



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements Audit Report

# City of Carnation

King County

For the period January 1, 2014 through December 31, 2014

Published February 11, 2016

Report No. 1016140





## Washington State Auditor's Office

February 11, 2016

Council  
City of Carnation  
Carnation, Washington

### Report on Financial Statements

Please find attached our report on the City of Carnation's financial statements.

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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**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 Carnation  
King County  
January 1, 2014 through December 31, 2014**

Council  
City of Carnation  
Carnation, 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 Carnation, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 28, 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

January 28, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Carnation King County January 1, 2014 through December 31, 2014

Council  
City of Carnation  
Carnation, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Carnation, King County, Washington, for the year ended December 31, 2014, 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 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 Carnation 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 Carnation, for the year ended December 31, 2014, 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 Carnation, as of December 31, 2014, 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 January 28, 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

January 28, 2016

## **FINANCIAL SECTION**

**City of Carnation  
King County  
January 1, 2014 through December 31, 2014**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2014  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014  
Notes to Financial Statements – 2014

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2014

## City of Carnation

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2014

BARS CODE		Total for	001	101
		All Funds 1/	General Fund	Street Fund
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments				
30810	Beg Fund Bal-Reserved	\$233,730.54	\$155,238.25	\$0.00
30880	Beg Fund Bal-Unreserved	\$3,095,158.96	\$261,939.40	\$71,808.38
38880/58880	Prior Period Adjustments, net	\$0.00	\$0.00	\$0.00
Operating Revenues				
310	Taxes	\$930,892.41	\$764,820.90	\$76,261.53
320	Licenses and Permits	\$171,154.53	\$168,954.53	\$0.00
330	Intergovernmental Revenues	\$87,443.23	\$50,031.49	\$36,820.34
340	Charges for Goods and Services	\$1,901,089.42	\$230,680.59	\$5,000.00
350	Fines and Penalties	\$2,352.67	\$0.00	\$0.00
360	Miscellaneous Revenues	\$47,502.41	\$21,207.96	\$63.61
Total Operating Revenues:		\$3,140,434.67	\$1,235,695.47	\$118,145.48
Operating Expenditures:				
510	General Government	\$303,820.78	\$294,322.74	\$1,245.89
520	Public Safety	\$597,562.12	\$596,244.18	\$439.35
530	Utilities	\$1,211,644.81	\$29,277.33	\$0.00
540	Transportation	\$98,717.82	\$0.00	\$98,717.82
550	Economic Environment	\$251,008.25	\$251,008.25	\$0.00
560	Social Services	\$361.64	\$361.64	\$0.00
570	Culture And Recreation	\$36,974.05	\$36,974.05	\$0.00
598	Intergovernmental Payments	\$0.00	\$0.00	\$0.00
Total Operating Expenditures:		\$2,500,089.47	\$1,208,188.19	\$100,403.06
Net Operating Increase (Decrease):		\$640,345.20	\$27,507.28	\$17,742.42
Nonoperating Revenues				
370,380,395,398	Other Financing Sources	\$244,032.87	\$243.32	\$0.00
391-393	Debt Proceeds	\$43,319.98	\$0.00	\$0.00
397	Transfers-In	\$32,000.00	\$32,000.00	\$0.00
Total Nonoperating Revenues:		\$319,352.85	\$32,243.32	\$0.00
Nonoperating Expenditures				
580,596,599	Other Financing Uses	\$31,831.09	\$286.17	\$0.00
591-593	Debt Service	\$644,917.55	\$0.00	\$0.00
594-595	Capital Expenditures	\$76,224.28	\$13,349.17	\$0.00
597	Transfers-Out	\$32,000.00	\$5,000.00	\$2,000.00
Total Nonoperating Expenditures:		\$784,972.92	\$18,635.34	\$2,000.00
Increase (Decrease in Cash and Investments		\$174,725.13	\$41,115.26	\$15,742.42
Ending Cash and Investments				
50810	End Fund Bal-Reserved	\$285,377.21	\$194,595.92	\$0.00
50880	End Fund Balance-Unreserved	\$3,218,237.42	\$268,696.99	\$87,550.80

1/ This column summarizes ALL reported funds, not just funds listed on this page

The Accompanying Notes Are An Integral Part Of This Statement.

