



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Medical Lake

For the period January 1, 2018 through December 31, 2019

Published May 17, 2021

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

May 17, 2021

Mayor and City Council
City of Medical Lake
Medical Lake, Washington

Report on Financial Statements

Please find attached our report on the City of Medical Lake'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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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2019-001 The City did not have adequate internal controls over financial statement preparation to ensure accurate financial reporting.

Background

City management is responsible for designing, implementing, and maintaining internal controls to ensure the financial statements are fairly presented, and to provide reasonable assurance regarding the reliability of financial reporting.

The City prepares its financial statements in accordance with the cash basis of accounting, under the *Budgeting, Accounting and Reporting System* (BARS) manual. Our audit identified deficiencies in the City's internal controls over financial reporting that hindered the City's ability to produce reliable financial statements.

Government Accounting Standards requires the auditor to communicate significant deficiencies in internal controls, as defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We noted the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent a material weakness:

- City staff responsible for compiling financial information lacked technical knowledge and experience needed to accurately prepare the financial statements, notes to the financial statements, and schedules of liabilities.
- The City lacked an effective review process to ensure amounts reported in the financial statements, notes to the financial statements, and schedules of liabilities agreed to the underlying accounting records, supporting documentation, and followed BARS manual guidance.

This issue was reported as a finding in the prior audit.

Cause of Condition

The City experienced turnover in key accounting positions involved in the preparation of the City's annual report. The previous audit identified misstatements in the 2017 annual report that were not corrected for 2018, which caused the beginning financial information within our audit period to be incorrect, and created a difficult starting point for the City.

Effect of Condition

Because of these deficiencies, our audit identified the following:

Fiscal year 2018

In the Fund Resources and Uses arising from Cash Transactions, the City:

- Understated total beginning cash and investments by \$191,526 in the original statements submitted for audit. The City attempted to correct this error; however, the new statements overstated beginning cash and investments by \$114,793.
- Misclassified beginning cash and investments between reserved and unreserved by \$3,398,236, and ending cash and investments by \$3,451,168. The City corrected this error.
- Understated revenues by \$172,683 and expenditures by \$101,130.
- Understated ending cash and investments by \$193,901 in the original statements submitted for audit. The City attempted to correct this error; however, the new statements overstated ending cash and investments by \$56,129.

In the Notes to the Financial Statements, the City:

- Overstated ending cash and investments by \$125,722. The City corrected this error.
- Overstated Water/Sewer Fund expenditures by \$49,997.

In the Schedule of Liabilities, the City:

- Understated net pension liability for the Volunteer Fire Fighters and Reserve Officers Relief and Pension Fund (VFFRPF) by \$23,211. The City corrected this error.
- Overstated the compensated absences ending balance by \$24,571. The City corrected this error.

Except as noted, the City did not correct the errors.

Fiscal year 2019

In the Fund Resources and Uses arising from Cash Transactions, the City:

- Understated beginning cash and investments by \$132,845. The City corrected this error.
- Misclassified beginning cash and investments between reserved and unreserved by \$3,451,168, and ending cash and investments by \$3,567,699. The City corrected this error.

- Overstated expenditures by \$28,033 in the original statements submitted for audit. The City attempted to correct this error; however, the new statements overstated expenditures by \$385,236.
- Understated ending cash and investments by \$144,920 in the original statement submitted for audit. The City attempted to correct this error; however, the new statements overstated ending cash and investments by \$68,567.

In the Notes to the Financial Statements, the City:

- Overstated reported cash and investments by \$144,869. The City corrected this error.
- Overstated reported Water/Sewer Fund expenditures by \$50,002.

In the Schedule of Liabilities, the City understated net pension liability for VFFRPF by \$41,090. The City corrected this error.

Except as noted, the City did not correct the errors.

Recommendation

We recommend the City strengthen internal controls and dedicate the resources necessary to ensure all staff responsible for preparing financial statements have the necessary resources and training to prepare accurate and complete financial statements and notes in accordance with reporting standards. In addition, the City should conduct an effective, independent financial statement review that ensures the required financial statement package is accurate and meets reporting standards.

City's Response

The City has always realized not only the importance of accurate, reliable financial reporting, but the responsibility of making sure all funds are accounted for. When the 2018/2019 Annual Reports were filed, the finance director was new to the position and still becoming familiar with both the SAO reporting and how the City financial information was disseminated. Also, the City was dealing with unresolved issues from the previous audit (2015-2017), which was a direct result of a problematic computer conversion. Due to this, the City was unsure of what the true beginning balances were.

The under and overstated figures listed were primarily the result of two reporting errors. The first was the reporting of a managerial fund transfer on the Schedule 01 that should have been eliminated and the second was the miscoding of an interfund transfer between the water/sewer fund, that although classified as a

transfer, was actually an expense/revenue for personnel services provided. The misclassification of reserved/unreserved beginning balances were due to new SAO reporting guidelines that were misinterpreted by the finance director. The City worked with the auditors and corrected most of the unresolved issues. By working through and correcting the stated problems, the City not only has a better understanding of the State reporting processes but has gained new insight on the information provided from its financial software, as well as the reviewing process for all future Annual reports.

All errors stated were due to reporting issues and no funds were unaccounted for. In all the audits mentioned above, all City funds were reconciled at the end of the 2018-2019 audit period.

Auditor's Remarks

We appreciate the City's commitment to resolving the issues noted and will follow up during the next scheduled audit. Will modify if needed after we receive City's response

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

The Budgeting, Accounting, and Reporting System (BARS) manual, 3.1.3, Internal Control, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.



City of Medical Lake

124 S. Lefevre St.

P.O. Box 369

Medical Lake, WA 99022-0369

City Hall: (509) 565-5000

Fax: (509) 565-5008

Parks & Recreation: (509) 565-5007

Police: (509) 342-1735

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Medical Lake

January 1, 2018 through December 31, 2019

This schedule presents the status of findings reported in prior audit periods.

Audit Period:	Report Ref. No.:	Finding Ref. No.:
January 1, 2015 through December 31, 2017	1023491	2017-001
Finding Caption: The City's internal controls financial statements preparation were inadequate to ensure accurate financial reporting.		
Background: We noted the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent a significant deficiency: <ul style="list-style-type: none">• The City contracted with a certified public accountant (CPA) to prepare its annual report, and relied upon the CPA to ensure the annual report was accurate. The City did not have an effective review process or other controls in place to ensure its annual financial reports were prepared in accordance with the cash basis of accounting under BARS manual requirements.• For 2015, the former Finance Director did not perform a complete monthly reconciliation of the City's bank accounts.• The City implemented a new accounting system in 2016. The City and contracted CPA attempted to identify and correct differences between the new and old systems; however, the bank balance and fund balance amounts recorded in the General Fund were not accurately reconciled.• The City did not have controls in place to accurately record liabilities in its new accounting system. The City relied on the work of a contracted CPA and did not adequately review the financial statements, notes, and supplemental schedules of the annual financial report to ensure they		

were complete and accurate. Also, the City experienced difficulty implementing and adjusting to its new accounting system.

Status of Corrective Action: (check one)

☐ Fully Corrected ☐ Partially Corrected ☒ Not Corrected ☐ Finding is considered no longer valid

Corrective Action Taken:

Complete reconciliations are now done monthly on all bank accounts. The current Finance Director has also attended several SAO and MRSC training classes and has gained both knowledge and proficiency in using our current accounting system.

INDEPENDENT AUDITOR'S REPORT

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 Medical Lake January 1, 2018 through December 31, 2019

Mayor and City Council
City of Medical Lake
Medical Lake, 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 Medical Lake, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated May 3, 2021.

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 state law 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.

As discussed in Note 7 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Management's plans in response to this matter are also described in Note 7.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-001 to be material weaknesses.

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*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 distinguishable.

Pat McCarthy
State Auditor
Olympia, WA

May 3, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Medical Lake January 1, 2018 through December 31, 2019

Mayor and City Council
City of Medical Lake
Medical Lake, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Medical Lake, for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 17.

