



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of Kalama

Cowlitz County

For the period January 1, 2013 through December 31, 2015

Published November 3, 2016

Report No. 1017877





Washington State Auditor's Office

November 3, 2016

Mayor and City Council
City of Kalama
Kalama, Washington

Report on Financial Statements

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

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 AUDIT FINDINGS AND RESPONSES

City of Kalama

Cowlitz County

January 1, 2013 through December 31, 2015

2015-001 The City's internal controls over calculating its pension liability are inadequate to ensure accurate reporting.

Background

City councilmembers, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified deficiencies in internal controls over financial reporting that affected the City's ability to produce reliable financial statements.

Description of Condition

The City performed a review of the *Budgeting, Accounting and Reporting System* (BARS) Manual and conducted other procedures to implement the new pension reporting requirements. However, the City did not develop an adequate understanding for calculating pension liabilities which resulted in a misstatement in the annual report.

This deficiency in internal controls over financial reporting represents a material weakness.

Cause of Condition

The City's understanding was not sufficient in order to correctly calculate and report the pension liability.

Effect of Condition

The material weakness in internal controls resulted in the following misstatement found in the financial statements submitted for audit:

- A \$594,000 understatement of the pension liability on its Schedule of Liabilities.

This misstatement was corrected.

Recommendation

We recommend the City allocate adequate staff time to research and prepare the annual financial report to ensure it is fairly presented, complete, and accurate in compliance with reporting requirements.

City's Response

The City recognizes the reporting error of the pension liability. The error was a result of a misunderstanding of the instructions of the new reporting requirements which resulted in a miscalculation of the City's share of the pension liability held by the State Department of Retirement Systems. This was not an intentional misstatement of the City's financial condition. Staff will be more thorough when applying all reporting requirements in the future. Additionally, when new reporting requirements are issued in the future and the City's financial management staff is unclear about how to comply with the directives and/or instructions issued by the SAO, we will seek appropriate guidance and training to provide the most accurate information related to the City's financial condition.

Auditor's Remarks

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

Applicable Laws and Regulations

Budgeting Accounting Reporting System, Section 3.4.13.10 states in part:

Starting with the fiscal year ended on or after December 31, 2015, cash basis local governments are required to report their pension related liabilities.

RCW 3.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and General Procedures, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the

governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

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

When performing GAGAS financial audits auditors should communicate in the report on internal control over financial reporting and compliance based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accounts defines significant deficiencies and material weaknesses in its Codification of Statements on Audit Standards section 115 as follows:

- a. Significant deficiency: 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.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

**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 Kalama
Cowlitz County
January 1, 2013 through December 31, 2015**

Mayor and City Council
City of Kalama
Kalama, 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 Kalama, Cowlitz County, Washington, as of and for the years ended December 31, 2015, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 18, 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 audits 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 to be material weaknesses.

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.

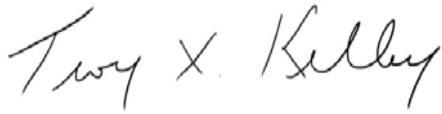
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 18, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Kalama

Cowlitz County

January 1, 2013 through December 31, 2015

Mayor and City Council

City of Kalama

Kalama, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Kalama, Cowlitz County, Washington, for the years ended December 31, 2015, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 13.

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 audits. We conducted our audits 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 Kalama 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 Kalama, for the years ended December 31, 2015, 2014 and 2013, 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 Kalama, as of December 31, 2015, 2014 and 2013, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

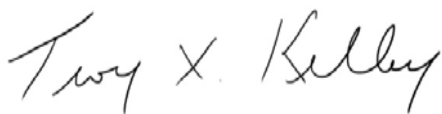
Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are 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 October 18, 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 18, 2016

FINANCIAL SECTION

**City of Kalama
Cowlitz County
January 1, 2013 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fund Resources and Uses Arising from Cash Transactions – 2014
Fund Resources and Uses Arising from Cash Transactions – 2013
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2015, 2014 and 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Liabilities – 2014
Schedule of Liabilities – 2013

City of Kalama
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 Street Operation & Maintenance
Beginning Cash and Investments				
30810	Reserved	979,474	34,253	7,205
30880	Unreserved	1,172,501	661,578	106,428
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,251,100	1,173,891	17,873
320	Licenses and Permits	119,246	117,596	1,650
330	Intergovernmental Revenues	223,411	61,996	51,416
340	Charges for Goods and Services	2,901,050	253,061	11,700
350	Fines and Penalties	31,214	31,214	-
360	Miscellaneous Revenues	72,602	25,438	1,539
Total Operating Revenues:		4,598,624	1,663,196	84,178
Operating Expenditures				
510	General Government	593,783	593,783	-
520	Public Safety	766,905	766,905	-
530	Utilities	1,792,945	-	-
540	Transportation	187,841	-	187,841
550	Natural and Economic Environment	148,690	112,209	-
560	Social Services	1,010	1,010	-
570	Culture and Recreation	44,382	40,528	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		3,535,556	1,514,435	187,841
Net Operating Increase (Decrease):		1,063,068	148,761	(103,663)
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	927,528	45,849	40,079
391-393	Debt Proceeds	350,000	-	-
397	Transfers-In	296,013	102,013	120,000
Total Nonoperating Revenues:		1,573,541	147,862	160,079
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	447,021	79,458	-
591-593	Debt Service	671,090	794	7,206
594-595	Capital Expenditures	337,528	49,058	35,454
597	Transfers-Out	296,013	110,000	5,400
Total Nonoperating Expenditures:		1,751,652	239,310	48,060
Net Increase (Decrease) in Cash and Investments:		884,957	57,313	8,356
Ending Cash and Investments				
5081000	Reserved	1,209,684	43,386	7,300
5088000	Unreserved	1,827,247	709,757	114,689
Total Ending Cash and Investments		3,036,931	753,143	121,989

The accompanying notes are an integral part of this statement.

