



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

City of Aberdeen

Grays Harbor County

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

Published September 26, 2016

Report No. 1017523





Washington State Auditor's Office

September 26, 2016

Council
City of Aberdeen
Aberdeen, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Aberdeen's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Aberdeen are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2015-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

2015-001 The City did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	66.458 - Capitalization Grants for Clean Water State Revolving Funds
Federal Grantor Name:	Office of Water, Environmental Protection Agency
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Washington State Department of Ecology
Pass-through Award/Contract Number:	WQC-2015-AberPW00015
Questioned Cost Amount:	\$0

Description of Condition

During 2015, the City expended \$1,166,647 under the Capitalization Grants for Drinking Water State Revolving Funds loan program. The purpose of the program is to create State Revolving Funds (SRFs) through a program of capitalization grants to States which will provide a long term source of State financing for construction of waste water treatment facilities and implementation of other water quality management activities.

Federal requirements prohibit grant recipients from contracting with or making subawards to parties that have been suspended or debarred from doing business with the federal government. The City is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The City can obtain a written certification from a vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the City may review the federal Excluded Parties List issued by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with a vendor.

During 2015, the City paid \$1,030,318 of its loan program funding to one vendor subject to suspension and debarment requirements. The City did not have procedures in place to verify whether the vendor was suspended or debarred prior to entering into the contracts, or inform the vendor of their responsibilities regarding lower-tier covered transactions.

We consider this deficiency in internal controls to be a material weakness.

Cause of Condition

The City hired an outside engineering firm to oversee the project since it specialized in these types of wastewater treatment projects. The City did not use its own contract template that includes suspension and debarment language. The contract used by the outside engineering firm did not include the suspension and debarment language in it. The outside engineering firm and the City employee in charge of the project were unaware of the requirements regarding suspension and debarment.

Effect of Condition and Questioned Costs

Without proper controls, the City increases the risk of awarding funds to vendors and subrecipients that are suspended or debarred from participating in federal programs. Any payments to an ineligible party are unallowable and would be subject to recovery by the funding agency.

Failure to comply with federal requirements may jeopardize the City's eligibility for future federal assistance.

We were able to verify the vendor had not been suspended or debarred and, therefore, we are not questioning costs for the payments.

Recommendation

We recommend the City:

- Establish and follow internal controls to ensure compliance with federal suspension and debarment requirements.
- Ensure staff responsible for maintaining compliance with these requirements receive adequate training to effectively perform their duties.

City's Response

The City concurs with the Auditor's finding. The City is aware of the control deficiency that led to the finding. Corrective action has been taken to prevent this from happening again. Staff have been trained on the federal requirements to verify vendors receiving federal funds.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Title 2 Code of Federal Regulation Section 200.303 Internal controls, states in part:

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.
- (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1)

significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows: ...

Deficiency in internal control over compliance. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively. ...

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur. ...

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance

Title 2, Code of Federal Regulations, states in part:

Section 180.220 – Are any procurement contracts included as covered transactions?

(b) ...a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed \$25,000.

(c) A subcontract also is a covered transaction if, -

(1) It is awarded by a participant in a procurement transaction under a nonprocurement transaction of a Federal agency that extends the coverage of paragraph (b)(1) of this section to additional tiers of contracts...and

(2) The value of the subcontract is expected to equal or exceed \$25,000.

Section 180.970 Nonprocurement transaction.

(a) Nonprocurement transaction means any transaction, regardless of type (except procurement contracts), including, but not limited to the following (states in part):

(1) Grants.

Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

Section 180.330 What requirements must I pass down to persons at lower tiers with whom I intend to do business?

Before entering into a covered transaction with a participant at the next lower tier, you must require the participant to—

- (a) Comply with this subpart as a condition of participation in the transaction. You may do so using any method(s), unless the regulation of the Federal agency responsible for the transaction requires you to use specific methods.
- (b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

**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 Aberdeen
Grays Harbor County
January 1, 2015 through December 31, 2015**

Council
City of Aberdeen
Aberdeen, 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 Aberdeen, Grays Harbor County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 14, 2016.

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

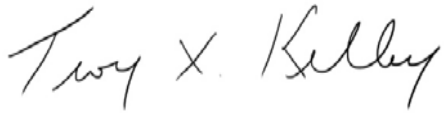
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 14, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

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

Council
City of Aberdeen
Aberdeen, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the City of Aberdeen, Grays Harbor County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

The City's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2015-001 to be a material weakness.

