



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

City of Monroe

Snohomish County

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

Published September 25, 2017

Report No. 1019829





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

September 25, 2017

Mayor and City Council
City of Monroe
Monroe, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Monroe'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,

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Monroe
Snohomish County
January 1, 2016 through December 31, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Monroe 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 no 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 one finding that is 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>
20.205	Highway Planning and Construction

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 2016-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

City of Monroe Snohomish County January 1, 2016 through December 31, 2016

2016-001 **The City did not have adequate controls to ensure compliance with federal requirements regarding allowable costs, cost principles, cash management and reporting requirements.**

CFDA Number and Title:	20.205 - Highway Planning and Construction
Federal Grantor Name:	U.S. Department of Transportation Federal Highway Administration
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Washington State Department of Transportation
Pass-through Award/Contract Number:	CM-2634(001)
Questioned Cost Amount:	\$60,859

Background

The City reported federal expenditures totaling \$1,442,950 in fiscal year 2016 for the Woods Creek Road shared sidewalk project funded by the Highway Planning and Construction program. The majority of program expenditures were for construction and purchased services.

Grant recipients must have internal controls in place to ensure compliance with federal requirements. Our audit focused on the City's internal controls to ensure costs claimed for federal reimbursement and reported to the grantor were accurate, complete and adequately supported in accordance with federal regulations.

Description of Condition

Allowable Costs, Cost Principles, Cash Management and Reporting

Federal regulations allow grant recipients to receive reimbursement for allowable program costs through the federal progress billing reimbursement process. These costs must be allowable, authorized in the grant agreement, supported in accordance

with federal cost principles, and incurred and paid before submission to the grantor for reimbursement.

Our audit found the City has an established process to identify eligible and allowable costs by maintaining a spreadsheet to track expenditures charged to the grant, which is also used to prepare the reimbursement request. However, the staff responsible for preparing the reimbursement request inadvertently used the wrong cell in the tracking spreadsheet to input program costs, which resulted in requesting reimbursement for costs that had already been reimbursed, and the review process did not identify the error. This was an isolated error in oversight; our audit found all remaining reimbursement requests for this grant were correctly prepared. The City's established control process identified the error after the reimbursement was submitted to the grantor, and the City contacted the granting agency and repaid the excess funds received.

We do not consider this control deficiency to be a significant deficiency or material weakness in internal controls because the excess funds received were not significant or material to the program. However, the excess funds received exceed the \$25,000 questioned costs threshold set by the federal government and must be reported by the audit.

This issue was not reported as a finding in the prior audit.

Cause of Condition

The Engineering Department relied on the review performed by several staff members and its granting agency to determine if federal reimbursement requests were accurate. The City made a clerical error in its reimbursement request that was not detected before submission to the grantor. This created an advance of federal funds and an unsupported grant reimbursement request.

Effect of Condition and Questioned Costs

Failure to comply with federal requirements for preparing and submitting grant requirements may jeopardize the City's eligibility for future federal assistance. Because the City's established review process did not properly identify the error on the reimbursement request before submission to the grantor, it requested and received federal funding for expenditures totaling \$60,859 that were not supported as federal regulations require. As a result, we are questioning these costs.

Recommendation

We recommend the City follow its established internal control process to ensure federal reimbursement requests are prepared based on project costs incurred that are allowable and supported as required by federal regulations. Further, the City

should ensure amounts requested for reimbursement do not include amounts already received from the granting agency.

City's Response

The City of Monroe thanks the Washington State Auditors for discovering this inputting error. The City has contacted the granting agency and has refunded the reimbursement overage. As an isolated error, the City does not anticipate this type of error occurring again. The appropriate staff has been made aware of the circumstances which led to the error and the City has strengthened its review process to insure this will not occur in the future.

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 correction action taken during the next regular audit.

Applicable Laws and Regulations

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, Compliance Audits, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), paragraph 516(a)(3) Audit findings, establishes requirements for reporting audit findings when questioned costs exceed \$25,000.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Subpart E, Cost Principles, establishes requirements for determining allowable costs and supporting costs allocated to federal programs.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 305, Payment, establishes requirements for the method of reimbursement and disbursement of Federal funds by non-Federal entities.

