



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements Audit Report

# City of Lake Forest Park

King County

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

Published October 29, 2015

Report No. 1015417





## Washington State Auditor's Office

October 29, 2015

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,

JAN M. JUTTE, CPA, CGFM  
ACTING 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, 2014 through December 31, 2014**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Lake Forest Park, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 8, 2015.

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 blue ink that reads "Jan M. Jutte". The signature is written in a cursive style with a large initial "J" and "M".

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

October 8, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Lake Forest Park King County January 1, 2014 through December 31, 2014

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Lake Forest Park, King County, Washington, for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Lake Forest Park, for the year ended December 31, 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 Lake Forest Park, 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 October 8, 2015 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

October 8, 2015

## **FINANCIAL SECTION**

**City of Lake Forest Park  
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 Lake Forest Park**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2014**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General Fund</b>	<b>101 Street Fund</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	6,987,584	687,571	415,035
30880	Unreserved	1,678,992	1,447,815	-
388 & 588	Prior Period Adjustments, Net	-	-	-
<b>Operating Revenues</b>				
310	Taxes	5,788,760	5,110,771	-
320	Licenses and Permits	1,063,268	740,431	309,338
330	Intergovernmental Revenues	1,406,222	203,529	261,557
340	Charges for Goods and Services	5,734,019	418,110	155,981
350	Fines and Penalties	1,183,809	1,183,809	-
360	Miscellaneous Revenues	17,328	10,110	450
Total Operating Revenues:		<u>15,193,406</u>	<u>7,666,759</u>	<u>727,326</u>
<b>Operating Expenditures</b>				
510	General Government	3,772,876	2,598,062	106,619
520	Public Safety	3,563,794	3,563,794	-
530	Utilities	2,268,660	-	-
540	Transportation	482,044	-	402,432
550	Natural and Economic Environment	1,383,228	747,169	-
560	Social Services	2,654	2,654	-
570	Culture and Recreation	213,996	213,996	-
Total Operating Expenditures:		<u>11,687,252</u>	<u>7,125,674</u>	<u>509,051</u>
<b>Net Operating Increase (Decrease):</b>		<b>3,506,154</b>	<b>541,084</b>	<b>218,275</b>
<b>Nonoperating Revenues</b>				
370-380, 395 & 398	Other Financing Sources	41,274	18,871	67
391-393	Debt Proceeds	-	-	-
397	Transfers-In	271,412	-	-
Total Nonoperating Revenues:		<u>312,687</u>	<u>18,871</u>	<u>67</u>
<b>Nonoperating Expenditures</b>				
580, 596 & 599	Other Financing Uses	2,603	2,603	-
591-593	Debt Service	729,939	-	-
594-595	Capital Expenditures	1,810,272	26,361	-
597	Transfers-Out	271,412	48,672	12,651
Total Nonoperating Expenditures:		<u>2,814,226</u>	<u>77,636</u>	<u>12,651</u>
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>1,004,614</b>	<b>482,319</b>	<b>205,691</b>
<b>Ending Cash and Investments</b>				
50810	Reserved	7,752,980	988,310	620,726
50880	Unreserved	1,918,211	1,629,396	-

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

<b>201 City Hall Bond Fund</b>	<b>202 PW Facility Bond Fund</b>	<b>301 Capital Improvement Fund</b>	<b>302 Transportation Capital Fund</b>	<b>303 Capital Facilities Maintenance Fund</b>	<b>401 Sewer Utility Fund</b>
612,452	5,788	596,194	767,609	140,014	2,593,408
-	-	-	-	-	-
-	-	-	-	-	-
-	-	324,181	324,181	-	29,627
-	-	-	-	-	13,500
-	-	48,665	389,810	-	-
-	-	-	145,824	-	2,848,702
-	-	-	-	-	-
535	34	580	690	133	3,337
<b>535</b>	<b>34</b>	<b>373,426</b>	<b>860,505</b>	<b>133</b>	<b>2,895,166</b>
-	-	7,326	29,747	-	62,188
-	-	-	-	-	-
-	-	-	-	-	2,259,970
-	-	-	58	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	7,326	29,805	-	2,322,158
<b>535</b>	<b>34</b>	<b>366,100</b>	<b>830,700</b>	<b>133</b>	<b>573,008</b>
-	-	1,750	-	-	336
-	-	-	-	-	-
95,000	83,730	32,682	-	-	30,000
<b>95,000</b>	<b>83,730</b>	<b>34,432</b>	<b>-</b>	<b>-</b>	<b>30,336</b>
-	-	-	-	-	-
301,463	85,779	-	-	-	333,397
-	-	321,026	761,017	-	18,067
-	-	125,000	30,000	-	4,241
<b>301,463</b>	<b>85,779</b>	<b>446,026</b>	<b>791,017</b>	<b>-</b>	<b>355,705</b>
<b>(205,927)</b>	<b>(2,015)</b>	<b>(45,494)</b>	<b>39,683</b>	<b>133</b>	<b>247,639</b>
406,525	3,773	550,699	807,292	140,148	2,841,046
-	-	-	-	-	-

The accompanying notes are an integral part of this statement.

