



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Financial Statements Audit Report**

# **City of McCleary**

**Grays Harbor County**

**For the period January 1, 2013 through December 31, 2013**

**Published October 23, 2014**

**Report No. 1012814**





## Washington State Auditor Troy Kelley

October 23, 2014

Mayor and City Council  
City of McCleary  
McCleary, Washington

### **Report on Financial Statements**

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

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

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR

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Grays Harbor County  
January 1, 2013 through December 31, 2013**

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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 McCleary  
Grays Harbor County  
January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of McCleary  
McCleary, 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 McCleary, Grays Harbor County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 15, 2014.

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 or permitted 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.

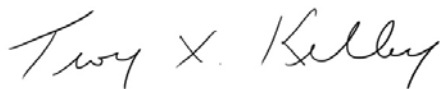
## ***COMPLIANCE AND OTHER MATTERS***

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.



**TROY KELLEY**  
STATE AUDITOR

October 15, 2014

# **Independent Auditor's Report on Financial Statements**

## **City of McCleary Grays Harbor County January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of McCleary  
McCleary, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the City of McCleary, Grays Harbor County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 9.

#### ***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 McCleary has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and 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 McCleary, for the year ended December 31, 2013, 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 McCleary, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

### ***Other Matters***

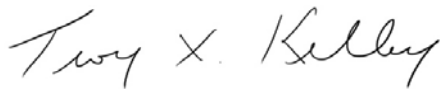
#### ***Supplementary and Other Information***

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

America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013 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 "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

October 15, 2014



## **Financial Section**

**City of McCleary  
Grays Harbor County  
January 1, 2013 through December 31, 2013**

### ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2013  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013  
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### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Liabilities – 2013

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 Current Expense	101 Park And Cemetery Fund	102 Street Fund
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	1,084,499	192,017	65,676	161,702
30880	Beg Fund Bal-Unreserved	1,173,120	112,448	-21,727	1,164
38800/58800	Prior Period Adjustments, net	0	-21,727	21,727	0
<b>Operating Revenues</b>					
310	Taxes	717,772	692,013	0	12,597
320	Licenses & Permits	11,557	11,159	0	398
330	Intergovernmental Revenues	89,575	55,361	0	34,214
340	Charges for Goods and Services	3,663,509	17,164	0	0
350	Fines & Penalties	34,971	34,971	0	0
360	Miscellaneous Revenues	73,412	25,574	0	313
<b>Total Operating Revenues:</b>		<b>4,590,796</b>	<b>836,242</b>		<b>47,522</b>
<b>Operating Expenditures</b>					
510	General Government	215,355	215,355	0	0
520	Public Safety	689,784	609,003	0	0
530	Utilities	3,124,944	27,811	0	0
540	Transportation	46,719	0	0	46,719
550	Natural and Economic Environment	900	900	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	27,475	27,475	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>		<b>4,105,177</b>	<b>880,544</b>		<b>46,719</b>
<b>Net Operating Increase (Decrease):</b>		<b>485,619</b>	<b>-44,302</b>	<b>0</b>	<b>803</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	511,695	159,336	0	2,625
391-393	Debt Proceeds	509,292	0	0	0
397	Transfers-In	155,526	155,526	0	0
<b>Total Nonoperating Revenues:</b>		<b>1,176,513</b>	<b>314,862</b>		<b>2,625</b>
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	9,301	40,050	0	0
591-593	Debt Service	382,589	52,291	0	0
594-595	Capital Expenditures	782,930	99,793	0	112
597	Transfers-Out	155,526	0	65,676	0
<b>Total Nonoperating Expenditures:</b>		<b>1,330,346</b>	<b>192,134</b>	<b>65,676</b>	<b>112</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>331,786</b>	<b>78,426</b>	<b>-65,676</b>	<b>3,316</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	996,236	192,199	0	161,855
50880	End Fund Balance-Unreserved	1,593,168	168,965	0	4,327

The accompanying notes are an integral part of this Statement.

BARS Code		301 REET Excise Tax - Capital Projects	302 Fire Mitigation Fund	401 Light And Power Fund	403 Garbage Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	16,094	78,976	300,123	7,110
30880	Beg Fund Bal-Unreserved	0	0	274,621	3,764
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	7,211	0	196	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	2,207,748	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	20	0	41,493	0
Total Operating Revenues:		7,231		2,249,437	
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	2,181,150	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:				2,181,150	
Net Operating Increase (Decrease):		7,231	0	68,287	0
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	317,635	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:				317,635	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	-38,699	0
591-593	Debt Service	0	0	34,650	0
594-595	Capital Expenditures	0	0	84,673	0
597	Transfers-Out	0	78,976	0	10,874
Total Nonoperating Expenditures:			78,976	80,624	10,874
Increase (Decrease) in Cash and Investments		7,231	-78,976	305,298	-10,874
Ending Cash and Investments					
50810	End Fund Bal-Reserved	23,325	0	300,407	0
50880	End Fund Balance-Unreserved	0	0	579,634	0

The accompanying notes are an integral part of this Statement.

BARS Code		405 Water Fund	407 Sewer Fund	409 Storm Water Fund	413 Ambulance Fund
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	100,816	161,985	0	0
30880	Beg Fund Bal-Unreserved	325,801	377,075	91,458	8,516
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	2,551	2,027	1,177	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	614,077	657,728	75,944	90,848
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	5,308	600	96	8
<b>Total Operating Revenues:</b>		<b>621,936</b>	<b>660,355</b>	<b>77,217</b>	<b>90,856</b>
<b>Operating Expenditures</b>					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	80,781
530	Utilities	395,789	439,186	81,008	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>		<b>395,789</b>	<b>439,186</b>	<b>81,008</b>	<b>80,781</b>
<b>Net Operating Increase (Decrease):</b>		<b>226,147</b>	<b>221,169</b>	<b>-3,791</b>	<b>10,075</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	12,741	15,245	4,113	0
391-393	Debt Proceeds	509,292	0	0	0
397	Transfers-In	0	0	0	0
<b>Total Nonoperating Revenues:</b>		<b>522,033</b>	<b>15,245</b>	<b>4,113</b>	
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	200	250	0	7,500
591-593	Debt Service	117,195	167,678	10,250	525
594-595	Capital Expenditures	588,969	7,468	1,915	0
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>		<b>706,364</b>	<b>175,396</b>	<b>12,165</b>	<b>8,025</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>41,816</b>	<b>61,018</b>	<b>-11,843</b>	<b>2,050</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	121,057	186,827	0	10,566
50880	End Fund Balance-Unreserved	347,377	413,250	79,615	0

The accompanying notes are an integral part of this Statement.

## FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	630 Consumer Deposits L/P Fund	631 Consumer Deposits - Water Fund
308	Beginning Cash and Investments	35,527	24,337	11,190
388 and 588	Prior Period Adjustments, net	0	0	0
310-360	Revenues	0	0	0
380-390	Other Increases and Financing Sources	195	195	0
510-570	Expenditures	0	0	0
580-590	Other Decreases and Financing Uses	11,175	10,975	200
Increase (Decrease) in Cash and Investments		-10,980	-10,780	-200
508	Ending Cash and Investments	24,547	13,557	10,990

The accompanying notes are an integral part of this Statement.

**City of McCleary**  
**Notes to the Financial Statements**  
**For the Year Ending December 31, 2013**

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

The City of McCleary reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of McCleary was incorporated on January 6, 1943 and operates under the laws of the state of Washington applicable to a non-charter code city. The City of McCleary is a general purpose government and provides public safety, fire prevention, street improvements, parks and recreation, health and social services and general administrative services. In addition, the City owns and operates electric, water, sewer, and storm drain. The City of McCleary uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

**A. Fund Accounting**

The accounts of the City of McCleary are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City of McCleary resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of McCleary:

**GOVERNMENTAL FUND TYPES:**

**General (Current Expense) Fund**

This fund is the primary operating fund of the City of McCleary. 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 McCleary.

**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.

## FIDUCIARY FUND TYPES:

### Agency Funds

These funds are used to account assets that the City holds for others in an agency capacity.

### B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

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.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### C. Budgets

The City of McCleary adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - Current Expense	1,466,064	1,094,397	371,667
101 - Park And Cemetery Reserve	65,676	65,676	0
102 - Street Fund			
Street Fund	67,675	46,831	20,844
Street Reserve	<u>161,700</u>	<u>0</u>	<u>161,700</u>
Total 102 - Street Fund	229,375	46,831	182,544
301 - REET Excise Tax - Capital Projects	14,050		14,050
302 - Fire Mitigation Fund	79,000	78,976	24
401 - Light And Power Fund	3,054,843	2,261,773	793,070
403 - Garbage Fund			
Garbage Fund	4,119	3,764	355
Garbage Reserve Fund	<u>7,110</u>	<u>7,110</u>	<u>0</u>
Total 403 - Garbage Fund	11,229	10,874	355
405 - Water Fund	1,435,840	1,102,153	333,687
407 - Sewer Fund			
Sewer Fund	1,128,600	468,674	659,926
Sewer Bond Reserve Fund	<u>0</u>	<u>146,178</u>	<u>-146,178</u>
Total 407 - Sewer Fund	1,128,600	614,852	513,748
409 - Storm Water Fund	170,941	93,172	77,769
413 - Ambulance Fund	89,000	88,807	193

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

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The City deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments See Note 2, *Investments*.



G. Capital Assets

The City of McCleary does not have a capitalization policy. Capital assets are long-lived assets of the City of McCleary and are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to 320 hours and is payable upon separation or retirement.

Sick leave may be accumulated up to 480 hours. Upon separation or retirement employees will receive payment for one-third of accumulated hours.

Comp time balances are payable upon separation and retirement.

I. Long-Term Debt See Note 5, *Debt Service Requirements*.

J. Other Financing Sources or Uses

The City's *Other Financing Sources or Uses* consist of transfers between funds, a fraud recovery, new connection utility fees, deposits, interfund loan repayments, a BPA power purchase settlement, property sales, insurance recoveries, and refunds of overpayments.

K. Risk Management

The City of McCleary 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 162 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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

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

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

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

#### L. Reserved Fund Balance

The City of McCleary maintains the following reserve balances in these funds:

Fund (Number)	Amount	Reserve Description
Current Expense (001)	\$192,199	Reserved for future needs by council action
Street Fund (102)	\$161,855	Reserved for Street Operations
Capital Projects (301)	\$23,325	Reserved for REET eligible expenditures
Light and Power (401)	\$300,407	Reserved for future needs
Water Fund (405)	\$121,057	Reserved for future needs
Sewer Fund (407)	\$186,827	Reserved for future needs
Ambulance Fund (413)	\$10,566	Reserved for future needs

#### Note 2 - Investments

The City's investments are insured, registered, or held by the City or its agent in the City's name.

Investments are presented at fair market value.

Investments by type at December 31, 2013 are as follows:

<u>Type of Investment</u>	⊕ City's own investments	⊖ Investments held by the City as an agent for other local governments, individuals or private organizations.	⊕ <u>Total</u>
L.G.I.P.	\$1,607,002.68	\$0	\$1,607,002.68

#### Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed 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 year 2013 was \$2.1209563 per \$1,000 on an assessed valuation of \$115,384,744 for a total regular levy of \$244,726.

#### **Note 4 - Interfund Loans**

The following table displays interfund loan activity during 2013:

<b><u>Borrowing Fund</u></b>	<b><u>Lending Fund</u></b>	<b><u>Balance 1/1/2013</u></b>	<b><u>New Loans</u></b>	<b><u>Repayments</u></b>	<b><u>Balance 12/31/2013</u></b>
Ambulance Fund	Light and Power	\$7,500.00	\$0.00	\$7,500.00	\$0.00
	Loan Interest @ 3%	\$525.00		\$525.00	\$0.00
	<b>TOTALS</b>	<b>\$8,025.00</b>	<b>\$0.00</b>	<b>\$8,025.00</b>	<b>\$0.00</b>

#### **Note 5 – Debt Service Requirements**

The accompanying Schedule of Long-Term 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, 2013.

The debt service requirements for general obligation bonds, revenue bonds, PWTF Loans, and other debt, including both principle and interest, are as follows:

<b>Year</b>	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Other Debt</b>	<b>Total Debt</b>
2013	\$ 53,397	\$ 316,868	\$ 11,980	\$ 382,244
2014	45,848	338,553	11,980	396,381
2015	30,752	302,615	11,980	345,346
2016	6,643	290,844		297,487
2017	6,643	289,323		295,966
2018-2022	33,214	1,403,225		1,436,438
2023-2027	33,212	1,282,903		1,316,115
2028-2032		1,121,419		1,121,419
2033-2037		730,890		730,890
2038-2042		730,890		730,890
2043-2047		438,534		438,534
<b>TOTAL</b>	<b>\$ 209,708</b>	<b>\$ 7,246,063</b>	<b>\$ 35,939</b>	<b>\$ 7,491,710</b>

#### **Note 6 - Pension Plans**

Substantially all of the City of McCleary's full-time and qualifying part-time employees participate in LEOFF or PERS retirement plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

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

## **Note 7 - Other Disclosures**

### **Legal Compliance**

The City over expended its budgets for Fund 407 in 2013. Fund 407 was over expended due to an oversight in the budget process for the USDA payment, which was made, for fiscal year 2013 but was not included in the 2013 budget.

### **Fraud Audit Resolved**

The City finalized the process for the fraud audit from the State Auditor's Office from a previous employee's embezzlement activity. The employee admitted guilt and was sentenced in March 2013 to two years in prison and is required to pay restitution. The City is pleased to have this long process come to an end and begin to move forward and work on the healing process with our community and employees. The City also is thankful for the hard work and dedication of Jim Brittain and Julie Cooper from the State Auditor's Special Investigation's Office. They worked endless hours to investigate the fraud and prepare the proof of loss. The amount of recovery in 2013 was \$57,875.56.

### **Retirees**

The City of McCleary has two LEOFF1 retirees. The City has purchased medical insurance and long term disability coverage to mitigate these postemployment benefit liabilities. One LEOFF1 Retiree is charging the City for in-home care, which is submitted monthly to the LEOFF1 Board for approval. These charges impact the City's financials significantly.

### **BPA Settlement**

The Bonneville Power Authority made settlements to its customers in 2013 for overbilling in previous years. The City of McCleary received \$265,777.50 in these settlements. These funds were booked into the Light and Power Fund (401).

### **Miscellaneous**

The City purchased property in January 2013 for a future fire station project to be paid back over fifteen years. The City used fire mitigation money that was available for this use.

The City received \$29,640.50 in insurance recoveries from the FEMA eligible storm in 2012

The City had interlocal agreements in 2012 with Grays County Fire Districts 5 and 13 to provide firefighting and EMS services. The City also participates in interlocal Agreement for the loan of equipment, vehicles or other personal property, and staff, Cities include the Cities of Aberdeen, Elma, Montesano, Ocean Shores, Oakville, McCleary and Westport.

Schedule of Liabilities  
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
<b>General Obligations</b>							
	263.51	Brookside Party Property Originated 9/1/2009	9/15/2015	36,141		21,323	14,818
	259.11	Compensated Absences - Governmental		32,253		346	31,907
	263.51	Ford lease - Police Vehicles	6/6/2015	64,324		20,185	44,139
	263.51	Fire-Station-Birindelli Property	3/1/2015	0	70,000	2,669	67,331
<b>Total General Obligations:</b>				<b>132,718</b>	<b>70,000</b>	<b>44,523</b>	<b>158,195</b>
<b>Revenue Obligations</b>							
	263.82	Sewer Originated 7/1/2001	7/1/2021	185,165		20,574	164,592
	252.11	Sewer Bond Originated 2005	12/1/2045	2,483,293		34,831	2,448,462
	263.82	Stormwater Improvements 7/1/2009	7/1/2015	30,750		10,250	20,500
	263.82	Bucket Truck 11/17/2009	12/1/2014	66,855		32,946	33,909
	263.82	USDA Loan 5 for Water Meters/Well Exploration 2/2010	3/1/2030	98,856		4,274	94,581
	263.82	USDA Loan 6 for additional Well Exploration and Reservoir Painting 3/2010	3/1/2030	215,554		9,321	206,233

The accompanying notes to the financial statements are an integral part of this schedule

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
<b>Revenue Obligations</b>							
	263.82	PWTF Well 2 & 3 Improvements 9/20/11	6/1/2032	928,419	509,292	68,756	1,368,955
	259.12	Compensated Absences - Proprietary		86,637	6,380		93,017
		<b>Total Revenue Obligations:</b>		<b>4,095,529</b>	<b>515,672</b>	<b>180,951</b>	<b>4,430,250</b>
<b>Assessment Obligations</b>							
	253.11	PWB - Simpson Ave. Water Main	7/1/2015	35,939		11,980	23,959
		<b>Total Assessment Obligations:</b>		<b>35,939</b>	<b>0</b>	<b>11,980</b>	<b>23,959</b>
		<b>Total Liabilities:</b>		<b>4,264,186</b>	<b>585,672</b>	<b>237,454</b>	<b>4,612,403</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.

Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<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>