



# Washington State Auditor's Office

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## Financial Statements Audit Report

# City of Medina

King County

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

Published September 21, 2015

Report No. 1015050





## Washington State Auditor's Office

September 21, 2015

Council  
City of Medina  
Medina, Washington

### Report on Financial Statements

Please find attached our report on the City of Medina'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 Medina  
King County  
January 1, 2014 through December 31, 2014**

Council  
City of Medina  
Medina, 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 Medina, 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 September 10, 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

September 10, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Council  
City of Medina  
Medina, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Medina, 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 Medina 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 Medina, 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 Medina, 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 September 10, 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

September 10, 2015

## **FINANCIAL SECTION**

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

|   | <b>Total for All<br/>Funds<br/>(Memo Only)</b> | <b>001 General Fund</b> | <b>101 City Street<br/>Fund</b> |
|---|--|-------------------------|---------------------------------|
| <b>Beginning Cash and Investments</b>                   |  |                         |                                 |
| 30810   | Reserved                                       | 372,097                 | 76,694                          |
| 30880   | Unreserved                                     | 5,090,299               | 2,659,318                       |
| 388 & 588   | Prior Period Adjustments, Net                  | -                       | -                               |
| <b>Operating Revenues</b>                               |  |                         |                                 |
| 310   | Taxes  | 5,384,776               | 4,170,814                       |
| 320   | Licenses and Permits                           | 649,811                 | 649,811                         |
| 330   | Intergovernmental Revenues                     | 143,842                 | 55,491                          |
| 340   | Charges for Goods and Services                 | 558,362                 | 558,202                         |
| 350   | Fines and Penalties                            | 35,727                  | 35,727                          |
| 360   | Miscellaneous Revenues                         | 60,294                  | 58,013                          |
| Total Operating Revenues:                               |  | <u>6,832,812</u>        | <u>5,528,057</u>                |
| <b>Operating Expenditures</b>                           |  |                         |                                 |
| 510   | General Government                             | 1,441,132               | 1,441,132                       |
| 520   | Public Safety                                  | 2,355,076               | 2,355,076                       |
| 530   | Utilities                                      | -                       | -                               |
| 540   | Transportation                                 | 348,616                 | -                               |
| 550   | Natural and Economic<br>Environment            | 802,094                 | 802,094                         |
| 560   | Social Services                                | -                       | -                               |
| 570   | Culture and Recreation                         | 458,941                 | 458,941                         |
| Total Operating Expenditures:                           |  | <u>5,405,859</u>        | <u>5,057,243</u>                |
| <b>Net Operating Increase (Decrease):</b>               |  | <b>1,426,953</b>        | <b>470,814</b>                  |
| <b>Nonoperating Revenues</b>                            |  |                         |                                 |
| 370-380, 395 & 398                                      | Other Financing Sources                        | 16,272                  | 8,872                           |
| 391-393   | Debt Proceeds                                  | 1,350,000               | 1,350,000                       |
| 397   | Transfers-In                                   | 270,000                 | -                               |
| Total Nonoperating Revenues:                            |  | <u>1,636,272</u>        | <u>1,358,872</u>                |
| <b>Nonoperating Expenditures</b>                        |  |                         |                                 |
| 580, 596 & 599  | Other Financing Uses                           | 15,036                  | 15,036                          |
| 591-593   | Debt Service                                   | 41,616                  | 41,616                          |
| 594-595   | Capital Expenditures                           | 2,257,247               | 1,467,448                       |
| 597   | Transfers-Out                                  | 270,000                 | -                               |
| Total Nonoperating Expenditures:                        |  | <u>2,583,900</u>        | <u>1,524,101</u>                |
| <b>Net Increase (Decrease) in Cash and Investments:</b> |  | <b>479,326</b>          | <b>305,586</b>                  |
| <b>Ending Cash and Investments</b>                      |  |                         |                                 |
| 50810   | Reserved                                       | 526,261                 | 76,694                          |
| 50880   | Unreserved                                     | 5,415,460               | 2,964,902                       |