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 Medical Lake has prepared these financial statements to meet the financial reporting requirements of state law 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 cash and investments of the City of Medical Lake, and its changes in cash and investments, for the years ended December 31, 2019 and 2018, 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 Medical Lake, as of December 31, 2019 and 2018, or the changes in financial position or cash flows thereof for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Matters of Emphasis

As discussed in Note 7 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Management's plans in response to this matter are also described in Note 7. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are 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 May 3, 2021 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 black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

May 3, 2021

FINANCIAL SECTION

City of Medical Lake January 1, 2018 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019
Fund Resources and Uses Arising from Cash Transactions – 2018
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2018
Notes to the Financial Statements – 2019
Notes to the Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019
Schedule of Liabilities – 2018

City of Medical Lake
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Total for All Funds (Memo Only)	001 General Fund	100 Impact Fees	101 City Street Fund
Beginning Cash and Investments					
30810	Reserved	3,647,242	77,663	21,539	(129,231)
30880	Unreserved	889,750	889,750	-	-
388 / 588	Net Adjustments	(34,255)	20,667	-	(12,227)
Revenues					
310	Taxes	2,144,734	2,069,817	-	-
320	Licenses and Permits	60,915	60,865	-	50
330	Intergovernmental Revenues	591,200	200,074	-	391,126
340	Charges for Goods and Services	2,515,082	172,296	4,277	-
350	Fines and Penalties	25,140	8,849	-	-
360	Miscellaneous Revenues	265,603	63,123	500	778
Total Revenues:		5,602,674	2,575,024	4,777	391,954
Expenditures					
510	General Government	587,278	586,776	-	-
520	Public Safety	1,467,261	1,467,261	-	-
530	Utilities	2,295,317	11,158	-	-
540	Transportation	250,323	-	-	250,323
550	Natural and Economic Environment	68,410	68,410	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	169,991	169,991	-	-
Total Expenditures:		4,838,580	2,303,596	-	250,323
Excess (Deficiency) Revenues over Expenditures:		764,094	271,428	4,777	141,631
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	424,443	226,021	-	186,922
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	4,305	4,305	-	-
381, 382, 395, 398	Other Resources	8,283	8,283	-	-
Total Other Increases in Fund Resources:		437,031	238,609	-	186,922
Other Decreases in Fund Resources					
594-595	Capital Expenditures	485,169	128,519	-	150,152
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	324,443	183,422	10,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	4,445	4,445	-	-
581, 582	Other Uses	6,499	6,499	-	-
Total Other Decreases in Fund Resources:		820,556	322,885	10,000	150,152
Increase (Decrease) in Cash and Investments:		380,569	187,152	(5,223)	178,401
Ending Cash and Investments					
5081000	Reserved	3,799,200	91,126	16,316	36,943
5088000	Unreserved	1,084,106	1,084,106	-	-
Total Ending Cash and Investments		4,883,306	1,175,232	16,316	36,943

The accompanying notes are an integral part of this statement.

City of Medical Lake
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		105 Sick Leave Buyback Fund	301 Capital Improvement Fund	401 Water/Sewer Fund	407 Garbage Fund
Beginning Cash and Investments					
30810	Reserved	154,335	460,770	2,775,780	284,388
30880	Unreserved	-	-	-	-
388 / 588	Net Adjustments	-	1	(45,045)	1,926
Revenues					
310	Taxes	-	74,917	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	1,725,259	613,250
350	Fines and Penalties	-	-	16,291	-
360	Miscellaneous Revenues	3,596	10,256	180,971	6,371
Total Revenues:		3,596	85,173	1,922,521	619,621
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	1,677,505	606,654
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	1,677,505	606,654
Excess (Deficiency) Revenues over Expenditures:		3,596	85,173	245,016	12,967
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	11,500	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		11,500	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	206,459	39
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	131,021	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	131,021	206,459	39
Increase (Decrease) in Cash and Investments:		15,096	(45,848)	38,557	12,928
Ending Cash and Investments					
5081000	Reserved	169,431	414,923	2,769,292	299,242
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		169,431	414,923	2,769,292	299,242

City of Medical Lake
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		501
		Unemployment
		Compensation
		<hr/>
Beginning Cash and Investments		
30810	Reserved	1,998
30880	Unreserved	-
388 / 588	Net Adjustments	423
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	8
Total Revenues:		<hr/> 8
Expenditures		
510	General Government	502
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> 502
Excess (Deficiency) Revenues over Expenditures:		(494)
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> -
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> -
Increase (Decrease) in Cash and Investments:		(494)
Ending Cash and Investments		
5081000	Reserved	1,927
5088000	Unreserved	-
Total Ending Cash and Investments		<hr/> 1,927

The accompanying notes are an integral part of this statement.

