



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

**Financial Statements Audit Report**

**City of Milton**

**Pierce County**

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

**Published February 21, 2017**

**Report No. 1018573**





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

February 21, 2017

Mayor and City Council  
City of Milton  
Milton, Washington

**Report on Financial Statements**

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

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

Sincerely,

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 Milton  
Pierce County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Milton  
Milton, 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 Milton, Pierce County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 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 "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

October 28, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Milton Pierce County January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Milton  
Milton, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the City of Milton, Pierce County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 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 Milton 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 Milton, for the year ended December 31, 2015, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

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

### **Adverse Opinion on U.S. GAAP**

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

## Other Matters

### *Supplementary and Other Information*

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of 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 October 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.



Pat McCarthy

State Auditor

Olympia, WA

October 28, 2016

## **FINANCIAL SECTION**

**City of Milton  
Pierce County  
January 1, 2015 through December 31, 2015**

### **FINANCIAL STATEMENTS**

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

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2015

**City of Milton**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund
<b>Beginning Cash and Investments</b>				
30810	Reserved	2,626,389	314,942	-
30880	Unreserved	9,568,042	1,577,801	69,957
388 & 588	Prior Period Adjustments, Net	-	-	-
<b>Operating Revenues</b>				
310	Taxes	3,495,187	3,226,427	-
320	Licenses and Permits	149,098	128,803	3,374
330	Intergovernmental Revenues	1,750,660	204,860	155,601
340	Charges for Goods and Services	7,538,649	329,944	-
350	Fines and Penalties	250,199	152,884	-
360	Miscellaneous Revenues	411,774	109,864	-
Total Operating Revenues:		13,595,568	4,152,782	158,974
<b>Operating Expenditures</b>				
510	General Government	1,215,372	1,215,372	-
520	Public Safety	2,495,223	2,495,223	-
530	Utilities	6,297,712	-	-
540	Transportation	638,614	-	435,771
550	Natural and Economic Environment	355,681	355,681	-
560	Social Services	7,604	7,604	-
570	Culture and Recreation	244,203	244,203	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		11,254,410	4,318,084	435,771
Net Operating Increase (Decrease):		2,341,158	(165,301)	(276,797)
<b>Nonoperating Revenues</b>				
370-380, 395 & 398	Other Financing Sources	286,553	243,702	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	1,012,215	73,200	354,780
Total Nonoperating Revenues:		1,298,768	316,902	354,780
<b>Nonoperating Expenditures</b>				
580, 596 & 599	Other Financing Uses	371,905	371,905	-
591-593	Debt Service	408,580	19,925	94,226
594-595	Capital Expenditures	2,439,656	-	-
597	Transfers-Out	1,012,215	529,735	-
Total Nonoperating Expenditures:		4,232,356	921,564	94,226
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>(592,430)</b>	<b>(769,964)</b>	<b>(16,243)</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	-	-	-
5088000	Unreserved	11,602,001	1,122,777	53,714
<b>Total Ending Cash and Investments</b>		<b>11,602,001</b>	<b>1,122,777</b>	<b>53,714</b>

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

<b>130 Municipal Improvement Fund (REET 1)</b>	<b>131 Municipal Project Fund (REET 2)</b>	<b>140 Traffic Impact Fee Fund</b>	<b>310 Capital Improvement Fund</b>	<b>401 Electric Utility Operations Fund</b>	<b>403 Water Utility Operations Fund</b>
-	-	-	-	1,173,378	470,012
148,162	122,314	106,679	234,736	3,723,125	2,716,055
-	-	-	-	-	-
140,836	127,924	-	-	-	-
-	-	-	-	2,350	13,900
-	-	-	1,070,570	217,600	-
-	-	7,162	-	3,950,581	2,265,065
-	-	-	-	57,914	39,369
231	196	144	150	220,936	66,104
141,068	128,120	7,307	1,070,721	4,449,380	2,384,437
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	4,095,285	1,520,527
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	4,095,285	1,520,527
141,068	128,120	7,307	1,070,721	354,095	863,910
-	-	-	-	42,851	-
-	-	-	-	-	-
-	-	-	551,235	-	-
-	-	-	551,235	42,851	-
-	-	-	-	-	-
-	-	-	-	-	197,121
-	-	-	1,438,667	589,618	400,888
120,000	170,000	-	94,780	39,200	39,500
120,000	170,000	-	1,533,447	628,818	637,510
<b>21,068</b>	<b>(41,880)</b>	<b>7,307</b>	<b>88,509</b>	<b>(231,872)</b>	<b>226,401</b>
-	-	-	-	-	-
169,230	80,435	113,985	323,245	4,664,631	3,412,467
<b>169,230</b>	<b>80,435</b>	<b>113,985</b>	<b>323,245</b>	<b>4,664,631</b>	<b>3,412,467</b>

