



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Monroe

Snohomish County

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

Published January 19, 2017

Report No. 1018423





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

January 19, 2017

Mayor and City Council
City of Monroe
Monroe, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

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	4
Independent Auditor's Report On Financial Statements	7
Financial Section.....	11
About The State Auditor's Office.....	28

**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 Monroe
Snohomish County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Monroe
Monroe, 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 Monroe, Snohomish 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 January 5, 2017.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

January 5, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Monroe Snohomish County January 1, 2015 through December 31, 2015

Mayor and City Council
City of Monroe
Monroe, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Monroe, Snohomish 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 11.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2017 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

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

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

Pat McCarthy

State Auditor

Olympia, WA

January 5, 2017

FINANCIAL SECTION

**City of Monroe
Snohomish 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

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

		Total for All Funds (Memo Only)	001 General Fund	105 Streets
Beginning Cash and Investments				
30810	Reserved	2,395,647	330,458	-
30880	Unreserved	25,341,927	3,024,572	281,168
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	9,808,876	8,963,395	-
320	Licenses and Permits	658,030	481,275	176,755
330	Intergovernmental Revenues	4,077,650	560,852	372,131
340	Charges for Goods and Services	22,073,400	935,726	86,943
350	Fines and Penalties	262,529	262,529	-
360	Miscellaneous Revenues	308,088	59,662	11,998
Total Operating Revenues:		37,188,573	11,263,439	647,827
Operating Expenditures				
510	General Government	3,693,658	2,104,061	-
520	Public Safety	6,935,684	6,913,361	-
530	Utilities	11,131,389	-	-
540	Transportation	1,429,269	-	639,948
550	Natural and Economic Environment	1,265,182	1,199,847	-
560	Social Services	18,124	18,124	-
570	Culture and Recreation	1,151,093	1,028,093	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		25,624,399	11,263,486	639,948
Net Operating Increase (Decrease):		11,564,174	(47)	7,879
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	1,428,052	9,707	-
391-393	Debt Proceeds	4,140,000	-	-
397	Transfers-In	4,056,119	109,327	-
Total Nonoperating Revenues:		9,624,171	119,034	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	5,377	-	-
591-593	Debt Service	6,852,240	-	-
594-595	Capital Expenditures	6,526,089	3,243	-
597	Transfers-Out	4,149,318	194,669	1,500
Total Nonoperating Expenditures:		17,533,024	197,912	1,500
Net Increase (Decrease) in Cash and Investments:		3,655,321	(78,925)	6,379
Ending Cash and Investments				
5081000	Reserved	2,465,261	405,433	-
5088000	Unreserved	28,927,634	2,870,672	287,547
Total Ending Cash and Investments		31,392,895	3,276,105	287,547

The accompanying notes are an integral part of this statement.

109 Tourism	114 Narcotic/Drug Buy Fund	117 REET	203 North Kelsey Debt Fund	307 Capital Improvements CIP	317 Parks CIP Fund
54,347	-	-	-	-	26,907
-	40,568	74,342	25,365	438,437	1,040,295
-	-	-	-	-	-
70,274	-	775,207	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	321,240
-	-	-	-	-	-
363	10,316	2,153	33	2,978	8,323
70,637	10,316	777,360	33	2,978	329,563
-	-	-	-	-	-
-	22,323	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
65,335	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	123,000
-	-	-	-	-	-
65,335	22,323	-	-	-	123,000
5,302	(12,007)	777,360	33	2,978	206,563
-	-	-	-	-	-
-	-	-	402,000	-	-
-	-	-	3,685,292	-	1,500
-	-	-	4,087,292	-	1,500
-	-	-	-	-	-
-	-	-	4,111,119	-	-
-	-	-	-	-	178,316
(6,143)	-	274,000	-	-	-
(6,143)	-	274,000	4,111,119	-	178,316
11,445	(12,007)	503,360	(23,794)	2,978	29,747
65,792	-	-	-	-	10,407
-	28,561	577,702	1,571	441,415	1,086,542
65,792	28,561	577,702	1,571	441,415	1,096,949

The accompanying notes are an integral part of this statement.