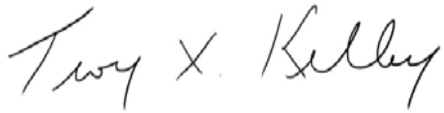
City's Response to Findings

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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 "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 14, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Council
City of Aberdeen
Aberdeen, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Aberdeen, Grays Harbor County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 23.

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 Aberdeen 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 Aberdeen, for the year ended December 31, 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Aberdeen, as of December 31, 2015, 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

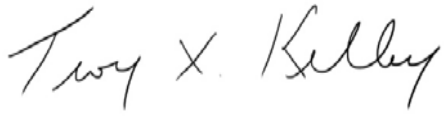
Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2016 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.

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TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 14, 2016

FINANCIAL SECTION

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

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Expenditures of Federal Awards – 2015
Notes to the Schedule of Expenditures of Federal Awards – 2015

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

		Total for All Funds (Memo Only)	001 Current Expense Fund	103 Street Fund
Beginning Cash and Investments				
30810	Reserved	5,071,423	-	-
30880	Unreserved	10,107,597	5,901,247	348,926
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	11,816,632	11,580,610	-
320	Licenses and Permits	443,161	442,054	-
330	Intergovernmental Revenues	3,834,128	752,576	1,847,853
340	Charges for Goods and Services	13,945,165	138,625	492,036
350	Fines and Penalties	298,356	293,553	-
360	Miscellaneous Revenues	456,092	99,538	25,378
Total Operating Revenues:		30,793,534	13,306,956	2,365,267
Operating Expenditures				
510	General Government	1,883,008	1,883,008	-
520	Public Safety	10,708,794	7,172,318	40,439
530	Utilities	8,599,703	-	-
540	Transportation	2,520,150	331,817	1,831,002
550	Natural and Economic Environment	542,690	490,215	-
560	Social Services	2,988	2,988	-
570	Culture and Recreation	1,288,767	1,059,866	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		25,546,100	10,940,212	1,871,441
Net Operating Increase (Decrease):		5,247,434	2,366,744	493,826
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	285,617	5,882	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	2,384,832	437,423	1,039,696
Total Nonoperating Revenues:		2,670,449	443,305	1,039,696
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	21,462	-	-
591-593	Debt Service	1,211,870	-	-
594-595	Capital Expenditures	4,553,867	32,488	1,555,735
597	Transfers-Out	3,258,138	2,779,972	-
Total Nonoperating Expenditures:		9,045,337	2,812,460	1,555,735
Net Increase (Decrease) in Cash and Investments:		(1,127,454)	(2,411)	(22,213)
Ending Cash and Investments				
5081000	Reserved	4,085,900	-	-
5088000	Unreserved	9,965,670	5,898,838	326,715
Total Ending Cash and Investments		14,051,570	5,898,838	326,715

The accompanying notes are an integral part of this statement.

107 Morrison Riverfront Park	120 Emergency Services	122 Parking Enforcement Fund	123 Police Canine Program	128 Community Center Fund	132 Recreation Sports Programs
-	-	-	15,000	-	-
19,565	401,301	37,191	2,411	52,460	150,582
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	3,946	-	-	-	-
-	3,273,896	-	-	-	45,303
-	-	4,803	-	-	-
34,486	6,566	8,979	15,000	103,804	38,651
34,486	3,284,408	13,782	15,000	103,804	83,954
-	-	-	-	-	-
-	3,052,689	67,489	16,784	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
27,595	-	-	-	75,945	68,253
-	-	-	-	-	-
27,595	3,052,689	67,489	16,784	75,945	68,253
6,891	231,719	(53,707)	(1,784)	27,859	15,701
-	-	-	-	-	202
-	-	-	-	-	-
-	-	56,622	-	-	48,344
-	-	56,622	-	-	48,546
-	-	-	-	21,462	-
-	-	-	-	2,538	-
-	-	-	-	-	-
11,000	24,600	-	-	2,500	16,275
11,000	24,600	-	-	26,500	16,275
(4,109)	207,119	2,915	(1,784)	1,359	47,972
-	-	-	15,000	-	-
15,455	608,416	40,105	627	53,819	198,556
15,455	608,416	40,105	15,627	53,819	198,556

The accompanying notes are an integral part of this statement.

145 Drug Enforcement Fund	206 2000 Fire Truck Bond Fund	301 Community Dvlpmnt Block Grant	302 Urban Dvlpmnt Action Grant	303 Hotel/Motel Tax Fund	305 Dept of Justice Grants
237,429	54,046	-	190,038	-	-
38,104	-	36,663	-	85,603	(21,389)
-	-	-	-	-	-
-	83,796	-	-	60,091	-
-	-	-	-	-	-
138,808	-	-	-	-	71,582
-	-	-	-	-	-
-	-	-	-	-	-
15,007	46	186	1,178	555	3
153,815	83,842	186	1,178	60,646	71,585
-	-	-	-	-	-
95,375	-	-	-	-	179,476
-	-	-	-	-	-
-	-	-	-	-	-
-	-	3,918	9,950	-	-
-	-	-	-	-	-
-	-	-	-	52,748	-
-	-	-	-	-	-
95,375	-	3,918	9,950	52,748	179,476
58,440	83,842	(3,732)	(8,772)	7,898	(107,891)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	129,280
-	-	-	-	-	129,280
-	-	-	-	-	-
-	77,818	-	-	-	-
-	-	-	-	-	-
162,644	-	-	-	15,000	-
162,644	77,818	-	-	15,000	-
(104,204)	6,024	(3,732)	(8,772)	(7,102)	21,389
144,082	-	-	-	-	-
27,247	60,070	32,931	181,266	78,502	-
171,329	60,070	32,931	181,266	78,502	-

The accompanying notes are an integral part of this statement.

306 Grant Funds	318 Abatement Fund	320 Public Buildings Fund	350 Utility Construction Fund	399 Capital Improvement Fund	401 Garbage Utility Fund
-	-	-	-	117,515	-
1,050	295,006	444,413	257,720	-	178,762
-	-	-	-	-	-
-	-	-	-	92,135	-
-	-	-	-	-	-
-	-	87,935	-	-	-
-	6,321	-	-	-	1,361,309
-	-	-	-	-	-
-	1,907	2,842	842	4,309	761
-	8,228	90,777	842	96,444	1,362,070
-	-	-	-	-	-
(11)	84,235	-	-	-	-
-	-	-	-	-	1,442,345
-	-	-	-	-	-
-	2,359	-	-	28,548	-
-	-	-	-	-	-
-	-	4,360	-	-	-
-	-	-	-	-	-
(11)	86,594	4,360	-	28,548	1,442,345
11	(78,366)	86,417	842	67,896	(80,275)
-	-	-	-	-	-
-	-	-	-	-	-
-	60,000	168,497	436,845	8,125	-
-	60,000	168,497	436,845	8,125	-
-	-	-	-	-	-
-	-	2,800	-	-	-
-	-	214,621	640,152	431,697	-
-	-	-	-	48,497	60,000
-	-	217,421	640,152	480,194	60,000
11	(18,366)	37,493	(202,465)	(404,173)	(140,275)
-	-	-	-	(286,658)	-
1,061	276,639	481,905	55,254	-	38,489
1,061	276,639	481,905	55,254	(286,658)	38,489

The accompanying notes are an integral part of this statement.

403 Sewer Utility Fund	404 Water Utility Fund	405 Storm Water Utility Fund	407 Industrial Water System Fund	501 Equipment Rental Operat. Fund
265,237	1,687,474	-	944,568	1,560,116
595,671	103,550	81,458	1,007,120	90,183
-	-	-	-	-
-	-	-	-	-
-	646	-	461	-
931,178	250	-	-	-
3,947,004	3,631,791	489,670	251,670	307,540
-	-	-	-	-
4,357	64,257	534	13,107	13,799
4,882,539	3,696,944	490,204	265,238	321,339
-	-	-	-	-
-	-	-	-	-
3,333,907	3,071,321	532,308	219,822	-
-	-	-	-	357,331
-	7,700	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
3,333,907	3,079,021	532,308	219,822	357,331
1,548,632	617,923	(42,104)	45,416	(35,992)
-	-	-	-	279,533
-	-	-	-	-
-	-	-	-	-
-	-	-	-	279,533
-	-	-	-	-
367,576	761,138	-	-	-
1,386,591	164,288	-	12,743	115,552
-	137,650	-	-	-
1,754,167	1,063,076	-	12,743	115,552
(205,535)	(445,153)	(42,104)	32,673	127,989
266,861	1,310,919	-	951,308	1,684,388
388,516	34,952	39,356	1,033,053	93,898
655,377	1,345,871	39,356	1,984,361	1,778,286

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	611 Fire Pension Fund	612 Police Pension Fund	629 Brownfield Development Fund
308	Beginning Cash and Investments	874,594	237,303	45,040	96,941
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	952,297	271,848	621	132,103
380-390	Other Increases and Financing Sources	1,738,209	447,805	667,700	-
510-570	Expenditures	1,153,596	571,332	416,954	165,310
580-590	Other Decreases and Financing Uses	1,258,861	56,200	186,000	-
Net Increase (Decrease) in Cash and Investments:		278,049	92,121	65,367	(33,207)
508	Ending Cash and Investments	1,152,643	329,424	110,407	63,734

		630 Trans. Benefit District	660 Agency Suspense Fund	670 Municipal Court Trust
308	Beginning Cash and Investments	485,188	(2,625)	12,747
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	547,725	-	-
380-390	Other Increases and Financing Sources	-	3,801	618,903
510-570	Expenditures	-	-	-
580-590	Other Decreases and Financing Uses	390,341	-	626,320
Net Increase (Decrease) in Cash and Investments:		157,384	3,801	(7,417)
508	Ending Cash and Investments	642,572	1,176	5,330

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Aberdeen was incorporated on May 12, 1890, and operates under the laws of the State of Washington applicable to a First Class Charter City. The City is a general-purpose government and provides public safety, water treatment and distribution, sewage collection and treatment, highway and street maintenance, planning and zoning, permits and inspections, municipal court, library, recreation services, and general administration.

The City of Aberdeen 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 and 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 (Current Expense) Fund**

This fund is the general operating fund of the City. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**Permanent Funds**

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

Proprietary Fund Types**Enterprise Funds**

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

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the City or to other governmental units on a cost-reimbursement basis.

Fiduciary Fund Types

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

Private Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Agency Funds

These funds are used to account for assets that the City of Aberdeen holds for others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

Annual appropriated budgets are adopted for all Governmental, Proprietary, and Fiduciary Funds.

These budgets are appropriated at the fund level except for the General (Current Expense) Fund, where budgets are adopted at the department level. The budgets constitute the legal authority for expenditures at that level. Annual appropriations for all funds except capital project funds lapse at the fiscal year end. Capital project funds are budgeted for the life of the project.

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:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fund / Dept. #	Description	2015 Budget	2015 Expenditures	Variance
General Fund				
01	Legislative	\$ 73,700	\$ 71,215	\$ 2,485
02	Executive	15,650	15,220	430
03	Judicial	535,978	508,199	27,779
05	General Government	8,694,005	4,160,625	
06	Finance	427,180	409,579	17,601
16	Legal	327,134	306,695	20,439
18	Human Resources	111,805	105,289	6,516
19	Facilities	92,500	74,848	17,652
21	Engineering	331,910	331,817	93
23	Community Development	359,616	329,909	29,707
45	Police	5,012,697	4,960,187	52,510
46	Care/Custody of Prisoners	451,078	434,100	16,978
48	Fire	1,817,017	1,778,951	38,066
49	911 Call Center	185,428	151,489	33,939
	Total General Fund	\$ 18,435,698	\$ 13,638,123	\$ 4,797,575
Special Revenue Funds				
101	Library	\$ 73,500	\$ 55,061	\$ 18,439
102	Parks	1,047,690	1,017,287	30,403
103	Street	2,016,066	1,929,961	86,105
105	Arterial Street	2,048,000	1,497,213	550,787
106	Paths & Trails	3,000	-	3,000
107	Morrison Riverfront Park	45,878	38,596	7,282
112	Insurance Reserve	861,815	11,504	850,311
120	Emergency Medical Services	3,392,760	3,077,293	315,467
121	Animal control	128,211	122,695	5,516
122	Parking Enforcement	67,622	67,490	132
123	Canine Fund	22,675	16,784	5,891
125	Museum	28,000	25,048	2,952
128	Community Center	141,284	102,444	38,840
132	Recreational Sports Programs	230,990	84,526	146,464
145	Drug Task Force	401,200	258,020	143,180
	Total Special Revenue Funds	\$ 10,508,691	\$ 8,303,922	\$ 2,204,769
Debt Service Funds				
206	2000 Fire Truck Bond Redemption	77,825	77,818	7
	Total Debt Service Funds	\$ 77,825	\$ 77,818	\$ 7

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

	Capital Project Funds			
301	Community Devel. Block Grant	\$ 750,000	\$ 3,918	\$ 746,082
302	Urban Devel. Action Grant	191,650	9,950	181,700
303	Hotel/Motel	145,800	67,748	78,052
305	Dept. of Justice Grants	179,730	179,477	253
306	Grant Funds	1,060	(11)	1,071
318	Abatement	346,750	86,595	260,155
320	Public Buildings	218,726	221,782	(3,056)
350	Utility Construction	695,195	640,153	55,042
399	Capital Improvements	527,750	508,742	19,008
	Total Capital Project Funds	\$ 3,056,661	\$ 1,718,354	\$ 1,338,307
	Enterprise Funds			
401	Garbage Utility	\$ 1,704,195	\$ 1,502,344	\$ 201,851
403	Sewer Utility	5,725,554	5,087,857	637,697
404	Water Utility	4,139,372	4,004,445	134,927
405	Storm Water Utility	554,532	532,306	22,226
407	Industrial Water System	1,306,760	232,565	1,074,195
413	Sewer Cumulative Reserve	165,000	213	164,787
414	Water Cumulative Reserve	1,433,406	387,650	1,045,756
417	Industrial Water Reserve	945,500	-	945,500
	Total Enterprise Funds	\$ 15,974,319	\$ 11,747,380	\$ 4,226,939
	Internal Service Funds			
501	Equipment Rental	\$ 384,124	\$ 304,258	\$ 79,866
502	Equipment Rental Reserve	1,435,140	168,627	1,266,513
	Total Internal Service Funds	\$ 1,819,264	\$ 472,885	\$ 1,346,379
	Fiduciary Funds			
611	Fire Pension	\$ 943,000	\$ 627,532	\$ 315,468
612	Police Pension	707,910	602,954	104,956
629	Brownfield Development Fund	238,600	165,310	73,290
630	Transportation Benefit District	942,000	390,341	551,659
	Total Fiduciary Funds	\$ 2,831,510	\$ 1,786,137	\$ 1,045,373
	Grand Total All Funds	\$ 52,703,968	\$ 37,744,619	\$ 14,959,349

The finance director is authorized to transfer budgeted amounts between departments within any fund/object classes within departments, with the exception of the General (Current Expense) 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 council.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**D. Cash and Investments**

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All compensated absences are reported as an expenditure when paid. The following table denotes the maximum threshold for accrual:

<u>Labor Unit</u>	<u>Vacation Hours</u>	<u>Compensatory Hours</u>
AFSCME	456	100
Police Guild	720	124
Fire Union	528	0
Non-represented & Police Admin	720	0

Sick leave may be accumulated up to 1440 hours, depending on the labor unit; but upon separation or retirement, employees do not receive any payment for unused sick time, with the exception of the Police Guild. Police Guild employees at separation of service, may be paid up to 25% of their accumulated sick leave balance up to \$10,000.

G. Long Term Debt

See Note 6, *Long Term Debt*

H. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of operating transfers in and transfers out to and from other funds; proceeds from sale of assets; and deposits from other funds.

I. Risk Management**Unemployment Compensation Self-insurance**

The City is self-insured for unemployment compensation exposure. Claims against the City are administered by the Washington State Department of Employment Security and are subsequently reimbursed by the City. Actual costs are paid by the former employee's fund and department as incurred.

Auto Physical Damage Self-insurance

The City has elected to partially self-insure automobile physical damage and as of December 31, 2015 had \$75,618 reserved for this purpose within the Equipment Reserve Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**Liability and Property Risks Joint Insurance Pool**

The city of Aberdeen 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 179 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. Financial statements of the WCIA may be obtained by contacting the agency at (206) 575-6046.

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 made by formal action of the City Council. At the end of 2015, the City considered \$144,082 in the Drug Enforcement Fund # 145, \$ 15,000 in the Canine Fund #123, \$266,861 in the Sewer Utility Fund #403, \$1,310,919 in the Water Utility Fund #404, \$951,308 in the Industrial Water System Fund #407, \$1,684,388 in the Equipment Rental Operations Fund #501.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

During 2015, one fund had a negative cash balance at year end, resulting in negative fund balances: Fund 399, the Capital Improvement Fund had expenditures in the amount of \$ 286,658 that were not reimbursed by the Grantor until 2016.

NOTE 3 – 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.

The City's deposits are entirely covered by the Federal Depository Insurance Corporation (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

All investments are reported at original cost plus accrued interest which approximates market. Investments by type at December 31, 2015 are as follows:

Type of Investment	City's Own Investments	Investments held by City as an agent for City's Transportation District	Total
L.G.I.P.	\$ 655,290	\$ 590,000	\$ 1,245,290
Bank of the Pacific Sweep Account	1,640,048	-	1,640,048
U.S. Government Securities	9,910,791	-	9,910,791
Total	\$ 12,206,129	\$ 590,000	\$ 12,796,129

The City has agreed to maintain a balance of \$2,000,000 in the Bank of the Pacific to offset bank service charges (a verbal compensating balance agreement).

NOTE 4 - PROPERTY TAXES

The Grays Harbor County Treasurer acts as the agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed, with interest, after the end of each month. The county Treasurer has elected to distribute property tax revenue on a percentage, or pro-rata basis rather than on a levy basis. The effect of this method is that all taxing districts in the county share proportionately in all collections and all delinquencies, regardless of the specific districts from which the taxes are collected or are delinquent.

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

The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

- a) Washington State Law in RCW 84.55.010 limits the growth of regular property taxes to 6 percent per year, after adjustments for new construction. If the assessed valuation increases by more than 6 percent due to revaluation, the levy rate will be decreased.
- b) The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

NOTE 4 - PROPERTY TAXES (cont.)

For 2015, the City levied the property taxes noted in the table below. The special levy was approved by the voters and is not subject to the Levy rate limitations listed above.

Purpose of Levy	Levy (rate per \$1000)	Levy Amount	Assessed Value
Operations levy	\$ 3.1604	\$ 2,840,388	\$ 898,738,864
Special Levy: 2001 SS Dike & Fire Dept. Refunding Bond	\$.0641	\$ 56,972	\$ 888,592,550
Totals	\$ 3.2245	\$ 2,897,360	

NOTE 5 – INTERFUND LOANS

The following table displays interfund loan activity during 2015:

Borrowing Fund	Lending Fund	Balance 01/01/15	New Loans	Repayments	Balance 12/31/15
Community Center Fund	ER Reserve	\$ 253,774	\$0	\$ 21,462	\$ 232,312
Total		\$ 253,774	\$0	\$ 21,462	\$ 232,312

NOTE 6 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long Term Debt (09) provides a listing of the outstanding debt of the City and summarizes the City's debt transactions for 2015. The debt service requirements, including interest, are as follows:

2015 - 5 Year Repayment Schedule				
(Including Interest)				
	G.O. Bond Debt	Revenue Debt	Other Debt	Total Debt
2016	82,546	1,550,528	756,532	2,389,606
2017	79,241	1,553,877	750,975	2,384,094
2018	80,691	1,547,378	745,417	2,373,486
2019	81,891	187,727	361,614	631,232
2020	82,841	189,977	361,614	634,432
2020-2022	-	375,705	967,731	1,343,436
Totals	407,210	5,405,193	3,943,883	9,756,285

Stafford Creek Revenue Bonds

On November 1, 1998 and August 14, 2002 the City issued \$18,940,000 and \$2,455,000 of Special Revenue Bonds for the sole purpose of extending utility lines from the city limits of Aberdeen to the site of the new Washington State Stafford Creek Correctional Center. The State of Washington has an agreement with the City to pay System Development Fees for the benefit of receiving water and sewer services. These fees are pledged to cover the debt service payments. All system fees are paid

NOTE 6 - LONG-TERM DEBT (cont.)

directly by the State of Washington to the bond trustee (Bank of New York) for payment of the debt service.

In July, 2009, the Stafford Creek 1998 Special Revenue Bonds were refinanced. The total refinance issuance was \$11,090,000. There are no changes in the original agreement between the State of Washington and the City for repayment of these bonds.

Department of Ecology Revolving Loan Fund

Subsequent to year end, the City signed a loan agreement with the Washington State Department of Ecology, for the Waste Water Treatment Plan Outfall Project. The loan will provide up to \$1,919,000 of which \$84,000 may be forgiven. At year end, the amount drawn on this loan was \$931,178. Repayment is to occur one year from project completion, which is estimated to be September, 2016. Additional funds will be drawn prior to project completion. The principal and interest payments are not currently included in the debit repayment schedules.

NOTE 7 - PENSION PLANS**A. State Sponsored 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, PERS III, PSERS, LEOFF I, or LEOFF II.

Historical trend and other information regarding each plan are 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

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

At June 30, 2015, the City proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation Percentage	Employer Contributions	Liability
PERS 1	0.003993%	\$ 18,354	208,871
PERS 1 UAAL	0.048535%	\$ 223,065	2,538,832
PERS 2 and 3	0.060364%	\$ 268,894	2,156,840
PSERS	0.070861%	\$ 13,205	12,934
LEOFF 1	0.126017%		(1,518,783)
LEOFF 2	0.210563%	308,624.56	(2,164,167)

NOTE 7 - PENSION PLANS (cont.)**LEOFF Plan 1**

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

LEOFF Plan 2

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

B. Local Government Pension Trust Funds

Plan Description – The City is the administrator of the Firefighter's and Police Officer's Pension Plans which are closed, single-employer, defined benefit pension plans that were established in conformance with RCW Chapters 14.16, 14.18 and 14.20. These plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Membership is limited to firefighters and police officers employed prior to March 1, 1970, when the LEOFF retirement system was established by the State of Washington. The City's obligation under the Firefighter's and Police Officer's Pension Plans consists of paying all benefits, including payments to beneficiaries, for firefighters and police officers who retired prior to March 1, 1970, and excess benefits over LEOFF for covered firefighters and police officers who retired on or after March 1, 1970.

Funding Policy – Under State law, the Firefighter's Pension Plan is funded from an allocation from the State of Washington fire insurance premium taxes; interest earnings; member contributions which were made prior to March 1, 1970 (the inception of LEOFF); regular property tax levies (see Note #4); and City contributions required to meet projected future pension obligations. The Police Officer's Pension Plan is funded from interest earnings; member contributions which were made prior to March 1, 1970 (the inception of LEOFF); and City contributions required to meet projected future pension obligations.

Eligibility/Benefits – All members are vested. Normal retirement occurs after service for a period of 25 years or more and attainment of age 50. There is no compulsory retirement age under RCW 41.18 and 41.20. Benefit is 50% of basic salary plus an additional 2% of basic salary for each year of service in excess of 25 to a maximum of 5 additional years, subject to a \$300 per month minimum.

For service retirement after July 1, 1969, benefits increased in pace with increases in the wage attached to the employee's rank at retirement. For service retirement before July 1, 1969, benefits increased to keep pace with the Seattle area consumer price index, with a minimum increase of 2% annually.

NOTE 7 - PENSION PLANS (cont.)

Membership in the Firefighter's and Police Officer's Pension Plans consisted of the following at December 31, 2015:

	<u>Firefighters'</u>	<u>Police Officers'</u>
Retired and receiving City pension only payments	10	1
Receiving in excess of LEOFF benefits & medical	15	9
Retired and receiving City medical benefits only	20	19
Active members not yet retired	<u>0</u>	<u>1</u>
Total	<u>45</u>	<u>30</u>

Funding sources at December 31, 2015 were received by each trust fund as follows:

Fire Insurance Premium Tax	\$ 35,328	\$ 0
Property Taxes	\$ 235,106	\$ 0
Operating Transfer from General Gov't	\$ 447,805	\$ 667,700
Other Income	<u>\$ 1,414</u>	<u>\$ 621</u>
Total Funding	<u>\$ 719,653</u>	<u>\$ 668,321</u>

As of December 31, 2015, the market value of assets was \$ 439,831. The City also had \$1,207,000 in Fund 112, dedicated for the Reserve for Long Term Care.

NOTE 8- OTHER DISCLOSURES**A. Joint Ventures**

The City is a participant in two joint ventures:

Drug Task Force Unit

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 composed of the County Sheriff and the Aberdeen and Hoquiam Police Chiefs. They are responsible for establishing the budget, authorizing acquisition of equipment, setting policies for operating the task force, and resolving disputes.

Grays Harbor Communication Center (911)

The City participates with Cosmopolis, Elma, Hoquiam, McCleary, Montesano, and Grays Harbor County to operate a central emergency dispatch center. As a participant, the City has an ongoing financial commitment to provide its share of operating funds to the dispatch center. The City contributed \$147,124 to the Communication Center in 2015.

NOTE 8- OTHER DISCLOSURES (cont.)**B. Transportation District**

In 2012, the City formed a Transportation Benefit District. During 2013, a special election was held to assess a dedicated sales tax rate of thirteen hundredths of one percent (.0013) for the purpose of transportation improvements. Voters approved the proposition. The effective date for the new sales and use tax rate was July 1, 2013. This activity is accounted for as a fiduciary fund in the City's financial statements.

During 2015, the City received \$543,813 from sales tax revenue and \$3,912 in interest income. \$390,341 was expended during the year on transportation projects.

City of Aberdeen
Schedule of Liabilities
For the Year Ended December 31, 2015

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	G. O. Bond--Refunding	12/1/2020	441,688	-	69,118	372,570
263.81	CERB Loan	7/1/2020	15,000	-	2,500	12,500
251.11	WWTP Outfall - WQC-2015-AberPW-00015	9/1/1937	-	931,178	-	931,178
	Total General Obligations:		456,688	931,178	71,618	1,316,248
Revenue Obligations						
252.11	Stafford Creek Correctional Facility-2002	11/1/2022	1,220,000	-	130,000	1,090,000
252.11	SCCC Refunding -2009	11/1/2018	4,875,000	-	1,135,000	3,740,000
263.82	Water Filtration - PW-98-791-001	7/1/2018	1,512,982	-	378,245	1,134,737
263.82	Wastewater Plant - PW-00-691-PRE-101	7/1/2020	320,174	-	53,363	266,811
263.82	Wastewater Plant - PW-02-691-001	7/1/2022	2,413,470	-	301,683	2,111,787
264.30	Pension Liability	12/31/2015	-	4,917,477	-	4,917,477
259.12	Compensated Absences GF & Special Revenue Funds	12/31/2015	1,037,307	42,256	-	1,079,563
259.12	Compensated Utility Funds and Equipment Rental Fund	12/31/2015	303,944	-	37,440	266,504
252.11	Revenue Bonds- Water Refunding	12/31/2015	355,000	-	355,000	-
	Total Revenue Obligations:		12,037,877	4,959,733	2,390,731	14,606,879
	Total Liabilities:		12,494,565	5,890,911	2,462,349	15,923,127

City of Aberdeen
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures		
				From Pass-Through Awards	From Direct Awards	Passed through to Subrecipients
Violence Against Women Office, Department Of Justice (via Washington State Dept. of Commerce)	Violence Against Women Formula Grants	16.588	F14-31103-014	31,420	-	-
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	FY 2015 BVP	-	2,221	2,221
Office Of Community Oriented Policing Services, Department Of Justice	Public Safety Partnership and Community Policing Grants	16.710	2010UMWX0336	-	29,321	29,321
Bureau Of Justice Assistance, Department Of Justice (via Washington State Dept. of Commerce)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	M14-31440-001	74,844	-	74,844
Bureau Of Justice Assistance, Department Of Justice (via Washington State Dept. of Commerce)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	F15-31440-001	61,785	-	61,785
Highway Planning and Construction Cluster				Total CFDA 16.738:	-	136,629
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Dept. of Transportation)	Highway Planning and Construction	20.205	STP9914(002)	630,980	-	630,980
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Dept. of Transportation)	Highway Planning and Construction	20.205	ER-1502(022)	12,621	-	12,621
Total Highway Planning and Construction Cluster:				643,601	-	643,601
Clean Water State Revolving Fund Cluster						
Office Of Water, Environmental Protection Agency (via Washington State Dept. of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2015- AberPW00015	1,166,647	-	1,166,647
Total Clean Water State Revolving Fund Cluster:				1,166,647	-	1,166,647
Office Of Solid Waste And Emergency Response, Environmental Protection Agency (via Washington State Dept. of Ecology)	State and Tribal Response Program Grants	66.817	IAA No. C1500091	131,739	-	131,739
Total Federal Awards Expended:				2,110,036	31,542	2,141,578

City of Aberdeen, Washington
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

Note 1 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the City's financial statement. The City uses the other comprehensive basis of accounting for all governmental funds, proprietary and fiduciary funds.

Note 2 - Program Costs

The amounts shown as current year expenditures represent only the Federal grant portion costs. Entire program costs, including the City's portion, may be more than shown.

Note 3- Amounts Awarded to Subrecipients

There were no subrecipients during this fiscal year.

Note 4- Indirect Cost Rate

The City did not claim any indirect costs.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

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

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the City of Aberdeen.

Finding ref number: 2015-001	Finding caption: The City did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.
Name, address, and telephone of auditee contact person: Mike Folkers 49 Eagleview Lane Hoquiam, WA 98550 (360) 537-3201	
Corrective action the auditee plans to take in response to the finding: <i>Staff have been trained on the federal requirements to verify vendors receiving federal funds.</i>	
Anticipated date to complete the corrective action: 1/1/2016	

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.

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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