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

<b>406 Stormwater Operations Fund</b>	<b>Repair &amp; Maintenance Fund</b>
668,057	-
868,332	881
-	-
-	-
671	-
102,029	-
815,844	170,053
33	-
14,149	-
<u>932,726</u>	<u>170,053</u>
-	-
-	-
681,899	-
-	202,843
-	-
-	-
-	-
-	-
<u>681,899</u>	<u>202,843</u>
<u>250,827</u>	<u>(32,790)</u>
-	-
-	-
-	33,000
<u>-</u>	<u>33,000</u>
-	-
97,308	-
10,483	-
19,000	-
<u>126,791</u>	<u>-</u>
<b>124,036</b>	<b>210</b>
-	-
1,660,424	1,092
<b>1,660,424</b>	<b>1,092</b>

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

**City of Milton**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>632 Muni Court</b>
308	Beginning Cash and Investments	11,356	11,356
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	473,222	473,222
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	471,516	471,516
	Net Increase (Decrease) in Cash and Investments:	1,706	1,706
508	Ending Cash and Investments	13,061	13,061

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

**City of Milton**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2015**

**Note 1 - Summary of Significant Accounting Policies**

The City of Milton was incorporated in 1907 and operates under the laws of the State of Washington applicable to a code city. The City of Milton is a general purpose local government and provides the following services to local residents and property owners:

- Public Safety
- Street Improvements
- Parks and Recreation
- Community Activities
- Social Services
- General Administration
- Electric Utility
- Water Utility
- Storm Water Management Utility

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

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

**A. Fund Accounting**

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

**GOVERNMENTAL FUND TYPES:**

**General Fund**

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

## PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

## FIDUCIARY FUND TYPES:

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

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 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 of Milton also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

### C. Budgets

The City of Milton adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these 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 budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$ 10,377,799	\$ 9,530,867	\$ 846,932
Street Fund	\$ 582,588	\$ 529,997	\$ 52,591
REET 1 Muni Improv	\$ 120,000	\$ 120,000	\$ 0
REET 2 Muni Project	\$ 170,000	\$ 170,000	\$ 0
Traffic Impact Fee Fund	\$ 0	\$ 0	\$ 0
Capital Improvements	\$ 5,402,880	\$ 1,533,447	\$ 3,869,433
Electric Utility Fund	\$ 9,646,715	\$ 7,082,393	\$ 2,564,322
Water Utility Fund	\$ 5,035,927	\$ 4,548,785	\$ 487,142
Stormwater Utility Fund	\$ 1,446,925	\$ 1,024,710	\$ 422,215
Vehicle Repair & Maint	\$ 206,565	\$ 202,843	\$ 3,722

Budgeted amounts are authorized to be transferred between lines; 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 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 five years. Capital assets and inventory are recorded as capital expenditures when purchased.

### F. Compensated Absences

Vacation leave may be accumulated up to 240 hours (336 hours for uniformed police employees) and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours. For employees hired prior to January 1, 1993, with five years of service, 50% of unused sick leave is payable at separation or retirement. For employees hired after January 1, 1993, no unused sick leave is payable at separation or retirement. Leave payments are recognized

as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The City of Milton's *Other Financing Sources or Uses* consist of Interfund Transfers-in, Insurance Recoveries /Reimbursements, Interfund Loan Proceeds, Interfund Transfers-out, Interfund Loan Payments or Capital Lease Payments.

I. Risk Management

The City of Milton 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 sub-limits 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.

#### J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council. When expenditures that meet restrictions are incurred, the City of Milton intends to use reserved resources first before using unreserved amounts. Listed below are the Council designated reserve amounts for administrative purposes, they do not meet the legal requirements to be recorded as actual reserves on the financial statements.

<u>Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	8% Reserve per policy	\$ 762,469
Electric Utility	25% Reserve per policy	\$ 1,770,598
Water Utility	25% Reserve per policy	\$ 1,137,196
	Reserve for Bond Projects	\$ 103,862
Storm Drainage	25% Reserve per policy	\$ 256,178

#### **Note 2 - Property Tax**

The County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections from Pierce County are distributed after the end of each month. Collections from King County are distributed throughout the month.

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

The City of Milton regular levy for the year 2015 was \$ 1.60 per \$1,000 on an assessed valuation of \$653,861,921 for a total regular levy of \$1,046,179.

#### **Note 3 – Deposits and Investments**

It is the City of Milton's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds as appropriate.

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 of Milton or its agent in the government's name.