105 Special Revenue Fund - Hotel/Motel Tax-T	108 Park Development Fund	Revenue Fund - Affordable Housin	116 Cap.impr.- R.e. Taxes- Ord.#723	210 USDA - RD 2015 Community Facilities Loan	320 City Hall - Library Facility Improvement
32,377	12,837	13,411	144,674	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,024	-	-	56,313	-	-
-	-	-	-	-	-
-	-	-	-	-	-
14,363	6,315	3,000	-	-	-
-	-	-	-	-	-
8,250	92	160	704	0	-
<u>25,637</u>	<u>6,407</u>	<u>3,160</u>	<u>57,016</u>	<u>0</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
36,481	-	-	-	-	-
-	-	-	-	-	-
2,000	1,854	-	-	-	-
-	-	-	-	-	-
<u>38,481</u>	<u>1,854</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(12,844)</u>	<u>4,553</u>	<u>3,160</u>	<u>57,016</u>	<u>0</u>	<u>-</u>
-	-	-	137,486	-	-
-	-	-	-	-	350,000
-	-	-	-	24,000	50,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>137,486</u>	<u>24,000</u>	<u>400,000</u>
-	-	-	-	-	350,000
-	-	-	-	23,164	-
-	-	-	19,219	-	13,939
5,913	-	-	74,000	-	-
<u>5,913</u>	<u>-</u>	<u>-</u>	<u>93,219</u>	<u>23,164</u>	<u>363,939</u>
<u>(18,757)</u>	<u>4,553</u>	<u>3,160</u>	<u>101,283</u>	<u>836</u>	<u>36,061</u>
13,620	17,390	16,572	245,957	836	36,061
-	-	-	-	-	-
<u>13,620</u>	<u>17,390</u>	<u>16,572</u>	<u>245,957</u>	<u>836</u>	<u>36,061</u>

The accompanying notes are an integral part of this statement.

401 Water/sewer Operating Fund	402 Solid Waste / Garbage
734,717	-
394,109	10,385
-	-
-	-
-	-
110,000	-
2,315,043	297,568
-	-
36,419	-
<u>2,461,461</u>	<u>297,568</u>
-	-
-	-
1,511,587	281,358
-	-
-	-
-	-
-	-
-	-
<u>1,511,587</u>	<u>281,358</u>
<u>949,874</u>	<u>16,210</u>
693,414	10,700
-	-
-	-
<u>693,414</u>	<u>10,700</u>
4,000	13,564
639,926	-
219,858	-
90,700	10,000
<u>954,484</u>	<u>23,564</u>
688,804	3,346
828,562	-
989,068	13,732
<u>1,817,630</u>	<u>13,732</u>

The accompanying notes are an integral part of this statement.

City of Kalama
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 General Fund	101 Street Operation & Maintenance
Beginning Cash and Investments				
30810	Reserved	932,556	26,216	7,250
30880	Unreserved	1,538,210	564,607	107,242
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,134,547	1,081,875	17,525
320	Licenses and Permits	113,357	112,072	1,285
330	Intergovernmental Revenues	286,566	63,018	185,499
340	Charges for Goods and Services	2,659,828	249,982	2,662
350	Fines and Penalties	36,617	36,617	-
360	Miscellaneous Revenues	50,333	30,314	2,098
Total Operating Revenues:		4,281,249	1,573,880	209,070
Operating Expenditures				
510	General Government	567,689	567,689	-
520	Public Safety	734,036	734,036	-
530	Utilities	1,715,133	-	-
540	Transportation	123,302	-	123,302
550	Natural and Economic Environment	129,569	94,359	-
560	Social Services	921	921	-
570	Culture and Recreation	42,198	42,198	-
Total Operating Expenditures:		3,312,848	1,439,203	123,302
Net Operating Increase (Decrease):		968,401	134,677	85,768
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	704,326	399,409	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	214,700	92,700	115,000
Total Nonoperating Revenues:		919,026	492,109	115,000
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	411,553	48,355	-
591-593	Debt Service	649,273	118	7,206
594-595	Capital Expenditures	930,692	361,303	189,320
597	Transfers-Out	214,700	112,000	5,100
Total Nonoperating Expenditures:		2,206,218	521,776	201,626
Net Increase (Decrease) in Cash and Investments:		(318,791)	105,011	(858)
Ending Cash and Investments				
5081000	Reserved	979,474	34,253	7,205
5088000	Unreserved	1,172,500	661,578	106,428
Total Ending Cash and Investments		2,151,974	695,831	113,633

The accompanying notes are an integral part of this statement.

105 Special Revenue Fund - Hotel/Motel Tax-T	108 Park Development Fund	Revenue Fund - Affordable Housin	116 Cap.impr.- R.e. Taxes- Ord.#723	401 Water/sewer Operating Fund	402 Solid Waste / Garbage
14,697	10,568	10,383	111,796	751,645	-
-	-	-	-	861,674	4,687
-	-	-	-	-	-
4,397	-	-	30,750	-	-
-	-	-	-	-	-
38,048	-	-	-	-	-
7,274	2,250	3,000	-	2,102,069	292,591
-	-	-	-	-	-
3,170	19	28	2,128	12,576	-
52,889	2,269	3,028	32,877	2,114,645	292,591
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1,440,601	274,533
-	-	-	-	-	-
35,209	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
35,209	-	-	-	1,440,601	274,533
17,680	2,269	3,028	32,877	674,044	18,058
-	-	-	-	294,379	10,538
-	-	-	-	-	-
-	-	-	-	7,000	-
-	-	-	-	301,379	10,538
-	-	-	-	350,800	12,398
-	-	-	-	641,949	-
-	-	-	-	380,069	-
-	-	-	-	87,100	10,500
-	-	-	-	1,459,918	22,898
17,680	2,269	3,028	32,877	(484,495)	5,698
32,377	12,837	13,411	144,674	734,717	-
-	-	-	-	394,109	10,385
32,377	12,837	13,411	144,674	1,128,826	10,385

The accompanying notes are an integral part of this statement.

City of Kalama
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	001 General Fund	101 Street Operation & Maintenance
Beginning Cash and Investments				
30810	Reserved	753,346	6,697	7,300
30880	Unreserved	1,186,183	460,428	62,936
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,086,389	1,044,645	7,718
320	Licenses & Permits	94,845	93,159	1,686
330	Intergovernmental Revenues	326,994	44,944	184,734
340	Charges for Goods and Services	2,615,621	278,208	480
350	Fines & Penalties	27,104	27,104	-
360	Miscellaneous Revenues	51,965	43,208	2,259
Total Operating Revenues:		4,202,918	1,531,268	196,877
Operating Expenditures				
510	General Government	548,891	548,891	-
520	Public Safety	686,331	686,331	-
530	Utilities	1,645,642	-	-
540	Transportation	113,719	-	113,719
550	Natural and Economic Environment	131,980	99,446	-
560	Social Services	1,086	1,086	-
570	Culture And Recreation	44,977	42,095	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		3,172,625	1,377,850	113,719
Net Operating Increase (Decrease):		1,030,292	153,419	83,158
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	402,662	46,911	169
391-393	Debt Proceeds	-	-	-
397	Transfers-In	194,500	92,500	102,000
Total Nonoperating Revenues:		597,162	139,411	102,169
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	51,529	36,441	-
591-593	Debt Service	650,454	-	7,206
594-595	Capital Expenditures	199,735	40,692	128,866
597	Transfers-Out	194,500	92,000	5,000
Total Nonoperating Expenditures:		1,096,218	169,132	141,072
Net Increase (Decrease) in Cash and Investments:		531,236	123,697	44,255
Ending Cash and Investments				
5081000	Reserved	932,556	26,216	7,250
5088000	Unreserved	1,538,210	564,607	107,242
Total Ending Cash and Investments		2,470,766	590,822	114,492

The accompanying notes are an integral part of this statement.