318 Streets CIP Fund	319 North Kelsey Development	411 Water Utility	421 Sewer Utility	431 Stormwater Utility	441 Solid Waste Utility
-	-	494,000	1,362,963	126,972	-
1,406,939	1,295,628	6,851,111	5,645,783	1,571,243	1,086,428
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,176,135	-	-	-	968,532	-
267,410	-	4,869,984	7,632,130	1,610,713	3,333,753
-	-	-	-	-	-
8,675	10,370	59,775	57,037	11,719	7,544
2,452,220	10,370	4,929,759	7,689,167	2,590,964	3,341,297
-	-	-	-	-	-
-	-	-	-	-	-
-	-	3,062,730	3,374,806	1,419,881	3,273,972
219,227	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
219,227	-	3,062,730	3,374,806	1,419,881	3,273,972
2,232,993	10,370	1,867,029	4,314,361	1,171,083	67,325
-	259,965	548,811	608,554	-	-
-	3,738,000	-	-	-	-
260,000	-	-	-	-	-
260,000	3,997,965	548,811	608,554	-	-
-	-	-	5,377	-	-
-	49,385	623,823	1,963,301	104,612	-
2,757,337	68,947	112,606	1,955,531	1,078,814	-
-	3,685,292	-	-	-	-
2,757,337	3,803,624	736,429	3,924,209	1,183,426	-
(264,344)	204,711	1,679,411	998,706	(12,343)	67,325
-	-	495,096	1,361,195	127,338	-
1,142,595	1,500,339	8,529,426	6,646,257	1,558,534	1,153,753
1,142,595	1,500,339	9,024,522	8,007,452	1,685,872	1,153,753

The accompanying notes are an integral part of this statement.

510 Information & Tech Services	520 Equipment & Fleet Management	530 Facilities Management
-	-	-
75,748	2,214,278	270,022
-	-	-
-	-	-
-	-	-
-	-	-
531,895	1,478,268	1,005,338
-	-	-
3,869	45,351	7,922
535,764	1,523,619	1,013,260
395,282	-	1,194,315
-	-	-
-	-	-
-	570,094	-
-	-	-
-	-	-
-	-	-
-	-	-
395,282	570,094	1,194,315
140,482	953,525	(181,055)
-	1,015	-
-	-	-
-	-	-
-	1,015	-
-	-	-
-	-	-
-	371,295	-
-	-	-
-	371,295	-
140,482	583,245	(181,055)
-	-	-
216,230	2,797,523	88,967
216,230	2,797,523	88,967

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	621 Employee Sick Leave Reserve	622 Risk Management Reserve	623 Transportation Benefit Dist
308	Beginning Cash and Investments	685,894	367,143	140,658	-
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	790,320	2,587	955	786,778
380-390	Other Increases and Financing Sources	637,552	108,669	-	-
510-570	Expenditures	-	-	-	-
580-590	Other Decreases and Financing Uses	593,061	83,796	-	15,470
Net Increase (Decrease) in Cash and Investments:		834,811	27,460	955	771,308
508	Ending Cash and Investments	1,520,705	394,603	141,613	771,308

		631 Agency Fund
308	Beginning Cash and Investments	178,093
388 & 588	Prior Period Adjustments, Net	-
310-360	Revenues	-
380-390	Other Increases and Financing Sources	528,883
510-570	Expenditures	-
580-590	Other Decreases and Financing Uses	493,795
Net Increase (Decrease) in Cash and Investments:		35,088
508	Ending Cash and Investments	213,181

The accompanying notes are an integral part of this statement.

