



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of Medina

King County

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

Published October 6, 2016

Report No. 1017677





Washington State Auditor's Office

October 6, 2016

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,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

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	4
Independent Auditor’s Report On Financial Statements	7
Financial Section.....	10
About The State Auditor’s Office.....	25

**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, 2015 through December 31, 2015**

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, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 27, 2016.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

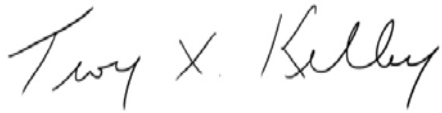
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "T" and "K".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 27, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Medina King County January 1, 2015 through December 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of 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, 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

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

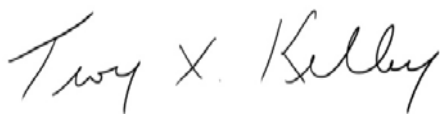
Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 27, 2016

FINANCIAL SECTION

**City of Medina
King County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015

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

		Total for All Funds (Memo Only)	001 General Fund	101 City Street Fund
Beginning Cash and Investments				
30810	Reserved	526,261	76,694	-
30880	Unreserved	5,415,459	2,964,902	31,568
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	5,062,977	4,138,307	-
320	Licenses and Permits	572,410	572,410	-
330	Intergovernmental Revenues	204,685	53,236	128,648
340	Charges for Goods and Services	458,059	458,059	-
350	Fines and Penalties	63,230	63,230	-
360	Miscellaneous Revenues	112,498	106,366	-
Total Operating Revenues:		<u>6,473,859</u>	<u>5,391,608</u>	<u>128,648</u>
Operating Expenditures				
510	General Government	1,693,148	1,693,148	-
520	Public Safety	2,675,979	2,675,979	-
530	Utilities	-	-	-
540	Transportation	326,868	-	326,868
550	Natural and Economic Environment	773,722	773,722	-
560	Social Services	701	701	-
570	Culture and Recreation	467,049	467,049	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		<u>5,937,467</u>	<u>5,610,599</u>	<u>326,868</u>
Net Operating Increase (Decrease):		536,392	(218,991)	(198,220)
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	106,978	46,653	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	250,000	-	250,000
Total Nonoperating Revenues:		<u>356,978</u>	<u>46,653</u>	<u>250,000</u>
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	38,513	24,151	-
591-593	Debt Service	95,747	95,747	-
594-595	Capital Expenditures	268,946	108,268	-
597	Transfers-Out	250,000	-	-
Total Nonoperating Expenditures:		<u>653,206</u>	<u>228,166</u>	<u>-</u>
Net Increase (Decrease) in Cash and Investments:		<u>240,164</u>	<u>(400,504)</u>	<u>51,780</u>
Ending Cash and Investments				
5081000	Reserved	1,236,111	76,694	-
5088000	Unreserved	4,945,778	2,564,402	83,347
Total Ending Cash and Investments		<u>6,181,889</u>	<u>2,641,096</u>	<u>83,347</u>

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, 2015

		Total for All Funds (Memo Only)	631 NonRevenue Trust Funds
308	Beginning Cash and Investments	159,156	159,156
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	135,000	135,000
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	76,584	76,584
Net Increase (Decrease) in Cash and Investments:		58,416	58,416
508	Ending Cash and Investments	217,570	217,570

The accompanying notes are an integral part of this statement.

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

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 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 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/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$ 6,238,915	\$ 5,814,611	\$ 424,304
Street Fund:	\$ 346,490	\$ 326,869	\$ 19,621
Capital Reserve Fund:	\$ -0-	\$ -0-	\$ -0-
Tree Fund:	\$ 69,000	\$ 14,362	\$ 54,638
Capital Projects Fund:	\$ 754,899	\$ 160,677	\$ 594,222
Total All Funds	\$ 7,409,304	\$ 6,316,519	\$ 1,092,785

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 slightly less than \$10,000 (less than 1%) and is prorated to the various funds. (See Note 3 Deposits and Investments)

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets and inventory at the City of Medina are recorded as capital expenditures when purchased.