City of Medical Lake
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	001 General Fund	100 Impact Fees	101 City Street Fund
Beginning Cash and Investments					
30810	Reserved	3,507,088	62,513	27,860	(3,678)
30880	Unreserved	938,387	938,387	-	-
388 / 588	Net Adjustments	188,671	35,440	536	34,053
Revenues					
310	Taxes	1,919,489	1,855,616	-	-
320	Licenses and Permits	54,537	54,487	-	50
330	Intergovernmental Revenues	315,027	205,780	-	109,247
340	Charges for Goods and Services	2,392,922	96,951	2,628	-
350	Fines and Penalties	29,837	13,739	-	-
360	Miscellaneous Revenues	236,794	33,245	515	257
Total Revenues:		4,948,606	2,259,818	3,143	109,554
Expenditures					
510	General Government	596,240	588,277	-	-
520	Public Safety	1,370,389	1,370,389	-	-
530	Utilities	2,255,838	9,911	-	-
540	Transportation	261,756	-	-	261,756
550	Natural and Economic Environment	21,360	21,360	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	156,289	156,289	-	-
Total Expenditures:		4,661,872	2,146,226	-	261,756
Excess (Deficiency) Revenues over Expenditures:		286,734	113,592	3,143	(152,202)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	360,230	110,000	-	223,730
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	12,750	12,750	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		372,980	122,750	-	223,730
Other Decreases in Fund Resources					
594-595	Capital Expenditures	483,126	89,028	-	231,134
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	260,230	202,730	10,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	13,511	13,511	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		756,867	305,269	10,000	231,134
Increase (Decrease) in Cash and Investments:		(97,153)	(68,927)	(6,857)	(159,606)
Ending Cash and Investments					
5081000	Reserved	3,647,242	77,663	21,539	(129,231)
5088000	Unreserved	889,750	889,750	-	-
Total Ending Cash and Investments		4,536,992	967,413	21,539	(129,231)

The accompanying notes are an integral part of this statement.

City of Medical Lake
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		105 Sick Leave Buyback Fund	301 Capital Improvement Fund	401 Water/Sewer Fund	407 Garbage Fund
Beginning Cash and Investments					
30810	Reserved	140,193	429,046	2,636,834	219,359
30880	Unreserved	-	-	-	-
388 / 588	Net Adjustments	-	-	79,349	39,293
Revenues					
310	Taxes	-	63,873	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	1,692,608	600,735
350	Fines and Penalties	-	-	16,098	-
360	Miscellaneous Revenues	2,642	7,852	186,966	5,317
Total Revenues:		2,642	71,725	1,895,672	606,052
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	1,665,611	580,316
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	1,665,611	580,316
Excess (Deficiency) Revenues over Expenditures:		2,642	71,725	230,061	25,736
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	11,500	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		11,500	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	162,964	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	40,000	7,500	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	40,000	170,464	-
Increase (Decrease) in Cash and Investments:		14,142	31,725	59,597	25,736
Ending Cash and Investments					
5081000	Reserved	154,335	460,770	2,775,780	284,388
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		154,335	460,770	2,775,780	284,388

The accompanying notes are an integral part of this statement.

City of Medical Lake
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		501
		Unemployment
		Compensation
		<hr/>
Beginning Cash and Investments		
30810	Reserved	(5,039)
30880	Unreserved	-
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	-
Total Revenues:		<hr/> -
Expenditures		
510	General Government	7,963
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> 7,963
Excess (Deficiency) Revenues over Expenditures:		<hr/> (7,963)
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	15,000
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> 15,000
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> -
Increase (Decrease) in Cash and Investments:		7,037
Ending Cash and Investments		
5081000	Reserved	1,998
5088000	Unreserved	-
Total Ending Cash and Investments		<hr/> 1,998

The accompanying notes are an integral part of this statement.

City of Medical Lake
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	Private-Purpose Trust	Custodial
308	Beginning Cash and Investments	11,531	16,271	(4,740)
388 & 588	Net Adjustments	2,855	(140)	2,995
310-390	Additions	6,838	-	6,838
510-590	Deductions	5,423	-	5,423
	Net Increase (Decrease) in Cash and Investments:	1,415	-	1,415
508	Ending Cash and Investments	15,801	16,131	(330)

The accompanying notes are an integral part of this statement.