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

| <b>103 Tree Fund</b> | <b>302 Capital Reserve Fund</b> | <b>307 Capital Projects Fund</b> |
|----------------------|---------------------------------|----------------------------------|
| -                    | -                               | 295,404                          |
| 69,356               | 1,878,603                       | 435,893                          |
| -                    | -                               | -                                |
| -                    | -                               | 1,213,962                        |
| -                    | -                               | -                                |
| -                    | -                               | 25,296                           |
| -                    | -                               | 160                              |
| -                    | -                               | -                                |
| -                    | 1,629                           | 652                              |
| -                    | <u>1,629</u>                    | <u>1,240,070</u>                 |
| -                    | -                               | -                                |
| -                    | -                               | -                                |
| -                    | -                               | -                                |
| -                    | -                               | -                                |
| -                    | -                               | -                                |
| -                    | -                               | -                                |
| -                    | -                               | -                                |
| -                    | <u>1,629</u>                    | <u>1,240,070</u>                 |
| 7,400                | -                               | -                                |
| -                    | -                               | -                                |
| -                    | -                               | -                                |
| <u>7,400</u>         | -                               | -                                |
| -                    | -                               | -                                |
| -                    | -                               | -                                |
| -                    | -                               | 789,799                          |
| -                    | -                               | 270,000                          |
| -                    | -                               | <u>1,059,799</u>                 |
| <b>7,400</b>         | <b>1,629</b>                    | <b>180,271</b>                   |
| -                    | -                               | 449,567                          |
| 76,756               | 1,880,232                       | 462,001                          |

The accompanying notes are an integral part of this statement.

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

|           | <b>Total for All<br/>Funds<br/>(Memo Only)</b>   | <b>631 NonRevenue<br/>Trust Funds</b> |
|-----------|--|---------------------------------------|
| 308       | Beginning Cash and Investments                   | 133,831                               |
| 388 & 588 | Prior Period Adjustments, Net                    | -                                     |
| 310-360   | Revenues   | -                                     |
| 380-390   | Other Increases and Financing Sources            | 79,530                                |
| 510-570   | Expenditures                                     | -                                     |
| 580-590   | Other Decreases and Financing Uses               | 54,206                                |
|           | Net Increase (Decrease) in Cash and Investments: | 25,324                                |
| 508       | Ending Cash and Investments                      | 159,155                               |

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

**CITY OF MEDINA**  
**For the Year Ended December 31, 2014**

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

The City of Medina was incorporated on August 19, 1955 and operates under the laws of the state of Washington applicable to a Code City operating under the Council/Manager form of government. The City of Medina is a general purpose government and provides public safety, street improvements and maintenance, parks, storm water systems and general administration services.

The City of Medina 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 by the City of Medina:

**GOVERNMENTAL FUND TYPES:**

General Fund

This fund is the primary operating fund of the City of Medina. 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 City of Medina.

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.

## FIDUCIARY FUND TYPES:

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

### Agency Funds

These funds are used to account assets that the City of Medina holds for 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 only when cash is received and expenditures are recognized when paid.

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

### C. Budgets

The City of Medina adopts annual appropriated budgets for all funds except agency 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.

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 follows:

| Fund Expenditures      | Final Appropriated Amounts | Actual Expenditures | Variance   |
|------------------------|----------------------------|---------------------|------------|
| General Fund:          | \$ 7,018,126               | \$ 6,566,308        | \$ 451,818 |
| Street Fund:           | \$ 355,448                 | \$ 348,615          | \$ 6,833   |
| Capital Reserve Fund:  | \$ -0-                     | \$ -0-              | \$ -0-     |
| Tree Fund:             | \$ -0-                     | \$ -0-              | \$ -0-     |
| Capital Projects Fund: | \$ 1,068,173               | \$ 789,799          | \$ 278,374 |
| Total All Funds:       | \$ 8,441,747               | \$ 7,704,722        | \$ 737,025 |

Budgeted amounts are authorized to be transferred between departments within any fund, or within department object classes; 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 Medina City Council.

### D. Cash and Investments

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is less than \$10,000 (less than 1%) and is prorated to the various funds. (See Note 1. E, Deposits and Note 2, Investments)

### E. Deposits

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

F. Investments See Note 2.

H. 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. The capital assets of the City of Medina are recorded as expenditures when purchased.

I. Compensated Absences

Vacation leave may be accumulated up to 300 hours and is payable upon separation or retirement.

The Police Officer's and the Public Work's Teamsters Labor Agreements allow sick leave to be accumulated up to 960 hours. Upon separation or retirement, employees in good standing with a minimum of ten years continuous service shall be reimbursed up to a maximum of 180 hours.

The Clerical Unit (Teamsters) Labor Agreement allows for 720 hours of accumulated sick leave. Upon separation or retirement, employees in good standing with a minimum of ten years continuous service shall be reimbursed up to a maximum of 180 hours.