F. Compensated Absences

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

The Patrol Officers Collective Agreement allows 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 at a rate of 50%, up to a maximum of 480 hours of pay.

The Public Work's Teamsters Labor Agreement allows 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 at a rate of 25% up to a maximum of 180 hours of pay.

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 at a rate of 25% up to a maximum of 180 hours of pay.

Upon separation or retirement, unrepresented 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.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. 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.

I. 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 179 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate 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, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

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

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

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

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

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

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

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as reserved when they are subject to restrictions on use imposed by external parties, or by RCW. When expenditures that meet restrictions are incurred, the City of Medina intends to use reserved resources first before using unreserved amounts.

Reserved Fund Balances in 2015 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; \$1,159,417 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 \$217,570 in Restricted Trust/Agency Fund Balances.

Note 2 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed 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 of Medina's regular levy for the year 2015 was \$0.83 per \$1,000 on an assessed valuation of \$3,156,336,288 for a total regular levy of \$2,615,057.

Note 3 – Deposits and Investments

It is the City of Medina's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds using a percent allocation based on the size of the fund for the allocation.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation. All investments are insured, registered or held by the City of Medina or its agent in the government's name. Investments are reported at cost value.

The City Council of the City of Medina approved for the City to make authorized investments outside of the Local Government Investment Pool with the adoption of Resolution 377, adopted in April, 2015.

Investments by type at December 31, 2015 are as follows:

<u>Type of Investment</u>	<u>City of Medina's own investments</u>	Investments held by the City of Medina as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P. (Local Gov. Investment Pool)	\$ 2,349,557	\$ -0-	\$ 2,349,557
U.S. Government Securities (US Bank Investment Safekeeping)	\$ 1,503,346	\$ -0-	\$ 1,503,346
Total	<u>\$ 3,852,903</u>	<u>\$ -0-</u>	<u>\$ 3,852,903</u>

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of 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, 2015.

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

	<u>Beg. Principal</u>	<u>Interest Paid</u>	<u>Principal Paid</u>	<u>Ending Principal</u>
2015 G.O. Bond/Loan	\$1,350,000	\$47,115	\$48,632	\$1,301,368

	<u>General Obligation Debt</u>	<u>Compensated Absences Other Liability</u>	<u>Total Debt & Liabilities</u>
2015	\$ 1,301,368	\$ 202,844	\$ 1,504,212
TOTALS	<u>\$ 1,301,368</u>	<u>\$ 202,844</u>	<u>\$ 1,502,212</u>

Special Note: The Government Accounting Standards Board (GASB) requires the disclosure of the Washington State DRS Pension Liability of \$1,089,457 for the City of Medina on Schedule 09- Schedule of Liabilities. The calculation for DRS Pension Liability is an estimated accrued liability amount, using information provided by the Washington State Department of Retirement Systems. The City of Medina has no funding liability for any pension plans administered by the Washington State Department of Retirement Systems. The City of Medina is current with all budgeted payment obligations to the Washington State DRS. Per GASB 68, in addition to the Debt Service listed above, the City has also reported Department of Retirement Systems (DRS) Pension Liability of \$1,089,457 on the Schedule 09-Schedule of Liabilities.

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all of the City of Medina 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.

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.

At June 30, 2015, the City of Medina’s proportionate share of the collective DRS Net Pension Liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	.002856 %	\$149,395
PERS1 UALL	.009547%	\$499,397
PERS 2/3	.012333%	\$440,665
Total		\$1,089,457

See Note 4- Debt Service Requirements. GASB requires disclosure of the DRS Pension Liability of \$1,089,457; however, the City of Medina has no funding liability for pension plans administered by the Washington State DRS. LEOFF 1 and LEOFF 2 allocation percentages are fully funded and not reported on Schedule 09. Allocation Percentage amounts for LEOFF are: 1) LEOFF 1 .004444% with (\$53,560) Liability and 2) LEOFF 2 .026921% with (\$276,694) Liability.