**Notes to the Financial Statements
City of Medical Lake
For the Year Ended December 31, 2019**

Note 1 - Summary of Significant Accounting Policies

The City of Medical Lake was incorporated on June 18, 1890 and operates under the laws of the state of Washington applicable to a non-charter. The City is a general-purpose local government and provides general government services, public safety, street maintenance, water, sewer and garbage.

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. (see note to 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. 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. For reporting purposes, the following managerial funds were rolled into the general fund:

002 – Fire CIP Reserve	004 – Finance Reserve
005 – City Hall CIP Reserve	007 – Building Code CIP Reserve
008 – Parks CIP Reserve	072 – Library CIP Reserve
106 – Contingency Fund	

Special Revenue Funds

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

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. For reporting purposes, the following funds were rolled into the water/sewer fund:

- 402 – Wtr/Swr Revenue Bond Reserve Fund
- 403 - Wtr/Swr Revenue Bond Redemption Fund
- 404 – Wtr/Swr Equipment CIP Reserve Fund
- 405 – Wtr/Swr Utility Improvement Fund

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 a custodian on behalf of others. Funds 621 and 630 were funds that stemmed from deposits. Per the Washington State Auditors' office, they did not meet the criteria of a Fiduciary fund. Therefore, per SAO, Fund 621 and 630 were rolled into the general fund.

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

C. Cash and Investments

See Note 3 - Deposits and Investments.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave is accumulated on a basis of continuous service and date of hire, as prescribed in the City's personnel policy, and may be accumulated up to a maximum of 336 hours. It is payable upon separation or retirement of employment, after one year of service. The employee will forfeit any unexpended vacation time, that is in excess of the amount earned in the two year period, that is applicable to the employee's date of hire. Sick leave may be accumulated up to 960 hours and is payable upon separation or retirement of employment after five years of services, providing separation did not occur for disciplinary reason. Employees hired prior to January 1, 1996, shall be compensated at fifty percent of their accrued sick leave to a maximum of one hundred twenty days. Employees hired after January 1, 1996, shall be compensated at twenty five percent of their accrued sick leave to a maximum of one hundred twenty days. Payments are recognized as expenditures when paid.

F. 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 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 \$3,799,200. The reservations come from separate funds including the 1) General Fund, 2) Impact Fees Fund, 3) City Street Fund, 4) Sick Leave, Buyback Fund, 5) Capital Improvement Fund, 6) Water/Sewer Fund, 7) Garbage Fund, 8) Unemployment Fund. These reservations consist of various reserved construction in progress funds held within the General Fund, reservations for the mitigation of impact services held within the Impact Fees Fund, reservations for street projects within the City Street Fund, reservations to compensate employees in accordance with the City personnel rules within the Sick Leave Buyback Fund, reservations for capital projects within the Capital Improvement Fund, reservations for water and sewer services held within the Water/Sewer Fund, reservations for garbage services within the Garbage Fund, and reservations for unemployment claims held within the Unemployment Fund.

Note 2 – Budget Compliance

A. Budgets

The City adopts annual appropriated budgets for operating funds. These budgets are appropriated at the fund level except the general (current expense) fund, where budget is adopted at the department level. 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:	\$2,788,387	\$2,646,581	\$157,858
General Services	\$195,546	\$188,413	\$7,133
Legislative Department	\$43,633	\$41,937	\$1,696
Court Services	\$63,879	\$76,130	(\$12,251)
Executive Department	\$106,082	\$103,790	\$2,292
Finance Department	\$ 205,351	\$212,522	(\$7,171)
Legal Services	\$ 64,750	\$66,349	(\$1,599)
City Hall	\$113,369	\$90,947	\$22,422
Law Enforcement	\$1,081,700	\$1,050,438	\$31,262
Fire Department	\$132,518	\$207,435	(\$74,917)
Public Works Dept.	\$182,180	\$146,243	\$35,937
Emergency Medical Svcs	\$144,132	\$73,147	\$70,985
Environmental Services	\$20,175	\$15,353	\$4,822
Animal Control Services	\$11,000	\$11,158	\$(158)
Planning Department	\$42,437	\$53,056	(\$10,619)
Park & Rec Department	\$125,373	\$108,497	\$16,876
Parks Department	\$251,489	\$182,464	\$69,025
Library Department	\$4,773	\$2,651	\$2,122
Fire Reserve Fund	\$10,000	\$10,000	0
DEPOSITS		\$5,953	
Street Fund			
Water/Sewer Fund	\$2,357,210	\$1,933,966	\$423,244
Water Department	\$1,109,074	\$687,240	\$421,834
Sewer Department	\$371,343	\$367,759	\$3,584
Wastewater Treatment	\$876,793	\$878,967	(\$2,174)
Garbage Fund	\$638,784	\$606,693	\$32,091
Impact Fee Fund	\$10,000	\$10,000	0
Capital Improvement	\$160,000	\$131,021	\$28,979
Unemployment Comp	\$10,000	\$502	\$9,498

