash and Investments	193,238	151,668	-	10,799

		638 FSA Account Fund	639 Court Trust Fund	640 HRA Teamsters
308	Beginning Cash and Investments	1,836	4,632	12,726
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	-	-	-
380-390	Other Increases and Financing Sources	17,350	1,316,683	6,300
510-570	Expenditures	-	-	-
580-590	Other Decreases and Financing Uses	18,280	1,303,399	7,078
	Net Increase (Decrease) in Cash and Investments:	(930)	13,284	(778)
508	Ending Cash and Investments	906	17,916	11,948

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, 2016

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. The BARS 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

Debt service 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

Enterprise 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 up to twenty days after the close of the fiscal year for claims incurred during the previous fiscal year. The twenty day period following year end is commonly referred to as the “open 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. Biennial appropriations lapse at the biennium.

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	8,315,988	7,896,125	419,863
Street Fund	889,316	685,297	204,019
Council Contingency Fund	-	-	-
Transportation Benefit District Fund	334,564	212,015	122,549
Budget Stabilization Fund	-	-	-
City Hall Bond Fund	297,826	297,825	1
Public Works Facility Bond Fund	85,779	85,779	-
Capital Improvement Fund	312,754	228,080	84,674
Transportation Capital Fund	1,027,170	796,505	230,665
Facilities Maintenance Fund	-	-	-
Sewer Utility Fund	3,021,852	2,954,395	67,457
Sewer Capital Fund	19,615	-	19,615
Surface Water Utility Fund	941,611	914,013	27,598
Surface Water Capital Fund	435,028	399,138	35,890
Sewer Bond Reserve Fund	-	-	-
Public Works Trust Repayment Fund	263,587	257,380	6,207
Public Works Contract Fund	1,011,299	981,398	29,901
Replacement Fund	495,021	391,479	103,542

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 expensed 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 employees. Teamster (Public Works Maintenance) employees may be accumulated up to 720 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. Risk Management

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, 2016, 258 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, dental and vision insurance through the following carriers: Group Health Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and 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. In 2016, the AWC Trust HCP purchased 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.

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.

I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are 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.

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 2016 was \$1.2347 per \$1,000 on an assessed valuation of \$2,445,471,920 for a total regular levy of \$3,019,416.

Note 3 – Deposits and Investments

Deposits and Investments

It is the City's policy to utilize the Washington State Local Government Investment Pool ("LGIP") as its primary investment vehicle. The City may utilize investments provided by the City's Bank as a supplement to the LGIP for short-term investments. The interest on these investments is allocated to the various funds based on the month end 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, 2016 are as follows:

Type of Investment	City's Own Investment	Investments Held by City as Agent	Total
Bank of America Deposits	49,936	-	49,936
Local Government Investment Pool	8,272,298	-	8,272,298
Opus Deposits	4,595,727	151,668	4,747,395

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, 2016.

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

Year	Principal	Interest	Total
2017	\$ 405,512	\$ 16,494	\$ 422,006
2018	255,836	10,019	265,855
2019	246,978	8,511	255,489
2020	239,607	7,188	246,795
2021	239,607	5,990	245,597
2022-2026	958,428	11,980	970,408
Total	\$ 2,345,968	\$ 60,183	\$ 2,406,151

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 2016:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance at 1/1/2016</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance at 12/31/2016</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, 2016 (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	0.001254%	67,346
PERS 1 UAAL	0.024010%	1,289,450
PERS 2/3	0.030782%	1,549,849
Net Pension Liability		2,906,645
LEOFF 1	0.003641%	(37,513)
LEOFF 2	0.055491%	(322,752)
Net LEOFF Assets		(360,265)

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 2016, \$3,467 was paid out for disability insurance and \$36,548 was paid out for LEOFF1 benefits, for a total of \$40,015.

City of Lake Forest Park
Schedule of Liabilities
For the Year Ended December 31, 2016

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	GO Bond - City Hall Refunding Bond (5/18/05)	12/1/2016	285,000	-	285,000	-
263.81	GO Bond - Public Works Trust Fund Loan Repayment (7/13/99)	12/31/2018	26,574	-	8,858	17,716
251.11	GO Bond PW Facility (10/2/02) - General Fund 001	10/1/2017	27,473	-	15,431	12,042
251.11	GO Bond PW Facility (10/2/02) - Street Fund 101	10/1/2017	21,734	-	12,182	9,552
251.11	GO Bond PW Facility (10/2/02) - Public Works Contract Fund 450	10/1/2017	66,057	-	37,359	28,698
251.11	GO Bond PW Facility (10/2/02) - Sewer Utility Fund 401	10/1/2017	7,289	-	4,061	3,228
251.11	GO Bond PW Facility (10/2/02) - Surface Water Utility Fund 403	10/1/2017	21,734	-	12,182	9,552
263.81	GO Bond - Public Works Trust Fund Loan Repayment (5/23/05)	5/23/2025	2,396,070	-	239,607	2,156,463
Total General Obligation Debt/Liabilities:			2,851,931	-	614,680	2,237,250
Revenue and Other (non G.O.) Debt/Liabilities						
263.88	Revenue Bond - Ronald PWTF (12/16/02)	1/30/2019	29,484	-	7,371	22,113
252.11	Revenue Bond - Ronald Assumption (12/16/02)	12/1/2017	129,000	-	63,000	66,000
264.30	Net Pension Liability	12/31/2016	2,476,233	430,412	-	2,906,645
259.12	Compensated Absences	12/31/2016	446,237	537,136	411,807	571,566
Total Revenue and Other (non G.O.) Debt/Liabilities:			3,080,954	967,548	482,178	3,566,324
Total Liabilities:			5,932,884	967,548	1,096,858	5,803,574

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