**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, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 19, 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 fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

September 19, 2017

**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 Monroe
Snohomish County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Monroe
Monroe, Washington

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

We have audited the compliance of the City of Monroe, Snohomish 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, 2016. 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, 2016.

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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 19, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Monroe Snohomish County January 1, 2016 through December 31, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 18.

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, 2016, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

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

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The 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 19, 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.



Pat McCarthy

State Auditor

Olympia, WA

September 19, 2017

FINANCIAL SECTION

**City of Monroe
Snohomish County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016
Schedule of Expenditures of Federal Awards – 2016
Notes to the Schedule of Expenditures of Federal Awards – 2016

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

		Total for All Funds (Memo Only)	001 General Fund	105 Streets	109 Tourism
Beginning Cash and Investments					
30810	Reserved	2,465,261	405,433	-	65,792
30880	Unreserved	28,927,636	2,870,673	287,546	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	10,405,877	9,374,802	-	83,512
320	Licenses and Permits	1,015,851	837,034	178,817	-
330	Intergovernmental Revenues	4,570,862	622,953	404,578	-
340	Charges for Goods and Services	24,075,410	1,371,498	102,779	-
350	Fines and Penalties	307,135	307,135	-	-
360	Miscellaneous Revenues	2,510,358	48,171	3,661	408
Total Revenues:		42,885,493	12,561,593	689,835	83,920
Expenditures					
510	General Government	4,055,751	2,377,984	-	-
520	Public Safety	7,555,287	7,482,194	-	-
530	Utilities	12,337,694	-	-	-
540	Transportation	1,555,306	-	654,304	-
550	Natural and Economic Environment	1,182,497	1,109,683	-	72,814
560	Social Services	19,695	19,695	-	-
570	Culture and Recreation	1,281,606	1,133,963	-	-
Total Expenditures:		27,987,836	12,123,519	654,304	72,814
Excess (Deficiency) Revenues over Expenditures:		14,897,657	438,074	35,531	11,106
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	6,084,377	-	-	-
397	Transfers-In	537,131	100,000	-	-
385	Special or Extraordinary Items	110,464	-	-	-
386 / 389	Custodial Activities	73,294	-	-	-
381, 395, 398	Other Resources	26,055	10,263	2,268	-
Total Other Increases in Fund Resources:		6,831,321	110,263	2,268	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	12,229,718	4,602	-	-
591-593, 599	Debt Service	2,900,219	-	-	-
597	Transfers-Out	647,423	154,956	1,586	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	70,893	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		15,848,253	159,558	1,586	-
Increase (Decrease) in Cash and Investments:		5,880,725	388,779	36,213	11,106
Ending Cash and Investments					
5081000	Reserved	2,332,183	290,942	-	76,897
5088000	Unreserved	34,941,445	3,373,945	323,760	-
Total Ending Cash and Investments		37,273,628	3,664,887	323,760	76,897

The accompanying notes are an integral part of this statement.

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

		114 Narcotic/Drug Buy Fund	117 REET	203 Governmental Debt Fund	307 Capital Improvements CIP
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	28,561	577,702	1,571	441,415
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	947,563	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	4,119	5,658	173	5,693
Total Revenues:		4,119	953,221	173	5,693
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	5,577	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		5,577	-	-	-
Excess (Deficiency) Revenues over Expenditures:		(1,458)	953,221	173	5,693
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	6,084,377
397	Transfers-In	-	-	95,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	95,000	6,084,377
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	92,644	79,626
597	Transfers-Out	-	365,000	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	365,000	92,644	79,626
Increase (Decrease) in Cash and Investments:		(1,458)	588,221	2,529	6,010,444
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	27,104	1,165,923	4,100	6,451,859
Total Ending Cash and Investments		27,104	1,165,923	4,100	6,451,859