105 Special Revenue Fund - Hotel/Motel Tax-T	108 Park Development Fund	Revenue Fund - Affordable Housin	116 Cap.impr.- R.e. Taxes- Ord.#723	401 Water/sewer Operating Fund	402 Solid Waste / Garbage
11,477	7,452	7,368	81,978	631,075	-
-	-	-	-	658,557	4,262
-	-	-	-	-	-
4,561	-	-	29,464	-	-
-	-	-	-	-	-
24,834	-	-	-	72,483	-
8,270	4,060	3,000	-	2,055,761	265,842
-	-	-	-	-	-
11	16	16	354	6,100	1
<u>37,676</u>	<u>4,076</u>	<u>3,016</u>	<u>29,819</u>	<u>2,134,343</u>	<u>265,843</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1,395,072	250,569
-	-	-	-	-	-
32,534	-	-	-	-	-
-	-	-	-	-	-
1,922	960	-	-	-	-
-	-	-	-	-	-
<u>34,455</u>	<u>960</u>	<u>-</u>	<u>-</u>	<u>1,395,072</u>	<u>250,569</u>
<u>3,220</u>	<u>3,116</u>	<u>3,016</u>	<u>29,819</u>	<u>739,271</u>	<u>15,274</u>
-	-	-	-	346,023	9,559
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>346,023</u>	<u>9,559</u>
-	-	-	-	1,181	13,908
-	-	-	-	643,248	-
-	-	-	-	30,178	-
-	-	-	-	87,000	10,500
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>761,606</u>	<u>24,408</u>
<u>3,220</u>	<u>3,116</u>	<u>3,016</u>	<u>29,819</u>	<u>323,687</u>	<u>425</u>
14,697	10,568	10,383	111,796	751,645	-
-	-	-	-	861,674	4,687
<u>14,697</u>	<u>10,568</u>	<u>10,383</u>	<u>111,796</u>	<u>1,613,320</u>	<u>4,687</u>

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	631 Transportation Benefit District
308	Beginning Cash and Investments	41,612	41,612
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	42,088	42,088
380-390	Other Increases and Financing Sources	-	-
510-570	Expenditures	144	144
580-590	Other Decreases and Financing Uses	-	-
	Net Increase (Decrease) in Cash and Investments:	41,944	41,945
508	Ending Cash and Investments	83,556	83,556

The accompanying notes are an integral part of this statement.

City of Kalama
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	631 Transportation Benefit District
308	Beginning Cash and Investments	4,118	4,118
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	37,731	37,731
380-390	Other Increases and Financing Sources	-	-
510-570	Expenditures	237	237
580-590	Other Decreases and Financing Uses	-	-
	Net Increase (Decrease) in Cash and Investments:	37,494	37,494
508	Ending Cash and Investments	41,612	41,612

The accompanying notes are an integral part of this statement.

City of Kalama
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	631 Transportation Benefit District
308	Beginning Cash and Investments	-	-
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	4,118	4,118
380-390	Other Increases and Financing Sources	-	-
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	-	-
	Net Increase (Decrease) in Cash and Investments:	4,118	4,118
508	Ending Cash and Investments	4,118	4,118

The accompanying notes are an integral part of this statement.

CITY OF KALAMA COMBINED NOTES TO FINANCIAL STATEMENTS

January 1, 2013 through December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kalama was incorporated on July 16, 1890 and operates under the laws of the state of Washington applicable to a Non-Charter Code City with a Mayor/Council form of government. The City of Kalama is a general purpose government and provides public safety, street improvements, parks and recreation, and general administrative services. In addition, the city owns and operates water and sewer systems.

The City of Kalama 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 (Current Expense) Fund (001)

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

Special Revenue Funds (100)

These funds account for revenues that are legally restricted or designated to finance particular activities of the city. The City has established some managerial funds that are considered a part of the General Fund for reporting purposes.

Debt Service Funds (200)

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 Project Funds (300)

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

Enterprise Funds (400)

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. The City has established some managerial funds that are considered a part of the primary fund number 401 for reporting purposes.

Fiduciary Funds (600)

Fiduciary funds account for assets held by the City as trustee on behalf of the Kalama Transportation Benefit District.

B. Basis of Accounting

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

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

C. Budgets

The City of Kalama adopts annual appropriated budgets at the fund level except for the General Fund is adopted as two departments separating out the Police budget. The budgets constitute the legal authority for expenditures at that level. Annual appropriations for all funds lapse at the fiscal period 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 including all amendments were as follows:

