



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of Montesano

Grays Harbor County

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

Published November 21, 2016

Report No. 1017826





Washington State Auditor's Office

November 21, 2016

Mayor and City Council
City of Montesano
Montesano, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	4
Independent Auditor's Report On Financial Statements	7
Financial Section.....	10
About The State Auditor's Office.....	25

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

Mayor and City Council
City of Montesano
Montesano, 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 Montesano, 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 October 26, 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

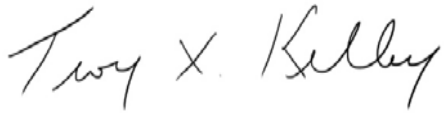
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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

October 26, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Mayor and City Council
City of Montesano
Montesano, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Montesano, 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 10.

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 Montesano 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 Montesano, 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 Montesano, as of December 31, 2015, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

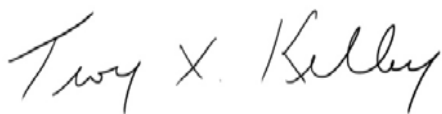
Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 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

October 26, 2016

FINANCIAL SECTION

**City of Montesano
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

City of Montesano
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 Ambulance Fund
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	3,576,628	153,338	(5,862)
388 & 588	Prior Period Adjustments, Net	(165)	-	-
Operating Revenues				
310	Taxes	2,285,596	1,811,456	449,558
320	Licenses and Permits	52,243	52,243	-
330	Intergovernmental Revenues	761,456	177,368	3,790
340	Charges for Goods and Services	2,280,432	51,370	439,746
350	Fines and Penalties	92,550	60,726	-
360	Miscellaneous Revenues	121,133	51,943	5,852
Total Operating Revenues:		5,593,411	2,205,106	898,945
Operating Expenditures				
510	General Government	514,720	510,414	-
520	Public Safety	2,352,265	1,121,299	1,164,747
530	Utilities	1,824,278	-	-
540	Transportation	156,541	107,568	-
550	Natural and Economic Environment	485,858	139,349	-
560	Social Services	-	-	-
570	Culture and Recreation	88,345	64,769	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		5,422,008	1,943,399	1,164,747
Net Operating Increase (Decrease):		171,404	261,707	(265,802)
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	840,725	12,001	100,205
391-393	Debt Proceeds	-	-	-
397	Transfers-In	878,283	64,000	357,225
Total Nonoperating Revenues:		1,719,008	76,001	457,430
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	102,615	(23,701)	25,500
591-593	Debt Service	1,471,164	-	51,517
594-595	Capital Expenditures	769,007	3,989	-
597	Transfers-Out	878,283	409,962	67,821
Total Nonoperating Expenditures:		3,221,069	390,250	144,838
Net Increase (Decrease) in Cash and Investments:		(1,330,657)	(52,542)	46,790
Ending Cash and Investments				
5081000	Reserved	555,995	-	-
5088000	Unreserved	1,689,809	100,795	40,929
Total Ending Cash and Investments		2,245,804	100,795	40,929

The accompanying notes are an integral part of this statement.

The accompanying notes are an integral part of this statement.

312 Mary's River Revetment Project	313 Shoreline Master Plan Update	401 Current Water	402 Storm Water Fund	408 Cemetery Fund	502 Unemployment Compensation
-	-	-	-	-	-
(6,574)	-	3,145,354	35,247	75,367	81,746
-	-	(165)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
492,331	50,098	-	-	-	-
-	-	1,611,431	105,663	72,222	-
-	-	31,800	-	-	-
-	-	38,519	-	-	14,570
492,331	50,098	1,681,751	105,663	72,222	14,570
-	-	4,305	-	-	-
-	-	-	-	-	-
-	-	1,742,436	11,120	49,323	-
-	-	-	-	-	-
-	-	346,317	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	2,093,059	11,120	49,323	-
492,331	50,098	(411,307)	94,543	22,899	14,570
75,000	-	652,902	-	-	-
-	-	-	-	-	-
-	-	326,374	-	-	-
75,000	-	979,276	-	-	-
-	-	100,816	-	-	-
-	-	1,371,796	47,852	-	-
534,344	58,600	102,894	-	9,657	-
-	-	400,501	-	-	-
534,344	58,600	1,976,006	47,852	9,657	-
32,987	(8,502)	(1,408,038)	46,691	13,243	14,570
-	-	555,995	-	-	-
26,413	(8,502)	1,181,155	81,937	88,610	96,317
26,413	(8,502)	1,737,150	81,937	88,610	96,317

The accompanying notes are an integral part of this statement.

