



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Lake Forest Park

King County

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

Published September 10, 2018

Report No. 1022017





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

September 10, 2018

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 cursive script 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, 2017 through December 31, 2017**

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, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated August 30, 2018.

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 written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

August 30, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Lake Forest Park King County January 1, 2017 through December 31, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2017, 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, 2017, 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.

Matters of Emphasis – Correction of Prior Year Misstatement

As discussed in Note 7 to the financial statements, the 2016 financial statements have been restated to correct account balances outstanding that were subsequently identified as not being liabilities of the City. Our opinion is not modified with respect to this matter.

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 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 August 30, 2018 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 cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

August 30, 2018

FINANCIAL SECTION

**City of Lake Forest Park
King County
January 1, 2017 through December 31, 2017**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

City of Lake Forest Park
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund
Beginning Cash and Investments				
30810	Reserved	9,054,472	-	808,762
30880	Unreserved	3,576,059	3,311,970	-
388 / 588	Prior Period Adjustments, Net	1,019	1,019	-
Revenues				
310	Taxes	7,105,519	5,781,981	-
320	Licenses and Permits	1,278,987	912,275	342,013
330	Intergovernmental Revenues	1,466,305	261,589	280,243
340	Charges for Goods and Services	6,686,791	571,304	-
350	Fines and Penalties	1,455,926	1,455,926	-
360	Miscellaneous Revenues	157,540	63,445	7,707
Total Revenues:		18,151,067	9,046,520	629,963
Expenditures				
510	General Government	4,454,129	3,136,274	79,266
520	Public Safety	3,904,966	3,904,966	-
530	Utilities	2,687,117	1,991	-
540	Transportation	1,329,224	16,898	488,829
550	Natural and Economic Environment	1,641,621	945,237	-
560	Social Services	3,438	3,438	-
570	Culture and Recreation	286,797	242,469	-
Total Expenditures:		14,307,293	8,251,275	568,096
Excess (Deficiency) Revenues over Expenditures:		3,843,776	795,245	61,868
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	213,764	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	15,616	15,616	-
381, 395, 398	Other Resources	540,412	-	-
Total Other Increases in Fund Resources:		769,792	15,616	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	2,643,941	9,467	-
591-593, 599	Debt Service	400,561	-	-
597	Transfers-Out	213,764	11,055	10,250
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581	Other Uses	518,506	-	-
Total Other Decreases in Fund Resources:		3,776,772	20,521	10,250
Increase (Decrease) in Cash and Investments:		836,796	790,342	51,618
Ending Cash and Investments				
5081000	Reserved	9,060,143	-	860,380
5088000	Unreserved	4,408,202	4,103,328	-
Total Ending Cash and Investments		13,468,344	4,103,328	860,380

The accompanying notes are an integral part of this statement.

104 Transportation Benefit District	202 PW Facility Bond Fund	301 Capital Improvement Fund	302 Transportation Capital Fund	303 Capital Facilities Maintenance Fund	401 Sewer Utility Fund
165,522	437	1,064,702	1,030,257	241,022	3,779,534
-	-	-	-	-	-
-	-	-	-	-	-
432,959	-	437,134	436,799	-	16,646
-	-	-	-	-	24,700
-	-	297,440	190,409	-	-
-	-	-	253,576	-	3,330,071
-	-	-	-	-	-
3,670	133	8,651	8,682	1,960	37,878
436,629	133	743,226	889,466	1,960	3,409,295
2,103	-	5,669	28,411	5,854	131,938
-	-	-	-	-	-
-	-	-	-	-	2,433,693
247,715	-	-	492,653	-	651
-	-	-	-	-	-
-	-	-	-	-	-
-	-	44,328	-	-	-
249,818	-	49,997	521,064	5,854	2,566,282
186,811	133	693,228	368,402	(3,894)	843,013
-	-	-	-	-	-
-	63,764	-	-	150,000	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	518,506	-	-	-
-	63,764	518,506	-	150,000	-
-	-	1,758,200	745,234	40,552	-
-	64,334	-	-	-	327,192
-	-	150,000	-	-	10,327
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	518,506
-	64,334	1,908,200	745,234	40,552	856,025
186,811	(437)	(696,466)	(376,832)	105,555	(13,012)
352,333	-	368,237	653,425	346,577	3,766,522
-	-	-	-	-	-
352,333	-	368,237	653,425	346,577	3,766,522