2013

Fund #	Description	2013 Actual	Budget	Variance
	001 - General Fund without Police	\$885,003.40	\$866,805.00	\$71,801.80
	001 - General Fund Police Budget	\$652,650.13	\$658,170.00	\$5,519.87
001	General Fund Total	\$1,537,653.53	\$1,614,975.00	\$77,321.47
101	Street Operating Fund	\$125,924.79	\$131,550.00	\$5,625.21
102	Street Reserve Fund	\$115,842.47	\$122,000.00	\$6,157.53
103	Sidewalk Improvement Fund	\$13,023.11	\$119,600.00	\$106,576.89
104	Criminal Justice Fund	\$2,309.34	\$5,050.00	\$2,740.66
105	Special Revenue - Hotel/Motel Tax - Tourism	\$34,455.06	\$72,100.00	\$37,644.94
106	Community Building Reserve	\$0.00	\$0.00	\$0.00
107	Wage and Benefit Reserve	\$0.00	\$10,000.00	\$10,000.00
108	Park Development Fund	\$960.00	\$1,000.00	\$40.00
109	Special Revenue - Affordable Housing	\$0.00	\$0.00	\$0.00
110	Library Operating Fund	\$35,814.85	\$36,700.00	\$885.15
113	Community Building Operations	\$32,305.30	\$33,800.00	\$1,494.70
115	General Fund Designated Reserves	\$130,946.71	\$138,000.00	\$7,053.29
116	Capital Improvement - R. E. Excise Taxes	\$0.00	\$0.00	\$0.00
117	Police Vehicle Reserve	\$21,697.45	\$22,000.00	\$302.55
305	General Fund Reserve	\$16,000.00	\$16,000.00	\$0.00
401	Water/Sewer Operating Fund	\$2,480,662.68	\$2,509,600.00	\$28,937.32
402	Solid Waste - Garbage Fund	\$274,976.90	\$313,800.00	\$38,823.10
408	Water Improvement Reserve Fund	\$236,312.41	\$236,600.00	\$287.59
410	Public Works Equipment Reserve	\$0.00	\$0.00	\$0.00
412	Sewer Loan Reserve	\$0.00	\$0.00	\$0.00
413	I & I Rehabilitation Reserve Fund	\$4,965.37	\$15,000.00	\$10,034.63
415	Sewer Improvement Reserve	\$406,935.13	\$407,300.00	\$364.87
631	Transportation Benefit District	\$0.00	\$0.00	\$0.00
	Grand Total	\$5,470,785.10	\$5,805,075.00	\$334,289.90

2014

Fund #	Description	Fiscal	Budget	Variance
	001 - General Fund without Police	\$1,234,953.82	\$1,256,050.00	\$21,096.18
	001 - General Fund Police Budget	\$677,922.17	\$685,010.00	\$7,087.83
001	General Fund Total	\$1,912,875.99	\$1,941,060.00	\$28,184.01
101	Street Operating Fund	\$135,608.60	\$138,550.00	\$2,941.40
102	Street Reserve Fund	\$112,215.11	\$120,000.00	\$7,784.89
103	Sidewalk Improvement Fund	\$77,104.69	\$110,000.00	\$32,895.31
104	Criminal Justice Fund	\$8,000.03	\$8,500.00	\$499.97
105	Special Revenue - Hotel/Motel Tax - Tourism	\$35,209.16	\$39,100.00	\$3,890.84
106	Community Building Reserve	\$91.74	\$11,000.00	\$10,908.26
107	Wage and Benefit Reserve	\$7,000.00	\$7,000.00	\$0.00
108	Park Development Fund	\$0.00	\$1,200.00	\$1,200.00
109	Special Revenue - Affordable Housing	\$0.00	\$0.00	\$0.00
110	Library Operating Fund	\$37,189.10	\$38,700.00	\$1,510.90
113	Community Building Operations	\$23,006.11	\$33,250.00	\$10,243.89
115	General Fund Designated Reserves	\$127,116.58	\$128,000.00	\$883.42
116	Capital Improvement - R. E. Excise Taxes	\$0.00	\$14,000.00	\$14,000.00
117	Police Vehicle Reserve	\$0.00	\$0.00	\$0.00
305	General Fund Reserve	\$0.00	\$10,000.00	\$10,000.00
401	Water/Sewer Operating Fund	\$2,408,573.74	\$2,456,700.00	\$48,126.26
402	Solid Waste - Garbage Fund	\$297,430.23	\$304,050.00	\$6,619.77
408	Water Improvement Reserve Fund	\$746,248.21	\$758,250.00	\$12,001.79
410	Public Works Equipment Reserve	\$0.00	\$0.00	\$0.00
412	Sewer Loan Reserve	\$0.00	\$0.00	\$0.00
413	I & I Rehabilitation Reserve Fund	\$119,842.04	\$120,000.00	\$157.96
415	Sewer Improvement Reserve	\$432,238.43	\$435,000.00	\$2,761.57
631	Transportation Benefit District	\$237.00	\$4,100.00	\$3,863.00
	Grand Total	\$6,479,986.76	\$6,678,460.00	\$198,473.24

2015

Fund Number	Description	Fiscal	Budget	Variance
	001 - General Fund without Police	\$955,580.96	\$1,016,280.00	\$60,699.04
	001 - General Fund Police Budget	\$720,882.48	\$725,020.00	\$4,137.52
001	General Fund Total	\$1,676,463.44	\$1,741,300.00	\$64,836.56
101	Street Operating Fund	\$200,447.45	\$204,700.00	\$4,252.55
102	Street Reserve Fund	\$35,454.07	\$493,600.00	\$458,145.93
103	Sidewalk Improvement Fund	\$0.00	\$0.00	\$0.00
104	Criminal Justice Fund	\$8,023.76	\$9,900.00	\$1,876.24
105	Special Revenue - Hotel/Motel Tax - Tourism	\$44,393.70	\$45,800.00	\$1,406.30
106	Community Building Reserve	\$15,000.00	\$15,000.00	\$0.00
107	Wage and Benefit Reserve	\$5,000.00	\$7,000.00	\$2,000.00
108	Park Development Fund	\$1,853.75	\$2,000.00	\$146.25
109	Special Revenue - Affordable Housing	\$0.00	\$10,000.00	\$10,000.00
110	Library Operating Fund	\$40,579.05	\$49,550.00	\$8,970.95
113	Community Building Operations	\$24,575.19	\$25,800.00	\$1,224.81
115	General Fund Designated Reserves	\$139,326.72	\$140,000.00	\$673.28
116	Capital Improvement - R. E. Excise Taxes	\$93,218.79	\$139,000.00	\$45,781.21
117	Police Vehicle Reserve	\$0.00	\$0.00	\$0.00
135	General Fund Reserve	\$53,177.36	\$53,200.00	\$22.64
210	USDA 2015 Community Facilities Loan	\$23,164.00	\$23,200.00	\$36.00
320	City Hall/Library Facility Improvements USDA	\$363,938.97	\$500,000.00	\$136,061.03
401	Water/Sewer Operating Fund	\$2,589,443.32	\$2,681,000.00	\$91,556.68
402	Solid Waste - Garbage Fund	\$304,921.35	\$305,600.00	\$678.65
408	Water Improvement Reserve Fund	\$409,011.38	\$426,750.00	\$17,738.62
410	Public Works Equipment Reserve	\$3,187.53	\$30,000.00	\$26,812.47
412	Sewer Loan Reserve	\$0.00	\$0.00	\$0.00
413	I & I Rehabilitation Reserve Fund	\$0.00	\$15,000.00	\$15,000.00
415	Sewer Improvement Reserve	\$406,604.95	\$406,605.00	\$0.05
420	Water Improvement Project Fund	\$50,979.79	\$120,000.00	\$69,020.21
631	Transportation Benefit District	\$143.50	\$2,500.00	\$2,356.50
	Grand Total	\$6,488,908.07	\$7,447,505.00	\$958,596.93

The General Fund as reported on the Financial Statements includes Funds 001,104,106,110,113,115,117, 135, 210 and 320. The Street Fund as reported on the Financial Statements includes Fund 101, 102, and 103. The Water/Sewer Fund as reported on the Financial Statements includes Funds 401, 403, 408, 410, 412, 413, 415, 420, and 424. Special Revenue Funds 105, 108, 109, 116, Enterprise Fund 402, and Fiduciary Fund 631 are reported individually on the Financial Statements.