503 Long Term Care	504 Motor Pool Fund
-	-
1,046	29,455
-	-
-	-
-	-
-	-
-	-
-	11,318
-	11,318
-	-
48,867	17,353
-	21,398
-	48,973
-	192
-	-
-	434
-	-
48,867	88,350
(48,867)	(77,032)
-	618
-	-
47,821	82,863
47,821	83,481
-	-
-	-
-	-
-	-
-	-
(1,046)	6,449
-	-
-	35,905
-	35,905

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	630 Agency Funds/non Revenue
308	Beginning Cash and Investments	9,583	9,583
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	60,740	60,740
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	66,732	66,732
Net Increase (Decrease) in Cash and Investments:		-5,992	-5,992
508	Ending Cash and Investments	3,590	3,590

The accompanying notes are an integral part of this statement.

Note 1 – Summary of Significant Accounting Policies

The City of Montesano was incorporated on November 26, 1883 and operates under the laws of the State of Washington applicable to a Category Two, Third Class, and Non - Charter code city with a Mayor Council form of government. The City of Montesano is a general purpose government and provides public safety, fire prevention, emergency medical service, street improvement, parks and general administrative services.

The City of Montesano reports financial activity using the revenue and expenditure classifications, statements and schedules contained in 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 (Current Expense) Fund

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

Special Revenue Funds

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

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 City of Montesano on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

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

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with State law, the City of Montesano 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 Montesano adopts annual appropriated budgets for all 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 follows:

CITY OF MONTESANO
Financial Statement Notes
December 31, 2015

Fund #	Description	Final Appropriated Amounts	Actual Expenditures	Variance
001	General Fund	\$ 2,506,655	\$ 2,333,649	\$ 173,006
101	Ambulance Fund	1,294,202	1,309,584	(15,383)
103	Hotel/Motel	5,000	2,138	2,862
105	Municipal Court Drug Fund	-	-	-
106	REET	21,073	21,005	68
304	City Shop	-	-	-
309	East Pioneer	43,780	43,780	-
310	CIP Water Tank	-	-	-
311	Main Street Phase II	15,087	15,744	(657)
312	Revetment Project	534,344	534,344	-
313	Shoreline Master Plan	45,000	58,600	(13,600)
401/405	Water/Watershed	3,137,763	3,054,760	83,003
402	Storm Water	105,238	58,972	46,266
406	Debt Reserve	-	-	-
407	Debt Service Public Works Shop	1,010,000	1,014,305	(4,305)
408	Cemetery	58,667	58,980	(313)
502	Unemployment Reserve	16,500	-	16,500
503	Long Term Care	62,000	48,867	13,133
504	Motor Pool	108,000	88,350	19,650
630	Agency Funds/Non-Revenue	-	66,732	(66,732)
633	Agency Fund/Donations	-	-	-
	TOTAL ALL FUNDS	\$ 8,963,307	\$ 8,709,810	\$ 253,497

Budgeted amounts are authorized to be transferred between (departments within any fund/object classes within departments); however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City's legislative body.

D. Cash 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 5 years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. Sick leave may be accumulated up to 1,040 hours, Fire Department max is 2,160

hours. Upon separation or retirement employees receive payment for unused sick leave up to 200 hours. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 3, Debt Service Requirements.

H. Other Financing Sources or Uses

The City of Montesano Other Financing Sources or Uses consist of inter-fund transfers and insurance proceeds.