403 Surface Water Capital Fund	450 PW Contract Fund	501 Replacement Fund
1,498,219	-	466,019
-	264,089	-
-	-	-
-	-	-
-	-	-
436,623	-	-
1,179,347	892,687	459,805
-	-	-
16,367	2,796	6,250
<u>1,632,338</u>	<u>895,483</u>	<u>466,055</u>
94,611	825,664	144,339
-	-	-
251,433	-	-
651	-	81,826
696,383	-	-
-	-	-
-	-	-
<u>1,043,078</u>	<u>825,664</u>	<u>226,166</u>
<u>589,259</u>	<u>69,819</u>	<u>239,890</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	21,906
<u>-</u>	<u>-</u>	<u>21,906</u>
14,500	-	75,989
9,035	-	-
3,099	29,034	-
-	-	-
-	-	-
-	-	-
<u>26,634</u>	<u>29,034</u>	<u>75,989</u>
562,625	40,785	185,807
2,060,844	-	651,824
-	304,874	-
<u>2,060,844</u>	<u>304,874</u>	<u>651,824</u>

City of Lake Forest Park
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	Agency
308	Beginning Cash and Investments	193,238	193,238
388 & 588	Prior Period Adjustment, Net	-	-
310-390	Additions	2,008,663	2,008,663
510-590	Deductions	1,991,980	1,991,980
	Net Increase (Decrease) in Cash and Investments:	16,682	16,682
508	Ending Cash and Investments	209,921	209,921

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, 2017

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, except those funds held by the City in an agency capacity. Budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures. Biennial appropriations lapse at the end of the biennium.

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

reporting. The Final Adopted Expenditure Budget amounts in the following chart are two year appropriations; Actual Expenditure amounts are for one year, 2017.

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

Fund	Final Adopted Expenditure Budget	Actual Expenditures	Variance
General Fund	17,698,009	8,271,928	9,426,081
Street Fund	1,243,314	578,345	664,969
Council Contingency Fund	-	-	-
Transportation Benefit District Fund	605,612	249,817	355,795
Budget Stabilization Fund	-	-	-
City Hall Bond Fund	-	-	-
Public Works Facility Bond Fund	64,334	64,333	-
Capital Improvement Fund	2,412,342	1,958,197	454,145
Transportation Capital Fund	2,325,246	1,266,297	1,058,949
Facilities Maintenance Fund	340,567	46,405	294,162
Sewer Utility Fund	6,060,901	2,649,839	3,411,062
Sewer Capital Fund	424,302	-	424,302
Surface Water Utility Fund	2,321,902	828,817	1,493,085
Surface Water Capital Fund	680,000	240,894	439,106
Sewer Bond Reserve Fund	-	-	-
Public Works Trust Repayment Fund	505,581	253,961	251,620
Public Works Contract Fund	1,756,201	854,698	901,503
Replacement Fund	824,924	302,154	522,770

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 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 161 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 [1]. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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, reinsurance and other 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 (\$860,380); transportation benefit district (\$352,333); capital improvement fund (\$368,237); transportation capital fund (\$653,425); capital facilities maintenance (\$346,577); sewer utility fund (\$3,766,522); surface water capital fund (\$2,060,844); and vehicle and equipment replacement (\$651,824).

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 2017 was \$1.19055 per \$1,000 on an assessed valuation of \$2,612,925,677 for a total regular levy of \$3,109,659.