Budgeted amounts are authorized to transfer budgeted amounts between departments within any fund/object classes within departments; however, any revisions that alter the total expenditure of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

D. Cash and Investments - See Note #2.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5000 and an estimated useful life in excess of 3 years. The capital assets and inventory of the City of Kalama are recorded as expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon separation or retirement. Sick leave may be accumulated up to 1200 hours. Upon separation of service in good standing employees may receive payment for a portion of the accumulated sick leave balance based upon the schedule as out-lined in the applicable bargaining agreement or City personnel policies. Current rate of sick leave buy out for Teamster unit employees and non-bargaining employees is 40%. Current rate of sick leave buy out for Police Guild employees has one officer at 50% and three officers at 40%. Payments are recognized as expenditures when paid.

G. Long-Term Debt - See Note (Debt Services note #5)

H. Other Financing Sources or Uses

The city's "Other Financing Sources or Uses" consist of operating transfers in and operating transfers out.

I. Risk Management

The City of Kalama is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2015, 102 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. For the \$9 million in excess coverage limits, an excess liability policy is purchased

from Starr Indemnity & Liability Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2015, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

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 State Laws or Kalama City Council action. When expenditures that meet restrictions are incurred, the City of Kalama intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of:

2013

Fund	Amount Reserved 12/31/2013	Purpose
001 General Fund	\$26,215.71	Committed Employee Benefit Reserve
101 Street Fund	\$7,250.00	Committed Debt Payment
105 Special Revenue - Tourism	\$14,697.49	Restricted by RCW 67.28
108 Special Revenue - Parks	\$10,567.77	Restricted by Ordinance 1043
109 Special Revenue - Affordable Housing	\$10,383.48	Restricted by RCW 36.22.178
116 Cap Improvements - Real Estate Excise Taxes	\$111,796.42	Restricted by RCW 82.64
401 Water/Sewer	\$751,645.33	Committed Debt Obligations
631 Transportation Benefit District	\$4,118.49	Restricted - Special Purpose District

2014

Fund	Amount Reserved 12/31/2014	Purpose
001 General Fund	\$34,253.02	Committed Employee Benefit Reserve
101 Street Fund	\$7,205.00	Committed Debt Payment
105 Special Revenue - Tourism	\$32,377.12	Restricted by RCW
108 Special Revenue - Parks	\$12,836.83	Restricted by Ordinance
109 Special Revenue - Affordable Housing	\$13,411.40	Restricted by RCW
116 Capital Improvements - Real Estate Excise Tax	\$144,673.76	Restricted by RCW
401 Water/Sewer	\$734,716.98	Restricted by Debt Obligations
631 Transportation Benefit District	\$41,612.02	Restricted Revenues - Special Purpose District
	\$1,021,086.13	

2015

Fund #	Description	Amount Reserved	Purpose
		12/31/2015	
001	General Revenue Fund	\$43,386.05	Committed for Employee Benefit Reserve
101	Street Fund	\$7,300.00	Committed for Debt Obligation
105	Special Revenue - Tourism Fund	\$13,620.39	Restricted by RCW
108	Park Improvement Funds	\$17,389.66	Restricted by Ordinance
109	Special Revenue - Affordable Housing	\$16,571.80	Restricted by RCW
116	Real Estate Excise-Capital Improvement	\$245,956.94	Restricted by RCW
210	USDA-RD Loan Fund - City Hall/Library Improvements -	\$836.43	Restricted by Debt Obligations
320	USDA	\$36,061.03	Restricted by USDA Project Requirements
401	Water & Sewer Funds	\$828,561.70	Committed for Debt/Loan Obligations
631	Transportation Improvement Fund	\$83,556.08	Restricted Special Purpose District Funding
		\$1,293,240.08	

NOTE 2 – DEPOSITS & INVESTMENTS

It is the City of Kalama's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds except for the checking interest which is placed in the General Fund.

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 of Kalama or its agent in the government's name.

Investments are reported at original cost. Balance of Investments by type are as follows:

December 31, 2013

Local Government Investment Pool	\$1,761,234.90
US Bank/US Government Security FICO Principal	\$ 299,874.96
US Bank/US Government Security FHL MTG Principal	\$ 200,486.40
US Bank/US Government Agency Security 12/31/13	\$ 500,361.36
Projected Increase in Value 12/31/13	\$ 3000.48

December 31, 2014

Type of Investment	Investments	City's Own Held as Agent	Investments	Total
Local Government Investment Pool		\$1,112,753.56		\$1,112,753.56
Fibre Federal Credit Union Savings – TBD			\$ 41,612.02	41,612.02
US Bank/US Government Security FICO Principal		\$ 299,874.96		299,874.96
US Bank/US Government Security FHL MTG Principal		\$ 200,486.40		200,486.40
US Bank/US Government Security FHL MTG Principal		<u>\$ 245,532.50</u>		<u>245,532.50</u>
TOTAL INVESTMENTS 12/31/2014		\$1,858,647.42	41,612.02	\$1,900,259.44

December 31, 2015

Type of Investment	City's Own Investments	Investments Held as Agent	Total
Local Government Investment Pool	\$1,735,396.87		1,735,396.87
Fibre Federal Credit Union Savings – TBD		\$ 83,556.08	83,556.08
US Bank/US Government Security FICO Principal	\$ 299,874.96		299,874.96
US Bank/US Government Security FHL MTG Principal	\$ 200,486.40		200,486.40
US Bank/US Government Security FHL MTG Principal	\$ 245,532.50		245,532.50
US Bank/US Government Security Fed Farm Credit	\$ 200,951.60		200,951.60
TOTAL INVESTMENTS 12/31/2015	\$2,682,242.33	83,556.08	\$2,765,798.41

NOTE 3 - PROPERTY TAXES

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 when taxes are levied.