<b>403 Surface Water Capital Fund</b>	<b>450 PW Contract Fund</b>	<b>501 Replacement Fund</b>
827,286	-	342,227
-	231,177	-
-	-	-
-	-	-
-	-	-
502,660	-	-
965,309	847,901	352,193
-	-	-
860	263	335
<b>1,468,829</b>	<b>848,164</b>	<b>352,528</b>
106,915	752,497	109,522
-	-	-
8,690	-	-
-	-	79,553
636,060	-	-
-	-	-
-	-	-
<b>751,664</b>	<b>752,497</b>	<b>189,075</b>
<b>717,164</b>	<b>95,667</b>	<b>163,453</b>
67	168	20,015
-	-	-
30,000	-	-
<b>30,067</b>	<b>168</b>	<b>20,015</b>
-	-	-
9,301	-	-
474,815	-	208,986
12,651	38,197	-
<b>496,767</b>	<b>38,197</b>	<b>208,986</b>
<b>250,464</b>	<b>57,638</b>	<b>(25,518)</b>
1,077,752	-	316,709
-	288,815	-

The accompanying notes are an integral part of this statement.

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

		<u>Total for All Funds (Memo Only)</u>	<u>631 Treasurer's Clearing</u>	<u>634 Transportation Benefit District</u>	<u>638 FSA Account Fund</u>
308	Beginning Cash and Investments	119,572	4,033	100,702	9,495
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	207,552	-	207,552	-
380-390	Other Increases and Financing Sources	208,300	166,795	-	36
510-570	Expenditures	207,500	-	207,500	-
580-590	Other Decreases and Financing Uses	211,347	166,688	-	8,307
Net Increase (Decrease) in Cash and Investments:		(2,994)	107	52	(8,271)
508	Ending Cash and Investments	116,577	4,139	100,754	1,224
		<b>639 Court Trust Fund</b>			
308	Beginning Cash and Investments	5,342			
388 & 588	Prior Period Adjustments, Net	-			
310-360	Revenues	-			
380-390	Other Increases and Financing Sources	41,470			
510-570	Expenditures	-			
580-590	Other Decreases and Financing Uses	36,352			
Net Increase (Decrease) in Cash and Investments:		5,118			
508	Ending Cash and Investments	10,460			

*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, 2014**

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

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

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

### Debt Service Funds

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

### Capital Projects Funds

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

### PROPRIETARY FUND TYPES:

#### Enterprise Funds

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

#### Internal Service Funds

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

### FIDUCIARY FUND TYPES:

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

#### Agency Funds

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

## B. Basis of Accounting and Measurement Focus

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

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

## C. Budgets

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

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



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

Fund	Final Appropriated Amount	Actual Expenditures	Variance
General	\$ 7,560,736	\$ 7,503,310	\$ 57,426
Street	599,404	521,702	77,702
Council Contingency	-	-	-
Budget Stabilization	-	-	-
City Hall Bond	301,462	301,462	-
Public Works Facility	85,779	85,779	-
Capital Improvement	526,076	453,352	72,724
Transportation Capital	1,281,581	797,587	483,994
Facilities Maintenance	-	-	-
Sewer Utility	2,854,964	2,811,294	43,670
Sewer Capital	1,236,250	10,574	1,225,676
Surface Water Utility	961,048	910,960	50,088
Surface Water Capital	1,798,874	474,815	1,324,059
Sewer Bond Reserve	-	-	-
PW Trust Repayment	255,983	255,995	12
Public Works Contract	861,708	790,694	71,014
Replacement Fund	459,135	398,061	61,074
Transportation Benefit	210,135	207,500	2,635

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, 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 one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. Sick leave may be accumulated indefinitely for non-union and Teamsters (Public Works Maintenance) employees and up to 960 hours for Police Guild employees. Non-union employees on an annual basis can convert sick leave in excess of 480 hours to vacation at a rate of 25%.

Teamsters employees receive cash payments for their sick leave balance in excess of 480 hours at retirement, the payout rate is \$.25 on the dollar of the unused sick leave balance at retirement. Police Guild employees receive cash payments for their unused sick leave upon layoff (25%), retirement (50%), disability retirement (100%), and death (100%).