## City of Carnation

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2014

BARS CODE		201	301	401
		LTGO Bond Redemption	Capital Improvement	Water & Sewer Utility Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments				
30810	Beg Fund Bal-Reserved	\$0.00	\$0.00	\$24,921.06
30880	Beg Fund Bal-Unreserved	\$1.81	\$258,172.45	\$2,342,302.97
38880/58880	Prior Period Adjustments, net	\$0.00	\$0.00	\$0.00
Operating Revenues				
310	Taxes	\$0.00	\$89,809.98	\$0.00
320	Licenses and Permits	\$0.00	\$0.00	\$2,200.00
330	Intergovernmental Revenues	\$0.00	\$591.40	\$0.00
340	Charges for Goods and Services	\$0.00	\$0.00	\$1,601,220.43
350	Fines and Penalties	\$0.00	\$0.00	\$2,352.67
360	Miscellaneous Revenues	\$0.00	\$2,365.08	\$22,089.71
Total Operating Revenues:		\$0.00	\$92,766.46	\$1,627,862.81
Operating Expenditures:				
510	General Government	\$0.00	\$36.96	\$7,656.27
520	Public Safety	\$0.00	\$0.00	\$878.59
530	Utilities	\$0.00	\$0.00	\$1,140,667.61
540	Transportation	\$0.00	\$0.00	\$0.00
550	Economic Environment	\$0.00	\$0.00	\$0.00
560	Social Services	\$0.00	\$0.00	\$0.00
570	Culture And Recreation	\$0.00	\$0.00	\$0.00
598	Intergovernmental Payments	\$0.00	\$0.00	\$0.00
Total Operating Expenditures:		\$0.00	\$36.96	\$1,149,202.47
Net Operating Increase (Decrease):		\$0.00	\$92,729.50	\$478,660.34
Nonoperating Revenues				
370,380,395,398	Other Financing Sources	\$0.00	\$0.00	\$242,394.97
391-393	Debt Proceeds	\$0.00	\$0.00	\$43,319.98
397	Transfers-In	\$0.00	\$0.00	\$0.00
Total Nonoperating Revenues:		\$0.00	\$0.00	\$285,714.95
Nonoperating Expenditures				
580,596,599	Other Financing Uses	\$0.00	\$0.00	\$0.00
591-593	Debt Service	\$0.00	\$0.00	\$644,917.55
594-595	Capital Expenditures	\$0.00	\$683.70	\$48,819.41
597	Transfers-Out	\$0.00	\$0.00	\$30,000.00
Total Nonoperating Expenditures:		\$0.00	\$683.70	\$723,736.96
Increase (Decrease in Cash and Investments)		\$0.00	\$92,045.80	\$40,638.33
Ending Cash and Investments				
50810	End Fund Bal-Reserved	\$0.00	\$0.00	\$35,690.31
50880	End Fund Balance-Unreserved	\$1.81	\$350,218.25	\$2,372,172.05

1/ This column summarizes ALL reported funds, not just funds listed on this page

The Accompanying Notes Are An Integral Part Of This Statement.