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.

Note 3 – Deposits and Investments

Investments are reported at original cost. Deposits and investments by type at December 31, 2019 are as follows:

<u>Type of Deposit or Investment</u>	City of Medical Lake's own deposits and investments	Deposits and investments held by the county as a custodian for other local governments, individuals or private organizations.	Total
Bank deposits	\$144,772	\$0	\$144,772
Local Government			
Investment Pool	\$4,600,896	\$0	\$4,600,896
U.S. Government Securities	<u>\$137,637</u>	<u>\$0</u>	<u>\$137,637</u>
Total	\$4,883,305	\$0	\$4,883,305

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

Investments in the State Local Government Investment Pool (LGIP)

The City is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Note 4 – Pension Plans

A. State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans

PERS I
PERS II
PERS III
VFFRPF

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 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The City of Medical Lake also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2019 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$46,703	.006513	250,447.97
PERS 2/3	\$68,653	.008406	81,650.84
VFFRPF	\$120	.006000	41,090.00

B. Defined Contribution Pension

As an additional benefit, the City also offers its eligible employee's \$100 a month for their deferred compensation. The \$100 can either be applied towards their medical insurance cost or deferred to the defined contribution pension plan. The deferred compensation plan was created in accordance with Internal Revenue Code Section 457. The plan permits employees to voluntarily defer a portion of their salary for retirement purposes and is not available to employees until termination, retirement, death or an unforeseeable emergency. For the reporting period of 2019, the City's contribution was \$10,288. The City's plan, (457 Deferred Compensation Plan) is administered by ICMA Retirement Corporation

Additional information available by writing:

ICMA Retirement Corporation
777 North Capitol Street, Suite 600
Washington, DC 20002-4240

Note 5 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by the City of Medical Lake. 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 2019 was \$1.93 per \$1,000 on an assessed valuation of \$288,278,311 for a total regular levy of \$556,401. The City's EMS levy for the year 2019 was .50 per \$1,000 on an assessed valuation of \$288,278,311 for a total EMS levy of \$144,139.

Note 6 – Risk Management

AWC

The City of Medical Lake 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, 2019, 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, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. 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.

WCIA

The City of Medical Lake 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 163 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

Note 7 - Other Disclosures

COVID-19

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. The length of time these measures will be in place, and the full extent of the financial impact on the City is unknown at this time.

On March 16, 2020, the City closed all city buildings to the public, due to the COVID-19 virus pandemic and Governor Inslee's Stay Home - Stay Healthy order. Staff remained onsite and continued to conduct City business as usual. City council meetings were also continued and conducted via phone and video conferencing. The City incurred minimal expenses due to the COVID-19 virus, which included a public health information newsletter and an employee taking off time via the Families First Coronavirus Response Act. At the time of this report, the City was not anticipating a significant economic impact due to the COVID-19 virus. However, the City is anticipating a reduction in the gas tax, which could have a significant impact on the City's street fund.

Removal of FUND 630 – Deposits and FUND 621 – Private Purpose Trust Funds

Per the State Auditors Office – Due to a new accounting treatment for refundable deposits and the definition of fiduciary activities being updated, Fund 630 Deposits and Fund 621 Private Purpose Trust Funds, no longer meet the current definition. Deposits will now be reported as revenues and expenses and reported as part of the General Fund. Therefore, the C-5 will be zeroed out as well.

Street Fund Negative Beginning Balance

The City Street fund ended 2018 with a negative balance. The money had been expensed for a State TIB grant and the City was waiting to be reimbursed by the State.