City of Monroe
Notes to the Financial Statements
For the year ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

The City of Monroe was incorporated in 1902 and operates under the laws of the state of Washington applicable to a non-charter code city with a mayor-council form of government. The city is a general purpose local government and provides general government services including public safety, street improvements, parks and recreation, planning, zoning, building permits and general administrative services. In addition, the city owns and operates a sewer system and treatment plant, a water utility, and a stormwater system.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

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

In accordance with state law, the city also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The city adopts annual appropriated budgets for all funds except fiduciary funds. These budgets are appropriated at the fund 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 follow:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund #001	\$11,832,083	\$11,546,532	\$ (285,551)
Contingency Fund #002	266,000	266,000	\$ -
Donation Fund #008	8,505	4,865	\$ (3,640)
Street Fund #105	674,185	641,448	\$ (32,737)
Transporation Concurrency #106	1,326,188	1,320,066	\$ (6,122)
Tourism Fund #109	80,385	59,192	\$ (21,193)
Narcoctics Fund #114	25,000	22,323	\$ (2,677)
Real Estate Excise Tax Fund #117	274,000	274,000	\$ -
N. Kelsey Debt Service Fund #203	4,117,305	4,111,119	\$ (6,186)
General Capital Projects #307	-	-	\$ -
Parks CIP Fund #317	651,193	301,316	\$ (349,877)
Streets CIP Fund #318	5,812,568	2,976,504	\$ (2,836,064)
N. Kelsey Development Fund #319	3,803,769	3,803,624	\$ (145)
Water Fund #411	4,044,604	3,759,214	\$ (285,390)
Water CIP Fund #412	2,425,204	319,944	\$ (2,105,260)
Sewer Fund #421	7,055,878	6,626,208	\$ (429,670)
Sewer CIP Fund #422	2,791,917	2,172,806	\$ (619,111)
Stormwater Fund #431	1,530,343	1,489,646	\$ (40,697)
Stormwater CIP Fund #432	1,852,931	1,278,662	\$ (574,269)
Solid Waste Fund #441	3,278,401	3,273,972	\$ (4,429)
Revenue Bond Reserve #450	25,000	25,000	\$ -
Info Tech Services Fund #510	492,399	395,282	\$ (97,117)
Fleet & Equipment Fund #520	992,041	941,389	\$ (50,652)
Facilities Management Fund #530	1,220,556	1,194,314	\$ (26,242)
Totals	\$54,580,455	\$46,803,426	\$ (7,777,029)

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. Variances from actual to appropriations in the CIP funds are due to the timing of construction project expenditures.

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 one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Upon separation or retirement, the amount of hours of accrued vacation payout is as follows:

Clerical, Public Works & Parks, Supervisors, and Non-represented employees	100 hours maximum paid
Police Guild	200 hours maximum paid
Police Sergeants	Total of earned vacation leave (no maximum)

Upon separation or retirement, the amount of accrued sick leave paid out is as follows:

Non-represented employees hired before 1/1/13	75% of accrued sick leave paid
Non-represented employees hired after 1/1/13	No vested payments of accrued sick leave
Police Guild employees hired before 4/5/06	75% of accrued sick leave paid, with a maximum of 700 hours paid out
Police Guild employees hired after 4/5/06 and before 1/1/15	50% of accrued sick leave paid, with a maximum of 800 hours paid out
Police Guild employees hired after 1/1/15	No vested payments of accrued sick leave unless employment ends due to death, disability, layoff or retirement with 15 years of service
Clerical, Public Works & Parks, and Supervisors hired before 12/21/05	75% of accrued sick leave paid, with a maximum of 800 hours paid out
Clerical, Public Works & Parks, and Supervisors hired after 12/21/05 and before 1/1/13	50% of accrued sick leave paid, with a maximum of 800 hours paid out
Clerical, Public Works & Parks, and Supervisors hired after 1/1/13	No vested payments of accrued sick leave
Police Sergeant employees hired before 12/12/06	75% of accrued sick leave paid, with a maximum of 800 hours paid out
Police Sergeant employees hired after 12/12/06 and before 1/1/13	50% of accrued sick leave paid, with a maximum of 800 hours paid out
Police Sergeant employees hired after 1/1/13	Payout only if laid off, retire with 20 years of service, die or are disabled: 25% of accrued sick leave paid, with a maximum of 800 hours paid out