## City of Carnation

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2014

BARS  CODE		406	601	633
		Landfill Financial Assurance	Cemetery Endowment Fund	Trust Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments				
30810	Beg Fund Bal-Reserved	\$0.00	\$53,571.23	\$0.00
30880	Beg Fund Bal-Unreserved	\$126,106.19	\$0.00	\$34,827.76
38880/58880	Prior Period Adjustments, net	\$0.00	\$0.00	\$0.00
Operating Revenues				
310	Taxes	\$0.00	\$0.00	\$0.00
320	Licenses and Permits	\$0.00	\$0.00	\$0.00
330	Intergovernmental Revenues	\$0.00	\$0.00	\$0.00
340	Charges for Goods and Services	\$64,188.40	\$0.00	\$0.00
350	Fines and Penalties	\$0.00	\$0.00	\$0.00
360	Miscellaneous Revenues	\$256.30	\$1,519.75	\$0.00
Total Operating Revenues:		\$64,444.70	\$1,519.75	\$0.00
Operating Expenditures:				
510	General Government	\$558.92	\$0.00	\$0.00
520	Public Safety	\$0.00	\$0.00	\$0.00
530	Utilities	\$41,699.87	\$0.00	\$0.00
540	Transportation	\$0.00	\$0.00	\$0.00
550	Economic Environment	\$0.00	\$0.00	\$0.00
560	Social Services	\$0.00	\$0.00	\$0.00
570	Culture And Recreation	\$0.00	\$0.00	\$0.00
598	Intergovernmental Payments	\$0.00	\$0.00	\$0.00
Total Operating Expenditures:		\$42,258.79	\$0.00	\$0.00
Net Operating Increase (Decrease):		\$22,185.91	\$1,519.75	\$0.00
Nonoperating Revenues				
370,380,395,398	Other Financing Sources	\$0.00	\$0.00	\$1,394.58
391-393	Debt Proceeds	\$0.00	\$0.00	\$0.00
397	Transfers-In	\$0.00	\$0.00	\$0.00
Total Nonoperating Revenues:		\$0.00	\$0.00	\$1,394.58
Nonoperating Expenditures				
580,596,599	Other Financing Uses	\$0.00	\$0.00	\$31,544.92
591-593	Debt Service	\$0.00	\$0.00	\$0.00
594-595	Capital Expenditures	\$13,372.00	\$0.00	\$0.00
597	Transfers-Out	\$0.00	\$0.00	\$0.00
Total Nonoperating Expenditures:		\$13,372.00	\$0.00	\$31,544.92
Increase (Decrease in Cash and Investments)		\$8,813.91	\$1,519.75	(\$30,150.34)
Ending Cash and Investments				
50810	End Fund Bal-Reserved	\$0.00	\$55,090.98	\$0.00
50880	End Fund Balance-Unreserved	\$134,920.10	\$0.00	\$4,677.42

1/ This column summarizes ALL reported funds, not just funds listed on this page

The Accompanying Notes Are An Integral Part Of This Statement.

**City of Carnation**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2014**

		<b>Total for All Funds (Memo Only)</b>	<b>601 Cemetery Endowment Fund</b>	<b>633 Trust Fund</b>
308	Beginning Cash and Investments	88,399	53,571	34,828
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	1,520	1,520	-
380-390	Other Increases and Financing Sources	1,395	-	1,395
510-570	Expenditures	-	-	-
580-590	Other Decreases and Financing Uses	31,545	-	31,545
Net Increase (Decrease) in Cash and Investments:		(28,630)	1,520	(30,150)
508	Ending Cash and Investments	59,768	55,091	4,677

*The accompanying notes are an integral part of this statement.*

**CITY OF CARNATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**January 1, 2014 through December 31, 2014**

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

The City of Carnation uses the revenue and expenditure classifications contained in the *Cash Basis Budgeting, Accounting and Reporting System (BARS)* manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Carnation was incorporated in 1912 and operates under the laws of the State of Washington applicable to a code city with a council-manager form of government. The City of Carnation is a general purpose government and provides general administrative services, water and sewer utility services, storm drainage and street maintenance and improvements, parks and recreation, contracted garbage and public safety services. The city uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the city are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The city's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the city:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the city. 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 revenue sources that are restricted or committed to expenditures for specified purposes of the city.

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 city on a cost-reimbursement basis.

## FIDUCIARY FUND TYPES:

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

### Private Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

### Agency Funds

These funds are used to account for assets that the city holds for others in an agency capacity.

