



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Medina

King County

For the period January 1, 2016 through December 31, 2016

Published September 11, 2017

Report No. 1019751





Office of the Washington State Auditor
Pat McCarthy

September 11, 2017

Mayor and City 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,

Pat McCarthy
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.....	11
About the State Auditor’s Office	26

**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, 2016 through December 31, 2016**

Mayor and City 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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated August 31, 2017.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy

State Auditor

Olympia, WA

August 31, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Medina King County January 1, 2016 through December 31, 2016

Mayor and City 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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

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, 2016, 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, 2016, 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 August 31, 2017 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy

State Auditor

Olympia, WA

August 31, 2017

FINANCIAL SECTION

**City of Medina
King County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016
Notes to the Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016

City of Medina
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General Fund	101 City Street Fund	103 Tree Fund
Beginning Cash and Investments					
30810	Reserved	1,236,110	76,694	-	-
30880	Unreserved	4,945,778	2,564,402	83,347	122,719
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	5,086,628	4,143,700	-	-
320	Licenses and Permits	618,160	618,160	-	-
330	Intergovernmental Revenues	252,513	54,809	66,808	-
340	Charges for Goods and Services	649,428	649,428	-	-
350	Fines and Penalties	48,199	48,199	-	-
360	Miscellaneous Revenues	172,662	157,280	95	-
Total Revenues:		<u>6,827,590</u>	<u>5,671,575</u>	<u>66,903</u>	<u>-</u>
Expenditures					
510	General Government	3,329,184	3,329,184	-	-
520	Public Safety	2,725,857	2,725,857	-	-
530	Utilities	-	-	-	-
540	Transportation	344,959	-	344,959	-
550	Natural and Economic Environment	831,815	831,815	-	-
560	Social Services	823	823	-	-
570	Culture and Recreation	502,714	502,714	-	-
Total Expenditures:		<u>7,735,352</u>	<u>7,390,392</u>	<u>344,959</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		(907,762)	(1,718,817)	(278,056)	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	2,049,996	1,800,000	249,996	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	278,877	64,829	-	214,049
381, 395, 398	Other Resources	6,020	6,020	-	-
Total Other Increases in Fund Resources:		<u>2,334,894</u>	<u>1,870,849</u>	<u>249,996</u>	<u>214,049</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,015,673	140,033	-	-
591-593, 599	Debt Service	1,195,747	1,195,747	-	-
597	Transfers-Out	2,049,996	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	67,889	25,272	-	42,617
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>4,329,305</u>	<u>1,361,052</u>	<u>-</u>	<u>42,617</u>
Increase (Decrease) in Cash and Investments:		(2,902,174)	(1,209,020)	(28,060)	171,432
Ending Cash and Investments					
5081000	Reserved	1,250,679	76,694	-	-
5088000	Unreserved	2,029,036	1,355,382	55,287	294,150
Total Ending Cash and Investments		<u>3,279,715</u>	<u>1,432,076</u>	<u>55,287</u>	<u>294,150</u>

The accompanying notes are an integral part of this statement.

City of Medina
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		<u>302 Capital Reserve Fund</u>	<u>307 Capital Projects Fund</u>
Beginning Cash and Investments			
30810	Reserved	-	1,159,417
30880	Unreserved	1,884,599	290,711
388 / 588	Prior Period Adjustments, Net	-	-
Revenues			
310	Taxes	-	942,928
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	130,895
340	Charges for Goods and Services	-	-
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	10,827	4,461
Total Revenues:		<u>10,827</u>	<u>1,078,284</u>
Expenditures			
510	General Government	-	-
520	Public Safety	-	-
530	Utilities	-	-
540	Transportation	-	-
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		<u>-</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		<u>10,827</u>	<u>1,078,284</u>
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	-
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 395, 398	Other Resources	-	-
Total Other Increases in Fund Resources:		<u>-</u>	<u>-</u>
Other Decreases in Fund Resources			
594-595	Capital Expenditures	-	875,640
591-593, 599	Debt Service	-	-
597	Transfers-Out	1,800,000	249,996
585	Special or Extraordinary Items	-	-
586 / 589	Custodial Activities	-	-
581	Other Uses	-	-
Total Other Decreases in Fund Resources:		<u>1,800,000</u>	<u>1,125,636</u>
Increase (Decrease) in Cash and Investments:		<u>(1,789,173)</u>	<u>(47,352)</u>
Ending Cash and Investments			
5081000	Reserved	-	1,173,985
5088000	Unreserved	95,426	228,791
Total Ending Cash and Investments		<u>95,426</u>	<u>1,402,776</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, 2016

		<u>Total for All Funds (Memo Only)</u>	<u>631 NonRevenue Trust Funds</u>
308	Beginning Cash and Investments	217,570	217,570
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	188,507	188,507
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	210,878	210,878
	Net Increase (Decrease) in Cash and Investments:	<u>(22,371)</u>	<u>(22,371)</u>
508	Ending Cash and Investments	195,200	195,200

The accompanying notes are an integral part of this statement.

City of Medina
Notes to the Financial Statements
For the year ended December 31, 2016

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 local 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:

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

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 government in a trustee capacity or as an agent on behalf of others.

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law the City 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:	\$ 8,985,580	\$ 8,726,173	\$ 259,407
Street Fund:	\$ 359,078	\$ 344,959	\$ 14,119
Capital Reserve Fund:	\$ 1,800,000	\$ 1,800,000	\$ -0-
Tree Fund:	\$ 50,000	\$ 42,617	\$ 7,383
Capital Projects Fund:	\$ 1,605,131	\$ 1,125,636	\$ 479,495
Total All Funds	\$ 12,799,789	\$ 12,039,385	\$ 760,404

Budgeted amounts are authorized to be transferred between departments within any fund or object classes within departments; 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 was slightly less than \$32,000 (1%) and is prorated to the various funds. See Note 2, *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 1 year. Capital assets and inventory 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. 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 168 Members.

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

membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

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

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, 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, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and 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.

I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or 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 2016 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; \$1,173,985 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 \$195,200 in Restricted Trust/Agency Fund Balances.

Note 2 – 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.

Investments by type at December 31, 2016 are as follows:

<u>Type of Investment</u>	<u>City of Medina's own investments</u>	Investments held by City of Medina as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P. (Local Gov. Investment Pool)	\$ <u>1,804,446</u>	\$ <u>0</u>	\$ <u>1,804,446</u>
U.S. Government Securities (US Bank Inv. Safekeeping)	\$ <u>1,526,086</u>	\$ <u>0</u>	\$ <u>1,526,086</u>
Total	\$ <u>3,330,532</u>	\$ <u>0</u>	\$ <u>3,330,532</u>

Note 3 - 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 City of Medina. 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 2016 was \$0.795 per \$1,000 on an assessed valuation of \$3,353,445,656 for a total regular levy of \$2,666,965.

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, 2016.

The debt service requirements for general obligation bonds, revenue 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>
G.O. Bond/Loan	\$1,301,368	\$47,115	\$1,148,898	\$152,470

	<u>General Obligation Debt</u>	<u>Compensated Absences Other Liability</u>	<u>Total Debt & Liabilities</u>
2016	\$ 152,470	\$ 211,605	\$ 364,075
TOTALS	<u>\$ 152,470</u>	<u>\$ 211,605</u>	<u>\$ 364,075</u>

Special Note: The Government Accounting Standards Board (GASB) requires the disclosure of the Washington State DRS Pension Liability of \$1,333,388 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 \$1,333,388 on the Schedule 09- Schedule of Liabilities.

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all City of Medina’s 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: LEOFF & PERS.

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, 2016, the City of Medina’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	.000345%	\$ 18,528
PERS1 UALL	.011116%	\$596,982
PERS 2/3	.014258%	\$717,879
Total		\$1,333,389

See Note 4- Debt Service Requirements. GASB requires disclosure of the DRS Pension Liability of \$1,333,389; 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 are: LEOFF1 0% with (\$0) Liability and LEOFF2 .026496% with (\$154,109) 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 2016.

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 \$36,290 for 2016. In addition, the City has opted for a supplemental extended care policy for them at a cost of \$2,639, bringing the total LEOFF 1 Post-Employment Benefits to \$38,929 during 2016.

Subsequent Events:

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 was stayed through much of 2016 while T-Mobile sought permits to locate a tower in an alternative location. In early 2017 T-Mobile received necessary approvals for a tower. Accordingly, the City expects T-Mobile to voluntarily dismiss its lawsuit in the near future.

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; however, the City is not taking an active part in litigating the appeal, but is leaving it to the developer of the short plat to defend the approval.

Finnigan v. City of Medina (Complaint served but not yet filed in King County Superior Court). From

2002 through 2016, the City employed the services of an independent contractor, Janet “Kris” Finnigan, to provide emergency preparedness planning. After Finnigan completed her services with the City in 2016, she retained an attorney to argue that the City misclassified her as an independent contractor, when she should have been treated as an employee. Finnigan claims lost wages and benefits. The City disagrees that it misclassified Finnigan, and believes that any claim for lost wages and benefits is very small. Because the Complaint has not been filed, the City has not served discovery, filed any motions, or taken other steps to vigorously defend the claim.

**City of Medina
Schedule of Liabilities
For the Year Ended December 31, 2016**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	12/18/2014 G.O. Bond Nonvoted	12/31/2016	1,301,368	-	1,148,898	152,470
Total General Obligation Debt/Liabilities:			1,301,368	-	1,148,898	152,470
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Gen. Fund Compensated Absences	12/31/2016	183,807	154,204	143,898	194,113
259.12	Street Fund Compensated Absences	12/31/2016	19,037	11,509	13,054	17,492
264.30	Net Pension Liability	12/31/2016	1,089,457	243,931	-	1,333,388
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,292,301	409,644	156,952	1,544,993
Total Liabilities:			2,593,669	409,644	1,305,850	1,697,463

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