I. Risk Management

The City of Montesano contracts for insurance and risk management with Nicholson and Associates insurance, LLC, through broker, Karen Nicholson Miltenberger who is a Certified Insurance Consultant. She is an "all lines" agent/broker licensed, having worked in the insurance and risk management for more than 27 years. The coverage is provided by two carriers, Travelers (NYSE:TRV) a leading provider of insurance and surety products, along with risk management services for public entities along for the private sector. The other carrier, Continental Western Insurance (CWG) also a leader in their niche market of Emergency Services. Both Travelers and CWG have many loss control field services, claims and litigation administration, coordinated with our own legal counsel. We are provided training for Employment Practices Liability, Emergency Vehicle Apparatus Program/EVIP provided free of charge. This was provided once last year to recertify the trainers in our departments.

Travelers is "A+" Best Financial strength ratings which reflect the Travelers claims-paying ability. (A+ is the 2nd highest of 16).

Continental Western Insurance Group part of the Berkeley Group has the same ratings provided by "Best" on their specialty product for Fire Departments, called Fire EMS Pak. Having two insurance programs, it keeps the liability limits becoming diluted and it improves the coverage by another 10,000,000 in Liability Limits (per location) from any of the prior insurance programs in their pools.

Traveler's property and casualty insurance coverage is written on an occurrence basis with some endorsements written on Claims Made Form. (Each with variety of limits and applicable deductibles) per schedule on file. Deluxe Property Coverage includes Real and Business Personal Property, Inland Marine (Contractors, Mobile Equipment and Scheduled items such as Traffic control signals and Street Lights), Computers, and Mechanical Breakdown (Boiler & Machinery) and Crime with additional coverage and extensions for a premier public sector service insurance program. Business Income and Extra Expense is also included.

General Liability is with limits of 1 Million Each Occurrence/2 Million Aggregate plus an Umbrella with Liability Limits of 10 Million Each Occurrence/ 10 Million Policy Aggregate. Coverage is provided for Products and Completed Operations; Aggregate at 2 Million (Plus 10 Million Umbrella Liability), Personal and Advertising Injury Liability at 1 Million Each Occurrence. Liability coverage

is Included for Professional (E&O), Employment Practices, and Cemetery Professional Liability. Employee Benefits and Employer Liability (Stop Gap) is also included.

The Auto Liability policy's with limits of 1,000,000 has no aggregate. Automobile Physical Damage is on a scheduled basis with the value chosen by the City. (Schedule on file). Crime coverage is included along with a Fidelity Blanket Coverage including coverage for Dishonest Acts with Faithful Performance included for Police, and Public Officials Errors and Omissions. This year we purchased an endorsement for Cyber Liability \$1,000,000 (3rd party Each Occurrence Limit) and \$500,000 (1't Party) Each Occurrence Limit.

Scheduled Locations/buildings for Flood and Earthquake are included. (Schedule on file). Nicholson provides In-house and contracted services with a variety of vendors for risk management consultation, employment practices training, and website provided human resources assistance.

The Fire Department is provided coverage on separate policy through Fire EMS Pak (CWG) further increasing liability limits by 10,000,000. Property Coverage includes Guaranteed Replacement Cost on buildings, Replacement Cost on Business Personal Property, Guaranteed Replacement Cost on Blanket Portable Equipment, (Inland Marine), Auto Liability 1,000,000 (No Aggregate) and Designated Value Coverage for emergency apparatus. (Schedule on file). The General Liability Coverage for Products and Completed Operations of 1 Million Each/10 Million Aggregate plus an Umbrella of 9,000,000 with a total Liability of \$10,000,000 Each Occurrence/13,000,000 Aggregate. The Fire EMS Pak provides PRIMARY Auto Liability for members of the district but in their own personal autos while traveling to an emergency. All forms with Fire EMS Pak are all on an Occurrence Form. Liability for Employment Practices, Management, Medical Malpractice, Employers Liability (Stop Gap), Employee Benefits along with Crime provided on a Blanket Fidelity Bond including Faithful Performance.

Liability for Failure to Provide Fire Suppression, Coverage for Elected Officials and Volunteers. An important note is that both carriers supply "first dollar" defense with limits outside the limits of the carrier policies.

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 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 \$544,600 in Fund 401, reserved for capital improvements to the City's Wastewater Treatment Plant and \$11,396 in Fund 407 for Debt Service related to the Public Works Building.

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/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 face value. Investments by type at December 31, 2015 are as follows:

Type of Investment	Interest
Local Government Investment Pool (LGIP)	323,236
Federal Home Loan Bank	249,967
Umpqua Standard Brokerage CD	251,356
TOTAL	<u>\$824,559</u>

Note 3 – Property Tax

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

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

The City of Montesano's regular levy for the year 2015 was \$2.7359031 per \$1,000 on an assessed valuation of \$ 272,316,296 for a total collected regular levy of \$745,031.

Note 4 – Inter-fund Loans

The following table displays inter-fund loan activity during 2015:

Borrowing Fund	Lending Fund	Beginning Balance	New Loans	Repayments	Ending Balance
402	405	\$ 92,137.19	\$ -	\$ 45,387.79	\$ 46,749.40
101	405	146,951.06	-	36,191.27	\$ 110,759.79
101	405	26,799.12	-	13,332.89	\$ 13,466.23
101	405	25,500.39	-	25,500.39	\$ -
101	405	-	100,000.00	-	\$ 100,000.00
TOTALS		<u>\$ 291,387.76</u>	<u>\$ 100,000.00</u>	<u>\$ 120,412.34</u>	<u>\$ 270,975.42</u>

Note 5 – Debt Service Requirements Debt Service

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

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

Years	Principal	Interest	Total
2016	\$254,837.42	\$73,779.56	\$328,616.98
2017	257,393.55	68,726.67	\$326,120.22
2018	260,062.77	63,560.74	\$323,623.51
2019	262,850.00	58,276.73	\$321,126.73
2020	265,760.54	52,869.45	\$318,629.99
2021-25	1,365,730.70	178,528.00	\$1,544,258.70
2026-30	735,542.21	19,441.20	\$754,983.41
TOTAL	<u>\$3,402,177.19</u>	<u>\$515,182.35</u>	<u>\$3,917,359.55</u>

Note 6 – State Sponsored Pension Plans

Substantially all 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.

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

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

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

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

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

PLAN	Allocation %	Liability/(Asset)
PERS 1	0.011539%	603,597
PERS 2/3	0.013204%	471,786
LEOFF 1	0.002983%	(35,952)
LEOFF 2	0.039727%	(408,314)

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 – Other Disclosures

Burke Claim: Mr. and Mrs. Burke filed a tort action against the City and certain officials alleging a number of claims arising from his termination from employment. The termination was the result of his failure to attend interviews scheduled by the Mayor pursuant to personnel policies and law. The necessity of the interviews arose from an investigation carried out by an outside police agency as to certain of his actions within the scope of his duties and authority as a city employee. The primary defense of the litigation has been assumed by Travelers Insurance. Venue has been transferred from Grays Harbor Superior Court to the Thurston County Superior Court. The case was dismissed on summary judgment, however an appeal has been filed.

Self-Insurance:

The City of Montesano self-insures for unemployment compensation. Each payroll, funds are transferred to the Unemployment Compensation reserve fund to cover claims. Since 2011, the fund has paid out \$44,902.24 in claims, while deposits into the fund over the same period total \$46,462.40. The fund balance as of December 31, 2015 was \$96,316.55. The City believes the fund balance and deposit methodology is adequate to mitigate any unemployment risk.

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

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General Obligation Debt/Liabilities						
263.61	Interest Bearing Warrant	7/1/2015	1,000,000	-	1,000,000	-
	Total General Obligation Debt/Liabilities:		1,000,000	-	1,000,000	-
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	USDA Treatment Plant	3/4/2028	761,791	-	65,592	696,199
252.11	WWTP River Bank Protection	7/1/2027	342,105	-	26,316	315,789
252.11	Storage Tank	10/1/2029	2,560,915	-	170,728	2,390,187
259.12	Compensated Absences		403,582	-	38,779	364,803
264.3	Net Pension Liability		-	1,075,383	-	1,075,383
	Total Revenue and Other (non G.O.) Debt/Liabilities:		4,068,393	1,075,383	301,415	4,842,361
	Total Liabilities:		5,068,393	1,075,383	1,301,415	4,842,361

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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