



# Davis Accounting Tax & Audit Services

123 Fir Street NE  
Olympia, WA. 98506

September 13, 2016

To the Board

Law Enforcement Officers' and Firefighters Plan 2 Retirement Board

I have audited the schedule of expenditures and related notes (the schedule of expenditures) of Law Enforcement Officers' and Firefighters' Plan 2 Retirement Board (LEOFF 2) for the year ended June 30, 2016, and has issued my report thereon dated September 13, 2016. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated September 2, 2016. Professional standards also require that I communicate to you the following information related to my audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by LEOFF 2 are described in Note 1 to the schedule of expenditures. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. I noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the schedule of expenditures in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. I did not identify any such sensitive estimates affecting the financial statements

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Commitments in Note 2 to the financial statements provides information regarding LEOFF's future obligations under its office lease agreement.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

I encountered no significant difficulties in dealing with management in performing and completing my audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements requiring such communication or correction to the financial statements.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the schedule of expenditures or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

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*Management Representations*

I have requested certain representations from management that are included in the management representation letter dated September 13, 2016.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's schedule of expenditures or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

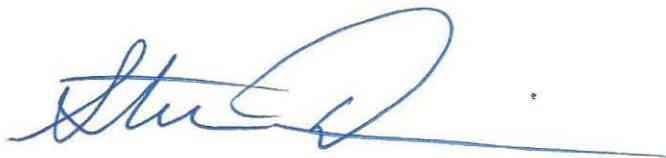
*Other Audit Findings or Issues*

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Other Matters

This information is intended solely for the use of the LEOFF Plan 2 Board and management of LEOFF 2 and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Steve Davis, CPA  
Davis Accounting Tax & Audit Services

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS  
PLAN 2 RETIREMENT BOARD**

**AUDITED SCHEDULE OF EXPENDITURES  
(Budget Allotment to Actual)**

**For the Year Ended  
June 30, 2016**

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS  
PLAN 2 RETIREMENT BOARD  
For the Year Ended June 30, 2016**

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**Davis Accounting Tax & Audit Services**

123 Fir Street NE  
Olympia, WA. 98506

**INDEPENDENT AUDITOR'S REPORT**

To the Board  
Law Enforcement Officers & Firefighters Plan 2 Retirement Board  
PO Box 40918  
Olympia, WA 98504-0918

I have audited the accompanying schedule of expenditures and related notes to the schedule of expenditures (schedule and notes) of the Law Enforcement Officers & Firefighters Plan 2 Retirement Board for the year ended June 30, 2016.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the schedule and notes in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule and notes that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

My responsibility is to express an opinion on schedule and notes based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the schedule and notes are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule and notes. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule and notes, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule and notes 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 entity's internal control. Accordingly, I 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 schedule and notes.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***

In my opinion, the schedule and notes referred to above present fairly, in all material respects, the expenditures of the Law Enforcement Officers and Firefighters Plan 2 Retirement Board for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.



DAVIS ACCOUNTING TAX & AUDIT SERVICES

Olympia, WA  
September 13, 2016

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD**  
**SCHEDULE OF EXPENDITURES**  
**For the Year Ended June 30, 2016**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Salaries & wages	\$ 599,824	\$ 597,764	\$ (2,060)
Employee benefits & payroll taxes	188,448	155,363	(33,085)
Personal service contracts	25,000	12,204	(12,796)
Goods & services - supplies & materials	3,600	(963)	(4,563)
Goods & services - communications	12,576	10,738	(1,838)
Goods & services - utilities	5,592	6,200	608
Goods & services - rentals & leases	45,960	45,954	(6)
Goods & services - repairs & maintenance	0	780	780
Goods & services - printing & reproduction	18,708	25,707	6,999
Goods & services - employee development	38,000	35,550	(2,450)
Goods & services - furniture & equipment leases	6,276	4,498	(1,778)
Goods & services - subscriptions	3,108	1,637	(1,471)
Goods & services - facilities & related services	4,224	4,040	(184)
Goods & services - data processing	8,000	8,757	757
Goods & services - Attorney General's Office	21,996	13,890	(8,106)
Goods & services - personnel services	2,676	1,319	(1,357)
Goods & services - insurance	25	90	65
Goods & services - other purchased services	139,080	139,673	593
Other goods & services	900	6,105	5,205
Travel, lodging & subsistence	58,656	56,932	(1,724)
Capital outlays	5,304	0	(5,304)
 Total Expenditures	 <u>\$ 1,187,953</u>	 <u>\$ 1,126,238</u>	 <u>\$ (61,715)</u>

The accompanying notes are an integral part of this schedule of expenditures.



**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD**  
**NOTES TO SCHEDULE OF EXPENDITURES**  
**For the Year Ended June 30, 2016**

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

The Law Enforcement Officers & Fire Fighters Plan 2 Retirement Board (the Board) was created through a taxpayer initiative approved by voters in November 2002. The schedule of expenditures – budget allotment to actual of the Board has been prepared in conformity with generally accepted accounting principles as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**A. Reporting Entity, Background & Activities:**

An eleven-member board, appointed by the Governor of the State of Washington, governs the Board. Board members are appointed from the following groups of individuals:

- Three must be active law enforcement officers who participate in the plan (Beginning with the first vacancy before or after January 1, 2007, one of the members must be a retired law enforcement officer who is a member of the plan).
- Three must be active fire fighters who participate in the plan (Beginning with the first vacancy before or after January 1, 2007, one of the members must be a retired fire fighter who is a member of the plan).
- Three must be representatives of employers
- One must be a member of the State House of Representatives
- One must be a member of the State Senate

The Board is empowered to oversee the Law Enforcement Officers & Fire Fighters Plan 2 Retirement system (LEOFF 2). They do not maintain custody or manage the investments of the plan. The custody and investment management function is the responsibility of the Washington State Investment Board (SIB). The Board is required to 1) adopt actuarial tables, assumptions and cost methodologies; 2) adopt contribution rates for LEOFF Plan 2; as well as other related duties. Some specific duties relating to the expenditures of the Board are;

**Professionals & technical advisors:**

- Retain Professionals & technical advisors necessary to accomplish the board's duties.

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD**  
**NOTES TO SCHEDULE OF EXPENDITURES**  
**For the Year Ended June 30, 2016**

**Note 1 – Summary of Significant Accounting Policies, Continued**

Actuary:

- Consult with an enrolled actuary retained by the board (The state actuary shall provide assistance when the board requests.)
- The actuary used must provide the State Actuary with copies of its valuations, assumptions and cost methodology for a reasonableness review.
- If the two actuaries do not agree, a third actuary must be appointed by the board and state actuary.

Other Costs:

- Engage administrative staff and acquire office space
- Board members shall be reimbursed for travel and education expenses as provided in RCW 43.03.050 and 43.03.060

**B. Basis Of Accounting And Reporting:**

All payroll, reporting and accounting functions are handled by the Washington State Department of Enterprise Service's Small Agency Financial and HR Services and recorded in the State of Washington's Accounting & Financial Reporting System under Agency #341.

The Board uses the modified-accrual basis of accounting with a measurement focus on current financial resources. Therefore, the purchase of non-current assets such as property, plant and equipment is not deemed to be an asset for financial reporting purposes. Instead, these costs are reflected as expenditures in the year they are incurred.

**C. Subsequent Events Evaluation:**

Management has evaluated for subsequent events through September 13, 2016, the date the financial statements were available to be issued. No material subsequent events were identified by management.



**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD**  
**NOTES TO SCHEDULE OF EXPENDITURES**  
**For the Year Ended June 30, 2016**

**Note 1 – Summary of Significant Accounting Policies, Continued**

**D. Budgetary Process:**

The Board must develop an annual budget consistent with the requirements of chapter 43.88 RCW. This budget draws funding from the investment income of the LEOFF Trust fund held by the State Investment Board.

The Board's budget is subject to the OFM allotment process but is not subject to legislative appropriation. Allotments may be adjusted on a quarterly basis. Monthly allotments are not binding but are used as a tool to ensure the total biennium budget is not exceeded.

The Board's operating expenses are paid from a sub-account of the LEOFF Plan 2 Retirement Fund (the expense fund).

**E. Expenditure Authority (RCW 41.26.732):**

The authority to establish all policies relating to the expense fund, other than the investment policies of the SIB, resides with the Board. With the exception of investments by, and expenses of, the SIB, disbursements from the expense fund may be made only on the authorization of the board.

The expense fund may be spent only for the purposes of defraying the expenses of the Board. Expenses include, but are not limited to:

- Salaries and expenses of personnel
- Lease payments
- Travel
- Goods & services
- Audits
- Other general costs of conducting board business

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD**  
**NOTES TO SCHEDULE OF EXPENDITURES**  
**For the Year Ended June 30, 2016**

**Note 2 – Commitments**

The Board, Acting through the Washington State Department of Enterprise Services, entered into an operating lease for office space through April 30, 2019. The agreement calls for monthly lease payments of \$3,829.50. In addition to monthly lease payments the Board is also required to pay the landlord for its prorata share (5.36%) of water, sewer, garbage and restroom supplies as well as the cost of electricity and natural gas directly attributable to the office space occupied.

Upon expiration of the lease term on April 30, 2019, The Board may renegotiate the lease for another five (5) year term, allow the lease to become a month to month lease, or vacate the premise.

The lease may be cancelled and terminated by either party any time provided written notice of such cancellation and termination shall have been given at least one-hundred eighty (180) days prior to the effective date thereof. The Board has not provided such written notice and was therefore obligated, at June 30, 2016, to pay rents through December 28, 2016. The minimum lease payment through December 28, 2016 was approximately \$22,660.

**Note 3 – Related Party Transactions**

The Board obtains goods and services from other departments and agencies within the State of Washington through interagency agreements. The terms of such agreements are developed through the State's budgetary process and are generally designed to recover the cost of the goods or services. The following significant services were provided by various state agencies under such arrangements during the year ended June 30, 2016.

Actuarial services related to pension plan administration, benefits and rates are provided by the State Actuary and billed to the Board in equal monthly amounts. The total cost of such services was approximately \$105,000.

Various accounting, human resources, data processing and other administrative services are provided by the Department of Enterprise Services through the small agency accounting and administrative services divisions. The total cost of such services was approximately \$45,000.

Legal support is provided by the State Attorney General's office. The total cost of such services was approximately \$14,000.