LEOFF Plan 1

The City of Medina also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

The City of Medina also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

B. Local Government Pension Plans

The City of Medina had no Local Government Pension Plans in 2015.

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 and medical reimbursements at a cost of \$34,642 for 2015. In addition, the City has opted for a supplemental extended care policy for two LEOFF 1 individuals at a cost of \$2,077, bringing the total LEOFF 1 Post-Employment Benefits to \$36,719 during 2015.

Subsequent Events:

Skinner v. City of Medina.

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 conducted a new hearing and on December 21, 2012, ordered Skinner reinstated with back pay. After another series of appeals, the superior court granted a writ of mandamus against the City, requiring the payment of back pay, and the matter was set for trial on August 22, 2016. On December 17, 2015, the City and Mr. Skinner attended a mediation that resulted in a successful resolution of Skinner's claims for back pay, benefits, and damages. Pursuant to the settlement, on January 4, 2016, the City issued Mr. Skinner a wire transfer payment of \$1.7 million. As part of the settlement, Mr. Skinner agreed to withdraw his EEOC charges against the City.

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 improperly denied. A citizen's group, Respect Medina, sought and was granted intervener status in the suit. Respect Medina and T-Mobile are now in negotiations regarding a cell tower in an alternative location. The case is presently stayed through the remainder of 2016 while those negotiations proceed. If a settlement is not reached, a new trial date will be set by the court, likely in 2017.

Willmore v. City of Medina (pending before the Shorelines Hearings Board).

In August of 2016, *pro se* appellant Graham Willmore, a resident of Snohomish, appealed a technical noise variance permitting decision to the Shorelines Hearings Board. In July, the City's Hearing Examiner issued the noise variance to Kiewit/General/Manson (KGM), the State's contractor for the State Route 520 bridge replacement project. The Shorelines Hearings Board does not have jurisdiction over a technical noise variance. Accordingly, the City has moved to dismiss.

PERK v. City of Medina (pending before the Shorelines Hearings Board). In August of 2016, PERK (People for an Environmentally Responsible Kenmore) appealed a revision to a shoreline conditional use permit, which the City and the State Department of Ecology issued to the Washington State Department of Transportation (WSDOT) for the SR 520 bridge replacement project. PERK argues that the revision does not comply with the State Shoreline Management Act. The City and WSDOT disagree with that argument, and plan to vigorously defend the appeal. Hearing has been set for November 7, 8, and 9 of 2016.

Evergreen Point Road Trust v. City of Medina (pending in King County Superior Court). In September 2016, the Evergreen Point Road Trust, through its member Robert Savoy, appealed a decision by the Medina Hearing Examiner to approve a two-lot short plat adjacent to Mr. Savoy's property. The appeal was filed under the Land Use Petition Act (LUPA), Chap. 36.70C RCW, which provides for expeditious superior court review of local government land use decisions. LUPA does not allow for damages; damages must be requested under separate authority, and have not been sought in this case. The appeal alleges that an emergency vehicle turn-around located on the appellant's property cannot be used to stage fire engines and other first responder vehicles in the event of an emergency. The City believes the appeal is meritless, and expects the developer of the short plat to vigorously defend the appeal.

City of Medina
Schedule of Liabilities
For the Year Ended December 31, 2015

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General Obligation Debt/Liabilities						
251.11	12/18/2014 G.O. Bond Nonvoted	12/31/2015	1,350,000	-	48,632	1,301,368
Total General Obligation Debt/Liabilities:			1,350,000	-	48,632	1,301,368
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Gen. Fund Compensated Absences	12/31/2015	183,251	153,181	152,625	183,807
259.12	Street Fund Compensated Absences	12/31/2015	20,486	11,807	13,256	19,037
264.30	DRS Net Pension Liability	12/31/2015	-	1,089,457	-	1,089,457
Total Revenue and Other (non G.O.) Debt/Liabilities:			203,737	1,254,445	165,881	1,292,301
Total Liabilities:			1,553,737	1,254,445	214,513	2,593,669

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov