



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

**Financial Statements Audit Report**  
**City of Black Diamond**

**For the period January 1, 2015 through December 31, 2016**

**Published June 24, 2019**

**Report No. 1024047**





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

June 24, 2019

Mayor and City Council  
City of Black Diamond  
Black Diamond, Washington

**Report on Financial Statements**

Please find attached our report on the City of Black Diamond's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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**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 Black Diamond  
January 1, 2015 through December 31, 2016**

Mayor and City Council  
City of Black Diamond  
Black Diamond, 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 Black Diamond, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated April 30, 2019.

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

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, stylized initial "P".

Pat McCarthy

State Auditor

Olympia, WA

April 30, 2019

**INDEPENDENT AUDITOR'S REPORT ON  
FINANCIAL STATEMENTS**

**City of Black Diamond  
January 1, 2015 through December 31, 2016**

Mayor and City Council  
City of Black Diamond  
Black Diamond, Washington

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the City of Black Diamond, for the years ended December 31, 2016 and 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

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

As described in Note 1, the City of Black Diamond 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 Black Diamond, for the years ended December 31, 2016 and 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 Black Diamond, as of December 31, 2016 and 2015, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.



## Other Matters

### *Supplementary and Other Information*

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2019 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.



Pat McCarthy  
State Auditor  
Olympia, WA

April 30, 2019

## **FINANCIAL SECTION**

### **City of Black Diamond January 1, 2015 through December 31, 2016**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2016  
Fund Resources and Uses Arising from Cash Transactions – 2015  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015  
Notes to Financial Statements – 2016  
Notes to Financial Statements – 2015

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2016  
Schedule of Liabilities – 2015

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

		<u>Total for All Funds (Memo Only)</u>	<u>001 CURRENT EXPENSE FUND</u>	<u>101 CITY STREET FUND</u>	<u>107 IMPACT MITIGATION FEE FUND</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	242,623	-	118,374	48,570
30880	Unreserved	3,570,547	1,238,076	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	3,037,108	2,647,430	-	-
320	Licenses and Permits	304,366	297,983	6,383	-
330	Intergovernmental Revenues	793,982	256,527	94,967	-
340	Charges for Goods and Services	2,593,542	488,486	8,956	134,168
350	Fines and Penalties	121,691	121,691	-	-
360	Miscellaneous Revenues	1,079,586	704,007	4,800	389
Total Revenues:		<u>7,930,275</u>	<u>4,516,122</u>	<u>115,106</u>	<u>134,557</u>
<b>Expenditures</b>					
510	General Government	977,852	949,448	-	-
520	Public Safety	2,192,948	2,192,948	-	-
530	Utilities	1,873,979	15,879	-	-
540	Transportation	228,690	-	203,640	-
550	Natural and Economic Environment	1,114,986	1,076,902	-	-
560	Social Services	1,118	1,118	-	-
570	Culture and Recreation	62,833	62,833	-	-
Total Expenditures:		<u>6,452,406</u>	<u>4,299,128</u>	<u>203,640</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		1,477,869	216,996	(88,534)	134,557
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	218,010	-	110,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		<u>218,010</u>	<u>-</u>	<u>110,000</u>	<u>-</u>
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	732,337	-	-	-
591-593, 599	Debt Service	320,429	-	-	-
597	Transfers-Out	218,010	-	10,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>1,270,776</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b>425,103</b>	<b>216,996</b>	<b>11,466</b>	<b>134,557</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	507,482	-	129,840	183,127
5088000	Unreserved	3,730,790	1,455,070	-	-
<b>Total Ending Cash and Investments</b>		<b>4,238,272</b>	<b>1,455,070</b>	<b>129,840</b>	<b>183,127</b>

The accompanying notes are an integral part of this statement.

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

	108 TRANSPORTATI ON BENEFIT	109 TRAFFIC MITIGATION FUND	310 CIP FUND GENERAL GOVERNMENT	320 CIP FUND- STREETS
<b>Beginning Cash and Investments</b>				
30810	Reserved	-	-	-
30880	Unreserved	-	267,199	292,776
388 / 588	Prior Period Adjustments, Net	-	-	-
<b>Revenues</b>				
310	Taxes	63,578	-	163,050
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	9,515	224,157
340	Charges for Goods and Services	-	74,217	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	88	90	495
Total Revenues:		63,666	74,307	173,114
<b>Expenditures</b>				
510	General Government	-	-	21,703
520	Public Safety	-	-	6,701
530	Utilities	-	-	-
540	Transportation	-	-	25,051
550	Natural and Economic Environment	-	-	38,083
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		-	-	59,786
Excess (Deficiency) Revenues over Expenditures:		63,666	74,307	113,328
<b>Other Increases in Fund Resources</b>				
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:		-	-	-
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	-	-	36,601
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	60,000	-	32,000
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		60,000	-	68,601
<b>Increase (Decrease) in Cash and Investments:</b>		<b>3,666</b>	<b>74,307</b>	<b>44,727</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	3,666	74,307	-
5088000	Unreserved	-	-	311,926
<b>Total Ending Cash and Investments</b>		<b>3,666</b>	<b>74,307</b>	<b>311,926</b>
				<b>306,020</b>