The city's regular levy for 2013 was \$2.096277 per \$1,000 on an assessed valuation of \$181,297,769 for a total regular levy of \$380,050.26.

The city's regular levy for 2014 was \$2.099999 per \$1,000 on an assessed valuation of \$185,013,031 for a total regular levy of \$388,527.36.

The city's regular levy for 2015 was \$1.986103 per \$1,000 on an assessed valuation of \$202,498,686 for a total regular levy of \$402,222.80.

NOTE 4 - INTERFUND LOANS AND ADVANCES

In 2014 Ordinance No. 1347 authorized a temporary short term (120 day) interfund loan from Water/Sewer Funds 408/413 to Fund 001 for the \$350,000.00 purchase price of the Heritage Bank Building while waiting for loan funding with USDA – Rural Development to be approved. This loan was repaid in February of 2015. In December of 2015 the City of Kalama incurred unanticipated costs due to flooding of the downtown and several drainage ways of the city which created unanticipated expenditures in Streets which required additional funding. On January 6, 2016, the Kalama City Council adopted Ordinance No. 1372 amending the 2015 budget and authorized a loan in the amount of \$35,000 from the General Fund (Reserve Fund 135) to the Street Operating Fund 101 at 1% interest to be repaid within 3 years or through FEMA recovery funding if available.

In 2013 Ordinance No. 1314 authorized an interfund loan from Fund 305 to Fund 001 to cover the costs of a new Police car.

Borrowing Fund	Lending Fund	Balance 1/1/2013	New Loans	Repayments	Balance 12/31/2013
001	305	\$0.00	\$16,000.00	1754.18	\$14,245.82
Totals		0.00	\$16,000	\$1754.18	\$14,245.82

The following table displays interfund loan activity during 2014:

Borrowing Fund	Lending Fund	Balance 1/1/2014	New Loans	Repayments	Balance 12/31/2014
001	305	\$14,245.82		\$5,297.73	\$8,948.09
001	408	0.00	\$275,000.00	0.00	\$275,000.00
001	413	0.00	75,000.00	0.00	\$75,000.00
Totals		\$14,245.82	\$350,000.00	\$5,297.73	\$358,948.09

The following table displays interfund loan activity during 2015:

Borrowing Fund	Lending Fund	Balance 1/1/2015	New Loans	Repayments	Balance 12/31/2015
001	135	\$8,948.09		\$5,350.96	\$3,597.13
001*	408	275,000.00		275,000.00	\$0.00
001*	413	75,000.00		75,000.00	\$0.00
101	001/135	0	\$35,000.00	0	35,000.00
Totals		\$358,948.09	\$35,000.00	\$355,350.96	\$38,597.13

* Repaid from New Fund 320 USDA Loan Fund required for the City Hall project & Loan documents.

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule 9 - Liabilities provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for each of the years 2013, 2014, and 2015. The debt service requirements, including interest, are as follows:

Year	GO Debt	Revenue Bonds	Other Debt	Total Debt
2014			\$649,154.97	\$649,154.97
2015	11,164.00		\$647,134.91	\$658,298.91
2016	\$22,328.00		\$637,821.64	\$660,149.64
2017	\$22,328.00		\$636,610.18	\$658,938.18
2018	\$22,328.00		\$635,398.74	\$657,726.74
2019	\$22,328.00		\$634,187.30	\$656,515.30
2020	\$22,328.00		\$547,538.28	\$569,866.28
2021-2025	\$111,640.00		\$1,760,406.45	\$1,872,046.45
2026-2030	\$111,640.00		\$590,991.48	\$702,631.48
2031-2035	\$111,640.00			\$111,640.00
2036-2040	\$58,768.95			\$58,768.95
2041-2045				\$0.00
Totals	\$516,492.95	\$0.00	\$6,739,243.95	\$7,255,736.90

Special Assessment Debt

There are \$232,029.38 in restricted assets of the water/sewer funds to cover obligations of revenue debt which remained the same in all three years. These funds are currently invested in a five year US Government Agency Security bond through US Bank. This represents reserve requirements as contained in the various indentures. The city is in compliance with all significant limitations and restrictions.

NOTE 6 - PENSION PLANS

Substantially all City of Kalama 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 systems Public Employers Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).

The Stater 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 98504-8380

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

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

DRS - Plan	Allocation %	Liability
PERS 1	0.006948	\$363,445.02
PERS 2	0.008975	<u>\$320,681.87</u>
		\$684,126.89
And Net Pension Assets of		
LEOFFS 2	0.012605	\$(126,554.19)

The city offers its employees a deferred compensation plan administered by the State of Washington. The plan is available to all eligible employees and permits them to defer a portion of their salary until future years. The deferred compensation is only available to employees upon retirement, death, or unforeseeable emergencies in accordance with applicable laws. Compensation deferred under the plan and all income attributable to the plan is solely the property of the employee.

NOTE 7 - OTHER DISCLOSURES

A. Litigation and Potential Litigation

1. Makhan Mahal/Good Day Market vs City of Kalama, Kimmi Alexander, & Daniel Olinger

In October of 2011 a claim for damages was filed by Makhan Mahal against the City and two unassociated individuals stemming from a fire which occurred at 334 N. First Street, Kalama on October 25, 2009. The claim alleges the City was negligent in its enforcement of certain building codes. No damage amount was included in the claim at that time. The City's insurance was notified and assigned Attorney John Kugler to defend the case. The City has answered the claim

and requested a jury trial at this time. Answers to the City's first interrogatories were received in March 2012 in which the claimants are requesting \$850,000 in damages. The City and the Plaintiff have taken depositions in the case to prepare for trial. On June 19, 2013 a hearing on the City's request for summary judgment was held and the judge granted the request and the claim against the City was dismissed with prejudice.

2. Kristy Wright – Methodist Church vs City of Kalama, HHPR Engineers, and Keystone Contracting, Inc.

On March 5, 2013 the City was served with a summons from the District Court of Cowlitz County from plaintiff Kristy N. Wright for the damage to her car. In August 2012 during a City construction project, a water main broke which flooded Elm Street and causing damages to vehicles and property. The City immediately contacted their insurance carrier, but the contractor and/or project engineer on the job are responsible for the break and per the insurance the City has no liability. The City's insurance has notified the insurance carriers for both the engineers and contractors that they are responsible under the project contract, but neither party has settled the claims to date. Both are also named defendants in the lawsuit. The lawsuit has been sent to the City's insurance and an attorney has been assigned to represent the City. Keystone settled with Kristy Wright. In October of 2013 the City received an additional summons from Philadelphia Insurance Company representing the Kalama Methodist Church for damages suffered during the same waterline break in August of 2012. This was forwarded to the insurance carrier AWC and the attorney. There are ongoing discussions between the attorney's for all parties and at this time there is talk of a settlement to be divided three ways. Any settlement would be covered by the City's insurance. Through private negotiations between Ms. Wright and the contractor that claim was settled in early 2014. Through negotiations between the insurance companies, the claim for the Methodist Church was settled with a three split with the City's Insurance paying a share.

3. Larsen Plat – Investigation into Validity of Recorded Plat

In early 2013 the City received an inquiry regarding the Larson Short Plat and in responding to that inquiry discovered that the plat may have been recorded in violation of state law and local codes. After initial review, the City hired outside counsel to investigate and in July of 2013 recorded a notice of investigation against the plat until the validity of the recorded plat could be determined. The attorney, Jon Sitkin of Chmelik, Sitkin & Davis, has investigated and determined there are irregularities with the recording of the plat. He has been working with the property owners to negotiate a settlement that will resolve the issue in the best interest of all parties and avoid litigation should the City vacate the plat. On April 16, 2014, the City Council approved a settlement agreement with the property owner and adopted Ordinance No. 1333 vacating the Larsen Plat.

4. Huggins vs J. Evanson & City of Kalama – Boundary Line Dispute

On December 17, 2015, the City was served with a summons from Gregory and Denise Huggins alleging the City permitted a neighbor to construct a garage which encroached upon their private property. The City sent this to AWC Risk Management, who assigned it to Alexander Casey Attorney with the Christie Law Group and they have been handling the case. The claim includes a request for damages in an unspecified amount and the return of attorney costs. At this time the plaintiff and other defendant are discussing resolution and the City is awaiting that outcome.

5. Schimdt, Lunday, Jacobs, & Miller vs City of Kalama, Layman, Geise, Mosshart, All Natural Products, LLC – Rezone Appeal

On January 20, 2016 the City was served with a Summons from Erickson & Associates Law Office on behalf of 6 plaintiffs alleging the City erroneously rezoned property for industrial use near their residential property resulting in diminution of their property. The City sent this to AWC Risk Management who assigned it to Attorney Jeff Meyer of Law, Lyman, Daniel, Kamerrer & Bogdanovich, P.S. Attorney Meyer has had the case transferred to Federal Court as the claims include claims of constitutional and civil rights violations. He has also filed a request for summary judgement. The plaintiffs have objected to the change of jurisdiction and it is currently being reviewed. The claim includes a request for damages in an unspecified amount and the return of attorney costs. On May 10, 2016 the State District Court issued an order granting the City's motion for summary judgement and denying all the claims made by the plaintiffs.

6. Brown vs City of Kalama – Stormwater Failure January 2015

On February 16, 2016 the City was served with a Summons from Steven & Heather Brown alleging the City is at fault for damages to their home at 599 N. Second Street, Kalama WA from a stormwater overflow that occurred in January 2015. The City sent this to AWC Risk Management, who assigned it to Attorney Jeff Meyers of Law, Lyman, Daniel, Kamerrer & Bogdanovich, P.S. who have been handling the case. The claim includes a request for damages in an unspecified amount and the return of attorney costs. The Browns had previously made a claim to the City's insurance which was denied as an act beyond the control of the City.

7. Flood December 2015

On December 8, 2015 the City experienced a flood of the downtown core and several business were flooded and damaged. Two of those businesses filed tort claims with the City which were forwarded to the City's insurance carrier AWC Risk Management. AWC denied the claims as acts of God. At this time no further claims have been made.

B. Significant Commitments or Obligations

2013

The City of Kalama has one active construction project as of December 31, 2013 in the Elm Street Sidewalk Improvement Project. Funding for the project is a combination of Transportation Improvement Board grant funds and city funds. At year end the City had completed the engineering on the project. The project was put to bid in March 2014.

Balance of Project Budget \$110,234.63
Remaining TIB Grant funds \$101,248.05

2014

1. Construction - The City of Kalama has no active construction projects as of December 31, 2014. The Elm Street Sidewalk Improvement Project was completed in June 2014.

2015

1. Construction - The City of Kalama has four active pre-construction projects as of December 31, 2015 which are slated for construction in 2016 including

**China Garden Road Renovation
Meeker Drive Slide Stabilization Project – Feasibility Study
Downtown Overlay Elm to Oak Street
Robb/Toteff Road Water/Sewer line Expansion**

Engineers Gray & Osborne are providing design services for all four projects and the City's year end commitment is as follows:

Project	Paid to 12-31-2015	Remaining Commitment
China Garden Road	\$15,340.33	\$45,009.67
Meeker Slide Stabilization	\$3,396.23	\$198,500.00
Downtown Overlay	\$10,282.05	\$26,634.95
Robb/Toteff W/S Lines	\$39,611.03	\$13,961.97
Total	\$68,629.64	\$284,106.59

2. **Heritage Bank Building Purchase/Renovation** – In November of 2014 the City of Kalama purchased the vacated bank building at 195 N. First Street in Kalama for \$350,000.00 using an interfund loan as it was waiting on the approval of USDA–Rural Development Funding with plans to renovate the space to become a new City Hall and allowing the Library to expand into the current space of City Hall once vacated. The loan through USDA was approved and the \$350,000.00 received in February 2015 and the interfund loan was immediately repaid with interest. The City began renovations in June of 2015 using forced labor for the limited remodel with a budget of \$50,000. Using the limited bid process, the City requested estimates from at least 3 contractors for electrical, plumbing, drywall, glazing/doors, and floor coverings. The project continued throughout 2015 and was scheduled for completion in March of 2016. The City experienced a flood in December 2015 and was forced out of the City Hall, so was working to make the new site available as soon as possible. In March of 2016, the Department of L&I stopped all work as it was found that the old flooring contained asbestos. The City contracted with an abatement firm to address the asbestos issue and has moved forward with the work. The City moved into the building on May 4, 2016. On May 18, 2016 the received a report and a fine for the asbestos work violations in the amount of \$11,800.00. The City has appealed and is awaiting a reply from the state.

The City's remaining commitment at the end of 2015 to the sub-contractors is as follows:

Contractor	Paid to 12-31-2015	Remaining Commitment
Gallow & Smith Plumbing	\$4,054.91	\$2,083.99
Pollock Electric	\$5,642.83	\$2,931.17
Interior Resources	0.00	\$9,040.33
Finishing Touches	0.00	\$4,946.40
Pacific Door & Window	0.00	\$5,994.06
	\$9,697.74	\$24,995.95

C. Other Reporting Issues:

1. Transportation Benefit District

The City of Kalama has been struggling over the years to find the funding for the needed street repairs in the local neighborhoods. Federal and state grant funding is available for many major arterials and well-traveled streets but not for the side streets. Forming of a Transportation Benefit District would allow the City some possible funding options to help to meet the needs of street maintenance and improvements. In December of 2012, under Ordinance No. 1299 the City

of Kalama established a TBD within the city limits of the City and appointing the City Council as the TBD Operating Board. In March of 2013, the Council operating as the TBD Board adopted Ordinance No 1307 establishing a \$20 vehicle tab fee which began being assessed in October of 2013 with the City receiving the first funds on October 31, 2013. The Council acting as the TBD Board set a zero budget for 2014 opting to collect funds with no expenditures for this year. On April 2, 2014 the TBD Board adopted a budget amendment for 2014 setting a budget of \$4100 for the year of 2014 recognizing that there could be administrative expenses incurred.

2. December 2015 Flood Event

On December 8, 2015 the City experienced a storm with caused stormwater flooding in several areas of the City, including flooding most of the downtown business core with anywhere from six inches to three feet of water which included sewer contaminated waters. Damages were incurred at both the Kalama Police Department and the City Hall/Library building which resulted in the Finance offices and Police to relocate to the Kalama Community Building in order to continue to provide services to the public. The Library was closed and remains so at this time. The City has been working with AWC insurance providers on the recovery efforts and planning for the repairs to the damaged facilities. The Police building was a modular unit placed on leased property under a conditional use permit. Based upon the need and Building Official requirements for an emergency response facility, the location has been deemed to be unsuitable for the Police Department. At this time the City has reached an understanding for a preliminary settlement on the value of the loss on the buildings with the insurance and is moving forward with plans for renovation of the City Hall building to become the Library and designing a new police building while looking at options for a new location. It is projected that the Police will remain in the temporary location at the Community Building at least through 2017.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	USDA-RD Facilities - CH/Library 2015	2/27/2045	-	350,000	16,443	333,557
263.83	Cowlitz County - Aug 2006	1/31/2022	55,142	-	6,655	48,487
Total General Obligation Debt/Liabilities:			55,142	350,000	23,098	382,044
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	PWTF - Cloverdale Reservoirs	6/1/2015	8,736	-	8,736	-
263.82	DOE/SRF Sewerline Replacements 1998	6/30/2019	379,740	-	69,485	310,255
263.82	PWTF H2O Treatment Plant	6/1/2021	1,522,682	-	217,526	1,305,156
263.82	PWTF-WWTP Design - 2003	6/1/2022	198,109	-	24,764	173,345
263.82	DOE/SRF WWTP Construction 2004	4/27/2026	3,841,445	-	295,496	3,545,949
264.30	Pension Liabilities		-	684,127	-	684,127
259.12	Compensated Absences - General		78,905	68,887	69,413	78,379
259.12	Compensated Absences - Water/Sewer		43,388	47,323	50,970	39,741
Total Revenue and Other (non G.O.) Debt/Liabilities:			6,073,005	800,337	736,390	6,136,952
Total Liabilities:			6,128,147	1,150,337	759,488	6,518,996

City of Kalama
Schedule of Liabilities
For the Year Ended December 31, 2014

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.81	Cowlitz County - Aug 2006	1/31/2022	61,735	-	6,589	55,146
259.11	Compensated Absences - General		74,628	64,461	60,184	78,905
263.51	ABS Copier Lease	6/1/2014	1,122	-	1,122	-
Total General Obligation Debt/Liabilities:			137,485	64,461	67,895	134,051
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	PWTF - Cloverdale Reservoirs	6/1/2015	17,471	-	8,736	8,735
263.82	DOE/SRF Sewerline Replacements - 1998	6/30/2019	446,266	-	66,526	379,740
263.82	PWTF - H2O Treatment Plant - 2001	6/1/2021	1,740,207	-	217,526	1,522,681
263.82	PWTF - WWTP Design - 2003	6/1/2022	222,873	-	24,764	198,109
263.82	DOE/SRF WWTP Construction 2004	9/30/2026	4,136,940	-	295,496	3,841,444
259.12	Compensated Absences - Public Works		40,635	43,280	40,527	43,388
Total Revenue and Other (non G.O.) Debt/Liabilities:			6,604,392	43,280	653,575	5,994,097
Total Liabilities:			6,741,877	107,741	721,470	6,128,148

City of Kalama
Schedule of Liabilities
For the Year Ended December 31, 2013

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.81	Cowlitz County - Aug 2006	1/31/2022	68,258	-	6,524	61,734
263.51	ABS Copier Lease	6/1/2014	2,934	-	1,812	1,122
259.11	Compensated Absences - General Fund		64,969	80,141	70,482	74,628
Total General Obligation Debt/Liabilities:			136,161	80,141	78,818	137,484
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	PWTF - Cloverdale Reservoirs - 1995	6/1/2015	26,207	-	8,736	17,471
263.82	PWTF - North Port Waterline - 1995	6/1/2014	92,397	-	92,397	-
263.82	DOE/SRF Sewerline Replacements - 1998	6/30/2019	509,958	-	63,692	446,266
263.82	PWTF-H2O Treatment Plant 2001	6/1/2021	1,957,733	-	217,526	1,740,207
263.82	PWTF - WWTP Design - 2003	6/1/2022	247,637	-	24,764	222,873
263.82	DOE/SRF - WWTP Construction - 2004	9/30/2026	4,432,436	-	295,496	4,136,940
259.12	Compensated Absences - Water/Sewer		35,251	38,025	32,641	40,635
Total Revenue and Other (non G.O.) Debt/Liabilities:			7,301,619	38,025	735,252	6,604,392
Total Liabilities:			7,437,780	118,166	814,070	6,741,876

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.

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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