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

		317 Parks CIP Fund	318 Streets CIP Fund	319 North Kelsey Development	411 Water Maintenance & Operations
Beginning Cash and Investments					
30810	Reserved	10,407	-	-	495,096
30880	Unreserved	1,086,542	1,142,596	1,500,339	8,529,426
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	90,676	3,452,655	-	-
340	Charges for Goods and Services	352,023	725,918	-	5,696,940
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	9,093	255,744	8,845	866,124
Total Revenues:		451,792	4,434,317	8,845	6,563,064
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	23,774
530	Utilities	-	-	-	4,147,070
540	Transportation	-	299,821	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	147,643	-	-	-
Total Expenditures:		147,643	299,821	-	4,170,844
Excess (Deficiency) Revenues over Expenditures:		304,149	4,134,496	8,845	2,392,220
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	66,586	200,000	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	33,359
381, 395, 398	Other Resources	-	-	-	2,500
Total Other Increases in Fund Resources:		66,586	200,000	-	35,859
Other Decreases in Fund Resources					
594-595	Capital Expenditures	491,306	4,619,679	17,099	3,767,184
591-593, 599	Debt Service	-	-	-	659,802
597	Transfers-Out	-	-	95,000	8,823
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	33,359
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		491,306	4,619,679	112,099	4,469,168
Increase (Decrease) in Cash and Investments:		(120,571)	(285,183)	(103,254)	(2,041,089)
Ending Cash and Investments					
5081000	Reserved	28,493	-	-	484,572
5088000	Unreserved	947,885	857,413	1,397,086	6,498,861
Total Ending Cash and Investments		976,378	857,413	1,397,086	6,983,433

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

		421 Sewer Maintenance & Operations	431 Stormwater Maint & Operations	441 Solid Waste Maint & Operations	510 Information & Tech Services
Beginning Cash and Investments					
30810	Reserved	1,361,195	127,338	-	-
30880	Unreserved	6,646,257	1,558,534	1,153,754	216,230
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	7,478,718	1,661,111	3,326,105	452,308
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,226,260	12,469	7,091	4,038
Total Revenues:		8,704,978	1,673,580	3,333,196	456,346
Expenditures					
510	General Government	-	-	-	412,794
520	Public Safety	21,871	21,871	-	-
530	Utilities	3,472,317	1,621,348	3,096,959	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		3,494,188	1,643,219	3,096,959	412,794
Excess (Deficiency) Revenues over Expenditures:		5,210,790	30,361	236,237	43,552
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	110,464	-	-	-
386 / 389	Custodial Activities	39,935	-	-	-
381, 395, 398	Other Resources	2,500	-	-	-
Total Other Increases in Fund Resources:		152,899	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,958,424	12,201	-	-
591-593, 599	Debt Service	1,963,312	104,835	-	-
597	Transfers-Out	14,338	7,720	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	37,534	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		4,973,608	124,756	-	-
Increase (Decrease) in Cash and Investments:		390,081	(94,395)	236,237	43,552
Ending Cash and Investments					
5081000	Reserved	1,325,942	125,337	-	-
5088000	Unreserved	7,071,590	1,466,140	1,389,990	259,783
Total Ending Cash and Investments		8,397,532	1,591,477	1,389,990	259,783

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

		520 Equipment & Fleet Management	530 Facilities Management
Beginning Cash and Investments			
30810	Reserved	-	-
30880	Unreserved	2,797,523	88,967
388 / 588	Prior Period Adjustments, Net	-	-
Revenues			
310	Taxes	-	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	-
340	Charges for Goods and Services	1,658,165	1,249,845
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	41,594	11,217
Total Revenues:		1,699,759	1,261,062
Expenditures			
510	General Government	-	1,264,973
520	Public Safety	-	-
530	Utilities	-	-
540	Transportation	601,181	-
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		601,181	1,264,973
Excess (Deficiency) Revenues over Expenditures:		1,098,578	(3,911)
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	75,545	-
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 395, 398	Other Resources	6,836	1,688
Total Other Increases in Fund Resources:		82,381	1,688
Other Decreases in Fund Resources			
594-595	Capital Expenditures	359,223	-
591-593, 599	Debt Service	-	-
597	Transfers-Out	-	-
585	Special or Extraordinary Items	-	-
586 / 589	Custodial Activities	-	-
581	Other Uses	-	-
Total Other Decreases in Fund Resources:		359,223	-
Increase (Decrease) in Cash and Investments:		821,736	(2,223)
Ending Cash and Investments			
5081000	Reserved	-	-
5088000	Unreserved	3,619,260	86,746
Total Ending Cash and Investments		3,619,260	86,746