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

		401 WATER FUND	407 SEWER FUND	410 STORMWATER FUND	510 INTERNAL SERVICE FUND
<b>Beginning Cash and Investments</b>					
30810	Reserved	75,679	-	-	-
30880	Unreserved	496,903	833,093	161,492	281,007
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	187,580	-	21,237	-
340	Charges for Goods and Services	754,120	777,554	356,042	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	329,928	25,422	12,549	1,268
Total Revenues:		1,271,627	802,976	389,829	1,268
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	526,679	864,088	467,334	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		526,679	864,088	467,334	-
Excess (Deficiency) Revenues over Expenditures:		744,950	(61,112)	(77,506)	1,268
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	36,010	-	-	72,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		36,010	-	-	72,000
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	367,157	2,349	1,787	57,746
591-593, 599	Debt Service	320,429	-	-	-
597	Transfers-Out	20,000	10,000	10,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		707,587	12,349	11,787	57,746
<b>Increase (Decrease) in Cash and Investments:</b>		<b>73,373</b>	<b>(73,461)</b>	<b>(89,293)</b>	<b>15,523</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	116,541	-	-	-
5088000	Unreserved	529,413	759,633	72,199	296,530
<b>Total Ending Cash and Investments</b>		<b>645,954</b>	<b>759,633</b>	<b>72,199</b>	<b>296,530</b>

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

		<u>Total for All Funds (Memo Only)</u>	<u>001 CURRENT EXPENSE FUND</u>	<u>101 CITY STREET FUND</u>	<u>107 IMPACT MITIGATION FEE FUND</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	339,855	-	153,589	13,616
30880	Unreserved	3,532,888	1,032,627	-	-
388 & 588	Prior Period Adjustments, Net	-	-	-	-
<b>Operating Revenues</b>					
310	Taxes	2,635,229	2,463,520	-	-
320	Licenses and Permits	193,713	178,476	15,237	-
330	Intergovernmental Revenues	573,034	232,374	88,081	-
340	Charges for Goods and Services	2,527,364	639,283	2,903	19,282
350	Fines and Penalties	112,563	112,563	-	-
360	Miscellaneous Revenues	828,016	804,827	18,871	306
Total Operating Revenues:		<u>6,869,919</u>	<u>4,431,042</u>	<u>125,091</u>	<u>19,588</u>
<b>Operating Expenditures</b>					
510	General Government	929,114	905,049	-	-
520	Public Safety	2,063,885	2,063,885	-	-
530	Utilities	1,697,142	31,257	-	-
540	Transportation	210,245	-	200,307	-
550	Natural and Economic Environment	1,320,219	1,160,848	-	-
560	Social Services	962	962	-	-
570	Culture and Recreation	57,241	57,241	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		<u>6,278,808</u>	<u>4,219,242</u>	<u>200,307</u>	<u>-</u>
Net Operating Increase (Decrease):		<u>591,111</u>	<u>211,800</u>	<u>(75,216)</u>	<u>19,588</u>
<b>Nonoperating Revenues</b>					
370-380, 395 & 398	Other Financing Sources	236,400	34,892	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	112,366	-	50,000	15,366
Total Nonoperating Revenues:		<u>348,766</u>	<u>34,892</u>	<u>50,000</u>	<u>15,366</u>
<b>Nonoperating Expenditures</b>					
580, 596 & 599	Other Financing Uses	46,000	-	-	-
591-593	Debt Service	332,292	-	-	-
594-595	Capital Expenditures	508,790	41,243	-	-
597	Transfers-Out	112,366	-	10,000	-
Total Nonoperating Expenditures:		<u>999,449</u>	<u>41,243</u>	<u>10,000</u>	<u>-</u>
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b><u>(59,571)</u></b>	<b><u>205,449</u></b>	<b><u>(35,216)</u></b>	<b><u>34,954</u></b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	242,623	-	118,374	48,570
5088000	Unreserved	3,570,547	1,238,076	-	-
<b>Total Ending Cash and Investments</b>		<b><u>3,813,170</u></b>	<b><u>1,238,076</u></b>	<b><u>118,374</u></b>	<b><u>48,570</u></b>

The accompanying notes are an integral part of this statement.

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

		<b>310 CIP FUND GENERAL GOVERNMENT</b>	<b>320 CIP FUND- STREETS</b>	<b>401 WATER FUND</b>	<b>407 SEWER FUND</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	157,283	-
30880	Unreserved	387,708	296,233	491,968	932,934
388 & 588	Prior Period Adjustments, Net	-	-	-	-
<b>Operating Revenues</b>					
310	Taxes	85,855	85,855	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	9,804	65,154	33,829	-
340	Charges for Goods and Services	-	-	752,436	756,155
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	172	152	732	2,313
Total Operating Revenues:		<u>95,831</u>	<u>151,161</u>	<u>786,997</u>	<u>758,467</u>
<b>Operating Expenditures</b>					
510	General Government	11,573	12,493	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	474,356	853,574
540	Transportation	-	9,938	-	-
550	Natural and Economic Environment	159,371	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		<u>170,944</u>	<u>22,431</u>	<u>474,356</u>	<u>853,574</u>
Net Operating Increase (Decrease):		<u>(75,112)</u>	<u>128,731</u>	<u>312,641</u>	<u>(95,107)</u>
<b>Nonoperating Revenues</b>					
370-380, 395 & 398	Other Financing Sources	-	-	145,957	55,550
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
Total Nonoperating Revenues:		<u>-</u>	<u>-</u>	<u>145,957</u>	<u>55,550</u>
<b>Nonoperating Expenditures</b>					
580, 596 & 599	Other Financing Uses	-	-	46,000	-
591-593	Debt Service	-	-	332,292	-
594-595	Capital Expenditures	38,395	82,187	146,974	50,284
597	Transfers-Out	7,000	50,000	10,000	10,000
Total Nonoperating Expenditures:		<u>45,395</u>	<u>132,187</u>	<u>535,267</u>	<u>60,284</u>
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b><u>(120,507)</u></b>	<b><u>(3,456)</u></b>	<b><u>(76,668)</u></b>	<b><u>(99,841)</u></b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	75,679	-
5088000	Unreserved	267,199	292,776	496,903	833,093
<b>Total Ending Cash and Investments</b>		<b><u>267,199</u></b>	<b><u>292,776</u></b>	<b><u>572,582</u></b>	<b><u>833,093</u></b>

The accompanying notes are an integral part of this statement.

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

	410 STORMWATER FUND	510 INTERNAL SERVICE FUND
<b>Beginning Cash and Investments</b>		
30810	-	15,366
30880	111,026	280,393
388 & 588	-	-
<b>Operating Revenues</b>		
310	-	-
320	-	-
330	143,791	-
340	357,307	-
350	-	-
360	199	444
Total Operating Revenues:	<u>501,297</u>	<u>444</u>
<b>Operating Expenditures</b>		
510	-	-
520	-	-
530	337,954	-
540	-	-
550	-	-
560	-	-
570	-	-
598	-	-
Total Operating Expenditures:	<u>337,954</u>	<u>-</u>
Net Operating Increase (Decrease):	<u>163,343</u>	<u>444</u>
<b>Nonoperating Revenues</b>		
370-380, 395 & 398	-	-
391-393	-	-
397	-	47,000
Total Nonoperating Revenues:	<u>-</u>	<u>47,000</u>
<b>Nonoperating Expenditures</b>		
580, 596 & 599	-	-
591-593	-	-
594-595	102,876	46,830
597	10,000	15,366
Total Nonoperating Expenditures:	<u>112,876</u>	<u>62,196</u>
<b>Net Increase (Decrease) in Cash and Investments:</b>	<u><b>50,467</b></u>	<u><b>(14,752)</b></u>
<b>Ending Cash and Investments</b>		
5081000	-	-
5088000	161,492	281,007
<b>Total Ending Cash and Investments</b>	<u><b>161,492</b></u>	<u><b>281,007</b></u>

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



**City of Black Diamond**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>Agency</b>
308	Beginning Cash and Investments	177,886	177,886
388 & 588	Prior Period Adjustment, Net	-	-
310-390	Additions	519,669	519,669
510-590	Deductions	507,001	507,001
	Net Increase (Decrease) in Cash and Investments:	12,668	12,668
508	Ending Cash and Investments	190,554	190,554

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

**City of Black Diamond**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>Agency</b>
308	Beginning Cash and Investments	30,644	30,644
388 & 588	Prior Period Adjustment, Net	-	-
310-390	Additions	509,049	509,049
510-590	Deductions	361,807	361,807
	Net Increase (Decrease) in Cash and Investments:	147,242	147,243
508	Ending Cash and Investments	177,886	177,886

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

**MCAG 0379**  
**City of Black Diamond**  
**Notes to Financial Statements**  
**December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Black Diamond was incorporated in February 1959 and operates under the laws of the State of Washington applicable to a Non-charter Code City in 1990 with a Mayor-Council form of government. The City is a general purpose government and provides a broad range of general government services including a law enforcement, planning and community development, street maintenance and improvements, parks and recreation, public works, and general administrative services. Fire services are provided through a partnership with Mountain View Fire and Rescue. In addition, the City owns and operates water, sewer and storm water utility systems. The City uses single-entry, cash basis accounting which is a departure from Generally Accepted Accounting Principles (GAAP).

The City of Black Diamond 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 City of Black Diamond 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 City'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 Black Diamond:

## **GOVERNMENTAL FUND TYPES:**

### **General Fund**

This fund is the primary operating fund of the City of Black Diamond. 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 Black Diamond.

### **Capital Projects Funds**

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

## **PROPRIETARY FUND TYPES:**

### **Enterprise Funds**

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

### **Internal Service Funds**

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

## **FIDUCIARY FUND TYPES:**

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

### **Agency Funds**

These funds are used to account for assets that the City of Black Diamond 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 Black Diamond 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 Black Diamond adopts annual appropriated budgets for all governmental funds except for Fiduciary and Agency Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for operating funds lapse at the fiscal year end. Per Washington State RCW 35a.33.150, budgets for capital projects are established for a special purpose or purposes and shall not lapse, but be carried forward from year to year until fully expended or the purpose has been accomplished or abandoned, without necessity of reappropriation. 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	2016 Actual Expenditures	Variance
001	General Fund	\$ 5,598,391	\$ 4,299,128	\$ (1,299,263)
101	Street Fund	\$ 328,979	\$ 213,640	\$ (115,339)
107	Fire Impact Fee Fund	\$ 61,605		\$ (61,605)
108	Transportation Benefit District Fund	\$ 60,000	\$ 60,000	\$ -
310	Gen Government CIP Fund	\$ 327,243	\$ 96,387	\$ (230,856)
311	REET I Fund Gen Govt	\$ 228,491	\$ 128,000	\$ (100,491)
320	Street CIP Fund	\$ 2,101,311	\$ 354,484	\$ (1,746,827)
321	REET II Fund Street Projects	\$ 211,144	\$ 110,000	\$ (101,144)
401	Water Operating Fund	\$ 959,883	\$ 777,926	\$ (181,957)
402	Water Supply and Facility Fund	\$ 630,150	\$ 103,261	\$ (526,889)
404	Water Capital Fund	\$ 716,701	\$ 409,078	\$ (307,623)
407	Sewer Operating Fund	\$ 963,901	\$ 872,991	\$ (90,910)
408	Sewer Capital Fund	\$ 737,540	\$ 113,445	\$ (624,095)
410	Stormwater Operating Fund	\$ 469,248	\$ 371,821	\$ (97,427)
410	Stormwater Capital Fund	\$ 438,633	\$ 107,300	\$ (331,333)
510	Internal Service Fund	\$ 384,042	\$ 57,746	\$ (326,297)
	<b>Total All Funds</b>	<b>\$ 14,217,262</b>	<b>\$ 8,075,208</b>	<b>\$ (6,142,054)</b>

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee

positions, salary ranges, hours, or other conditions of employment must be approved by the City of Black Diamond's legislative body. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year by ordinance by a majority vote of the City Council.

**D. Cash and Investments**

**CASH** - It is the City's policy to invest all temporary cash surpluses. At December 31, 2016 the City had an ending cash balance of \$602,258.73 in short term cash. This amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The total includes \$400 in petty cash as authorized by ordinance 08-860 in 2008. Interest earned on bank cash partially offsets bank costs.

**DEPOSITS** - The City's deposits and savings are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. All other Black Diamond funds are at the General/State Investment Pool (LGIP). Interest earned is distributed to the various funds in proportion to their investment amounts. The balance in the State Local Investment Pool saving account as of December 31, 2016 was \$3,826,567.53. See Note #3.

**E. Capital Assets**

General fixed assets are long-lived assets with an initial individual cost of more than \$1,000 and an estimated useful life of more than three years. The Capital Assets of the City are recorded under cash basis accounting, as expenditures when purchased.

**F. Compensated Absences**

Vacation leave for regular employees may be accumulated based on years of service with the City, and is payable upon separation or retirement.

**VACATION LEAVE**

Length of Service		Days per Year	Maximum Accrual*
0 - 5	Years	12	144 hours
6 - 9	Years	15	180 hours
10-15	Years	18	216 hours
16-19	Years	21	252 hours
Over	20 Years	24	288 hours

*\*The Mayor may adjust maximum accruals during periods when staff is unable to take a leave time due to unforeseen circumstances.*

Sick leave for regular employees may be accumulated up to 1040 hours. Upon separation or retirement employees are compensated for unused sick leave as follows:

**SICK LEAVE**

0-1 Year	0%
1-5 Year	10%
6-12 Year	20%
13-20 Year	30%
Over 20 Yrs	40%
Over 25 Yrs	50%

Sick leave for retiring Police Officers Association employees is cashed out at 25% of accumulated hours at their current rate of pay as long as their LEOFF plan requirements are fulfilled. Comp time is overtime compensated for in time off rather than overtime pay. It can be accrued by non- exempt employees up to 40 hours at any given time. Any balance of comp time hours remaining at separation or retirement is paid at 100%.

The following table illustrates the potential total liability if all compensated absences were paid as of December 31, 2016. The total includes the liability costs of required taxes. The total of \$225,920 represents a \$36,132 decrease from 2015. Compensated absence liabilities are shown in the following chart and on Schedule 9.

	Police	GenGovt	Street	Water	Sewer	Storm	Total
Comp	3,826	1,353	75	154	154	154	5,717
Sick	19,008	23,040	6,504	7,895	7,896	7,893	72,236
Vacation	62,305	40,055	9,052	12,208	12,212	12,136	147,967
<b>Total</b>	<b>\$ 85,139</b>	<b>\$ 64,448</b>	<b>\$ 15,631</b>	<b>\$ 20,257</b>	<b>\$ 20,262</b>	<b>\$ 20,183</b>	<b>\$ 225,920</b>

**G. Long-Term Debt**

See Note 4 - *Debt Service Requirements*.

**H. Risk Management**

**AWC- RMSA Insurance**

The City of Black Diamond is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental

entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2016, 98 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits, an excess liability policy is purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2016, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.



## **I. Reserved Portion of Ending Cash and Investments**

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

The City of Black Diamond has the following funds identified as Reserved Fund Balances:

- Street Special Revenue Fund - \$129,840.03 - the State requires that the gas tax resources only be used for Street purposes.
- Fire Impact Fees - \$183,127.34 - restricted by State RCW 82.02 and Ordinance 12-980 for Future Fire Facilities.
- Traffic Mitigation Fund - \$74,307.46 - restricted by Resolution 16-1118.
- Transportation Benefit District Fund - \$3,665.63 – restricted by Ordinance 13-1057.
- Water Utility Fund - \$118,498.21 - Developer pre-funding of Capital Projects per the Water Facility Funding Agreement with the Developers.

### **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 by King County daily following the receipt of collections.

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

The city's regular levy for the year 2016 was \$2.2447 per \$1,000 on an assessed valuation of \$651,364,791 for a total collected regular levy of \$1,481,893 including taxes on new construction.

### **NOTE 3 – Deposits and Investments**

It is the City of Black Diamond's policy to invest temporary cash surpluses with the State Local Investment Pool. The interest on these investments is prorated to the various funds.

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

The City of Black Diamond's Investments are reported at original cost. Investments by type as of December 31, 2016 are as follows:

Type of Investment	COBD's Own Investments	Investments held for other Entities	Total
L.G.I.P.	\$3,826,567.53	\$0	\$3,826,567.53

Securities Lending Transactions

The City of Black Diamond does not engage in securities lending.

Derivatives

The City of Black Diamond does not engage in derivatives trading.

**NOTE 4 - Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2016. The City of Black Diamond has no General Obligation or Revenue bonds.

The Water Fund has other Long Term Debt for two Public Works Trust Fund Loans for Water Projects. A portion of one of the Public Works Trust Loans is reimbursed by a developer and the city holds a Bank letter of Credit for their portion.

The accompanying Schedule of Other Long-Term Debt provides a listing of the outstanding long term debt of the Water Fund which includes both Principal and Interest and the amount the developer reimbursed toward the debt.

Water Fund Other Long Term Debt is as Follows:

Year	Total	Developer Debt Reimbursement	Net City Principal
2016	320,429	98,419	222,010
2017	318,896	97,948	220,948
2018	317,362	97,477	219,885
2019	315,828	97,006	218,822
2020 - 2024	1,563,800	477,965	1,085,835
2025	130,172	39,052	91,120

Private developers reimburse the City annually for their portion of Public Works trust debt payment. A developer line of credit covers their portion of the debt service. The Bank Credit Lines are reduced each year after their portion of the debt principal is paid. See schedule of debt.

#	Water Fund Debt	Original Date of Debt	Year of Final Payment	Original Amount	Interest Rate	Purpose of Loan	Principal Only Debt Balance as of 12/31/2016
1	PW Trust Loan 02-691-005	2006	2022	\$180,000	.5%	Corrosion Control	\$67,500
2	PW Trust Loan 5-691-006	2005	2025	\$5,447,820	.5%	\$3,407,063-500 mp Tacoma Water Reservoir Pump & Waterline *Developer reimburses \$2,053,160 plus interest. Letter of credit held for security	\$2,363,907
Total Water Debt (principal only)				\$5,827,820			\$2,431,407
Less *Public Works Trust Fund Loan – Developer Reimbursed Loan 2							(\$753,455)
Net City Debt Responsibility							\$1,677,952

**NOTE 6 - Pension Plans**

**A. State Sponsored Pension Plans**

Substantially all of Black Diamond’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. They are PERS 1, PERS 2, PERS 3, LEOFF 1 and LEOFF 2.

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 the Department of Retirement Systems Communications Unit, PO Box 48380 Olympia, WA 98540-8380. Also the DRS CAFR may be downloaded from the [drs.wa.gov](http://drs.wa.gov) website.

At June 30, 2016, the City of Black Diamond's proportionate share of the collective net pension liabilities, as reported on Schedule 9, were as follows:

<b>Net Pension Liability</b>	<b>Allocation %</b>	<b>DRS's Collective Liabilities</b>	<b>Black Diamond's Liability</b>
<b>Plan 1 UAAL</b>	0.00010784	\$ 5,370,471,000	\$ 579,151.59
<b>PERS 2 &amp; 3</b>	0.00013836	\$ 5,034,921,000	\$ 696,631.67
<b>Total Net Liability</b>			<b>\$ 1,275,783.26</b>

Plan 1 UAAL is the Unfunded Actuarial Accrued Liability (UAAL) for pension commitment to retirees on PERS 1 and TRS 1.

#### **LEOFF Plan 1**

The City of Black Diamond also participates in the LEOFF 1 plan. The LEOFF 1 plan 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 July 1, 2000, employers and employees contribute zero percent.

#### **LEOFF Plan 2**

The City of Black Diamond also participates in the LEOFF 2 plan. 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.

#### **Other Disclosures**

##### **Compliance and Accountability**

The City of Black Diamond's two-year State Financials Audit for 2013 and 2014 was completed in May, 2016 and provided a "clean audit". An additional State Accountability Audit on 2013, 2014 and a portion of 2015

and finalized in April 2017, was found to have no material violations of finance related or legal or contractual provisions in any of the Funds of the City of Black Diamond.

### **Traffic Mitigation Fund**

On August 18, 2016 with Resolution 16-1118, Council authorized the Enumclaw School District to pay a Traffic Mitigation Fee for traffic mitigation improvements at four intersections near the school. The Traffic Mitigation Fund, a special revenue fund, retains these funds for this specific purpose.

**Transportation Benefit District** - In 2015 the Black Diamond City Council enacted Ordinance 15-1057 establishing the Black Diamond Transportation Benefit District (TBD) and Resolution 15-01 establishing the \$20 car tab fee. This revenue was needed to maintain street maintenance, as State gas tax revenues had continued to decline.