Investments are reported at Fair Market Value or Original Cost. Investments by type at December 31, 2015 are as follows:

<u>Type of Investment</u>	<u>Total</u>
L.G.I.P. (FMV)	\$ <u>5,074,646</u>
U.S. Government Securities (OC)	\$ <u>5,534,745</u>
Total	\$ <u>10,609,391</u>

#### **Note 4 – Debt Service Requirements**

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

The debt service requirements for General Obligation Bonds, Revenue Bonds, Public Works Trust Fund Loans, LOCAL Program Loans and other loans including both principal and interest, are as follows:

	<u>GO Debt</u>	<u>Revenue Debt</u>	<u>Other Debt</u>	<u>Total</u>
2016	\$ 145,306	\$ 193,460	\$ 0.00	\$ 338,766
2017	93,285	195,460	0.00	288,745
2018	92,537	197,310	0.00	289,847
2019	91,789	193,350	0.00	285,139
2020	91,041	194,390	0.00	285,431
2021 – 2025	316,115	973,500	0.00	1,289,615
2026 – 2030	0.00	975,500	0.00	975,500
TOTALS	\$ <u>830,083</u>	\$ <u>2,922,970</u>	\$ <u>0.00</u>	\$ <u>3,753,043</u>

#### **Note 5 - Interfund Loans**

The following table displays interfund loan activity during 2015:

Borrowing Fund	Lending Fund	Balance 1/1/2015	New Loans	Repayments	Balance 12/31/2015
001 – General	401 - Electric	\$ 74,232.41		\$ 24,699.92	\$ 49,532.49
001 – General	401 – Electric	\$ 55,000.00		\$ 18,151.22	\$ 36,848.78

On August 6, 2012, through Ordinance 1794-12, an Interfund loan was authorized from the Electric Utility Fund to the General Fund in an amount not to exceed \$200,000 for the purposes of acquiring and improving the Activity Center building. It was the intention to remodel the facility for use by the Police

Department. This building was previously used as the Activity Center/Library and was constructed using Federal Community Development Block Grant (CDBG) funds and thus, restricted to certain uses. All restrictions were lifted by purchasing the property from Pierce County at fair market value, making the facility available for general governmental use. In October of 2012, a loan in the amount of \$123,500 was made, from the Electric Utility to the General Fund, to purchase the building. Terms of the loan allow for annual payments over five years, with interest set at .1789% (LGIP rate as of March 31, 2013).

On October 20<sup>th</sup>, 2014 through Ordinance 14-1851, an Interfund loan was authorized from the Electric Utility Fund to the General Fund in an amount not to exceed \$40,000 and on December 8, 2014 through Ordinance 14-1855, the Interfund loan was amended changing the amount not exceed \$55,000 for the purpose of purchasing police vehicles. Terms of the loan allow for annual payments over 3 years, with interest set at 1%.

## **Note 6 – Pension Plans**

### **A. State Sponsored Pension Plans**

Substantially all City of Milton full-time and qualifying part-time employees participate in the Law Enforcement Officers and Firefighters (LEOFF) or Public Employees Retirement Systems (PERS) plan administered by the Washington State Department of Retirement Systems (DRS), 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  
P.O. Box 48380  
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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

	Allocation %	Liability (Asset)
PERS 1 (Plan + UAAL)	0016682%	\$ 872,623.74
PERS 2/3	.0195420%	\$ 698,246.80
Total Net Pension Liability		\$ 1,570,870.54
LEOFF 1	.0049730%	\$ (59,935.64)
LEOFF 2	.0329860%	\$ (339,030.11)
Total Net Pension Asset		\$ (398,965.75)

## LEOFF Plan 2

The City of Milton 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 – Health & Welfare**

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

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

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

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

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

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination

date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

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

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

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

#### **Note 8 – Other Disclosures**

Liability Ending Balances for 2014 were mis-stated as listed below:

PWTF Loan stated as	\$375,402	should have been	\$375,458
Kansas State Bank stated as	\$132,762	should have been	\$125,727

These mis-statements have been corrected in the Beginning Balances for 2015.

**Schedule of Liabilities**  
**For the Year Ended December 31, 2015**

ID. No.	Description	Maturity/Payment Due Date	Beginning Balance 01/01/2015	Additions	Reductions	Ending Balance 12/31/2015
263.81	PWTF Loan	7/1/2022	\$ 163,915		\$ 20,990	\$ 142,925
263.81	PWTF Loan	7/1/2024	\$ 375,458		\$ 37,546	\$ 337,912
263.81	PWTF Loan	7/1/2024	\$ 300,856		\$ 30,086	\$ 270,770
263.96	LOCAL Program	12/1/2016	\$ 37,718		\$ 18,580	\$ 19,138
259.12	Compensated Absences		\$ 222,192		\$ 19,588	\$ 202,604
252.11	US Bank	10/31/2030	\$ 2,145,000		\$ 100,000	\$ 2,045,000
263.52	Kansas State Bank	4/15/2016	\$ 125,727		\$ 93,590	\$ 32,317
264.30	Pension Liability		\$ -	\$ 1,570,871		\$ 1,570,871

## 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	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>