Upon separation or retirement employees who have a minimum of ten years continuous service receive payment for a portion of unused sick leave. Payments are recognized as expenditures when paid.

K. Long-Term Debt

See Note 4, *Debt Service Requirements*.

L. Other Financing Sources or Uses

The City of Medina's *Other Financing Sources or Uses* consist of Transfers-in and Transfers-out between City Funds.

M. Risk Management

1. WCIA Insurance Pool:

The City of Medina 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.

## 2. Health and Welfare:

The City of Medina 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.

N. Reserved Fund Balance

Reserved Fund Balances in 2014 were attributed to: \$76,694 in Restricted General Fund Revenue for the 2009 Revenue associated with the proceeds from the sale of Jail Property (JAG Inter-local Agreement) which restricts the use of the funds under the Inter-local Agreement; \$449,567 in Restricted Capital Fund Revenue for Real Estate Excise Tax (REET), which restricts the use of the funds per RCW 82.46.010 and RCW 82.46.035; and \$159,155 in Restricted Trust/Agency Fund Balances.

**Note 2 - Investments**

The City of Medina's investments are insured, registered or held by the City or its agent in the City's name.

Investments are presented at cost value.

Investments by type at December 31, 2014 are as follows:

Type of Investment

State of Washington,

Local Government Investment Pool: \$5,317,059.54

**Note 3 - Property Tax**

The King County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections were 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 taxes are levied.

The City of Medina’s regular levy for 2014 was \$0.93 per \$1,000 on an assessed valuation of \$2,725,367,630 for a total regular levy of \$2,539,890

**Note 4 – Debt Service Requirements**

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Medina and summarizes the City of Medina’s debt transactions for year ended December 31, 2014.

The debt service requirements for General Obligation Bonds and Compensated Absences Liability (Other Debt), including both principle and interest, are as follows:

|        | <u>General Obligation Debt</u> | <u>Revenue Debt</u> | <u>Other Debt</u> | <u>Total Debt</u>  |
|--------|--------------------------------|---------------------|-------------------|--------------------|
| 2014   | \$ 1,350,000                   | \$ -0-              | \$ 203,737        | \$1,553,737        |
| TOTALS | <u>\$ 1,350,000</u>            | <u>\$ -0-</u>       | <u>\$ 203,737</u> | <u>\$1,553,737</u> |

**Note 5- Pension Plans**

Substantially all of the City of Medina’s full-time and qualifying part-time employees participate in the Public Employee’s Retirement System (PERS) or Law Enforcement Officer’s Retirement System (LEOFF) 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 of Medina’s financial statements. Contributions to the system 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**

Compliance:

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

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

Post-Employment Benefits:

In accordance with State Law, the City is responsible for health care costs of retired LEOFF 1 Employees. For our two remaining LEOFF 1 retirees, the City maintains medical insurance at a cost of \$30,910 for 2014. In addition, the City has opted for a supplemental extended care policy for two LEOFF 1 individuals at a cost of \$1,660, bringing the total LEOFF 1 Post-Employment Benefits to \$32,570 during 2014.

Subsequent Events:

Chen v. Medina (Pending before the Ninth Circuit). The City of Medina received a wrongful termination claim in 2011 in the amount of \$14M related to the termination of the former Police Chief Jeff Chen. A “Complaint for Damages and Injunctive Relief” lawsuit was subsequently filed against the City on December 16, 2011 by the former Police Chief related to the wrongful termination claim. In March 2013, a plaintiff’s verdict was reached in federal district court. On August 23, 2013, the Federal District Court Judge who presided over the trial ordered a new trial primarily because of the insufficiency of evidence necessary to prove the claims and misconduct by the

plaintiff's counsel during trial. A new trial was held starting August 11, 2014 and concluded on August 21, 2014. The jury returned a verdict in favor of the Defendants City of Medina and Donna Hanson. The former Police Chief appealed the defense verdict to the Ninth Circuit Court of Appeals. The Appellant (former Police Chief) dismissed his appeal and this case is now fully resolved and closed, with no judgment or costs imposed against the City.