On October 1, 2015 City Council assumed the rights, powers, functions and obligations of the TBD as allowed by SSB 5987. The City began receiving revenue in April 2016 from the car tab fee, and collected a total of \$63,578 for 2016.

**MCAG 0379**  
**City of Black Diamond**  
**Notes to Financial Statements**  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**PROPRIETARY FUND TYPES:****Enterprise Funds**

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

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

**FIDUCIARY FUND TYPES:**

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

**Agency Funds**

These funds are used to account for assets that the City of Black Diamond 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 Black Diamond 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 Black Diamond adopts annual appropriated budgets for all governmental funds except for Fiduciary and Agency Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for operating funds lapse at the fiscal year end. Per Washington State RCW 35a.33.150, budgets for capital projects are established for a special purpose or purposes and shall not lapse, but be carried forward from year to year until fully expended or the purpose has been accomplished or abandoned, without necessity of reappropriation. 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:

2015 Budget			
Fund	Adjusted Budget 2015	Actual Expenditures 2015	Variance
General Fund	5,831,995	4,260,486	1,571,509
Street Fund	325,613	210,307	115,306
Fire Impact Fee Fund	47,982	-	47,982
Transportation Benefit Fund	-	-	-
General Government CIP Fund	375,151	209,339	165,812
REET Fund General Government	277,271	142,277	134,994
Street CIP Fund	1,623,018	136,706	1,486,312
REET Fund Street Projects	246,857	130,000	116,857
Water Fund	1,000,292	808,656	191,636
Water Supply and Facility Fund	260,000	106,827	153,173
Water Capital Fund	753,666	133,141	620,525
Sewer Fund	986,892	846,329	140,563
Sewer Capital Fund	854,133	157,319	696,814
Stormwater Fund	788,626	450,831	337,795
Internal Service Fund	707,959	62,196	645,763
<b>Total All Funds</b>	<b>14,079,455</b>	<b>7,654,414</b>	<b>6,425,041</b>

A Transportation Benefit District (TBD) was created on August 30, 2015 by Council passage of Ordinance 15-1057. Resolution 15-01 established a \$20 car tab fee to fund transportation. Another ordinance, 15-1059 allowed the City to assume all responsibility of the TBD special revenue fund created in 2015, however no revenue or expenditures occurred until 2016.

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of Black Diamond's legislative body. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year by ordinance by a majority vote of the City Council.

#### D. Cash and Investments

**CASH** - It is the City's policy to invest all temporary cash surpluses. At December 31, 2015 the City had an ending cash balance of \$332,263.06 in short term cash. This amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The total includes \$400 in petty cash as authorized by ordinance 08-860 in 2008. Interest earned on bank cash partially offsets bank costs.

**DEPOSITS** - The City's deposits and savings are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. All other Black Diamond funds are at the General/State Investment Pool (LGIP). Interest earned is distributed to the various funds in proportion to their investment amounts. The balance in the State Local Investment Pool saving account as of December 31, 2015 was \$3,658,793.19. See Note #3.



**E. Capital Assets**

General fixed assets are long-lived assets with an initial individual cost of more than \$1,000 and an estimated useful life of more than three years. The Capital Assets of the City are recorded under cash basis accounting, as expenditures when purchased.

**F. Compensated Absences**

Vacation leave for regular employees may be accumulated based on years of service with the City, and is payable upon separation or retirement.

**VACATION LEAVE**

Length of Service	Days per Year		Maximum Accrual*
0 - 5	Years	12	144 hours
6 - 9	Years	15	180 hours
10-15	Years	18	216 hours
16-19	Years	21	252 hours
Over	20 Years	24	288 hours

*\*The Mayor may adjust maximum accruals during periods when furlough hours are used to help balance the budget.*

Sick leave for regular employees may be accumulated up to 1040 hours. Upon separation or retirement employees are compensated for unused sick leave as follows:

**SICK LEAVE**

0-1 Year	0%
1-5 Year	10%
6-12 Year	20%
13-20 Year	30%
Over 20 Yrs	40%
Over 25 Yrs	50%

Sick leave for retiring Police Officers Association employees is cashed out at 25% of accumulated hours at their current rate of pay as long as their LEOFF plan requirements are fulfilled. Comp time is overtime compensated for in time off rather than overtime pay. It can be accrued by non- exempt employees up to 40 hours at any given time. Any balance of comp time hours remaining at separation or retirement are paid at 100%.

The following table illustrates the potential total liability if all compensated absences were paid as of December 31, 2015. The total includes the liability costs of required taxes. The total of \$262,052 represents a \$10,948 decrease from 2014. Compensated absence liabilities are shown in the following chart and on Schedule 9.

	Police	GenGovt	Street	Water	Sewer	Storm	Total
Comp	4,468	1,674	166	305	305	305	7,223
Sick	41,833	17,839	8,979	8,002	8,002	8,002	92,656
Vacation	77,823	39,217	10,147	11,653	11,678	11,653	162,172
<b>Total</b>	<b>\$ 124,125</b>	<b>\$ 58,730</b>	<b>\$ 19,292</b>	<b>\$ 19,960</b>	<b>\$ 19,985</b>	<b>\$ 19,960</b>	<b>\$ 262,052</b>

### G. Long-Term Debt

See Note 4 - *Debt Service Requirements*.

### H. Other Financing Sources or Uses

The City of Black Diamond's *Other Financing Sources or Uses* consist of all interfund receivables and payables, interfund transactions and closing of Payroll and Claims Clearing Funds. The ending fund balance for clearing funds was reported in 2014, and in 2015 the State was notified of unclaimed property, and the balances of clearing funds were remitted as unclaimed property or returned to originating funds. No remaining clearing fund balances remained at the end of 2015. Per the State Auditor's Office, the Payroll and Claims Clearing Funds were removed from the Annual Report. A separate schedule of interfund loans receivable and payable is furnished in Note 5 – *Interfund Loans*.

### I. Risk Management

The City of Black Diamond was from January 2015 to November 2015, a member of Cities Insurance Association of Washington (CIAW). The insurance premium Black Diamond paid for 11 months in 2015 was \$117,706.21 and with Resolution 15-1042, Council authorized changing cities insurance from CIAW to AWC–RMSA with the cost of \$12,015 for the month of December, 2015. The total cost of insuring the City for the year was \$129,731.

#### CIAW Insurance

Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services.

As of December 1, 2015, there are 210 members in the program. The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs. The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over

\$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$2,140,107.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible. Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement. A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2015, were \$627,702.49. The City cancelled insurance with CIAW November 30, 2015.

#### **AWC- RMSA Insurance**

The City of Black Diamond is currently a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA) which began on December 1, 2015. The insurance costs for that month was \$12,014.67.

Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2015, 95 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. Members pay

an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. For the \$9 million in excess coverage limits, an excess liability policy is purchased from Starr Indemnity & Liability Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services.

In 2014, AWC RMSA carried retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement. The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

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

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

The City of Black Diamond has the following funds identified as Reserved Fund Balances:

- Street Special Revenue Funds - \$118,373.67 - the State requires that the gas tax resources only be used for Street purposes.
- Fire Impact Fees - \$48,570.26 - restricted by State RCW 82.02 and Ordinance 12-980 for Future Fire Facilities.
- Water Utility Fund - \$75,679.11 - Developer pre-funding of Capital Projects per the Water Facility Funding Agreement with the Developers.

#### **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 by King County daily following the receipt of collections.

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

The city's regular levy for the year 2015 was \$2.418 per \$1,000 on an assessed valuation of \$552,587,146 for a total collected regular levy of \$1,460,777, including taxes on new construction.

**NOTE 3 – Deposits and Investments**

It is the City of Black Diamond’s policy to invest temporary cash surpluses with the State Local Investment Pool. The interest on these investments is prorated to the various funds.

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

The City of Black Diamond’s Investments are reported at original cost. Investments by type as of December 31, 2015 are as follows:

Type of Investment	COBD’s Own Investments	Investments held for other Entities	Total
L.G.I.P	\$3,658,793.19	\$0	\$3,658,793.19

Securities Lending Transactions

The City of Black Diamond does not engage in securities lending.

Derivatives

The City of Black Diamond does not engage in derivatives trading.

**NOTE 4 - Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City’s debt transactions for year ended December 31, 2015. The City of Black Diamond has no General Obligation or Revenue bonds.

The Water fund has other Long Term Debt for three Public Works Trust Fund Loans for Water Projects. The final payment was made on one Public Works Trust Fund loan in May 2015, leaving two PWTF loans outstanding at year end. A portion of one of the Public Works Trust Loans is reimbursed by a developer and the city holds a Bank letter of Credit for their portion.

The accompanying Schedule of Other Long-Term Debt provides a listing of the outstanding long term debt of the Water Fund which includes both Principal and Interest and the amount the developer reimbursed toward the debt.

Water Fund Other Long Term Debt is as Follows:

Year	Total	Developer Debt	Net City Principle
2015	333,158	98,891	234,267
2016	320,429	98,419	222,010
2017	318,896	97,948	220,948
2018	317,362	97,477	219,885
2019	315,828	97,006	218,822
2020 - 2024	1,563,800	477,965	1,085,835
2025	130,172	39,052	91,120

Private developers reimburse the City annually for their portion of Public Works trust debt payment. A developer line of credit covers their portion of the debt service. The Bank Credit Lines are reduced each year after their portion of the debt principal is paid. See schedule of debt.

#	Water Fund Debt	Original Date of Debt	Year of Final Payment	Original Amount	Interest Rate	Purpose of Loan	Principal Only Debt Balance as of 12/31/2015
1	PW Trust Loan 5-95-791-ELP 061	1995	2015	\$200,000	5%	Emergency Water Repair	\$0
2	PW Trust Loan 02-691-005	2006	2022	\$180,000	.5%	Corrosion Control	\$78,750
3	PW Trust Loan 5-691-006	2005	2025	\$5,447,820	.5%	\$3,407,063-500 mp Tacoma Water Reservoir Pump & Waterline *Developer reimburses \$2,053,160 plus interest. Letter of credit held for security	\$2,659,396
Total Water Debt (principal only)				\$5,827,820			\$2,738,146
Less *Public Works Trust Fund Loan – Developer Reimbursed Loan 3							(\$847,368)
Net City Debt Responsibility							\$1,890,778

**NOTE 5 – Interfund Loan**

In 2010 Council authorized Ordinance 10-953, a \$230,000 loan from the Sewer Capital Fund to the Water Fund to fund the replacement and upgrading of the Water Meter system. The interfund loan was paid back with five annual installments of \$46,000 plus interest at the current LGIP pool rate. The final payment was made in 2015. All internal loans charge interest at the current LGIP rate at the time of payments. The City had no outstanding interfund loans at 12/31/2015.