Note 3 – Deposits and Investments

Deposits and Investments

It is the City's policy to utilize the Washington State Local Government Investment Pool ("LGIP") and the City's bank for the investment of cash surpluses. 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 are covered by the Federal Deposit Insurance Corporation and/or the Washington Public

Deposit Protection Commission. All deposits 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, 2017 are as follows:

Type of Investment	City's Own Investment	Investments Held by City as Agent	Total
Local Government Investment Pool	10,632,354	-	10,632,354
Opus Deposits	3,791,512	165,484	3,956,996

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, 2017. The methodology to report compensated absences on the Schedule of Liabilities was updated to include the employer costs associated with the calculated liability, an adjustment for this change is included in the "Additions" column.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	239,607	4,792	244,399
2023-2026	718,821	7,188	726,009
Total	\$ 1,940,456	\$ 43,689	\$ 1,984,145

Note 5 Interfund Loans

During 2017 a line of credit agreement was executed to utilize the temporary cash surpluses in one fund to provide temporary property acquisition funding while grant funding reimbursements were pending with the granting agencies and a permanent funding solution was selected for the remaining acquisition cost. The line of credit agreement requires that the line of credit is fully repaid by December 31, 2018. The following table displays interfund loan activity (line of credit activity) during 2017:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance at 1/1/2017</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance at 12/31/2017</u>
Capital Improvement Fund	Sewer Capital Fund	-	518,506	-	518,506

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, 2017 (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	0.001214%	57,605
PERS 1 UAAL	0.024161%	1,146,458
PERS 2/3	0.031003%	1,077,206
Net Pension Liability		2,281,270
LEOFF 1	0.003693%	(56,031)
LEOFF 2	0.054585%	(757,463)
Net LEOFF Assets		(813,494)

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 – Prior Period Adjustment

Prior Period Adjustment

City of Lake Forest Park finance staff discovered several small outstanding transactions during a routine accounting system review. A subsequent investigation revealed that the outstanding transactions were entries made in the accounting system during its 2009 implementation and that the items were not liabilities of the City. A prior period adjustment was entered in the accounting system to clear these outstanding items. The adjustment was a positive adjustment to General Fund cash of \$1,150.94.

Note 8 – 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 2017, \$3,466 was paid out for disability insurance and \$34,822 was paid out for LEOFF1 benefits, for a total of \$38,288.

**City of Lake Forest Park
Schedule of Liabilities
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.81	GO Bond - Public Works Trust Fund Loan Repayment (7/13/99)	12/31/2018	17,716	-	8,858	8,858
251.11	GO Bond PW Facility (10/2/02) - General Fund 001	10/1/2017	12,042	-	12,042	-
251.11	GO Bond PW Facility (10/2/02) - Street Fund 101	10/1/2017	9,552	-	9,552	-
251.11	GO Bond PW Facility (10/2/02) - Public Works Contract Fund 450	10/1/2017	28,698	-	28,698	-
251.11	GO Bond PW Facility (10/2/02) - Sewer Utility Fund 401	10/1/2017	3,228	-	3,228	-
251.11	GO Bond PW Facility (10/2/02) - Surface Water Utility Fund 403	10/1/2017	9,549	-	9,549	-
263.81	GO Bond - Public Works Trust Fund Loan Repayment (5/23/05)	5/23/2025	2,156,463	-	239,607	1,916,856
Total General Obligation Debt/Liabilities:			2,237,247	-	311,533	1,925,714
Revenue and Other (non G.O.) Debt/Liabilities						
263.88	Revenue Bond - Ronald PWTF (12/16/02)	1/30/2019	22,113	-	7,371	14,742
252.11	Revenue Bond - Ronald Assumption (12/16/02)	12/1/2017	66,000	-	66,000	-
264.30	Net Pension Liability	12/31/2017	2,906,645	-	625,375	2,281,270
259.12	Compensated Absences	12/31/2017	571,567	692,560	552,836	711,292
Total Revenue and Other (non G.O.) Debt/Liabilities:			3,566,325	692,560	1,251,582	3,007,304
Total Liabilities:			5,803,572	692,560	1,563,115	4,933,018

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