



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Hoquiam

Grays Harbor County

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

Published January 18, 2018

Report No. 1020646





Office of the Washington State Auditor
Pat McCarthy

January 18, 2018

Mayor and City Council
City of Hoquiam
Hoquiam, Washington

Report on Financial Statements

Please find attached our report on the City of Hoquiam'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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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Hoquiam Grays Harbor County January 1, 2015 through December 31, 2015

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Hoquiam. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: January 1, 2015 – December 31, 2015	Report Ref. No.: 1017615	Finding Ref. No.: 2015-01	CFDA Number(s): 20.205
Federal Program Name and Granting Agency: Highway Planning and Construction – Federal Highway Administration		Pass-Through Agency Name: Washington State Department of Transportation	
Finding Caption: The City lacked internal controls to ensure compliance with contracting requirements of the Highway Planning and Construction grant.			
Background: The City received \$1,309,870 in federal funds for the Highway Planning and Construction program. Included in that award was \$873,283 in grant funds related to its Emergency Relief project. Any public works project in excess of \$2,000 financed by federal funds requires a provision be included in construction contracts that the contractor or subcontractor comply with the wage rate requirements and Department of Labor regulations. Additionally, for federally funded projects, contract documents are necessary to be eligible for reimbursement. Our audit found the City did not enter into a contract with the primary contractor for this emergency project. We consider this control deficiency to be a material weakness.			
Status of Corrective Action: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input checked="" type="checkbox"/> Fully Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Partially Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Not Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid </div> </div>			
Corrective Action Taken: <i>Following the audit finding by the State Auditor, City staff worked with WSDOT and the Federal Highway Administration to resolve this matter, which has resulted in the City returning \$247,423.72 of the grant funds that were received. The City has created an emergency contract template if this situation were to occur again to ensure compliance with contracting requirements.</i>			

**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 Hoquiam
Grays Harbor County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Hoquiam
Hoquiam, 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 Hoquiam, Grays Harbor County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 11, 2018.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

January 11, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Hoquiam Grays Harbor County January 1, 2016 through December 31, 2016

Mayor and City Council
City of Hoquiam
Hoquiam, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Hoquiam, Grays Harbor County, Washington, for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 12.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Hoquiam 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 Hoquiam, for the year ended December 31, 2016, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Hoquiam, as of December 31, 2016, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2018 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

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

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

January 11, 2018

FINANCIAL SECTION

**City of Hoquiam
Grays Harbor County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016

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

		Total for All Funds (Memo Only)	001 General Fund	101 Cemetery Fund	106 Street Fund
Beginning Cash and Investments					
30810	Reserved	3,606,374	139,363	16,277	16,041
30880	Unreserved	4,378,513	1,169,055	1,041,275	67,987
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	5,137,220	4,837,253	-	-
320	Licenses and Permits	402,491	396,577	-	2,476
330	Intergovernmental Revenues	1,543,861	1,305,379	-	193,901
340	Charges for Goods and Services	9,142,515	2,493,300	104,307	540
350	Fines and Penalties	94,260	94,260	-	-
360	Miscellaneous Revenues	429,400	334,479	19,169	937
Total Revenues:		16,749,748	9,461,247	123,476	197,854
Expenditures					
510	General Government	1,251,067	1,076,214	-	27,926
520	Public Safety	7,706,656	5,796,177	-	-
530	Utilities	3,889,507	23,969	182,221	-
540	Transportation	553,190	128,403	-	264,762
550	Natural and Economic Environment	207,028	169,337	-	-
560	Social Services	2,286	2,286	-	-
570	Culture and Recreation	400,129	393,311	-	-
Total Expenditures:		14,009,862	7,589,697	182,221	292,689
Excess (Deficiency) Revenues over Expenditures:		2,739,884	1,871,551	(58,745)	(94,835)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	343,748	94,384	-	155,821
385	Special or Extraordinary Items	17,940	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	6,197,965	330,662	-	-
Total Other Increases in Fund Resources:		6,559,653	425,045	-	155,821
Other Decreases in Fund Resources					
594-595	Capital Expenditures	3,324,135	1,458,315	23,226	868
591-593, 599	Debt Service	1,249,018	21,107	-	-
597	Transfers-Out	683,183	569,246	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	701,842	45,993	-	-
Total Other Decreases in Fund Resources:		5,958,179	2,094,660	23,226	868
Increase (Decrease) in Cash and Investments:		3,341,358	201,937	(81,971)	60,119
Ending Cash and Investments					
5081000	Reserved	5,989,725	106,005	4,291	17,040
5088000	Unreserved	5,336,522	1,404,349	971,289	127,105
Total Ending Cash and Investments		11,326,247	1,510,354	975,580	144,146

The accompanying notes are an integral part of this statement.

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

		109 Ambulance Fund	111 Flood Control	112 Tourism Fund	114 General Capital Fund
Beginning Cash and Investments					
30810	Reserved	-	11,439	-	-
30880	Unreserved	-	-	38,162	106,785
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	205,135	-	17,524	33,858
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	2,877	-	-	-
340	Charges for Goods and Services	1,539,454	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	194	-
Total Revenues:		1,747,465	-	17,718	33,858
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	1,910,479	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	6,037	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	6,818	-
Total Expenditures:		1,910,479	-	12,855	-
Excess (Deficiency) Revenues over Expenditures:		(163,013)	-	4,863	33,858
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	(30,562)	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	308,456	-	-	-
Total Other Increases in Fund Resources:		277,893	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	69,206	-	-	-
591-593, 599	Debt Service	29	-	-	-
597	Transfers-Out	10,272	-	10,000	70,894
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	35,372	-	-	-
Total Other Decreases in Fund Resources:		114,880	-	10,000	70,894
Increase (Decrease) in Cash and Investments:		1	-	(5,137)	(37,036)
Ending Cash and Investments					
5081000	Reserved	-	11,439	-	-
5088000	Unreserved	-	-	33,025	69,749
Total Ending Cash and Investments		-	11,439	33,025	69,749

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

		130 CD Repay Fund	209 UTGO Fund	213 LTGO Fund	302 Sidewalk Fund
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	155,339	-	-	1,523
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	43,450
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	2,300	-	-	39,405
340	Charges for Goods and Services	15,814	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	-	25,093
Total Revenues:		18,114	-	-	107,948
Expenditures					
510	General Government	4,886	-	-	37,317
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	31,654	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		36,539	-	-	37,317
Excess (Deficiency) Revenues over Expenditures:		(18,425)	-	-	70,631
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	98,625	25,481	-
385	Special or Extraordinary Items	17,940	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	68,256	-	-	-
Total Other Increases in Fund Resources:		86,195	98,625	25,481	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	43,919
591-593, 599	Debt Service	-	98,625	25,481	-
597	Transfers-Out	3,217	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		3,217	98,625	25,481	43,919
Increase (Decrease) in Cash and Investments:		64,553	-	0	26,712
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	219,892	-	-	28,235
Total Ending Cash and Investments		219,892	-	-	28,235

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

		401 Water, Sewer & Street Fund	501 Equipment Rental
Beginning Cash and Investments			
30810	Reserved	1,831,097	1,592,157
30880	Unreserved	1,798,387	-
388 / 588	Prior Period Adjustments, Net	-	-
Revenues			
310	Taxes	-	-
320	Licenses and Permits	3,437	-
330	Intergovernmental Revenues	-	-
340	Charges for Goods and Services	4,623,040	366,061
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	49,529	-
Total Revenues:		4,676,006	366,061
Expenditures			
510	General Government	104,723	-
520	Public Safety	-	-
530	Utilities	3,683,317	-
540	Transportation	-	160,025
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		3,788,040	160,025
Excess (Deficiency) Revenues over Expenditures:		887,966	206,036
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	-
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 395, 398	Other Resources	5,455,219	35,372
Total Other Increases in Fund Resources:		5,455,219	35,372
Other Decreases in Fund Resources			
594-595	Capital Expenditures	1,642,793	85,808
591-593, 599	Debt Service	1,103,776	-
597	Transfers-Out	-	19,554
585	Special or Extraordinary Items	-	-
586 / 589	Custodial Activities	-	-
581	Other Uses	312,022	308,456
Total Other Decreases in Fund Resources:		3,058,590	413,818
Increase (Decrease) in Cash and Investments:		3,284,595	(172,410)
Ending Cash and Investments			
5081000	Reserved	4,431,201	1,419,748
5088000	Unreserved	2,482,879	-
Total Ending Cash and Investments		6,914,080	1,419,748

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

		Total for All Funds (Memo Only)	611 LEOFF I	612 Dental Fund	635 Other Agency
308	Beginning Cash and Investments	68,266	-	45,378	12,645
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	115,070	22,460	92,609	-
380-390	Other Increases and Financing Sources	871,709	339,435	-	89,138
510-570	Expenditures	456,386	361,896	94,490	-
580-590	Other Decreases and Financing Uses	526,854	-	-	89,718
	Net Increase (Decrease) in Cash and Investments:	3,538	(1)	(1,881)	(580)
508	Ending Cash and Investments	71,805	-	43,497	12,065

		637 Suspense	666 Court Trust
308	Beginning Cash and Investments	-	10,243
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	215,001	228,135
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	215,001	222,135
	Net Increase (Decrease) in Cash and Investments:	-	6,000
508	Ending Cash and Investments	-	16,243

The accompanying notes are an integral part of this statement.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 1, 2016

Note 1 – Summary of Significant Accounting Policies

The City of Hoquiam was incorporated on May 21, 1890 and operates under the laws of the state of Washington applicable to a Code City with a Mayor- Council form of government. The City is a general purpose local government and provides police, fire, ambulance, water treatment and distribution, sewage collection and treatment, street maintenance, planning and zoning, and recreation services.

The City reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

Governmental Fund Types:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

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

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 1, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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 government on a cost reimbursement basis.

Fiduciary Fund Types:

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

Agency Funds

These funds are used to account for assets that the City of Hoquiam holds for others in an agency 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 also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budget

The City of Hoquiam adopts biennial appropriated budgets for the General, Special Revenue, Proprietary, Internal Service Funds and some Agency Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Biennial appropriations for these funds lapse at the fiscal year end.

Biennial appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 1, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Number	Fund Name	Budget	Expenditures	Difference
001	General Fund	\$21,049,100	\$18,972,587	\$2,076,513
101	Cemetery	\$367,415	\$352,415	\$15,000
102	Mausoleum	\$216,000	\$21,630	\$194,370
103	Cemetery Equipment Reserve	\$17,285	\$12,878	\$4,407
104	Cemetery Preneed	\$227,500	\$14,805	\$212,695
106	Street	\$1,466,000	\$1,377,001	\$88,999
107	Arterial Street	\$161,110	\$39,384	\$121,726
108	Paths & Trails	\$17,275	\$438	\$16,837
109	Ambulance	\$3,941,680	\$3,886,387	\$55,293
112	Tourism Fund	\$76,055	\$44,155	\$31,900
114	Cum. Reserve General Capital	\$176,790	\$108,425	\$68,365
130	Community Development Repay	\$166,790	\$65,843	\$100,947
209	2013 Fire Truck	\$198,900	\$198,900	\$0
213	1989 LTD GO - City Hall Ren.	\$50,965	\$50,963	\$3
302	Sidewalk Construction	\$996,750	\$973,091	\$23,659
401	Water, Sewer, Storm	\$19,136,675	\$14,701,916	\$4,434,759
402	Watershed Reserve	\$8,960,645	\$4,875,862	\$4,084,783
404	Transmission Line Reserve	\$326,865	\$246,065	\$80,800
410	USDA Loan Repayment	\$709,190	\$652,576	\$56,614
417	Landfill Post closure	\$66,100	\$40,059	\$26,041
501	Equipment Rental	\$844,025	\$605,006	\$239,019
505	Equipment Rental Reserve	\$1,992,710	\$486,177	\$1,506,533
520	Medical/Dental Benefits	\$195,000	\$189,548	\$5,452
602	Cem/Maus Endowment	\$668,000	\$131,810	\$536,190
611	Fire/Police Retirees' Benefits	\$801,000	\$746,694	\$54,306
	Total	\$62,829,825	\$48,794,614	\$14,035,211

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's legislative body.

D. Cash and Investments

See note 2, *Deposits and Investments*.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 1, 2016

E. Capital Assets

Capital Assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 2 years. The capital assets and inventory are recorded as capital expenditures when purchased.

Note 1 – Summary of Significant Accounting Policies (continued)

F. Compensated Absences

Vacation leave may be accumulated up to 60 days and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours. Upon retirement employees receive payment for a portion of unused sick leave. Payments are recognized as expenditures when paid.

G. Long Term Debt

See Note 5, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of operating transfers in and out, and the disposition of fixed assets.

I. Risk Management

See Note 7, *Risk Management*.

J. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of:

General Funds (\$106,006)

The City signed the Equitable Sharing Agreement with the United States Department of Justice and occasionally receives funds from forfeitures involving Federal violations involving the Controlled Substances Act. The City accounts for these funds in the Federal Drug Funds Account (\$16,840). Expenditures from this account are limited to the exclusive use of enforcing the Controlled Substances Act.

By the authority of RCW 3.50.100, 3.62.020 and 3.62.040 the City created the Restricted Court Account (\$19,527) for interest received on municipal court contracts, notes, taxes and accounts. The expenditures are restricted to funding the courts.

By the authorization of RCW 35.33.145, the City created a Contingency Fund (\$40,125) by transferring available General Fund revenues to meet any municipal expense which could not have been foreseen at the time the budget was adopted or for emergencies.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 1, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

The Landfill Equipment Reserve Fund was closed in 1990, and the residual equity in the fund was transferred to the Landfill Post-closure Fund. The reserves in the Landfill Post-Closure Fund (\$29,513) are anticipated to fully pay for the post-closure costs.

Cemetery Funds (\$4,291)

The City Council, by Ordinance, created an Equipment Reserve Fund (\$4,291) from the initial sale of crypts and niches in the mausoleum for the purpose of maintaining the Sunset Memorial Park Mausoleum and associated equipment.

Street Funds (\$17,041)

By the authorization of RCW 47.30.050 cities are required to spend 0.42% of their gas tax receipts on paths and trails. The City created the Paths and Trails Fund (\$17,041) for this purpose.

Flood Control Funds (\$11,439)

By the authorization of RCW 86.09.001 cities are required to spend their flood control district receipts on the system. The City created the Flood Control Fund (\$11,439) for this purpose.

Waterworks Funds (\$4,431,201)

The City Council, by Ordinance, created the Watershed Fund (\$3,950,244) for proceeds from the sale of watershed forest products. The funds are restricted to the operation and maintenance of watershed lands and the capital expenditures for the water and sewer departments.

The City Council, by Ordinance, created the Water Capital fund (\$58,540) from new connection proceeds to fund capital expenditures for the water department.

The City Council, by Ordinance, created the Sewer Capital Fund (\$47,992) from new connection proceeds to fund capital expenditures for the sewer department.

The City Council, by Ordinance, created the USDA Loan Repayment Fund (\$56,648) for the purpose of paying the principal and interest on the USDA Sewer Bonds.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 31, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

The City Council, by Ordinance, created the USDA Loan Reserve Fund (\$287,897) from sewer revenues as a reserve to secure the payment of principal and interest on bonds issued for the USDA sewer bonds.

The Council, by Ordinance, created the Short Lived Asset Reserve Fund (\$29,880) so long as the USDA sewer bonds remain outstanding to replace short lived assets of the sewer system.

Equipment Rental (\$1,419,748)

The City Council, by Ordinance, created an Equipment Rental Reserve Fund (\$1,419,748) where each department can transfer funds to pay the costs of purchasing new equipment and replacing used equipment

Note 2 – Deposits and Investments

It is the city's policy to invest all temporary cash surpluses. 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 the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the City or its agent in the government's name.

Investments are reported at original cost. Investments by type at December 31, 2016 are as follows:

Type of Investment	Investments
L.G.I.P.	\$10,005,639
Bank of Pacific CD's	\$300,000
US Bank CD's	\$280,000
Total	\$10,585,639

Note 3 – Property Tax

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month.

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

The city's regular levy for the 2016 year was \$3.23 per \$1,000 on an assessed valuation of \$427,745,741 for a total regular levy of \$1,381,006. In 2016, the city levied also \$0.50 per \$1,000 for Emergency Medical Services for a total additional levy of \$213,872 and levied also \$0.25 per \$1,000 for debt service on an aerial ladder truck for a total additional levy of \$104,459.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 1, 2016

Note 4 – Interfund Loans and Advances

The following table displays interfund loan activity during 2016:

Borrowing Fund	Lending Fund	Balance 1/1/2016	New Loans	Repayments	Balance 12/31/16
Ambulance	ER&R	\$35,372	\$0	\$35,372	\$0
General Fund	Watershed	\$137,978	\$312,022	\$45,993	\$404,007
Ambulance	ER&R	\$0	\$308,456	\$0	\$308,456
Total		\$173,350	\$620,477	\$81,365	\$712,463

In 2015, the City hired Western Washington Construction of Hoquiam to add a women's dormitory to the City Jail. This project is financed with an interfund loan from the Watershed Fund for up to \$450,000. The loan will be repaid from renting bed space to the Washington State Department of Corrections. The loan has a 3 year debt service schedule and an interest rate of 0.22%. There was \$137,978 in 2015 and \$312,022 in 2016 drawn against this loan, this project is now complete.

Note 5 – Debt Services 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 debt service requirements for general obligation bonds and revenue bonds are as follows:

	Principal	Interest	Total Debt
2017	\$824,664	\$411,146	\$1,235,809
2018	\$835,054	\$391,853	\$1,226,907
2019	\$840,595	\$372,011	\$1,212,605
2020	\$825,522	\$352,175	\$1,177,697
2021	\$830,198	\$332,817	\$1,163,015
2022-2026	\$4,169,763	\$1,372,416	\$5,542,179
2027-2031	\$4,072,003	\$894,601	\$4,966,603
2032-2036	\$1,706,001	\$547,648	\$2,253,649
2037-2041	\$1,223,970	\$407,470	\$1,631,440
2042-2046	\$1,366,066	\$265,374	\$1,631,440
2047-2051	\$1,518,473	\$106,749	\$1,625,223
2052-2056	\$132,786	\$4,004	\$136,790
Total	\$18,345,095	\$5,458,264	\$23,803,358

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 1, 2016

Note 6 Pension Plans

Substantially all City 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: PERS I, PERS II and LEOFF I.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communication Unit
PO Box 48380
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2016, the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.001187%	\$63,747
PERS 1 UAAL	0.019438%	\$1,043,912
PERS 2/3	0.024875%	\$1,252,437
LEOFF 1	0.054381%	(\$560,280)
LEOFF 2	0.109798%	(\$638,618)

LEOFF Plan 1

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

LEOFF Plan 2

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

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 1, 2016

Note 7 – Risk Management

The City of Hoquiam is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 168 Members.

Note 7 – Risk Management (cont.)

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

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

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

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

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 1, 2016

Note 8 – Joint Venture

Grays Harbor Joint Drug Task Force: The Interagency Drug Task Force is jointly operated by Grays Harbor County and the Cities of Aberdeen and Hoquiam. The purpose of the task force is to enhance the investigation and enforcement of laws against illegal drugs.

The task force is governed by an administrative board comprised of the Grays Harbor Sheriff and the chiefs of police departments of Aberdeen and Hoquiam. The board is responsible to establish a budget, authorize the acquisition of property and equipment, set policies for task force operations, and resolve any disputes that develop between the parties.

Note 8 – Joint Venture (cont.)

In 2016, the City received \$353 as its portion of the money collected from the auction of assets seized in drug-related cases and from court ordered payments paid by defendants in drug related cases. Expenditures for the program totaled \$134,544.

NOTE 9 – Landfill Post Closure

Although the city closed their landfill in 1990, the city is ultimately responsible for post-closure monitoring costs mandated by the State Department of Ecology. It was estimated that the site would be subject to annual environmental monitoring for the next 27 years. The city has contracted with Parametrix Incorporated, to monitor the site and provide the necessary testing in accordance with all applicable state and federal laws and regulations.

Post-closure costs shall be approved by the city and paid out of the post-closure fund administered by the city. In the event that there are insufficient funds in the account to pay for all amounts relating to the post-closure care, the city shall pay any and all shortfalls.

The minimum post-closure period is 20 years; however, post-closure activities will be required for as long as the Landfill is producing contaminated leachate or landfill gas. The city used a 30-year amortization when setting aside the money to fund the post-closure account. The Landfill Equipment Reserve Fund was closed in 1990, and the residual equity in the fund was transferred to the Landfill Post-closure Fund. Post-closure costs are now shown in the General Fund and are estimated to be approximately \$15,000 per year or less. The reserves in the Landfill Post-Closure Fund are anticipated to fully pay for the post-closure costs throughout the monitoring period.

NOTE 10 – Other Disclosures

OPEB

The City has a commitment to pay for post-employment benefits for employees that belong to LEOFF1. These benefits include medical, dental, vision and nursing care. Thirty two retirees received benefits during the year and \$361,896 was paid out for those benefits during the year.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2016 to December 1, 2016

NOTE 10 – Other Disclosure Continued...**Construction Commitment**

The City has active construction projects as of December 31, 2016. The projects include: Police Roof, Library Roof, Watershed Bridges and Sewer Treatment Plant Clarifier.

Project	Contractor	Total Contract	Paid to Date	Remaining Commitment
Library Roof Replacement	Western WA Construction	339,477.94	323,833.79	15,644.15
Watershed Bridges	Quigg Brothers	579,219.38	541,011.13	38,208.25
Police Station Improvements	Western WA Construction	372,172.21	355,021.42	17,150.79
Sewer Treatment Plant Clarifier	Rognlin's	633,950.80	19,530.00	614,420.80
Police Station Roof	Western WA Construction	109,696.36	0.00	109,696.36
Total		2,034,516.69	1,239,396.34	795,120.35

- Library Roof – The City received a Community Development Block Grant from the Department of Commerce for the renovation of the Library. The City was awarded \$704,906 to renovate the library.
- Watershed Bridges – This project will be paid out of the Watershed Reserve fund.
- Police Station Improvements – This is the jail expansion project and is financed with an interfund loan from the Watershed Fund for up to \$450,000. The loan will be repaid from renting bed space to the Washington State Department of Corrections. The loan has a 3 year debt service schedule and an interest rate of 0.22%. There was \$137,978 in 2015 and \$312,022 in 2016 drawn against this loan, this project is now complete.
- Sewer Treatment Plant Clarifier – This project will be paid out of the Watershed Reserve fund.
- Police Roof – This project will be funded by an interfund loan from the Watershed Reserve up to \$70,000. The loan will be repaid from renting bed space to the Washington State Department of Corrections. The loan has a 3 year debt service schedule and an interest rate of 0.22%. In 2016 there were no draws were made from this loan.

Beacon Hill Landslide

In 2016, the City expended \$970,617 in federal funds through the Emergency Relief program. The City used \$247,423.72 of these funds to install a sewer pump station. It has been determined by Washington State Department of Transportation that the City is required to repay these funds as it was not within the right of way of the project.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	City Hall Refunding	7/1/2019	92,333	-	21,566	70,767
263.81	Timberland Regional Library District Loan	12/31/2021	112,690	-	17,422	95,268
263.98	Landfill Postclosure		53,309	173	23,969	29,513
251.12	Aerial Ladder Truck	6/1/2028	960,000	-	55,000	905,000
Total General Obligation Debt/Liabilities:			1,218,332	173	117,957	1,100,548
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	CERB Loan - Sewer on 5th Street	7/1/2020	25,000	-	5,000	20,000
252.11	Water & Sewer Revenue Bonds - Sewer Lagoon	12/1/2056	6,670,227	-	122,047	6,548,180
263.82	DOE Loan - WWTP Plan	5/31/2033	400,020	-	17,660	382,360
263.82	PWTF Water Main	6/1/2034	9,436,732	-	555,102	8,881,630
252.11	Water & Sewer Revenue Bonds - Sewer Force Main	1/24/2054	1,467,512	-	25,621	1,441,891
259.12	Compensated Absences		419,563	42,747	-	462,310
264.30	Net Pension Liability		2,205,945	154,151	-	2,360,096
Total Revenue and Other (non G.O.) Debt/Liabilities:			20,624,999	196,898	725,430	20,096,467
Total Liabilities:			21,843,331	197,071	843,387	21,197,015

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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