Loan Originated & Amount	Term of Loan	Lending Fund	Receiving Fund	Loan Reason	Balance of Loan 2015	Repayment 2015	Balance as of 12/31/2015
2010 \$230,000	5 years	Sewer	Water	Water Meters	\$46,000	\$46,000	\$0

**NOTE 6 - Pension Plans**

A. State Sponsored Pension Plans

Substantially all of Black Diamond’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. They are PERS 1, PERS 2, PERS 3, LEOFF 1 and LEOFF 2.

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 publically 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 the Department of Retirement Systems Communications Unit, PO Box 48380 Olympia, WA 98540-8380. Also the DRS CAFR may be downloaded from the drs.wa.gov website.

At June 30, 2015, the City of Black Diamond’s proportionate share of the collective net pension liabilities, as reported on Schedule 9, were as follows:

	Allocation %	DRS’s Collective Liabilities	Black Diamond’s Liability
<b>PERS 1</b>	.00001894	\$5,230,930,000	\$99,073.81
<b>PERS 2&amp;3</b>	.00013472	\$3,573,057,000	\$481,362.24
<b>Plan 1 UAAL</b>	.00010434	\$5,230,930,000	\$545,795.24
<b>Total Net Liability</b>			<b>\$1,126,231.29</b>

Plan 1 UAAL is the Unfunded Actuarial Accrued Liability (UAAL) for pension commitment to retirees on PERS 1 and TRS 1. Per GASB 68, the Department of Retirement Systems overall pension liability is reported at the City level beginning in 2015.

#### LEOFF Plan 1

The City of Black Diamond also participates in the LEOFF 1 plan. The LEOFF 1 plan 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 July 1, 2000, employers and employees contribute zero percent.

#### LEOFF Plan 2

The City of Black Diamond also participates in the LEOFF 2 plan. 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.

### **Other Disclosures**

#### **Compliance and Accountability**

The City of Black Diamond's two year State Audit for 2013 and 2014 were completed in May, 2016 and provided a "clean audit". The Audit found no material violations of finance related or legal or contractual provisions in any of the Funds of the City of Black Diamond.

#### **Water Utility**

On July 11, 2013 with Ordinance 13-1006, Council authorized three rate increases for the Water Utility Fund. Each increased the Water rate by 15%, on January 1, 2014, on January 1, 2015 and on January 1, 2016. The water rate increases were found to be necessary to meet revenue requirements to cover the costs necessary to maintain a self-supporting Water Utility Fund.

**Transportation Benefit District** - In 2015 the Black Diamond City Council enacted Ordinance 15-1057 establishing the Black Diamond Transportation Benefit District (TBD) and Resolution 15-01 establishing the \$20 car tab fee. This revenue was needed to maintain street maintenance, as State gas tax revenues had continued to decline. On October 1, 2015 City Council assumed the rights, powers, functions and obligations of the TBD as allowed by SSB 5987. There is a six month delay in processing the fee through the State, so no revenues or expenditures were reported in 2015.



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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
263.88	Water Purchase 2005	1/1/2024	2,659,396	-	295,488	2,363,908
263.88	Corrosion Control 2006	1/1/2022	78,750	-	11,250	67,500
259.12	Compensated Absences GF/Street	12/31/2016	202,147	-	36,929	165,218
259.12	Compensated Absences Water	12/31/2016	19,960	297	-	20,257
259.12	Compensated Absences Sewer	12/31/2016	19,985	277	-	20,262
259.12	Compensated Absences Storm	12/31/2016	19,960	223	-	20,183
264.30	Pension Liabilities	12/31/2016	1,126,231	149,552	-	1,275,783
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>4,126,429</b>	<b>150,349</b>	<b>343,667</b>	<b>3,933,111</b>
<b>Total Liabilities:</b>			<b>4,126,429</b>	<b>150,349</b>	<b>343,667</b>	<b>3,933,111</b>

**City of Black Diamond  
Schedule of Liabilities  
For the Year Ended December 31, 2015**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences GF/Street	12/31/2015	214,780	-	12,633	202,147
263.82	Water Purchase 2005	1/1/2024	2,954,885	-	295,488	2,659,397
263.82	Corrosion Control 2006	1/1/2022	90,000	-	11,250	78,750
263.82	1995 PWFT Loan 595 791	1/1/2015	10,650	-	10,650	-
259.12	Compensated Absences Water	12/31/2015	19,735	225	-	19,960
259.12	Compensated Absences Sewer	12/31/2015	19,956	29	-	19,985
259.12	Compensated Absences Storm	12/31/2015	18,529	1,431	-	19,960
264.30	Pension Liabilities	12/31/2015	-	1,126,231	-	1,126,231
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>3,328,535</b>	<b>1,127,916</b>	<b>330,021</b>	<b>4,126,430</b>
<b>Total Liabilities:</b>			<b>3,328,535</b>	<b>1,127,916</b>	<b>330,021</b>	<b>4,126,430</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>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<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>