Payments are recognized as expenditures when paid. Upon separation or retirement, sick leave payouts are paid from the Sick Leave Reserve agency fund.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of operating transfers-in and operating transfers-out, and the issuance and refunding of general obligation bonds, as well as the planned sale of city-owned real estate.

I. Risk Management

The City of Monroe 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.

Further information on the WCIA can be obtained in writing to Washington Cities Insurance Authority, PO Box 88030, Tukwila, WA 98138.

The City of Monroe also maintains a Risk Management Reserve agency fund to cover unforeseen claims or deductibles. The current balance in this fund is \$141,613.

J. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of the following:

- \$305,883 in the General Fund restricted for public safety expenditures. This is residual revenue from the photo enforcement program that was created with Ordinance 002/2007, and discontinued in 2014.
- \$9,648 in the General Fund restricted for public safety drug seizure and undercover operations. This is residual revenue from sales of items seized from a federal operation case #2011-2516.
- \$89,902 in the General Fund restricted for public safety expenditures. This is excess of revenues

over expenditures from a public safety sales tax levy of 0.1% that was enacted by voters in 2013, which took effect January 1, 2014.

- \$65,792 in the Tourism Special Revenue Fund. This money is from lodging tax revenue and is restricted in how it can be spent by state law.
- \$10,407 in the Parks CIP Fund. This is the accumulation of 0.42% of the fuel tax revenue received each year. By state statute this revenue must be spent on paths and trails.
- \$495,096 in the Water Fund is reserved to comply with the revenue bond covenants in the bond ordinances for the 2005 Revenue Bonds and the 2011 Revenue Bonds.
- \$1,361,195 in the Sewer Fund is reserved to comply with the revenue bond covenants in the bond ordinances for the 2005 Revenue Bonds, the 2009 Revenue Bonds, and the 2011 Revenue Bonds.
- \$127,338 in the Stormwater Fund is reserved to comply with the revenue bond covenants in the bond ordinance for the 2011 Revenue Bonds.

Note 2 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed 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 2015 was \$1.23382481 per \$1,000 on an assessed valuation of \$1,631,751,335 for a total regular levy of \$2,013,295.

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.

All deposits are covered by the Federal Deposit Insurance Corporation or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the city or its agent in the government's name.

Investments are reported at original cost. Investments by type at December 31, 2015 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.	Total
L.G.I.P.	\$ 6,249,136	\$0	\$ 6,249,136
U.S. Government Securities	<u>20,805,971</u>	<u>0</u>	<u>20,805,971</u>
Total	<u>\$27,055,107</u>	<u>\$0</u>	<u>\$27,055,107</u>

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for year ended December 31, 2015.

The debt service requirements for general obligation bonds, revenue bonds, Public Works Trust Fund Loans and Department of Ecology Loans are as follows:

	Principal	Interest	Total
2015	1,816,765	914,815	2,731,580
2016	1,858,803	919,907	2,778,710
2017	1,922,932	869,419	2,792,351
2018	3,211,360	813,752	4,025,111
2019	1,961,675	734,043	2,695,718
2020-2024	10,625,874	2,418,730	13,044,604
2025-2029	4,645,000	1,172,318	5,817,318
2030-2031	2,170,000	155,800	2,325,800
Totals	28,212,409	7,998,784	36,211,193

Debt Refunding

In 2010 the city issued LTGO bonds in the amount of \$11,345,000 to pay off the bank loan for the North Kelsey property. In 2012 the city refinanced \$6,500,000 of these bonds by issuing new bonds in the amount of \$6,570,000. The city's plan is to pay off the debt with proceeds from the sale of land in the North Kelsey area. In 2013 the city paid off \$7,345,000 of the bonds from land sales, and is actively marketing the remainder of the south portion of the North Kelsey area through a real estate broker.

In 2015 the city issued \$4,140,000 of general obligation refunding bonds to retire \$4,070,000 of existing 2012 general obligation series bonds. This refunding was undertaken to pay off bonds maturing November 1, 2015 and pay the administrative costs of the refunding and the costs of issuing the Bonds. The financial statements reflect debt proceeds of \$4,140,000 and debt service of \$4,136,677 pertaining to this transaction.

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all of the city's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees' Retirement System (PERS) Plans 1, 2 and 3, or Law Enforcement and Fire Fighters Retirement System (LEOFF).

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

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

writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

At June 30, 2015 (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.003577%	\$187,110
PERS 1 UAAL	0.045812%	\$2,396,394
PERS 2 and 3	0.059174%	\$2,114,321

LEOFF Plan 1

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

LEOFF Plan 2

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

B. Other Pension Plans

Each bargaining unit of city employees in the Teamster union (Office-Clerical Employees, Supervisory Employees, Public Works and Parks Employees, and Sergeants) has independently voted to also be in the Western Conference Teamsters Pension Trust (WCTPT). Each unit votes on the hourly amount they will contribute to the pension fund. Each unit negotiates with the city on an amount the city will contribute hourly to this pension fund. This is paid monthly. There is no unfunded liability on the city's part. This is merely an additional benefit on top of the PERS system. The city currently pays into the WCTPT on account of each member of the bargaining unit, forty-five cents (\$0.45) for each hour compensated, except for the Sergeants union, which receives seventy-five cents (\$0.75) for each hour compensated. Effective 1/1/16, all unions except the Sergeants will receive fifty-five cents (\$0.55) for each hour compensated. In 2015 the city paid a total of \$63,750 to the WCTPT for its portion of the contribution.

Additional information can be obtained by writing to Western Conference of Teamster Pension Plan, 2323 Eastlake Avenue East, Seattle, WA 98102.

Note 6 – Significant Commitments or Obligations

A. Other Post-Employment Benefits (OPEB)

The city has a commitment to pay for post-employment benefits for employees that belong to LEOFF 1. These benefits include medical, vision, nursing care, prescriptions, and medical premiums. Three retirees received benefits during the year. A former employee, who is not retired but is no longer employed by the city, has a severance agreement that commits the city to the same post-employment benefits as a LEOFF 1 retiree. A total of \$17,171 was paid out for all post-employment benefits during the year.

B. Construction Commitment

The city has active construction projects as of December 31, 2015. At year-end the city's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Columbia/Elizabeth Street Water Main	\$0	\$520,979
Tjerne Place SE Extension	\$3,197,486	\$752,169
Wastewater Treatment Plant AA Pipe	\$0	\$99,900
Wastewater Treatment Plant Energy Conservation Phase 2	\$0	\$182,121
Lewis Street Sewer Separation	\$1,325,645	\$20,000
Totals	\$4,523,131	\$1,575,169

All construction projects are funded through awarded grants, impact fees, capital utility fees, and excise taxes. There are no unfunded contract commitments.

Note 7 – Join Ventures and Jointly Governed Organizations

SNOPAC:

The city and other police and fire entities (currently 37) operate jointly the Snohomish County Police Staff and Auxiliary Services Center (SNOPAC). SNOPAC, a cash basis special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, the cities, towns, fire districts, police districts and other service districts to enter into a contract and agreement to jointly establish maintain and operate a support communications center. Control of SNOPAC is with an 11 member Board of Directors which is specified in the Interlocal Agreement. SNOPAC takes 911 calls, and performs emergency dispatch services for local governmental agencies including police, fire and medical aid.

In the event of the dissolution of SNOPAC, any money in the possession of SNOPAC or the Board of Directors after payment of all costs, expenses and charges validly incurred under this Agreement, shall be returned to the parties to this Agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses and charges validly incurred, the city's share was \$464,618 on December 31, 2015.

Complete financial statements for SNOPAC can be obtained from SNOPAC's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

French Slough Flood Control District:

In December 2010 the city entered into an interlocal agreement with the French Slough Flood Control District to replace a 1992 interlocal agreement with the Snohomish County Drainage Improvement Districts Number 4 and 4A and the French Slough Flood Control District. The agreement is to maintain a Joint Advisory Board for the purpose of improving communications regarding their combined drainage system and service area. The city maintains the property that is within the district boundary and city limits. The district maintains the property that is within the district boundary and not the city limits. The two areas of responsibility are mutually exclusive.

The Joint Advisory Board meets not less than four times annually to recommend the annual budget of the drainage system. Approximately 27.73% of the land in the Flood District is in city limits, therefore the city pays 27.73% of the assessments each year to the District. The city's annual assessment for 2015 was \$85,051.22, and was paid from the Stormwater Utility Fund.

The 2010 agreement had an initial term of five years with three additional renewal periods of five years each. Either party may terminate the agreement with 180 days written notice to the other party.

Note 8 – Other Disclosures

In 2012 the Monroe City Council adopted an ordinance to create a Transportation Benefit District (TBD), with the same boundaries as the city limits. Per the ordinance, funding sources for this district can only be created through a vote of the citizens of Monroe, regardless of the type of revenue source. The board is comprised of whoever are the current residing city council members. In 2014 the citizens voted to impose a 0.2% sales tax to fund street related projects. The sales tax levy commenced January 1, 2015. A total of \$786,778 in sales tax revenue was collected by the district in 2015. The TBD reports their financial activity to the state auditor's office as a separate entity from the city.

Note 9 – Subsequent Events

On December 15, 2016 the city issued revenue bonds in the amount of \$5,590,000. These bonds have various maturity dates ranging from June 1, 2017 through December 1, 2036. The interest rates on the bonds are 2.0% - 4.0%. These bonds are backed by the revenues of the water, sewer, and stormwater utilities. Rates to customers are adjusted to maintain specific debt reserves and revenue to expense ratios for assurance of debt payments, per the bond covenants. The purpose of the bonds is for design and construction of a shop facility for the operations of the utilities, and some stormwater capital projects as funds allow.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2012 GO Refunding Bonds N Kelsey	11/1/2015	4,070,000	-	4,070,000	-
251.11	2015 GO Refunding Bonds N Kelsey	9/1/2020	-	4,140,000	-	4,140,000
Total General Obligation Debt/Liabilities:			4,070,000	4,140,000	4,070,000	4,140,000
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	Public Works Trust Fund Loan	6/1/2017	188,385	-	62,794	125,591
263.82	Public Works Trust Fund Loan	6/1/2022	1,081,156	-	135,144	946,012
263.82	Department of Ecology Loan	9/5/2022	2,789,410	-	330,714	2,458,696
263.82	Department of Ecology Loan	7/30/2022	591,346	-	70,112	521,234
252.11	2005 W&S Refunding Bonds	12/1/2021	3,017,000	-	88,000	2,929,000
252.11	2009 W&S Refunding Bonds	8/1/2024	2,635,000	-	525,000	2,110,000
252.11	2011 W/S/Storm Revenue Bonds	12/1/2031	13,770,000	-	605,000	13,165,000
259.12	Compensated Absences		1,887,029	133,896	-	2,020,925
264.30	Net Pension Liabilities		-	4,697,825	-	4,697,825
Total Revenue and Other (non G.O.) Debt/Liabilities:			25,959,326	4,831,721	1,816,764	28,974,283
Total Liabilities:			30,029,326	8,971,721	5,886,764	33,114,283

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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