## b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

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.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

Annual appropriated budgets are adopted for all funds. The financial statements include budgetary comparisons for those funds. Annual appropriated budgets are adopted at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for all funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budget were as follow (not including non-expended or ending cash):

FUND	FINAL APPROPRIATED	ACTUAL EXPENDITURES	VARIANCE
<b>General Fund</b>			
Current Exp	\$ 1,217,047	\$ 1,183,880	\$ 33,167
Rev. Stabiliz.	\$ -	\$ -	\$ -
Contingency	\$ -	\$ -	\$ -
**Ceme. Ops	\$ 16,359	\$ 13,865	\$ 2,494
Cemetery Imp	\$ -	\$ -	\$ -
Equipment	\$ 66,000	\$ 13,349	\$ 52,651
Parks Develop	\$ 18,500	\$ 15,443	\$ 3,057
Traffic Impact	\$ -	\$ -	\$ -
<b>TOTAL</b>	<b>\$ 1,317,906</b>	<b>\$ 1,226,537</b>	<b>\$ 91,369</b>
<b>Waterworks</b>			
W/S Oper.	\$ 1,421,163	\$ 1,333,062	\$ 88,101
Water Imp	\$ 489,073	\$ 85,720	\$ 403,353
Wtr Bnd Red	\$ 73,420	\$ 73,416	\$ 4
Wtr Bnd Res	\$ -	\$ -	\$ -
Sewer Debt	\$ 544,329	\$ 541,044	\$ 3,285
Sewer Imp	\$ 20,000	\$ 11,398	\$ 8,602
<b>TOTAL</b>	<b>\$ 2,547,985</b>	<b>\$ 2,044,640</b>	<b>\$ 503,345</b>
<b>City Street</b>	\$ 122,606	\$ 102,403	\$ 20,203
<b>Capital Imp</b>	\$ 1,050	\$ 721	\$ 329
<b>LTGO Bond</b>	\$ -	\$ -	\$ -
<b>Landfill Assur</b>	\$ 77,912	\$ 55,631	\$ 22,281
<b>Cem PerpCare</b>	\$ -	\$ -	\$ -
<b>Trust Agency</b>	\$ 32,357	\$ 31,545	\$ 812

\*\*No non-expenditures (580 series) included in this table

The City Treasurer is authorized to transfer budgeted amounts between departments within any fund and object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours or other conditions of employment must be approved by the city's legislative body.

d. Cash

It is the city's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

e. Deposits

The City's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

f. Investments – See Note 3g. Capital Assets

Capital assets are long-lived assets of the city and are recorded as expenditures when purchased.

h. Compensated Absences

Vacation leave is accrued at the following monthly rates for full-time employees, and is pro-rated for part-time employees:

Years of Service	Union and Non-Union Employees Monthly Vacation Accrual Rate
1 through 5	6.66 hours
6 through 10	10 hours**
11 through 19	13.33 hours
20 and thereafter	16.66 hours

\*\* The City Manager may in his/her discretion deviate from the above schedule by allowing new employees with relevant prior work experience to begin individually accruing vacation time as if they had 6-10 years of continuous city employment.

Unused vacation accrual may be carried over to the following year, up to a maximum of eighty (80) hours. With the approval of the City Manager, an employee may carry over more than eighty (80) hours, up to a maximum of two hundred forty (240) hours. Over-limit unused vacation hours are paid to the employee with the first paycheck in December. Upon the effective date of termination of employment, any earned vacation leave time which has not been used is compensated to the employee.

Sick leave is accrued at a rate of eight (8) hours per month for full-time employees, and is pro-rated for part-time employees, accumulated indefinitely.

Sick leave lapses on termination of employment and employees are not compensated for unused sick leave accrual upon separation.

The City Manager may award up to five (5) days per year of discretionary Management Leave to each exempt employee. Accrued management leave lapses on the anniversary date of the employee, and is not carried over from year to year. Management leave also lapses on termination of employment, and employees are not compensated for any accrued management leave upon separation.

i. Long-Term Debt – See Note 6

j. Other Financing Sources or Uses

The city's "Other Financing Sources or Uses" consist of general obligation bond proceeds, proceeds from sale of capital assets, capital leases, transfers in and out, and residual equity transfers.

k. Risk Management

The City of Carnation is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2014, 94 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per

occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. For the \$9 million in excess coverage limits, an excess liability policy is purchased from Starr Indemnity & Liability Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2014, AWC RMSA carried a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

1. Reserved Fund Balance

The City Council has adopted ordinances governing contingency fund, revenue stabilization fund, and landfill closure and post-closure costs. These ordinances establish restrictions for the use of dollars contained within these funds. Restrictions are imposed by the ordinances and loans covering capital improvements in the City's bond, reserve and debt service funds. Included in the general fund of the City are restricted funds collected from King County Parks Expansion Levy and Traffic Impact fees.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

There have been no expenditures exceeding legal appropriations in any of the funds of the city.

NOTE 3 – INVESTMENTS

The City of Carnation's investments are insured, registered or held by the City or its agent in the City's name. Investments are presented at cost.

Investment by type as of December 31, 2014 are as follows:

Type of Investment	City's own Investment	Investment Held by City for Other Organizations	Total
Local Government Investment Pool	917,532		917,532
US Government Agency Securities	<u>1,497,220</u>		<u>1,497,220</u>
TOTAL	\$2,414,752		\$ 2,414,752

NOTE 4 – PROPERTY TAXES

The King County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed daily during the month. Property tax revenues are recognized when cash is received by the City of Carnation. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied. The City of Carnation's regular levy for 2014 was \$1.48363 per \$1,000 on an assessed valuation of \$157,933,197 for a total regular levy of \$250,383.

NOTE 5 – INTERFUND LOANS AND ADVANCES

There were no interfund loans authorized during the year 2014.

NOTE 6 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liability (09) provides more details of the outstanding debt and liabilities of the city and summarizes the City's debt transactions for 2014. The debt service requirements, including both principle and interest, are as follows:

Year	2013 Water Bd	PWTF Loans	CCWF Loan	Total Debt
2014	72,812	306,261	263,641	642,714
2015	104,198	248,351	263,641	616,190
2016	104,198	248,602	263,641	616,441
2017	104,198	247,320	263,641	615,159
2018	104,198	246,037	263,641	613,876
2019-2023	520,988	1,064,874	1,318,205	2,904,067
2024-2028	520,988	915,035	1,318,205	2,754,228
2029-2033	520,988	333,838		854,826
2034-2038	520,988			520,988
2039-2043	520,988			520,988
2044-2048	520,988			520,988
2049-2053	520,988			11,180,464

#### NOTE 7 – PENSION PLANS

Substantially all city full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the city's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information showing each plan is presented in the Washington State Department of Retirement Systems *Annual Financial Report*. Please refer to said report for detailed information. A copy may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P. O. Box 48380  
Olympia, WA 98504-8380

**City of Carnation**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2014**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligations</b>						
263.51	Postage Machine Lease	5/1/2015	4,063	-	2,868	1,195
259.11	Compensated Absences		24,233	2,956	-	27,189
<b>Total General Obligations:</b>			<b>28,296</b>	<b>2,956</b>	<b>2,868</b>	<b>28,384</b>
<b>Revenue Obligations</b>						
263.82	Public Works Trust - 2003	7/1/2023	533,013	-	53,301	479,712
263.82	Public Works Trust - 2005	7/1/2030	2,602,936	-	153,114	2,449,822
263.82	Public Works Trust - 2009	7/1/2029	401,004	-	25,063	375,941
263.82	DOE State Revolving Loan	7/16/2028	3,822,795	-	263,641	3,559,154
252.11	2013 Water Revenue Bonds	3/1/2053	2,330,000	-	-	2,330,000
<b>Total Revenue Obligations:</b>			<b>9,689,748</b>	<b>-</b>	<b>495,119</b>	<b>9,194,629</b>
<b>Total Liabilities:</b>			<b>9,718,044</b>	<b>2,956</b>	<b>497,987</b>	<b>9,223,013</b>



## 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	
<b>Deputy Director for Communications</b>	Adam Wilson <a href="mailto:Adam.Wilson@sao.wa.gov">Adam.Wilson@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>