Skinner v. Medina (Pending before the Washington State Supreme Court). On February 8, 2006, Roger Skinner was terminated from a position in the Medina Police Department. The Civil Service Commission upheld the termination on September 1, 2006. After multiple appeals, the Commission's decision was set aside. On remand, the Commission conducted a new hearing and entered new Findings, Conclusions and Order on December 21, 2012, reinstating Skinner and ordering certain remedies. The Commission has retained jurisdiction to address the remedy phase of this proceeding. The remedy phase will extend into the summer. The City appealed the Order by filing an Application for Writ of Review with the King County Superior Court. By Memorandum Opinion dated July 25, 2013 and entered on October 1, 2013, King County Superior Court Presiding Judge Craighead granted the City's Application for Writ of Review and ordered that the portion of the CSC decision awarding back pay and benefits exceeded CSC power and modified the Decision to remove that portion of the remedy; Mr. Skinner appealed the trial court's ruling to Division One of the Washington Court of Appeals. In a published opinion issued on November 3, 2014, Division One concluded that under the standard for a constitutional writ of review, the Medina Civil Service Commission exceeded its authority under RCW 41.12.090 when it attempted to determine and award back pay and benefits to Mr. Skinner. Thus, the Commission's order was vacated as to back pay and benefits, but otherwise affirmed. Both Mr. Skinner and the City of Medina filed Motions for Reconsideration with Division One, and both motions were denied. The City filed a Petition for Review with the Washington Supreme Court on January 15, 2015. Mr. Skinner filed his Answer in Opposition to the City's Petition for Review on February 12, 2015. The Supreme Court did not accept review. Mr. Skinner has now brought a motion for a writ in Superior Court to compel the City make back pay to him among other things. That matter is pending and is set for hearing August 24, 2015.

In addition, Mr. Skinner filed a Charge of Discrimination and Retaliation under the ADA, dated August 2, 2013 with the EEOC. On June 23, 2014, the EEOC dismissed the Charge upon a determination that it was unable to establish violations of the statutes. On June 24, 2014, Mr. Skinner filed a second Charge of Discrimination with the EEOC, alleging that his separation from City employment was retaliation for his first EEOC filing. The City filed a response on September 22, 2014. The matter remains under EEOC review.

T-Mobile/Independent Towers v. City of Medina (pending before United States District Court, Western Washington). T-Mobile is seeking to locate a cell tower within the City of Medina to address an alleged gap in coverage. T-Mobile's development application was heard by the City's Hearing Examiner who denied the application. T-Mobile then brought suit in federal court under the Telecommunications Act arguing that its development permit was not properly denied. T-Mobile and the City have entered into a Settlement Agreement to resolve the matter (the settlement agreement addresses the location for the tower, the height of the tower, and mitigation measures T-Mobile must undertake, in addition to other items). The settlement and stipulated judgment were filed with the Court in June 2015 for approval. The Court's review and approval are pending. A citizens group, Respect Medina, sought intervener status and was granted intervener status in the suit. That group is opposing the proposed settlement and has recently filed a motion for summary judgment asking the Court to dismiss T-Mobile's lawsuit. That motion is currently pending and set for hearing on August 28, 2015.

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

| <u>ID. No.</u>                    | <u>Description</u>               | <u>Due Date</u> | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|-----------------------------------|----------------------------------|-----------------|------------------------------|------------------|-------------------|-----------------------|
| 251.11                            | 12/18/2014 G.O. Bond Nonvoted    | 12/31/2014      | -                            | 1,350,000        | -                 | 1,350,000             |
| 259.11                            | Gen. Fund Compensated Absences   | 12/31/2014      | 178,311                      | 154,182          | 149,243           | 183,251               |
| 259.11                            | Street Fund Compensated Absences | 12/31/2014      | 22,034                       | 16,038           | 17,586            | 20,486                |
| <b>Total General Obligations:</b> |                                  |                 | <b>200,345</b>               | <b>1,520,220</b> | <b>166,828</b>    | <b>1,553,737</b>      |
| <b>Total Liabilities:</b>         |                                  |                 | <b>200,345</b>               | <b>1,520,220</b> | <b>166,828</b>    | <b>1,553,737</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> |  |
|---|--|
| <b>Deputy Director for Communications</b>                 | Thomas Shapley<br><a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a><br>(360) 902-0367 |
| <b>Public Records requests</b>                            | (360) 725-5617   |
| <b>Main telephone</b>                                     | (360) 902-0370   |
| <b>Toll-free Citizen Hotline</b>                          | (866) 902-3900   |
| <b>Website</b>  | <a href="http://www.sao.wa.gov">www.sao.wa.gov</a>   |