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

#### G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

#### H. Other Financing Sources or Uses

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

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

##### General Fund – Fund 001:

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

##### Street Fund – Fund 101:

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

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

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

##### Public Works Facility Bond Fund – Fund 202:

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

##### Capital Improvement Fund – Fund 301:

Other financing sources include a transfer from the General Fund for construction of Whispering Willow Park. Capital Improvement Fund financing uses include a transfer to the LTGO (City Hall) Bond Fund for a portion of the annual City Hall debt payment and a transfer to the Sewer Capital Fund for utility projects.

Transportation Capital Improvement Fund – Fund 302:

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

Sewer Utility Fund – Fund 401:

Major Sewer Utility Fund financing uses include transfers to the Public Works Trust Fund Repayment Fund for repayment of debt; to the Transportation Capital Fund for sewer related capital work; and to the Public Works Facility Fund for its portion of the debt payment related to construction of the Public Works Facility.

Surface Water Fund – Fund 403:

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

Public Works Contract Fund – Fund 450:

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

Transportation Benefit District – Fund 634:

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

I. Risk Management

*General Government*

The City 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 175 Members.

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

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

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

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

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

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

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

#### *Health and Welfare*

The City 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, 2014, 263 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 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 the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

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

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

Reservations of Ending Cash and Investments consist of amounts reserved for budget stabilization, Council contingency, street funding, debt repayment, capital and transportation improvement projects, capital facilities maintenance, utility operation and utility capital projects, and vehicle and equipment replacement.

**Note 2 - Property Tax**

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

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

The City’s regular levy for the year 2014 was \$15.2393 per \$1,000 on an assessed valuation of \$1,916,665,645 for a total regular levy of \$2,920,505.

**Note 3 – Deposits and Investments**

Deposits and Investments

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

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

Investments are reported at fair value. Investments by type at December 31, 2014 are as follows:

Type of Investment	City's Own Investment	Investments Held by City as Agent	Total
LGIP	\$ 9,368,365	\$ 100,754	\$ 9,469,119
Bank of Amercia, Checking	305,634	-	305,634

**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, 2014.

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

	General Obligation Debt	Revenue Debt	Total Debt
2015	\$ 647,976	\$ 79,636	\$ 727,612
2016	644,315	76,758	721,073
2017	345,203	76,803	422,006
2018	258,138	7,717	265,855
2019	247,993	7,496	255,489
2020-2025	1,462,801	-	1,462,801
Total	3,606,426	248,410	3,854,836

**Note 5 - 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. 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 regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

**Note 6 – 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 2014, \$3,467 was paid out for disability insurance and \$30,012 was paid out for LEOFF1 benefits, for a total of \$33,479.

**City of Lake Forest Park  
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>						
251.11	GO Bond - City Hall Refunding Bond (5/18/05)	12/1/2016	825,000	-	265,000	560,000
263.81	GO Bond - Public Works Trust Fund Loan Repayment (7/13/99)	12/31/2018	44,289	-	8,858	35,431
251.11	GO Bond PW Facility (10/2/02) - General Fund 001	10/1/2017	56,673	-	14,296	42,377
251.11	GO Bond PW Facility (10/2/02) - Street Fund 101	10/1/2017	44,836	-	11,310	33,526
251.11	GO Bond PW Facility (10/2/02) - Public Works Contract Fund 450	10/1/2017	135,954	-	34,293	101,661
251.19	GO Bond PW Facility (10/2/02) - Sewer Utility Fund 401	10/1/2017	15,034	-	3,792	11,242
251.19	GO Bond PW Facility (10/2/02) - Surface Water Utility Fund 403	10/1/2017	44,836	-	11,310	33,526
263.81	GO Bond - Public Works Trust Fund Loan Repayment (5/23/05)	5/23/2025	2,875,284	-	239,607	2,635,677
263.93	Compensated Absences	12/31/2014	449,916	277,594	285,060	442,450
	<b>Total General Obligations:</b>		<b>4,491,822</b>	<b>277,594</b>	<b>873,525</b>	<b>3,895,891</b>
<b>Revenue Obligations</b>						
263.52	Revenue Bond - Ronald PWTF (12/16/02)	1/30/2019	48,166	-	9,341	38,825
252.11	Revenue Bond - Ronald Assumption (12/16/02)	12/1/2017	248,000	-	58,000	190,000
	<b>Total Revenue Obligations:</b>		<b>296,166</b>	<b>-</b>	<b>67,341</b>	<b>228,825</b>
	<b>Total Liabilities:</b>		<b>4,787,988</b>	<b>277,594</b>	<b>940,866</b>	<b>4,124,716</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.

<b>Contact information for the State Auditor's Office</b>	
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<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>