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

		Total for All Funds (Memo Only)	621 Employee Sick Leave Reserve	622 Risk Management Reserve	623 Transportation Benefit Dist
308	Beginning Cash and Investments	1,520,704	394,603	141,613	771,308
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	10,555	2,690	886	6,979
380-390	Other Increases and Financing Sources	1,885,672	110,292	-	1,058,999
510-570	Expenditures	6,401	-	-	6,401
580-590	Other Decreases and Financing Uses	997,280	92,544	-	395,604
	Net Increase (Decrease) in Cash and Investments:	892,546	20,438	886	663,973
508	Ending Cash and Investments	2,413,254	415,046	142,498	1,435,281

		631 Agency Fund
308	Beginning Cash and Investments	213,180
388 & 588	Prior Period Adjustments, Net	-
310-360	Revenues	-
380-390	Other Increases and Financing Sources	716,381
510-570	Expenditures	-
580-590	Other Decreases and Financing Uses	509,132
	Net Increase (Decrease) in Cash and Investments:	207,249
508	Ending Cash and Investments	420,429

The accompanying notes are an integral part of this statement.

City of Monroe
Notes to the Financial Statements
For the year ended December 31, 2016

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	\$ 12,385,598	\$ 12,224,691	\$ (160,907)
Contingency Fund #002	58,000	53,787	\$ (4,213)
Donation Fund #008	6,600	4,596	\$ (2,004)
Street Fund #105	692,552	655,889	\$ (36,663)
Tourism Fund #109	80,908	72,814	\$ (8,094)
Narcoctics Fund #114	30,000	5,577	\$ (24,423)
Real Estate Excise Tax Fund #117	365,000	365,000	\$ -
N. Kelsey Debt Service Fund	93,190	92,643	\$ (547)
General Capital Projects #307	160,000	79,626	\$ (80,374)
Parks CIP Fund #317	738,614	638,948	\$ (99,666)
Streets CIP Fund #318	6,618,545	4,919,500	\$ (1,699,045)
N. Kelsey Development Fund #319	841,009	112,098	\$ (728,911)
Water Fund #411	4,562,130	4,543,120	\$ (19,010)
Water CIP Fund #412	4,396,842	4,096,892	\$ (299,950)
Sewer Fund #421	7,400,993	7,217,695	\$ (183,298)
Sewer CIP Fund #422	3,875,655	3,250,100	\$ (625,555)
Stormwater Fund #431	1,508,889	1,481,289	\$ (27,600)
Stormwater CIP Fund #432	313,411	286,684	\$ (26,727)
Solid Waste Fund #441	3,443,533	3,096,960	\$ (346,573)
Revenue Bond Reserve #450	60,000	60,000	\$ -
Info Tech Services Fund #510	529,321	412,794	\$ (116,527)
Fleet & Equipment Fund #520	1,062,359	960,404	\$ (101,955)
Facilities Management Fund #530	1,303,564	1,264,971	\$ (38,593)
Totals	\$50,526,713	\$45,896,078	\$ (4,630,635)

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.

The city adopted the final amended budget on December 13, 2016 by ordinance number 025/2016. The following funds were amended by more than five (5) percent:

- Contingency Fund #002 – Expenditures were increased by \$8,000 for the Blueberry Lane/North Kelsey Street traffic study as approved by council on 09/13/16. This was offset by a decrease in the funds ending balance;

- General Capital Projects Fund #307 – Revenues were increased by \$6,100,789 to account for bond proceeds for the public works shop and storm water projects and expenditures were increased by \$60,000 to account for the issuance costs of these bonds. Net difference for these amendments are offset by an increase in the fund's ending fund balance;
- Water Fund #411 – Operating expenses were increased by \$200,000, which were offset by a corresponding increase in operating revenues. Of this amount, \$140,000 accounts for the increase in water purchases from our supplier to accommodate the increase in water sales, and \$60,000 accounts for new water meter purchases to accommodate the higher than anticipated new connections to the system. An addition, the fund was amended for an additional \$33,359 in both expenses and revenues to accommodate the contractual pass through Recovery Contract Payments/Late Comers Fees (not related to utility operations); and
- Facilities Management Fund #530 – Expenses were increased by \$93,000, which were offset by a corresponding decrease in ending fund balance. Of this amount, \$85,000 accounts for the increase in various utility expenses for the city's facilities and \$8,000 accounts for the replacement of the failed HVAC unit at city hall.

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 168 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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

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

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

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 \$142,498.

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:

- \$78,888 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.
- \$202,406 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.
- \$76,897 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.
- \$28,493 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.
- \$484,572 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.
- \$1,325,942 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.

- \$125,337 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 2016 was \$1.15437999 per \$1,000 on an assessed valuation of \$1,773,873,208 for a total regular levy of \$2,047,724.

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, 2016 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.	\$ 2,261,082	\$0	\$ 2,261,082
Money Market (Opus Bank)	7,033,663	0	7,033,663
U.S. Government Securities	<u>21,213,510</u>	<u>0</u>	<u>21,213,510</u>
Total	<u>\$30,508,255</u>	<u>\$0</u>	<u>\$30,508,255</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, 2016.

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

	Principal	Interest	Total
2016	1,863,111	919,908	2,783,019
2017	2,126,770	1,061,161	3,187,931
2018	3,425,426	1,009,252	4,434,678
2019	2,176,675	925,343	3,102,017
2020	5,081,085	854,638	5,935,723
2021-2025	7,809,789	2,898,224	10,708,013
2026-2030	6,285,000	1,560,813	7,845,813
2031-2035	2,840,000	343,925	3,183,925
2036	390,000	15,600	405,600
Totals	31,997,857	9,588,863	41,586,720

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.

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.

Capital Lease

In September 2016 the city entered into a three year capital lease for police department body cameras. The total amount of the lease purchase agreement is \$12,212.86. Three annual payments are to be made in the amount of \$4,308.30. The first payment was made at closing, and the two subsequent payments will include total interest payments of \$712.04.

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, 2016 (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	0.002852%	\$153,166
PERS 1 UAAL	0.046017%	\$2,471,330
PERS 2 and 3	0.058880%	\$2,964,561
LEOFF 1	0.007054%	(\$72,676)
LEOFF 2	0.098395%	(\$572,295)

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, fifty-five cents (\$0.55) for each hour compensated, except for the Sergeants union, which receives seventy-five cents (\$0.75) for each hour compensated. Effective 1/1/17, all unions except the Supervisors and Sergeants will receive sixty-one cents (\$0.61) for each hour compensated. Effective 1/1/17, the Supervisors will receive sixty cents (\$0.60) and the Sergeants will receive one dollar twenty five cents (\$1.25) for each hour compensated. In 2016 the city paid a total of \$78,220 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 \$42,628 was paid out for all post-employment benefits during the year.

B. Construction Commitment

The city has active construction projects as of December 31, 2016. At year-end the city's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Powell (design only – construction 2017)	\$83,382	\$330,930
Woods Creek Road	\$1,640,860	\$1,000
Wastewater Treatment Plant Outfall	\$17,516	\$5,516
Wastewater Treatment Plant Energy Conservation Phase 2	\$2,586,087	\$1,383,789
Totals	\$4,327,845	\$1,721,235

All construction projects are funded through awarded grants, impact fees, capital utility fees, utility revenues, and/or 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 \$460,814 on December 31, 2016.

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 2016 was \$100,101 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. \$786,778 in sales tax revenue was collected by the district in 2015 and \$1,058,999 in sales tax revenue was collected in 2016. The TBD reports their financial activity to the state auditor's office as a separate entity from the city.

On September 20, 2016, the City of Monroe entered into an interlocal agreement with Snohomish County Fire Protection District #7 to transfer ownership of fire service related real and personal property to the district. The property was surplus to the City's needs and had been in the custody and control of the fire district serving the City. There was no cash exchanged with the property transfer. The value received by the City was the continued use of the property for fire protection services and the elimination to the City of liability risk associated with the transferred property. If at some time in the future the property is sold by the fire district, compensation would be due to the City, to be determined at the time of sale.

Note 9 – Subsequent Events

On March 22, 2017 the city issued \$9,000,000 of revenue refunding bonds to retire \$1,170,000 principal of the 2009 Revenue Bonds and \$7,660,000 principal of the 2011 Revenue Bonds. This refunding was undertaken to take advantage of lower interest rates, thereby reducing total debt service payments over the next 15 years by approximately \$545,000.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2015 GO Refunding Bonds - No. Kelsey	9/1/2020	4,140,000	-	-	4,140,000
251.11	2016 Revenue Bonds - PW Shop	12/1/2036	-	1,900,600	-	1,900,600
Total General Obligation Debt/Liabilities:			4,140,000	1,900,600	-	6,040,600
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	Public Works Trust Fund Loan	6/1/2017	125,591	-	62,794	62,797
263.82	Public Works Trust Fund Loan	6/1/2022	946,012	-	135,144	810,868
263.82	Department of Ecology Loan	9/5/2022	2,458,696	-	335,693	2,123,003
263.82	Department of Ecology Loan	7/30/2022	521,234	-	107,159	414,075
252.11	2005 W&S Refunding Bonds	12/1/2021	2,929,000	-	289,000	2,640,000
252.11	2009 W&S Refunding Bonds	8/1/2024	2,110,000	-	345,000	1,765,000
252.11	W/S/Storm Revenue Bonds	12/1/2031	13,165,000	-	620,000	12,545,000
252.11	2016 Revenue Bonds - PW Shop	12/1/2036	-	3,689,400	-	3,689,400
259.12	Compensated Absences		2,020,925	44,011	-	2,064,936
263.52	Capital Lease - Police Body Cameras	9/30/2018	-	12,213	4,308	7,905
264.30	Net Pension Liabilities		4,697,825	891,232	-	5,589,057
Total Revenue and Other (non G.O.) Debt/Liabilities:			28,974,283	4,636,856	1,899,098	31,712,041
Total Liabilities:			33,114,283	6,537,456	1,899,098	37,752,641

City of Monroe
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
CDBG - Entitlement Grants Cluster								
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Snohomish County Human Services)	Community Development Block Grants/Entitlement Grants	14.218	B-14-UC- 530003	188,151	-	188,151	-	1, 2, 3
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Snohomish County Housing/Urban Development)	Community Development Block Grants/Entitlement Grants	14.218	HCS-15-21- 1502-235	6,500	-	6,500	-	1, 2, 3
Total CDBG - Entitlement Grants Cluster:				194,651	-	194,651	-	
Violence Against Women Office, Department Of Justice (via City of Everett)	Violence Against Women Formula Grants	16.588	15-0409-0-1- 754	6,861	-	6,861	-	1, 3
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	CM-2634(001)	1,442,950	-	1,442,950	-	1, 2, 3
Total Highway Planning and Construction Cluster:				1,442,950	-	1,442,950	-	
Highway Safety Cluster								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Assoc of Sheriffs & Police Chiefs)	State and Community Highway Safety	20.600	69-8020-0-7- 401	2,148	-	2,148	-	1, 3

The accompanying notes are an integral part of this schedule.

City of Monroe
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

		Expenditures					Passed through to Subrecipients	Note
		Federal Program	CFDA Number	Other Award Number	From Pass-Through Awards	From Direct Awards	Total	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Assoc of Sheriffs & Police Chiefs)		State and Community Highway Safety	20.600	69-8020-0-7-401	1,574	-	1,574	1, 3
			Total CFDA 20.600:		3,722	-	3,722	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Assoc of Sheriffs & Police Chiefs)		National Priority Safety Programs	20.616	69-8020-0-7-401	12,216	-	12,216	1, 3
			Total Highway Safety Cluster:		15,938	-	15,938	
			Total Federal Awards Expended:		1,660,400	-	1,660,400	

City of Monroe

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the city of Monroe's financial statements. The city of Monroe uses the cash basis accounting method.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city of Monroe's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

The city of Monroe has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Monroe
Snohomish County
January 1, 2016 through December 31, 2016

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 Monroe.

Finding ref number: 2016-001	Finding caption: The City did not have adequate controls to ensure compliance with federal requirements regarding allowable costs, cost principles, cash management and reporting requirements
Name, address, and telephone of auditee contact person: Becky Hasart, Finance Director 806 W. Main Street Monroe, WA 98272	
Corrective action the auditee plans to take in response to the finding: <i>The City of Monroe has already contacted the granting agency and refunded the overpayment. As an isolated error, the City does not anticipate this type of error occurring again. The appropriate staff has been made aware of the circumstances which led to the error and the City has strengthened its review process to insure this will not occur in the future.</i>	
Anticipated date to complete the corrective action: Already done.	

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.

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Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov