



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements and Federal Single Audit Report

### City of Hoquiam

Grays Harbor County

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

Published September 29, 2016

Report No. 1017615





## Washington State Auditor's Office

September 29, 2016

Mayor and City Council  
City of Hoquiam  
Hoquiam, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Hoquiam'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 cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

#### Financial Statements

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

##### Internal Control over Financial Reporting:

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

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

#### Federal Awards

##### Internal Control over Major Programs:

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

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

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

### **Identification of Major Federal Programs:**

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
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 2015-001.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

**2015-001    The City lacked internal controls to ensure compliance with contracting requirements of the Highway Planning and Construction grant.**

<b>CFDA Number and Title:</b>	20.205 Highway Planning and Construction
<b>Federal Grantor Name:</b>	Federal Highway Administration
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Washington State Department of Transportation
<b>Pass-through Award/Contract Number:</b>	ER-1502 (012)
<b>Questioned Cost Amount:</b>	\$873,283

#### *Description of Condition*

The City received \$1,309,870 in federal funds for the Highway Planning and Construction program. Included in that award was \$873,283 in grant funds related to its Emergency Relief project.

Any public works project in excess of \$2,000 financed by federal funds requires a provision be included in construction contracts that the contractor or subcontractor comply with the wage rate requirements and Department of Labor regulations. Additionally, for federally funded projects, contract documents are necessary to be eligible for reimbursement.

Our audit found the City did not enter into a contract with the primary contractor for this emergency project.

We consider this control deficiency to be a material weakness.

### ***Cause of Condition***

The City was unaware of the requirement to enter into a contract with the primary contractor or the requirement to include prevailing wage provisions into the contract.

### ***Effect of Condition and Questioned Costs***

Without a contract in place, we cannot determine the eligibility for federal financial participation in the project, therefore we are questioning the total amount reimbursed of \$873,283. While there was no contract in place, and therefore no provisions of the wage rate requirements, we did not find noncompliance with the prevailing wage requirements.

The Washington State Department of Transportation (WSDOT) is consulting with the Federal Highway Administration regarding the federal financial participation to determine the eligibility of these costs.

We identified no additional non-compliance.

### ***Recommendation***

We recommend the City establish and follow internal controls to ensure that it complies with the contracting and Wage Rate Requirements of the Highway Planning and Construction grant.

We also recommend the City continue to work with WSDOT in determining the eligibility of these costs.

### ***City's Response***

*The January 5, 2015 Landslide and Flooding Disaster was the largest emergency to impact the City of Hoquiam in decades. The City of Hoquiam was forced to take immediate action for public safety with 200 individuals landlocked by the landslide. An experienced, qualified local contractor who has worked for the City in the past on numerous projects with state and federal funding was hired under an emergency. The scope of work included removing 40,000 plus cubic yards of soil blocking the road, making repairs to the damaged roadway to reestablish vehicle access and repairing severed water and sewer lines that left homes without utilities. The contractor and the City had a verbal agreement that all previous City, State and Federal requirements from past projects would be followed for this emergency work. All work was monitored daily, and approved by the City inspector certifying the employee work hours, equipment used, debris removed and materials used. Ten days after the landslide event, the City learned it was eligible for federal funding from the Washington State Department of Transportation.*

*A series of written communications from WSDOT ensued over the next 60 days detailing the requirements to be eligible for federal funding reimbursement. The City of Hoquiam complied with every single written directive and supplied all of the required information, and ultimately received federal reimbursement six months after the landslide event and several months after the completion of the work. Nowhere in the communications from WSDOT was there a written directive for Hoquiam to have a signed contract with the contractor who began working for the City the day of the disaster, and 10 days prior to the event being declared a federal disaster, eligible for federal funding. If there was a written directive, the City would certainly have signed a contract.*

*The City has clearly shown both the Washington State Auditor's Office and WSDOT that it complied with every single written directive received during the event from WSDOT. Additionally all work done by the contractor met WSDOT Standard Specifications, was charged and paid for in accordance with prevailing wages, and met all other city, state and federal regulations. During a meeting with WSDOT representatives responsible for administering the federal funds during the audit review, WSDOT officials admitted they were unaware that a contract was required. The City concurs that a written contract was not in place for the emergency work, however it feels that it complied with all known, communicated requirements to be eligible for the federal funding from those responsible for administering those funds.*

### ***Auditor's Remarks***

We appreciate the City's response and recognize that the City was unaware of requirement for a written contract to be in place in this situation.

We thank the City's staff and management for their cooperation and assistance during our audit. We look forward to reviewing any future decisions reached between the City and its granting agency. We will follow up with the City on this issue during the next audit.

### ***Applicable Laws and Regulations***

Title 2 Code of Federal Regulations Section 200.303 Internal controls.

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in



compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

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

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

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

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

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

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

**Significant deficiency.** 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.

**Material noncompliance.** In the absence of a definition of material noncompliance in the governmental audit requirement, a failure to follow compliance requirements or a violation of prohibitions included in the applicable compliance requirements that results in noncompliance that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance, to the affected government program.

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

2 CFR 200.516 Audit Reporting, states in part:

(a) *Audit findings reported.* The auditor must report the following as audit findings in a schedule of findings and questioned costs:

(1) Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs. The auditor's determination of whether a deficiency in internal control is a significant deficiency or material weakness for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the Compliance Supplement.

(2) Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program. The auditor's determination of whether a noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the compliance supplement.

(3) Known questioned costs that are greater than \$25,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor must include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

Title 29, Code of Federal Regulations, Section 5.5 – *Contract provisions and related matters*, states in part:

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered

into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in §5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, *Provided*, That such modifications are first approved by the Department of Labor):

*(1) Minimum wages.*

(i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics . . .

*(3) Payrolls and basic records.*

(i) Payrolls and basic records relating thereto shall be maintained by the contractor during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work . . .

(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the

applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency) . . .

(B) Each payroll submitted shall be accompanied by a “Statement of Compliance,” signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract...

*(6) Subcontracts.*

The contractor or subcontractor shall insert in any subcontracts the clauses contained in 29 CFR 5.5(a)(1) through (10) and such other clauses as the (write in the name of the Federal agency) may by appropriate instructions require, and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for the compliance by any subcontractor or lower tier subcontractor with all the contract clauses in 29 CFR 5.5...

Washington State Department of Transportation Local Agency Guidelines, Chapter 33.22 (4) states in part:

4. Records – Agency records must be site-specific [identified by M.P., route, or cross street identifiers] for each eligible federal aid route. Costs must be supported by labor, equipment and material records or contract documents. This is necessary to obtain full reimbursement. (These records are critical for the long-term but need not be fully complete at the time of the DDIR since the DDIRs cost estimate can be just that – an estimate.)

Title 2 CFR Part 200 Appendix II to Part 200—Contract Provisions for Non-Federal Entity Contracts Under Federal Awards

In addition to other provisions required by the Federal agency or non-Federal entity, all contracts made by the non-Federal entity under the Federal award must contain provisions covering the following, as applicable.

(A) Contracts for more than the simplified acquisition threshold currently set at \$150,000, which is the inflation adjusted amount determined by the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council (Councils) as authorized

by 41 U.S.C. 1908, must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate.

(B) All contracts in excess of \$10,000 must address termination for cause and for convenience by the non-Federal entity including the manner by which it will be effected and the basis for settlement.

(C) Equal Employment Opportunity. Except as otherwise provided under 41 CFR Part 60, all contracts that meet the definition of “federally assisted construction contract” in 41 CFR Part 60-1.3 must include the equal opportunity clause provided under 41 CFR 60-1.4(b), in accordance with Executive Order 11246, “Equal Employment Opportunity” (30 FR 12319, 12935, 3 CFR Part, 1964-1965 Comp., p. 339), as amended by Executive Order 11375, “Amending Executive Order 11246 Relating to Equal Employment Opportunity,” and implementing regulations at 41 CFR part 60, “Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor.”

(D) Davis-Bacon Act, as amended (40 U.S.C. 3141-3148). When required by Federal program legislation, all prime construction contracts in excess of \$2,000 awarded by non-Federal entities must include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 3141-3144, and 3146-3148) as supplemented by Department of Labor regulations (29 CFR Part 5, “Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction”). In accordance with the statute, contractors must be required to pay wages to laborers and mechanics at a rate not less than the prevailing wages specified in a wage determination made by the Secretary of Labor. In addition, contractors must be required to pay wages not less than once a week. The non-Federal entity must place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation. The decision to award a contract or subcontract must be conditioned upon the acceptance of the wage determination. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency. The contracts must also include a provision for compliance with the Copeland “Anti-Kickback” Act (40 U.S.C. 3145), as supplemented by Department of Labor regulations (29 CFR Part 3, “Contractors and

Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States”). The Act provides that each contractor or subrecipient must be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency.

(E) Contract Work Hours and Safety Standards Act (40 U.S.C. 3701-3708). Where applicable, all contracts awarded by the non-Federal entity in excess of \$100,000 that involve the employment of mechanics or laborers must include a provision for compliance with 40 U.S.C. 3702 and 3704, as supplemented by Department of Labor regulations (29 CFR Part 5). Under 40 U.S.C. 3702 of the Act, each contractor must be required to compute the wages of every mechanic and laborer on the basis of a standard work week of 40 hours. Work in excess of the standard work week is permissible provided that the worker is compensated at a rate of not less than one and a half times the basic rate of pay for all hours worked in excess of 40 hours in the work week. The requirements of 40 U.S.C. 3704 are applicable to construction work and provide that no laborer or mechanic must be required to work in surroundings or under working conditions which are unsanitary, hazardous or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.

(F) Rights to Inventions Made Under a Contract or Agreement. If the Federal award meets the definition of “funding agreement” under 37 CFR §401.2 (a) and the recipient or subrecipient wishes to enter into a contract with a small business firm or nonprofit organization regarding the substitution of parties, assignment or performance of experimental, developmental, or research work under that “funding agreement,” the recipient or subrecipient must comply with the requirements of 37 CFR Part 401, “Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements,” and any implementing regulations issued by the awarding agency.

(G) Clean Air Act (42 U.S.C. 7401-7671q.) and the Federal Water Pollution Control Act (33 U.S.C. 1251-1387), as amended—Contracts and subgrants of amounts in excess of \$150,000 must contain a provision that requires the non-Federal award to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401-7671q) and the Federal Water Pollution Control Act as amended (33 U.S.C. 1251-1387). Violations must be reported to the Federal awarding agency and the Regional Office of the Environmental Protection Agency (EPA).

(H) Debarment and Suspension (Executive Orders 12549 and 12689)—A contract award (see 2 CFR 180.220) must not be made to parties listed on the governmentwide exclusions in the System for Award Management (SAM), in accordance with the OMB guidelines at 2 CFR 180 that implement Executive Orders 12549 (3 CFR part 1986 Comp., p. 189) and 12689 (3 CFR part 1989 Comp., p. 235), “Debarment and Suspension.” SAM Exclusions contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than Executive Order 12549.

(I) Byrd Anti-Lobbying Amendment (31 U.S.C. 1352)—Contractors that apply or bid for an award exceeding \$100,000 must file the required certification. Each tier certifies to the tier above that it will not and has not used Federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any Federal contract, grant or any other award covered by 31 U.S.C. 1352. Each tier must also disclose any lobbying with non-Federal funds that takes place in connection with obtaining any Federal award. Such disclosures are forwarded from tier to tier up to the non-Federal award.

(J) See §200.322 Procurement of recovered materials.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

Mayor and City Council  
City of Hoquiam  
Hoquiam, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Hoquiam, Grays Harbor County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 21, 2016.

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

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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



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

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

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

## COMPLIANCE AND OTHER MATTERS

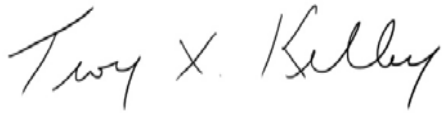
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

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

## PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 21, 2016

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

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

Mayor and City Council  
City of Hoquiam  
Hoquiam, Washington

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

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

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

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

### **Basis for Adverse Opinion on 20.205 - Highway Planning and Construction**

As described in Finding 2015-001 in the accompanying Schedule of Federal Award Findings and Questioned Costs, the City did not comply with requirements regarding its 20.205 - Highway Planning and Construction for allowable costs, cost principles and Davis-Bacon Act. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the program.

### **Adverse Opinion on 20.205 - Highway Planning and Construction**

In our opinion, because of the noncompliance described in the Basis for Adverse Opinion paragraph, the City did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its 20.205 - Highway Planning and Construction program for the year ended December 31, 2015.

### **City's Response to Findings**

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

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance,

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

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

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

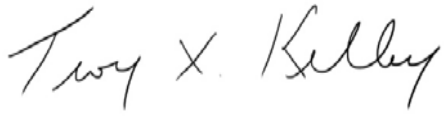
### **City's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 21, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Mayor and City Council  
City of Hoquiam  
Hoquiam, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Hoquiam, Grays Harbor County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 26.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the City of Hoquiam has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Hoquiam, for the year ended December 31, 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 Hoquiam, as of December 31, 2015, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.



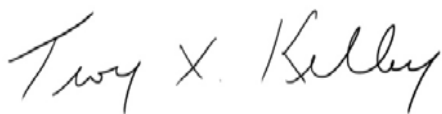
## Other Matters

### *Supplementary and Other Information*

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

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 21, 2016

## **FINANCIAL SECTION**

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

### **FINANCIAL STATEMENTS**

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

### **SUPPLEMENTARY AND OTHER INFORMATION**

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

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

		Total for All Funds (Memo Only)	001 General Fund	101 Cemetery
<b>Beginning Cash and Investments</b>				
30810	Reserved	4,881,355	174,352	15,613
30880	Unreserved	3,158,006	401,394	1,102,057
388 & 588	Prior Period Adjustments, Net	-	-	-
<b>Operating Revenues</b>				
310	Taxes	5,446,780	5,094,523	-
320	Licenses and Permits	393,104	391,586	-
330	Intergovernmental Revenues	2,552,199	550,944	11,900
340	Charges for Goods and Services	9,820,744	3,333,096	80,937
350	Fines and Penalties	116,616	116,616	-
360	Miscellaneous Revenues	431,834	314,368	13,725
Total Operating Revenues:		18,761,278	9,801,133	106,562
<b>Operating Expenditures</b>				
510	General Government	1,190,053	963,142	-
520	Public Safety	8,130,455	6,324,575	-
530	Utilities	3,608,370	16,090	164,081
540	Transportation	716,388	109,517	-
550	Natural and Economic Environment	318,793	292,863	-
560	Social Services	1,986	1,986	-
570	Culture and Recreation	384,606	373,306	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		14,350,651	8,081,478	164,081
Net Operating Increase (Decrease):		4,410,627	1,719,654	(57,519)
<b>Nonoperating Revenues</b>				
370-380, 395 & 398	Other Financing Sources	909,653	198,438	-
391-393	Debt Proceeds	2,929,895	-	-
397	Transfers-In	571,893	62,207	-
Total Nonoperating Revenues:		4,411,441	260,645	-
<b>Nonoperating Expenditures</b>				
580, 596 & 599	Other Financing Uses	183,027	1,000	-
591-593	Debt Service	1,115,878	20,803	-
594-595	Capital Expenditures	6,596,876	352,651	2,600
597	Transfers-Out	935,495	873,288	-
Total Nonoperating Expenditures:		8,831,276	1,247,742	2,600
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>(9,208)</b>	<b>732,557</b>	<b>(60,119)</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	3,606,374	139,363	16,277
5088000	Unreserved	4,423,893	1,169,055	1,041,275
<b>Total Ending Cash and Investments</b>		<b>8,030,266</b>	<b>1,308,417</b>	<b>1,057,552</b>

*The accompanying notes are an integral part of this statement.*

<b>106 Street</b>	<b>109 Ambulance</b>	<b>111 Flood Control</b>	<b>112 Tourism</b>	<b>114 General Capital</b>	<b>130 CD Repay</b>
15,546	-	11,439	-	-	-
49,059	-	-	39,995	76,790	152,263
-	-	-	-	-	-
-	221,942	-	19,405	67,525	-
1,518	-	-	-	-	-
886,573	3,293	-	-	-	-
-	1,465,677	-	-	-	23,684
-	-	-	-	-	-
151	-	-	62	-	-
888,242	1,690,912	-	19,467	67,525	23,684
27,726	-	-	-	-	158
-	1,805,880	-	-	-	-
-	-	-	-	-	-
320,706	-	-	-	-	-
-	-	-	-	-	25,929
-	-	-	-	-	-
-	-	-	11,300	-	-
-	-	-	-	-	-
348,432	1,805,880	-	11,300	-	26,087
539,810	(114,968)	-	8,167	67,525	(2,403)
-	-	-	-	-	5,479
-	-	-	-	-	-
213,813	170,117	-	-	-	-
213,813	170,117	-	-	-	5,479
-	35,333	-	-	-	-
-	78	-	-	-	-
734,200	5,061	-	-	-	-
-	14,676	-	10,000	37,531	-
734,200	55,148	-	10,000	37,531	-
<b>19,423</b>	<b>1</b>	<b>-</b>	<b>(1,833)</b>	<b>29,994</b>	<b>3,076</b>
16,041	-	11,439	-	-	-
67,987	-	-	38,162	106,785	155,339
<b>84,029</b>	<b>-</b>	<b>11,439</b>	<b>38,162</b>	<b>106,785</b>	<b>155,339</b>

*The accompanying notes are an integral part of this statement.*

<b>209 UTGO Bond</b>	<b>213 LTGO Bond</b>	<b>302 Sidewalk</b>	<b>401 Waterworks</b>	<b>501 Equipment Rental</b>	<b>520 Dental</b>
-	-	-	3,145,936	1,518,470	-
-	-	-	1,285,941	-	50,507
-	-	-	-	-	-
-	-	43,385	-	-	-
-	-	-	-	-	-
-	-	849,993	249,496	-	-
-	-	-	4,519,901	397,450	-
-	-	-	-	-	-
-	-	-	13,521	78	89,928
-	-	893,378	4,782,918	397,528	89,928
-	-	-	103,971	-	95,057
-	-	-	-	-	-
-	-	-	3,428,200	-	-
-	-	-	-	286,165	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	3,532,171	286,165	95,057
-	-	893,378	1,250,747	111,363	(5,129)
-	-	-	670,402	35,333	-
-	-	-	2,929,895	-	-
100,275	25,481	-	-	-	-
100,275	25,481	-	3,600,297	35,333	-
-	-	-	146,693	-	-
100,275	25,481	-	969,241	-	-
-	-	891,855	4,537,501	73,008	-
-	-	-	-	-	-
100,275	25,481	891,855	5,653,436	73,008	-
-	(0)	1,523	(802,391)	73,688	(5,129)
-	-	-	1,831,097	1,592,157	-
-	-	1,523	1,798,387	-	45,378
-	-	1,523	3,629,484	1,592,157	45,378

The accompanying notes are an integral part of this statement.

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

		<b>Total for All Funds (Memo Only)</b>	<b>611 LEOFF I</b>	<b>635 Other Agency</b>	<b>637 Suspense</b>
308	Beginning Cash and Investments	244,274	-	3,922	237,787
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	21,197	21,197	-	-
380-390	Other Increases and Financing Sources	704,939	363,602	100,652	1,206
510-570	Expenditures	384,799	384,799	-	-
580-590	Other Decreases and Financing Uses	562,723	-	91,929	238,993
Net Increase (Decrease) in Cash and Investments:		(221,386)	1	8,723	(237,787)
508	Ending Cash and Investments	22,888	-	12,645	-

		<b>666 Court Trust</b>
308	Beginning Cash and Investments	2,565
388 & 588	Prior Period Adjustments, Net	-
310-360	Revenues	-
380-390	Other Increases and Financing Sources	239,480
510-570	Expenditures	-
580-590	Other Decreases and Financing Uses	231,802
Net Increase (Decrease) in Cash and Investments:		7,678
508	Ending Cash and Investments	10,243

*The accompanying notes are an integral part of this statement.*

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hoquiam was incorporated on May 21, 1889 and operates under the laws of the state of Washington applicable to a code city. The City is a general purpose local government and provides police, fire, ambulance, water treatment and distribution, sewage collection and treatment, street maintenance, planning and zoning, and recreation services.

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

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

**A. Fund Accounting**

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

**Governmental Fund Types:****General Fund**

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

**Special Revenue Funds**

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

**Debt Service Funds**

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

**Capital Projects Funds**

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

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

**Proprietary Fund Types:**

Enterprise Funds

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

Internal Service Funds

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

**Fiduciary Fund Types:**

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

Agency Funds

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

**B. Basis of Accounting and Measurement Focus**

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

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

**C. Budgets**

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

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



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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	19,821,380	9,313,130	(10,508,250)
Cemetery	348,330	166,782	(181,548)
Mausoleum	216,000	7,005	(208,995)
Cemetery Equip Reserve	17,285	0	(17,285)
Cemetery Preneed	227,500	6,415	(221,085)
Street Fund	1,466,000	1,082,813	(383,187)
Arterial Street Fund	161,110	39,090	(122,020)
Paths and Trails	17,275	438	(16,837)
Ambulance	3,872,025	1,861,028	(2,010,997)
Stadium/Tourism	65,055	21,300	(43,755)
Cumulative Reserve – Gen Cap	164,790	37,531	(127,259)
Comm. Devel. Repay	166,790	26,087	(140,703)
2011 Fire Truck Bond	198,900	100,275	(98,625)
1989 LTGO Bond	50,965	25,481	(25,484)
Sidewalk Construction Fund	944,750	891,855	(52,895)
Water, Sewer and Storm	16,834,675	8,911,259	(7,923,416)
Watershed	5,170,645	1,993,064	(3,177,581)
Transmission Line Reserve	326,865	246,065	(80,800)
USDA Loan Repayment Fund	709,190	326,288	(204,282)
Landfill Postclosure	66,100	16,090	(50,010)
Equipment Rental	844,025	359,173	(484,851)
Equipment Rental Reserve	1,992,710	72,413	(1,920,297)
Medical/Dental Benefits	195,000	95,057	(99,943)
Cemetery Endowment	668,000	66,756	(601,244)
Police & Fire Retiree	801,000	384,799	(416,201)

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.

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

D. Cash and Investments

See Note 2, *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 2 years. The capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

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

G. Long Term Debt

See Note 5, *Debt Service Requirements*

H. Other Financing Sources or Uses

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

I. Risk Management

*Insurance Pool*

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

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

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

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.

The risk pool publishes Annual Financial Statements. A copy of these statements may be obtained by writing to:

Washington Cities Insurance Authority  
PO Box 88030  
Tukwila, WA 98138

***Unemployment Fund***

For unemployment compensation, the City of Hoquiam is self-funded on a reimbursement plan. Budgeting is based on anticipated unemployment claims for the coming year. Funding is allocated from real and personal property taxes or utility rates. Payments are made to the Washington State Employment Security Department.

***Dental Fund***

The City of Hoquiam is self-insured for employee dental benefits. Premiums are fully paid by the City into this fund for each employee and their dependents to cover the costs of dental claims. The City contracts with Healthcare Management Administrators, Inc for processing the payment of dental claims.

**J. Reserved Portion of Ending Cash and Investments**

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

Reservations of Ending Cash and Investments consist of:

General Funds (\$139,362)

By the authority of RCW 69.50, the City obtains funds obtained through seizures involving violations of the Washington State Uniformed Controlled Substance Act. If these funds are eventually forfeited, the City accounts for them in a Drug Fund Account (\$4,418). Expenditures from this account are limited to the exclusive use of enforcing the uniformed controlled substance act.

The City signed the Equitable Sharing Agreement with the United States Department of Justice and occasionally receives funds from forfeitures involving Federal violations involving the Controlled Substances Act. The City accounts for these funds in the Federal Drug Funds Account (\$20,368). Expenditures from this account are limited to the exclusive use of enforcing the Controlled Substances Act.

By the authority of RCW 3.50.100, 3.62.020 and 3.62.040 the City created the Restricted Court Account (\$21,142) for interest received on municipal court contracts, notes, taxes and accounts. The expenditures are restricted to funding the courts.

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

The Landfill Equipment Reserve Fund was closed in 1990, and the residual equity in the fund was transferred to the Landfill Post-closure Fund. The reserves in the Landfill Post-Closure Fund (\$53,309) are anticipated to fully pay for the post-closure costs.

Cemetery Funds (\$16,277)

The City Council, by Ordinance, created an Equipment Reserve Fund (\$16,277) from the initial sale of crypts and niches in the mausoleum for the purpose of maintaining the Sunset Memorial Park Mausoleum and associated equipment.

Street Funds (\$16,041)

By the authorization of RCW 47.30.050 cities are required to spend 0.42% of their gas tax receipts on paths and trails. The City created the Paths and Trails Fund (\$16,041) for this purpose.

Flood Control Funds (\$11,439)

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

Waterworks Funds (\$1,831,097)

The City Council, by Ordinance, created the Watershed Fund (\$1,362,197) for proceeds from the sale of watershed forest products. The funds are restricted to the operation and maintenance of watershed lands and the capital expenditures for the water and sewer departments.

The City Council, by Ordinance, created the Water Capital fund (\$55,141) from new connection proceeds to fund capital expenditures for the water department.

The City Council, by Ordinance, created the Sewer Capital Fund (\$44,834) from new connection proceeds to fund capital expenditures for the sewer department.

The City Council, by Ordinance, created the USDA Loan Repayment Fund (\$56,632) for the purpose of paying the principal and interest on the USDA Sewer Bonds.

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

The City Council, by Ordinance, created the USDA Loan Reserve Fund (\$282,413) from sewer revenues as a reserve to secure the payment of principal and interest on bonds issued for the USDA sewer bonds.

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

**Equipment Rental (\$1,592,157)**

The City Council, by Ordinance, created an Equipment Rental Reserve Fund (\$1,592,157) where each department can transfer funds to pay the costs of purchasing new equipment and replacing used equipment.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

It is the city's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

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

Investments are reported at original cost. Investments by type at December 31, 2015 are as follows:

<u>Type of Investment</u>	<u>City's Own Investments</u>	<u>Total</u>
L.G.I.P.	\$6,466,012	\$6,466,012
Bank of Pacific CD's	\$300,000	\$300,000
Timberland Bank CD's	\$250,000	\$250,000
<u>US Bank CD's</u>	<u>\$280,000</u>	<u>\$280,000</u>
Total	<u>\$7,296,012</u>	<u>\$7,296,012</u>

**NOTE 3 - PROPERTY TAX**

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

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

The city's regular levy for the 2015 year was \$3.414 per \$1,000 on an assessed valuation of \$445,366,141 for a total regular levy of \$1,520,609. In 2015, the city levied also \$0.50 per \$1,000 for Emergency Medical Services for a total additional levy of \$222,683 and levied also \$0.24 per \$1,000 for debt service on an aerial ladder truck for a total additional levy of \$105,581.

**NOTE 4 – INTERFUND LOANS AND ADVANCES**

The following table displays interfund loan activity during 2015:

Borrowing Fund	Lending Fund	Balance 01/01/15	New Loans	Repayments	Balance 12/31/15
Ambulance	Equipment Rental Reserve	\$70,705	\$0	\$35,333	\$35,372
General Fund	Watershed	\$0	\$137,978	\$0	\$137,978
Total		\$70,705	\$137,978	\$35,333	\$173,350

## **NOTE 5 – DEBT SERVICE REQUIREMENTS**

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

The debt service requirements for general obligation bonds and revenue bonds are as follows:

	General Obligation Debt	Revenue Debt	Other Debt	Total Debt
2016	\$144,909	\$1,103,776	\$0	\$1,248,685
2017	\$142,984	\$1,092,826	\$0	\$1,235,810
2018	\$145,384	\$1,081,524	\$0	\$1,226,908
2019	\$142,384	\$1,070,221	\$0	\$1,212,605
2020	\$118,778	\$1,058,919	\$0	\$1,177,697
2021-2025	\$516,173	\$5,102,063	\$0	\$5,618,236
2026-2030	\$297,450	\$4,824,513	\$0	\$5,121,963
2031-2035	\$0	\$2,858,958	\$0	\$2,858,958
2036-2040	\$0	\$1,631,440	\$0	\$1,631,440
2041-2045	\$0	\$1,631,440	\$0	\$1,631,440
2046-2050	\$0	\$1,631,440	\$0	\$1,631,440
2051-2055	\$0	\$ 457,181	\$0	\$ 457,181
Total	\$1,508,063	\$23,544,300	\$0	\$25,052,363

## **NOTE 6 - PENSION PLANS**

Substantially all city full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: PERS I, PERS II and LEOFF I.

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

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

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

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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**NOTE 6 - PENSION PLANS (cont.)**

At June 30, 2015, 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	0.003819%	\$199,769
PERS 1 UAAL	0.020376%	\$1,065,854
PERS 2/3	0.026317%	\$940,321
LEOFF 1	0.053800%	(\$648,409)
LEOFF 2	0.113321%	(\$1,164,713)

**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.

**NOTE 7 - JOINT VENTURE**

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

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

In 2015, the City received \$12,308 as its portion of the money collected from the auction of assets seized in drug-related cases and from court ordered payments paid by defendants in drug related cases. Expenditures for the program totaled \$145,819.



#### **NOTE 8 – LANDFILL POSTCLOSURE**

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

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

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

#### **NOTE 9 – OTHER DISCLOSURES**

The City has a commitment to pay for post-employment benefits for employees that belong to LEOFF1. These benefits include medical, dental, vision and nursing care. Thirty two retirees received benefits during the year and \$384,799 was paid out for those benefits during the year.

In 2015, the City hired Western Washington Construction of Hoquiam to add a women's dormitory to the City Jail. This project is financed with an interfund loan from the Watershed Fund for up to \$450,000. The loan will be repaid from renting bed space to the Washington State Department of Corrections. The loan has a 3 year debt service schedule and an interest rate of 0.22%. As of December 31, 2015, \$137,978 had been drawn against this loan.

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

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligations</b>						
251.11	2006 City Hall Refunding	7/1/2019	112,960	-	20,627	92,333
263.81	2012 Timberland Regional Library District Loan	12/31/2021	129,605	-	16,915	112,690
263.98	Landfill Postclosure		69,301	98	16,090	53,309
251.12	2013 Aerial Ladder Truck	6/1/2028	1,015,000	-	55,000	960,000
<b>Total General Obligations:</b>			<b>1,326,866</b>	<b>98</b>	<b>108,632</b>	<b>1,218,332</b>
<b>Revenue Obligations</b>						
259.12	Compensated Absences		435,322	422,521	438,280	419,563
263.82	2000 CERB Loan - 5th Street Sewer	7/1/2020	30,000	-	5,000	25,000
252.11	2011 Sewer Lagoon	12/1/2056	6,789,573	-	119,346	6,670,227
263.82	2012 DOE Loan - WWTP Plan	5/31/2033	417,227	-	17,208	400,019
263.82	2013 PWTF - Water Main	6/1/2034	7,005,359	2,929,895	498,521	9,436,733
252.11	2014 Sewer Force Main	1/24/2054	1,492,628	-	25,116	1,467,512
264.30	Net Pension Liability		-	2,205,945	-	2,205,945
<b>Total Revenue Obligations:</b>			<b>16,170,109</b>	<b>5,558,361</b>	<b>1,103,471</b>	<b>20,624,999</b>
<b>Total Liabilities:</b>			<b>17,496,975</b>	<b>5,558,459</b>	<b>1,212,103</b>	<b>21,843,331</b>

# City of Hoquiam

## Expenditures

*The accompanying notes are an integral part of this schedule.*

## **City of Hoquiam**

### **Notes to the Schedules of Expenditures of Federal Awards For the Year Ended December 31, 2015**

#### **NOTE 1 – Basis of Accounting**

The schedule of financial assistance is prepared on the same basis of accounting as the City's financial statements. The City uses the cash basis of accounting.

#### **NOTE 2 – Program Costs**

The amounts shown as current year expenditures represent only the federal portion of the program costs. Entire program costs, including the City's portion, are more than shown.

#### **NOTE 3 – Indirect Cost Rate**

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

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

<b>Finding ref number:</b> 2015-001	<b>Finding caption:</b> The City lacked internal controls to ensure compliance with contracting requirements of the Highway Planning and Construction grant.
<b>Name, address, and telephone of auditee contact person:</b> Brian Shay, City Administrator 609 8 <sup>th</sup> Street Hoquiam, WA 98550 (360) 532-5700	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The City of Hoquiam has prepared an emergency contracted to be used if/when there is another emergency event that requires the City to enter into a written contract for emergency work when there is not the opportunity to follow the normal public works bidding procedures.</i>	
<b>Anticipated date to complete the corrective action:</b> 9/21/2016	

## ABOUT THE STATE AUDITOR'S OFFICE

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