Prior Period Adjustments

The City's 2019 financial statements required a prior period adjustment of (\$34,255) due to discrepancies between amounts reported in the City's financial software program, the ending cash and investments on the C-4 and the total ending bank balance. These discrepancies arose due to uncorrected misstatements in the fiscal year 2018 financial statements.

**Notes to the Financial Statements
City of Medical Lake
For the Year Ended December 31, 2018**

Note 1 - Summary of Significant Accounting Policies

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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.

Custodial Funds

These funds are used to account for 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 Medical Lake also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 3, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave is accumulated on a basis of continuous service and date of hire, as prescribed in the City's personnel policy, and may be accumulated up to a maximum of 336 hours. It is payable upon separation or retirement of employment, after one year of service. The employee will forfeit any unexpended vacation time, that is in excess of the amount earned in the two-year period, that is applicable to the employee's date of hire. Sick leave may be accumulated up to 960 hours and is payable upon separation or retirement of employment after five years of services, providing separation did not occur for disciplinary reason. Employees hired prior to January 1, 1996, shall be compensated at fifty percent of their accrued sick leave to a maximum of one hundred twenty days. Employees hired after January 1, 1996, shall be compensated at twenty five percent of their accrued sick leave to a maximum of one hundred twenty days. Payments are recognized as expenditures when paid.

F. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the 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 \$3,647,242. The reservations come from separate funds including the 1) General Fund, 2) Impact Fees Fund, 3) City Street Fund, 4) Sick Leave, Buyback Fund, 5) Capital Improvement Fund, 6) Water/Sewer Fund, 7) Garbage Fund, 8) Unemployment Fund. These reservations consist of various reserved construction in progress funds held within the General Fund, reservations for the mitigation of impact services held within the Impact Fees Fund, reservations for street projects within the City Street Fund, reservations to compensate employees in accordance with the City personnel rules within the Sick Leave Buyback Fund, reservations for capital projects within the Capital Improvement Fund, reservations for water and sewer services held within the Water/Sewer Fund, reservations for garbage services within the Garbage Fund, and reservations for unemployment claims held within the Unemployment Fund.

Note 2 – Budget Compliance

A. Budgets

The City adopts annual appropriated budgets for operating funds. These budgets are appropriated at the fund level except the general (current expense) fund, where the budget is adopted at the department level. 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
001-GENERAL FUND			
000-General	\$ 182,876	\$ 216,241	(\$33,365)
110-Legislative	\$ 37,278	\$ 39,739	(\$2,461)
120-Court	\$ 66,033	\$ 59,730	\$6,303
130-Executive	\$ 99,164	\$ 99,453	(\$289)
140-Finance	\$ 184,894	\$ 220,340	(\$35,446)
150-Legal	\$ 76,200	\$ 81,588	(\$5,388)
180-City Hall	\$ 119,719	\$ 91,365	\$ 28,354
210-Law Enforcement	\$1,016,500	\$ 1,025,288	(\$8,788)
220-Fire	\$ 111,889	\$ 93,317	\$ 18,572
240-Code Enforcement	\$ 177,449	\$ 169,434	\$ 8,015
260-EMS	\$ 171,802	\$ 150,416	\$ 21,386
310-Pollution/Lake	\$ 20,077	\$ 19,160	\$ 917
390-Animal Control	\$ 11,000	\$ 9,911	\$ 1,089
580-Planning	\$ 4,750	\$ 2,200	\$ 2,550
720-Library	\$ 4,610	\$ 2,599	\$ 2,011
740-Recreation	\$ 111,677	\$ 109,776	\$ 1,901
760-Parks	\$ 113,373	\$ 70,933	\$ 42,440
101-STREET FUND	\$ 496,636	\$ 492,888	\$ 3,748
301-CAP IMPROVEMENT	\$ 430,465	\$ 40,000	\$ 390,465
401-WATER/SEWER	\$4,394,762	\$ 1,886,072	\$ 2,508,690
407-GARBAGE	\$ 819,808	\$ 580,315	\$ 239,493
501-UNEMPLOYMENT	\$ (5050)	\$ 7,963	(\$ 13,013)
105-SICK LEAVE BUYBACK	\$ 150,256	\$ 0	\$ 150,256
100 – IMPACT FEES	\$ 13,747	\$ 10,000	\$ 3,747
TOTALS	\$8,809,915	\$5,478,728	\$3,331,187

Per City ordinance, the City reimburses the Unemployment Fund (501) when it appears the funds are insufficient. The City does not make payments out of this fund very often and the transfer was not done until October 2018. The amount under the Final Appropriated Amounts column is shown as a negative, due to that is how it is listed on the 2018 budget ordinance.

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 legislative body.

Note 3 – Deposits and Investments

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

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and 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 original cost. Investments by type at December 31, 2018 are as follows:

<u>Type of Investment</u>	<u>City of Medical Lake</u> <u>own investments</u>	Investments held by Medical Lake as an agent for other local governments, individuals or private organizations.	Total
Checking	\$ 80,152		80,152
L.G.I.P.	\$ 4,335,212	<u>\$15,801</u>	\$4,319,411
U.S. Government Securities	\$ 137,431		137,431
Total	\$ 4,552,795	<u>\$15,801</u>	<u>\$ 4,536,994</u>

Note 4 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

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 2018 was \$2.1166 per \$1,000 on an assessed valuation of \$259,760,929 for a total regular levy of \$549,803. The City's EMS levy for the year 2018 was .46420 per \$1,000 on assessed valuation of \$259,760,929 for a total EMS levy of \$120,582.

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans

PERS I
PERS II
PERS III
VFFRPF

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.

The City also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At of June 30, 2018 (the measurement date of the plans), the City proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$50,469	% 0.007550	\$ 337,186
PERS 2/3	\$74,519	% 0.009658	\$ 164,902
VFFRPF	\$90	% 0.04000	\$ 23,211

B. Defined Contribution Pension Plans

As an additional benefit, the City also offers its eligible employee's \$100 a month for deferred compensation. The \$100 can either be applied towards their medical insurance cost or deferred to the defined contribution pension plan. The deferred compensation plan was created in accordance with Internal Revenue Code Section 457. The plan, permits employees to voluntarily defer a portion of their salary for retirement purposes and is not available to employees until termination, retirement, death or an unforeseeable emergency. For the reporting period of 2018, the City's contribution was \$10,288. The City's plan, (457 Deferred Compensation Plan) is administered by ICMA Retirement Corporation.

Additional information available by writing:

ICMA Retirement Corporation
777 North Capitol Street, Suite 600
Washington, DC 20002-4240

Note 6 – Risk Management

The City of Medical Lake 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, 2018, 257 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2018, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. 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").

In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. 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

WCIA

The City of Medical Lake is also 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 jointly contracting for risk management services. WCIA has a total of 160 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

Note 7 - Other Disclosures

The City accounts for some non-revenue/non-expenditures, (specifically Court remittance payables, NSF checks and School Impact Fees) by postings to General Ledger account numbers. This is a departure from GAAP.

Funds are consolidated to align with BARS guidance. Fund 001 consist of funds 002, 004, 005, 006, 007, 008, 072, 104, 106 and 109. Fund 401 consist of funds 402, 403, 404 and 405.

The City Street fund ended 2018 with a negative balance. The money had been expensed for a State TIB grant and the City was waiting to be reimbursed by the State.

The City's 2018 financial statements required a prior period adjustment of \$188,671 on the C-4 and \$2,855 on the C-5, due to discrepancies between amounts reported in the City's financial software program, the ending cash and investments on the C-4 and C-5, and total ending bank balance. These discrepancies arose due to uncorrected misstatements in the fiscal year 2017 financial statements.

**City of Medical Lake
Schedule of Liabilities
For the Year Ended December 31, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liabilities		525,298	-	152,109	373,189
259.12	Compensated Absenses		148,317	90,971	78,253	161,035
	Total Revenue and Other (non G.O.) Debt/Liabilities:		673,615	90,971	230,362	534,224
	Total Liabilities:		673,615	90,971	230,362	534,224

**City of Medical Lake
Schedule of Liabilities
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liabilities		881,707	-	356,409	525,298
259.12	Compensated Absenses		158,802	46,352	56,837	148,317
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,040,509	46,352	413,246	673,615
Total Liabilities:			1,040,509	46,352	413,246	673,615

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov